

## Once around the clock

In early April 2007 we celebrated the clock turning over on our first year, and like all good planners we've taken time to review what happened, analysed what worked and what hasn't and begun to work on the next phase in the plan.

Looking back over the past year, the goals we set were challenging but achievable and we are pleased to say we have ticked off some important milestones along the way:

- Milestone: On 2 April 2006 we joined together under the DecisionMakers banner, intent on taking a new and unique approach to providing personal financial planning. Our core goals were to remain independent, to be innovative and to provide a higher level of commitment to our clients.
- Milestone: As of 31 March 2007 we have helped over 1,800 New Zealanders to make better financial decisions and of this number nearly 30% were new clients.
- Milestone: By partnering with Strategi Limited – the expert in the provision of support services to independent advisors in New Zealand – all our DecisionMakers offices have achieved compliance with international Best Practice standards... more on the benefits of this below.
- Milestone: We've grown the business and have taken on more people including Chris Ronayne, a senior investment adviser (see bio on page 2) and four support staff.
- Milestone: We've partnered with Morningstar – a worldwide investment research company

– to develop a portfolio construction manual, methodologies and asset allocations structure in order to enhance our own research. This will ensure your investment portfolio is fully responsive to changing local and international economic events.

So where to from here? Our plan is to grow steadily over the next 12 months, consolidating our position as a leading independent financial advisory service. In particular we plan to:

- Grow our client base – so let us know if there is someone you think could benefit from our services.
- Develop stronger relationships with insurers, mortgage lenders and new trust and estate specialists.
- Grow our team by bringing on board more independent financial advisors who we feel fit our client-centric business model and who can achieve our Best Practice compliance standards.

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## Why the hype about Best Practice?

Is Best Practice really something to get excited about? We think it is and the core reason is that it benefits you, our client.

### You get:

- More detailed advice which contains the rationale behind our recommendations.
- A reduction of risk in terms of errors occurring when transactions are being implemented.
- Additional checks and balances which eliminates any misunderstanding of your situation and finances and creates a solid foundation for an on-going relationship.

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### Phil O'Malley BCom, CA

Originating from the mainland, Phil spent most of his career in marketing and management positions with a number of finance institutions such as Broadbank Corporation. Over the past seven years Phil has operated his own business specialising in financial planning and investment advice, finance and mortgage broking and business investment consulting. He is also a member of the Institute of Financial Advisers.



# DecisionMakers

The best financial decision you'll ever make

(Continued from page 1)

- A risk assessment questionnaire which ensures we understand the level of risk you are prepared to take with your money.
- Access, through us, to independent, qualitative and quantitative research from leading investment research company, Morningstar.

The bottom line is now that we have achieved Best Practice compliance we are able to offer a more professional service and ensure we are giving you advice that will help you achieve your financial goals.



## A newbie with pedigree

Chris Ronayne joined the Auckland office in September 2006 having closely watched DecisionMakers kick start a revolution in the way financial advice is provided. Chris has had a long and distinguished career within the finance and investment sectors. Having cut his teeth as a London stockbroker, Chris came to New Zealand and worked as an investment manager, responsible for managing superannuation funds totalling up to \$500million. He has also been a director of a large mutual superannuation fund.

Since 1991 Chris has dedicated himself to helping people with their investment portfolios and related financial planning needs. He has run pre-retirement seminars for individuals and companies, and has lectured on Investment Management & Portfolio Selection at Auckland University's Centre for Continuing Education.

A keen tennis player Chris is also interested in art, art history, writing and keeping fit. He has also authored two books, "Rudi Gopas – A Biography" and "Trevor Moffit – A Biography".

# Why you could be better off by being boring

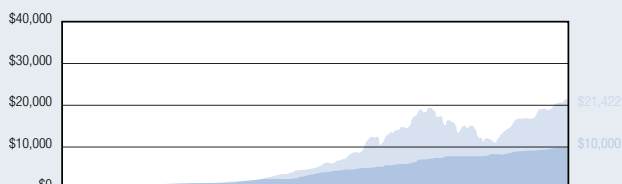
We have all heard stories of how people have made a great deal of money by timing the market right. The theory states that you can create some outstanding returns by buying when prices are low and selling when they are high. The evidence however would tend to suggest, that for many investors, this is not the case.

US research company Dalbar compared two different scenarios - both based on the performance of the average investor in a US mutual (i.e. managed) fund which invested in US stocks over the 20-year period from 1985 to 2006.

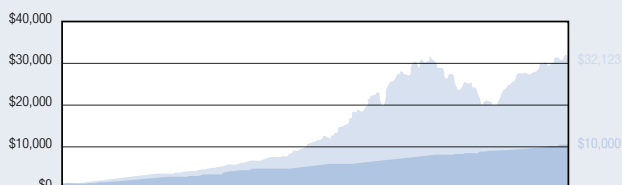
In the first scenario, \$10,000<sup>2</sup> was invested over the 20-year period in a manner consistent with the cash flows of a market timing mutual fund investor (i.e. buying when they perceived the prices to be low). In the second scenario, the 'systematic' investor invested the \$10,000 simply in equal amounts gradually over the 20-year period.

The results show that the systematic investor ended up with \$32,123 and the market timer only \$21,422. So the systematic investor was 70% better off by simply investing into the market regularly and maintaining this discipline. The two patterns are shown in the following graphs:

### 1. Market timer



### 2. Systematic investor



Account Value Contributions

Source: Dalbar Inc.

life's tip #1:

*"Leadership and learning are indispensable to each other."*  
– John F Kennedy

This is interesting as it strongly suggests that one of the most significant contributors to an investor's performance over a long term time frame is their own behaviour! Investing gradually into sharemarkets is known by many as Dollar Cost Averaging (DCA). The benefits of this approach are that you smooth out the impact of market volatility (sometimes you will buy high, sometimes low, but the overall risk is reduced because you are not entering the market at one point in time). DCA is a concept which remains important – and the evidence proves that it works.

*Please talk to us if you would like to discuss how this may be of benefit to you.*

<sup>2</sup> All figures in this article are in US Dollars

## What could be worth US \$3.8 trillion?

You may be interested to know that global merger and acquisition (M&A) activity reached a record of US\$3.8 trillion for the 2006 year. This was an increase of 38% over last year's volume, surpassing the previous record of US\$3.4 trillion set in 2000 (although relative to market capitalisation, the level of M&A remains well below previous peaks). M&A activity has been a major theme driving markets upwards.

## How to minimise your risk on the internet

Ever worry about the risk you expose yourself to when entering your credit card details on the internet? One simple idea which may help you is to have two separate credit cards – one for normal spending and the other for purchases on the internet.

Make sure you set up the second one with a low limit (say \$500), so that if anyone tries to defraud you, the loss will be quite low.

The other great tip is to only enter your credit card on websites which are secure (usually indicated by a padlock on the bottom right-hand corner of the screen).

You should also never give your internet banking log on or password to anyone (even someone who says they are the bank). Note that no bank will ever ask you for this information.

*The World Wide Web is a big place – so take care out there!*

## How to protect yourself in the property market

Without a doubt despite rising prices, there remains a large amount of interest in investment into the residential property market in New Zealand.

If you are considering an investment in this asset class (or reviewing an existing one) we would love to discuss this with you so we can give you advice as to what type of property is most appropriate for your circumstances. However, we still want to provide you with a greater level of understanding and education in relation to this sector.

With this in mind, below are the first in a series of tips around how to make smarter, better informed decisions in relation to the property market.

### **Lesson one – buy for income, not capital gain**

We all know there are two components in return – capital gain and income. In property

investment, we believe too many investors focus on the former at the expense of the latter. Many New Zealanders buy a residential rental property on a yield (rent relative to the value of the property) of say 2-3%.

For a property investment to be worthwhile, it should provide a return of at least 2% above bank term deposits (to allow for the risk). Buying on such low yields means that the entire investment case for most property purchases is based on capital gain. This makes it a speculative investment.

Although capital gains in the last five years have been excellent, you have to remember that property is like any other asset class in that it moves in a cycle.

If you believe the market is at the top of a cycle for instance and it is uncertain what you might be able to gain from selling the property in the future, it is best to either wait on the

sidelines or focus on the cash flows of the investment when you assess whether to invest or not.

### **Lesson two – buy in the bust, sell in the boom**

This seems obvious, but it is worth reinforcing (especially at the moment). The truly smart property investors don't invest when the market has already experienced strong capital gains; they buy in a depreciated market. In a surging property market, it may feel like so many others are making so much money and you might think you would be a fool not to jump into the market. However, staying on the sidelines may be the smartest move you can make.

It takes mental discipline, but try to buy in the bust and sell in the boom, because no one ever got truly rich by following the herd!

### life's tip #2:

*"Obstacles are those annoying things we encounter when we lose sight of our goals." – Anon*

### summing up

- Take precautions when using your credit card on the internet.
- With property investment make sure you manage your risks carefully by investing for income and not following the herd!

# How do the tax changes work and how do they affect you?

There has been a huge amount of attention on the changes to legislation regarding the taxation of investment income. Much discussion has focused on the changes being a 'tax grab' by the government. In reality, the changes have substantially levelled the playing field and in many cases, they mean you will be paying less in tax.

## Do the new rules apply to you?

The new rules apply principally to international equities. Investments in New Zealand and certain Australian shares are excluded. All other international investments will be subject to a new Fair Dividend Rate (FDR) tax calculation, unless your investments qualify under the following exemptions/thresholds:

- The total cost of all your offshore investments is NZ\$50,000 or less (or \$100,000 for a couple). Please note this threshold does not apply to trusts. If you are unsure as to how to calculate the cost, please call us for a two-page guide.
- Investments in Australian-resident companies (which are listed on an approved index and maintain a franking credit account).
- Australian Unit Trusts (AUTs) that provide a Resident Withholding Tax (RWT) facility and meet certain other criteria. If you have AUTs, we can talk this through with you.
- There are certain other exemptions including GPG, New Zealand Investment Trust and venture capital companies.
- Investments in New Zealand tax resident unit trusts are excluded from the \$50,000 de minimis calculation (even if they invest in international shares).

## How does the Fair Dividend Rate work?

If your investment in international equities does not qualify for an exemption as outlined above, you will be taxed each year on a maximum of 5% of the opening market value<sup>1</sup> of your offshore investments. If the total gain (dividends and capital gains) on your offshore investment portfolio is less than 5%, tax is payable on the lower amount, with no tax payable if the shares make a loss.

### For example (see table below):

The most you will ever pay in tax for international equities is whatever your marginal tax rate is of 5% of the opening market value.<sup>1</sup>

### So why is this positive?

1. Any gains you receive over 5% are effectively tax free (in the first example this is \$20,000).
2. If you are an individual or family trust investor and you make a loss, you will not pay any tax (although you can't carry the loss forward).
3. In most cases, you will have certainty of your overall tax liability at the start of the year.
4. Overseas dividends are no longer taxable by themselves, unless an exemption applies.
5. Previously, if these investments were held in a non-grey list country, your entire gain would have been taxable.

### What about managed funds?

The tax changes have really enhanced the appeal of certain managed funds. These funds are the ones that are going to register as Portfolio Investment Entities (PIEs).

The PIE will pay tax on behalf of the investor based on the FDR at their marginal rate, capped at 33% (i.e. either at 19.5% or 33%). So 39% taxpayers will generally have an additional tax saving. In addition, managed funds that register as PIEs (some will continue to be taxed as they are currently) will take care of all the taxation work for you (if you are an individual or a family trust who elects to have tax deducted at 33%).

PIEs that invest into Australasian equities (New Zealand equities and qualifying Australian equities) will have no capital gains tax and will only be taxed on dividends.

The changes effectively mean there may no longer be a tax advantage in investing into direct equities over using a managed fund and PIEs provide an excellent tax effective method of investing going forward.

### So what should you do?

1. Contact us for advice.
2. Invest in managed funds likely to become PIEs (we can help you recognise which ones will fall into this camp).
3. Make sure your fund managers have your correct marginal tax rate.
4. Talk to us about investment management platforms which can report on all of your investments and take care of all the tax work for you.

*If you would like assistance with any of the above or just want to have a chat about how the changes affect you, please call us.*

<sup>1</sup> There is a Quick Sale Adjustment (QSA) if you buy and sell shares during the year.

VALUE OF QUALIFYING INT'L SHARES AS AT 1 APRIL 2007	VALUE OF QUALIFYING INT'L SHARES AS AT 31 MARCH 2008	DIVIDENDS RECEIVED	TOTAL GAIN	TAXABLE INCOME	TAX PAYABLE (FOR A 19.5% TAX PAYER)
\$100,000	\$115,000	\$10,000	\$25,000	\$5,000 (5% of \$100,000)	\$975
\$100,000	\$102,000	\$1,000	\$3,000	\$3,000	\$585
\$100,000	\$75,000	\$10,000	-\$15,000	\$0	\$0

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A disclosure document is available free of charge on request.