

The sun still shines

One could be forgiven for thinking the worldwide financial markets are disintegrating and this is the worst economic crisis the world has ever faced. However, rest assured it's not, and the markets will recover, although how fast and how soon we are as yet unsure.

One of the reasons this economic downturn appears so bad is the ever-expanding intrusion of the media into our daily lives. Stories about falling property values, business receiverships, sharemarket price falls, finance company failures and unit trusts suspending redemptions seem to get far more media time and space than good news stories. Among all this negativity and hype we need to keep the world and our investments, in perspective.

- We have just experienced one of the longest economic growth cycles in New Zealand history and at some time in each growth cycle the markets need to take a breather.
- Our dollar has continued to appreciate, making it very attractive for New Zealanders to travel overseas and purchase foreign goods.
- Property prices have increased exponentially over the past 10 years. We have had one of the largest increases in house prices anywhere in the world over that time.
- New Zealand is still rated one of the best places in the world to live.
- All economic crises come to an end and when they do, markets have historically shown a rapid rebound. To take advantage

of the recovery, investors need to remain in the markets, preferably in a well-diversified investment portfolio. We do not know when the bottom of the market actually is until after it has occurred and there has been steady recovery. Repeated research shows that an investor is better off (over the long term) remaining in a diversified portfolio of quality investments, rather than jumping in and out of the markets.

We all need to have faith and confidence that over time we can look back at the investment graphs and see that 2008 was just one more blip in the overall growth of investment markets.



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Chris joined the DecisionMakers Auckland office in September 2006, after a long and distinguished career within the finance and investment sectors in both London as a stockbroker and in New Zealand as an investment manager, responsible for managing superannuation funds totalling up to \$500 million. Since 1991 Chris has dedicated himself to helping people with their investment portfolios and related financial planning needs. He has also run pre-retirement seminars for individuals and companies, and lectured on Investment Management & Portfolio Selection at Auckland University's Centre for Continuing Education.



DecisionMakers

The best financial decision you'll ever make

KiwiSaver surpasses expectations

There are now well over 500,000 New Zealanders signed up to KiwiSaver, far surpassing initial Government expectations. So why has KiwiSaver been so popular? The answer lies in the multitude of benefits that come with KiwiSaver, including:

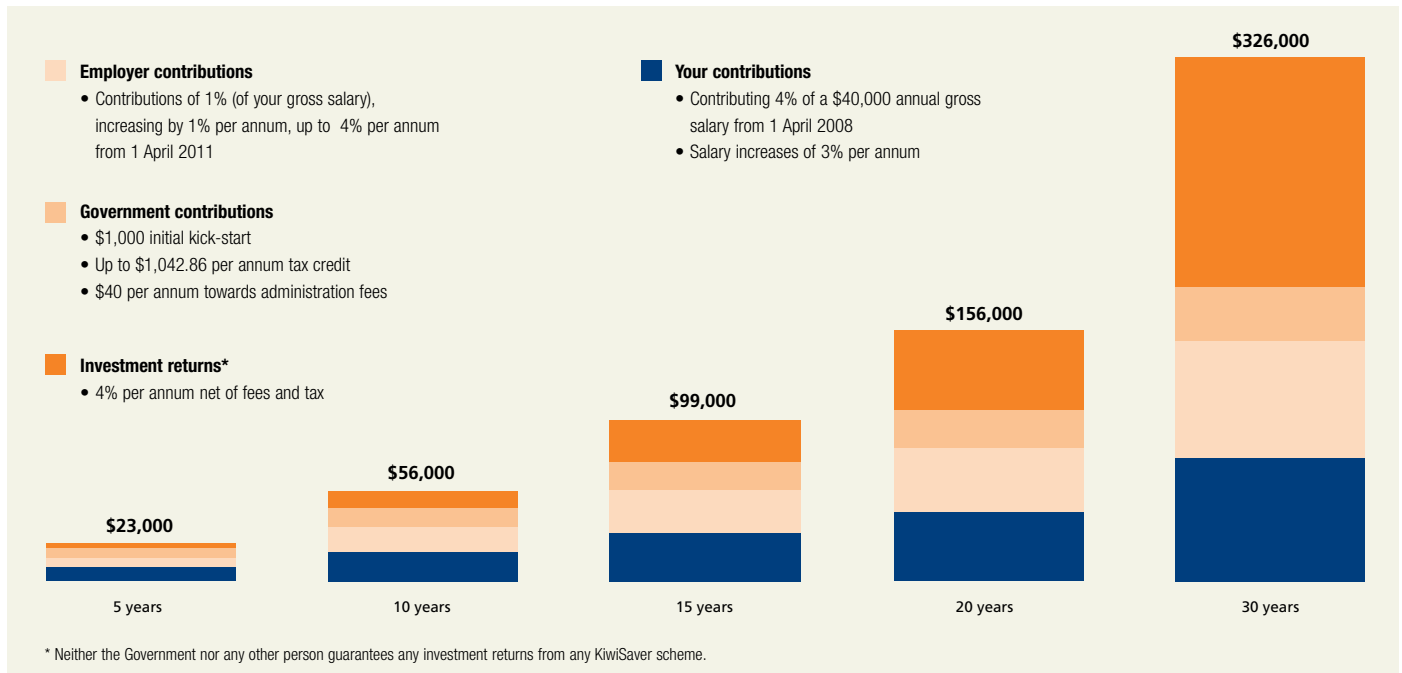
- A once only \$1,000 lump sum contribution on joining (some conditions apply).
- A tax credit of up to \$1042.86 p.a. if you are contributing.
- Employer contributions of 1% of your gross salary, increasing by 1% p.a. to 4% p.a. from 1 April 2011.
- An additional deposit subsidy for the purchase of your first home.
- A \$40 p.a. fee subsidy to your KiwiSaver account.

If you are aged 64 or under, KiwiSaver is an investment opportunity you should consider for yourself and your family. If you are aged 65 or older, consider opening a KiwiSaver account for your children and grandchildren if they do not already have one.

Contact us for details on how to open a KiwiSaver account.



The chart below shows just how attractive KiwiSaver can be.



If you don't ask, you don't get!

At a recent conference I was told the story of a gentleman whose wife died two years before he turned 65. He continued to work and at age 66 he decided to retire and have a three-month overseas holiday. While overseas, he met another retired New Zealander and learnt that this person not only received NZ Superannuation, but also a 'living alone' benefit. Upon returning from holiday, our subject approached Work & Income New Zealand (WINZ) with the expectation of applying for NZ Superannuation and the

Living Alone Payment, and having it back-dated to when he turned 65. Alas, he was informed that these benefits cannot be back-dated and as a result he had missed out on 15 months of benefit payments, amounting to (using 1 April 2007 figures):

- NZ Superannuation (15 months) \$21,545.60 before tax
- Living Alone Payment (15 months) \$1364.48 before tax

The moral of the story: "If you don't ask, you don't get".

Contact us or WINZ for details of any Government benefits you may be eligible for.

life's tip #1:

"Chains of habit are too light to be felt until they are too heavy to be broken."

– Warren Buffett

Buying a vehicle

We often hear stories of people getting ripped off when they buy a second-hand vehicle.

Many of us like a bargain, but how do we check the vehicle is not encumbered or of interest to the police? Check out www.vir.co.nz. For just \$30 you will learn if the vehicle has previously been de-registered; when the registration and WOF officially expire; if the vehicle is of interest to the police; or if there is a Security Interest found (money owing).



Not convinced about insurance?

Take a look at these New Zealand statistics, which reveal the risks we face in our everyday lives. Personal or Trauma Medical Insurance will not prevent us getting sick or having an accident, but it can help with the recovery process and make life more comfortable for the patient and their family.

Did you know?

- 1 in 3 men and 1 in 4 women will get cancer before age 75.
- Above the age of 40 the risk of coronary heart disease is 1 in 2 for men and 1 in 4 for women.
- Strokes are the major cause of deaths and disability. There is a 1 in 8 chance of a stroke.
- 5 out of every 10 males aged 25 years old are likely to become disabled due to an illness or accident before they turn 65 that will prevent them from working for at least a month.
- 7 out of every 10 females are likely to become disabled due to an illness or accident before they turn 65 that will prevent them from working for at least a month.
- Of these, nearly a third will still be on claim 12 months later.

Give us a call if you have any doubts about your insurance coverage.

Source: Davies Financial and Actuarial Limited (2006)

Some wacky but real insurance claims

- "I collided with a stationary truck coming the other way."
- "The other car collided with mine without giving warning of its intention."
- "My car was legally parked as it backed into another vehicle."
- "I started to slow down but the traffic was more stationary than I thought."
- "The gentleman behind me struck me on the backside. He then went to rest in a bush with just his rear-end showing."
- "Coming home I drove into the wrong house and collided with a tree I don't have."
- "I told the police that I was not injured, but on removing my hat, I found that I had a fractured skull."
- "I pulled away from the side of the road, glanced at my mother-in-law and headed over the embankment."

life's tip #2:

"A bore is a person who opens his mouth and puts his feats in it."
– Henry Ford

Landlords targeted in tax crackdown

Inland Revenue Department (IRD) is on the hunt for landlords not paying tax on their rental properties, accusing them of cheating the system by at least \$100 million.

The IRD is concerned that people do not understand that if they buy a property with the firm intention of selling it to make a gain from the increase in its value when prices rise, then any profits are taxable.



To assist with the education process, IRD has issued an 18-page guide to the tax laws for landlords titled 'Buying and Selling Residential Property'. This guide should be used if you have sold a residential property or properties and are unsure if you should pay tax on the profits you made from the sale. Builders, developers and dealers should

talk to their tax professional as different rules may apply. Contact us if you would like a copy of this guide.

The minimum wage is increased

On 1 April 2008, the minimum wage for employees aged 16 years and over increased to \$12 per hour before tax. That's \$96 for an 8-hour day or \$480 for a 40-hour week.

For new entrants or those on a recognised industry training course, the new minimum wage effective 1 April 2008 is \$9.60 per hour before tax. That's \$76.80 for an 8-hour day or \$384 for a 40-hour week.

summing up

- If you're a landlord, request a copy of the new guide to tax laws
- Don't have medical insurance? The numbers are stacked against you

Paying a mortgage versus investing

Financial planners are often asked to advise on the advantages or disadvantages of applying surplus cash flow to reduce a residential mortgage, rather than using the cash flow to invest in managed funds. The most common questions are summarised below:

- a. Should surplus cash flows be used to reduce a residential mortgage rather than be invested in managed funds or should managed fund investments be liquidated to reduce a residential mortgage?
- b. Should a mortgage be raised on residential property and the funds then reinvested in managed investments?

These questions are best considered in four parts: risks, opportunity costs, diversification and investment returns.

• Risks

If surplus cash flows are used to reduce a mortgage, the risks of being able to meet future payments is reduced and the risks of an increase in repayments because interest rates rise is also reduced. New Zealand's deregulated economy has

changed the security formerly associated with steady employment and this is a prime motivation for investors to reduce a mortgage. The residential property market is illiquid and 'inefficient', and increasing an investment in this asset class results in a significant rise in liquidity risk. Managed fund investments have a high degree of liquidity with funds always available within a few days.

• Opportunity cost

Opportunities in the future to obtain higher returns may be missed because cash flows and funds are not available. It could be argued that funds can easily be obtained by increasing a mortgage again, but changes in the mortgage market are unpredictable and this may not be an option at the time the investment opportunity is available.

• Diversification

Most New Zealanders have a high proportion of their retirement savings in residential property. It is also important to note that proceeds from a family estate will generally include residential property. This 'double-up' effect further reduces the diversification of investment portfolios and increases the risks.

• Investment returns

Residential property is not subject to capital gains tax and although there is no income flow, there are indirect benefits from ownership as the only alternative is rental accommodation. Interest payments for a mortgage on an owner-occupied residential property is not deductible for tax purposes. Managed investments are subject to tax on income, realised and



unrealised gains, but borrowing costs are deductible for tax purposes. Investment returns should be calculated on an after-tax basis.

Residential property and managed investments are both subject to market risk, but residential property is affected by a multitude of factors related only to the specific property. Returns from managed investments are predictable on the basis of probability models. Reducing a mortgage is considered a lower risk strategy than investing in managed funds and investors can therefore justifiably expect higher returns from managed fund investments. This is known as the risk premium.

In general terms there are benefits in reducing a mortgage if prospective returns (including a risk premium) from an investment in managed funds is lower than the mortgage interest rate.

Contact us if you would like to discuss your personal situation.

life's tip #3:

"There is a very easy way to return from a casino with a small fortune: go there with a large one." – Jack Yelton

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