

# DecidingFactors

Q1/07

## 2007 is your year – and we are here to help

### Did you set New Year's resolutions this year? Are you still following them or are they just a flash in the pan?

Whether it's losing a few pounds, tightening up on the budget or spending more time with the kids, we know it's often much easier to set goals than keep to them. But it is nonetheless important to have goals and it's never too late to set them or to resurrect old ones.

Here are a few resolutions some of our clients have set for themselves, met with us to discuss and then implemented. Many of our clients wanted us to record their financial resolutions and keep reminding them throughout the year.

#### New Year's resolutions for over 60s

- Ensure I have appropriate medical insurance in place.
- Start a savings fund for my grandchildren's education.
- Start spending some of my accumulated savings so I'm not the richest person in the graveyard!
- Reduce my risk by having a prudently diversified investment portfolio (i.e. not all my money should be in residential property, debentures, or term deposits).
- Protect my assets for future generations through the establishment of a family trust.
- Learn how to correctly administer my family trust.
- Simplify the administration of my investment portfolio by using an investment management 'wrap' platform.

- Learn how to use the computer for online banking, booking travel, etc.

#### New Year's resolutions for under 60s

- Ensure I have enough life insurance.
- Protect myself in the event of being unable to work due to sickness or disability.
- Identify the amount of investment required for retirement then set in place a savings plan.
- Diversify my portfolio so I am not overly exposed to any one asset class.
- Reassess my risk profile and try to better understand the meaning of appropriate investment risk.
- Minimise the cost of my mortgage and maximise legitimate tax savings.
- Reduce or eliminate high interest bearing debt such as credit cards.
- Keep three months' living expenses in an interest bearing 'cash account' so I can pay for unforeseen one-off expenses without ruining my investments.
- Establish a family trust.
- Donate my time or money to worthy charities that benefit my community.

**Please call us if you would like to discuss how we may be able to assist you to achieve your own New Year's resolutions.**



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#### Key DecisionMaker: Judi Galpin

*Judi's passion is education and seeing people succeed so she is highly motivated to see her clients reach their goals and become successful investors. She has been operating her financial planning business since 1996 and is now a director of DecisionMakers (Manawatu) Limited. Judi is a Certified Financial Planner (CFP) who is actively involved with the Institute of Financial Advisers (IFA) and is also a Justice of the Peace.*



## DecisionMakers

The best financial decision you'll ever make

## Old proverb

A man was sitting next to a tree where he noticed a small cocoon. He suddenly saw a small slit forming on the surface. Inside was a tiny butterfly struggling hard to come out into the world. The man saw that the butterfly was tired and was not making any progress.

Being kind-hearted, the man got out a pair of scissors and cut open the cocoon. Out came the butterfly. The man was extremely happy and waited for the butterfly to fly away, but the butterfly could not fly. In fact, it never flew for the rest of its life.

The reason was that the butterfly has to struggle to come out of its cocoon – the more it struggles, the stronger it becomes.

This proverb has relevance for all parents – if you provide for all of your children's wants and desires, you may actually do them more damage than good.



### life's tip # 1 :

“A journey of a thousand miles begins with a single step”.

– Lao-tzu (604BC - 531BC)

# Can your family trust pass a **Warrant of Fitness** test?

Did you know that according to a recent survey by Mark Maxwell, Chief Executive of Integrity Trust, at least 72% of trusts are at risk of being challenged (and 22% are at risk of serious challenge)! This is a staggering fact given the massive proliferation of trusts over the last 10-20 years.

When we say 'challenged', we mean legally challenged because the trust is (intentionally or otherwise) essentially a sham. This is usually not because of the documentation associated with its establishment (the trust deed), which is generally very good, but rather mistakes made in the ongoing management of the trust.

Keep in mind that major legal firms are increasingly focusing their trust teams on 'trust busting' to pull apart trusts on behalf of their clients, such as a creditor or a disgruntled former partner.

Rest assured, we still believe that a trust is an extremely robust means of ownership due to its strong asset protection, flexible nature and the (potential) tax efficiencies. However, from media, statistical and strong anecdotal evidence, it does seem increasingly apparent that trusts are often not properly administered.

Bearing this in mind, if you have a trust or are considering forming one, can you tick all of the following boxes? (If you can't, don't worry, we can help you!)

- Are all trustee decisions documented with a trustee resolution?
- Is there an annual meeting of trustees and is this documented?
- Is gifting completed on time and properly documented?
- Does the gifting programme adjust appropriately for changes to the assets held by the trust?
- Are investment decisions thoroughly investigated, with advice sought and decisions made in accordance with the needs of the beneficiaries?
- Is there a trustee minute book and is it regularly updated?
- Is there an independent trustee who reviews and assists with trustee decisions?
- Are trust investments diversified and suitably protected from inflation?
- Do the trustees have the power to hire/fire trustees?
- Have the appropriate trustees signed all documentation in the past?
- Is there a resettlement clause in the trust deed enabling the trust to be resettled into new trusts without undertaking the gifting process again?

We believe that for most simple trusts, any issues with their ongoing management are usually a result of a lack of education, rather than negligence. If you are worried, we can help all of those interested in ensuring their trust is correctly administered. We want to help you.



# Nothing is certain in this world but death and...

... taxes. Yes, it's nearly that time of year again as 31 March rolls around and the end of the financial year bears down upon us. Soon after this date, many people need to file a tax return and it's always a good idea to be organised as early as possible. The following may assist you with this:

- If you are using an accountant, you should ask them to put you on their processing list for completing your return earlier rather than later in the year.
- If you have a family trust, you should ensure all accounts are completed and that any beneficiary distributions are allocated before 31 October.
- If you have any revenue either through salary or wages, try and check that tax is deducted at the correct marginal tax rate. To do this, you should check your payslip or request a 'Summary of Earnings' from the IRD. If there is a discrepancy between what you should have paid and what you did pay, you should possibly look at filing a tax return as it's better to file a return than have to pay penalties and interest later (which are often severe).
- If you are a provisional tax payer, ensure you are not incurring 'use of money interest' (UOMI). This means the IRD is charging you interest on taxes you have not paid. If you fall into this camp, it may pay to discuss this with your accountant.
- Ensure you have claimed all relevant rebates and expenses including professional fees paid, donations, rental property expenses and that you have utilised any imputation credits available to you to offset your taxable income.



And finally, if you find our tax system arbitrary and slightly complex, perhaps you should take heart from our colonial forebearers. In England in 1662, there was a hearth tax, which meant that the number of fireplaces you had in a building determined the amount of tax you paid!

## life's tip #2:

"Pain is temporary. It may last a minute, or an hour, or a day, or a year, but eventually it will subside and something else will take its place. If I quit, however, it lasts forever."  
– Lance Armstrong

## Make sure you protect your personal treasures

If you have ever had to evacuate your home quickly or had disaster strike your home (or know someone who has), you will appreciate the importance of protecting those precious items that insurance can't replace such as photos, important documents and memorabilia.

One day you might be forced to leave your home suddenly due to fire or flooding in the area and you only have time to grab a few personal items. What could you grab right now if you only had two minutes to leave the house?

Here are some tips to ensure you can protect your most precious items should disaster strike:

1. Buy a small, fireproof and watertight safe in which to store precious jewellery, keys, pin numbers, originals of important documents, photographs, ornaments, memorabilia and treasured letters. These are available from most locksmiths.
2. Obtain a portable cardboard or plastic file box and keep copies of all key documents such as wills, powers of attorney, warranties, trust deeds, passports, birth certificates and insurance policy documents. This file box should be readily accessible so it can be grabbed quickly if necessary.
3. Open a safe deposit box at your bank. Keeping the most valuable of the valuable items off-site is often the most secure solution, but make sure you keep the key or combination somewhere safe and where you can easily and quickly find it.
4. Keep a current list of pin numbers, access codes and passwords, but ensure this is kept in a secure place such as your safe.
5. Store photos on CD or USB hard drives and keep these off-site. Files on your computer should be backed up (i.e. a copy of the data) onto a CD or DVD and periodically stored off-site.
6. For insurance purposes, keep updated inventories of all of your personal items including serial numbers, date of purchase and value.

If you follow these steps, it may make rebuilding your life after a disaster just that much easier.



## summing up

- Take care with your taxes and get them sorted as soon as possible to save yourself a lot of headaches.
- Take some time to protect those items that you cannot afford to lose.

# Economic Update: How did 2006 finish up and what lies ahead for 2007?

2006 proved to be another stellar year for investment markets, with double digit growth almost across the board. The following summarises the 12-month returns for various asset classes (in local currency):

Asset class	Index	12 month return
New Zealand Equities	NZSX 50 Gross Index	20.3%
Australian Equities	ASX 200	19%
International Equities	MSCI World Gross Index	16.1%
NZ Listed Property	NZSX Property Gross Index	24.9%
Bonds	10 year NZ Govt Bond yield	5.92% (up 0.24% from the previous year)

As you can see, markets continue to perform strongly despite the predictions of several doomsayers.

New Zealand equities surprisingly outperformed international equities, which was something of a surprise given the market remained expensive relative to offshore markets and we continue to have the highest interest rates in the OECD.

## What does it mean for you?

Within portfolios we expect 2007 to essentially be a continuation of the situation of the last few years, but we have more modest return expectations. A combination of a well diversified portfolio and high quality, professional fund managers should continue to help manage any downside risks and maximise upside potential. What else?

### *LPTs become more attractive*

Following recently passed changes to the legislation surrounding the taxation of investment income, Listed Property Trusts (LPTs) are more attractive on a valuation basis. This is because the tax changes effectively mean that investors are also owners of the underlying properties (and can thus claim rebates, depreciation, etc.). However, this needs to be balanced against the fact that many of these trusts seem fully priced at the moment.

### *Stock picking critical*

With a soft economic slow-down predicted in New Zealand through 2007-2008, a key to de-risking portfolios will be moving asset allocations to having a larger allocation to the much larger Australian economy and employing fund managers who have a proven track record (and can manage a downturn without being wedded to an index).

### *Lock in your deposits for 12 months and mortgage for 2 years*

With it looking increasingly likely that the interest rate risk is skewed on the side of raising rates in 2007, it may be a good opportunity to lock your mortgage in for a two-year period. In the area of fixed term deposits, invest shorter term to access potentially higher rates when the deposits mature (at which point rates may be higher).

### *Great time to buy international assets*

With the currency hovering around 70 cents against the US dollar, it remains an excellent time to buy international assets. It remains a case of when the currency will fall rather than if, though as always the Kiwi dollar is largely at the whim of movements in international currency markets.

It remains an exciting market and we look forward to steering you through the changing economic environment and in particular, helping you achieve your financial goals and objectives.

## life's tip #3:

“If you want to make peace,  
don't talk to your friends  
– talk to your enemies.”

– Moshe Dayan