

How to crush your credit card bill this Christmas

With Christmas fast approaching, we thought we'd have a look at some practical and easy ways for you to improve your finances. As is always the case with Christmas, the urge to spend is pretty strong. So we want to help you ensure you don't go overboard and face a huge credit card bill in the New Year.

Last year, New Zealanders bought goods and services worth over \$20 billion on their credit cards and paid a mind-boggling \$540 million of interest (at an average interest rate of around 18%!).

The only people who benefit from this type of activity are the banks and the credit card companies. So what can we do about it? How can you reduce (and ideally eliminate) your credit card bill?

1. Don't let your bank continue to extend your limit. Keep your limit at a reasonable level where you know that even in the worst-case scenario, you will not be left financially devastated.
2. Don't be seduced by reward points programmes and 'Fly Buys', etc. They usually only account for 1% to 2% of the value of purchases and are largely a marketing ploy to make you spend more.
3. Pay off your credit card in full every month. Remember, it's quite simple – if you don't pay it off, your debt will increase exponentially.
4. If you have money in savings, use it to pay the outstanding balance on your credit card, because it is extremely unlikely the return on your investments will be higher than the interest you are paying on your credit card.

5. Have a budget and keep to it. Budget extra for things like Christmas.
6. Have one credit card only.
7. Remember the amount of debt you have is your responsibility. Don't try and hide from it, it won't go away.
8. Use your credit card only when you have to, i.e. booking airline tickets, making internet purchases, etc.
9. Know what interest rate you are being charged and read the fine print of your contract. In many cases, you may be charged interest when you don't think you are.
10. Check your statements. Often you may be overcharged without knowing.
11. All cards are not created equal so shop around for the best deals. Have a look at www.cardwatch.co.nz, which provides a comparison of the credit cards available in New Zealand.
12. If all else fails try freezing your credit card in a block of ice! When you feel the urge to spend, you will have to wait for it to thaw. Better still, cut it up!

If you do have regular credit card debt, have a look at the above tips and see how many you can use to bring your debt under control. We know it's sometimes easier said than done, so if you need more help, just give us a call – that's what we are here for.



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Key DecisionMaker: Colin Austin CFP
Colin is a financial planner who is truly passionate about creating and protecting wealth for his clients. He established his own independent financial planning firm in 2001 and is now a director of DecisionMakers (Auckland) Limited. He is a very well known and respected member of the Institute of Financial Advisers (the Institute) and holds the Institute's highest accreditation of Certified Financial Planner.



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Are we becoming a **multi-national** outlet store?

You may have heard Reserve Bank Governor, Alan Bollard, speaking recently about New Zealanders' lack of savings and their love affair with debt, and why this is bad news for the economy in the long term. Many look at Bollard's comments with a hint of cynicism as they have achieved some outstanding returns in the property market. But what is the true state of affairs?

1. We borrow a lot. Total household debt is now over \$140 billion (up a staggering \$56 billion in the past five years alone).
2. We spend more than we earn. According to Statistics New Zealand, people in the median income band (\$550 to \$728 gross a week) spend, on average, around \$600 per week on basic goods and services (food, housing, utilities, clothing and transport), which does not leave much for anything else.
3. We don't save much into financial assets. According to the September Household Savings Indicator survey, collectively we have about \$144 billion in financial assets,

but this is only around 21% of total assets (housing makes up the balance). Half of all New Zealanders are not saving at all and our savings rates are among the lowest in the OECD.

4. We are increasingly employed by foreign-owned companies. In 2005, around \$13 billion of New Zealand assets were gobbled up by foreign shareholders who received over \$9.5 billion in dividends from their investments here.

Why does all this matter?

For the year to June 2006, the current account deficit (i.e. exports less imports plus net investment income earnings) had blown out to \$15.2 billion, which is \$3 billion more than the previous year. This is around 9.7% of gross domestic product (GDP), which is one of the worst levels in the OECD. While it is expected to reduce in the coming year, the concern is that we are basically living beyond our means.

Commentators don't generally anticipate a massive economic downturn, but there is

no doubt New Zealand needs to invest more in savings, ownership, infrastructure and investment in its own backyard (and use this as a springboard to expand globally in a meaningful way).

As the well-regarded CEO of the economic think-tank, The New Zealand Institute, David Skilling put it: "New Zealand needs to remove the constraints on international engagement, provide a more supportive environment, and be more outwardly-focused.

"In short, New Zealand needs to approach international business with more of the mindset used by New Zealand teams in achieving international sporting success".

After all, the last thing we want is to be a nation of employees in foreign companies, with masses of debt owed to foreign companies and little or no real savings!

Please contact your adviser if you would like to discuss how these economic trends may impact on your portfolio or how better to evaluate your goals and lifestyle habits.

life's tip # 1:

"Don't be afraid to take a big step when one is indicated. You can't cross a chasm in two small steps."

– David Lloyd George

Eight things to do before you die

1. Walk the Inca trail to Machu Picchu.
2. Stand in the Roman Colosseum.
3. Walk the Great Wall of China.
4. Learn a new language.
5. Spend two years overseas.
6. Drive a Porsche.
7. Volunteer for a charity or local community group.
8. Watch a sunrise in Gisborne (the first in the world!).

The new year is a good time to set one of these as a goal to start saving or training for.

Have a little **trust** when you pass away

Does your will leave your assets to your loved ones individually or in the name of a trust? It may not seem a significant question now, but it can make a big difference to your family should you pass away.

There are several reasons why you should leave your assets to a 'testamentary' trust, i.e. settled from an estate, as opposed to bequeathing it directly to your surviving family members:

1. You avoid the gifting process. The trust is automatically fully gifted if it is created from a will.
2. You can receive all the asset protection benefits of having property held in a trust, such as protection from creditors.
3. If you leave your assets directly to one or two individuals and they want to pass part of this money on to others, there may be gift duty on the second transaction, depending on the size of the gift each year. This will not be the case if the estate is paid to a trust and the individuals are named as beneficiaries of the trust.
4. A trust offers stronger protection from relationship property challenges. For example, if you leave

your assets to your only daughter and she has been in a de-facto relationship for three years or longer, the partner may legally be entitled to half of those assets, (especially if assets are 'intermingled').

5. Leaving your assets to a trust makes it more difficult for your will to be challenged and overturned.
6. There can be potential tax advantages and flexibility.
7. You can have the proceeds paid to an existing trust.

One trap to be aware of is that under the law of survivorship, if you own assets jointly, those assets will automatically be owned by the surviving partner on your death, regardless of the will. This may however be advantageous in some circumstances.

Of course each individual case will be different. Therefore, it is important you discuss this either with us or your solicitor now. After all, a small change to your will to ensure your estate is left to a trust could make your family's financial situation far more robust in the event of your untimely demise.

Please call us if you have any questions.

Fantastic Christmas GIFT IDEAS



Struggling for ideas for Christmas presents for your friends and family? Try these helpful suggestions:

1. Puzzles can keep the kids entertained over the long holiday break. For a puzzle with a difference (and one that is not a computer game!), try Wasgij puzzles at www.wasgij.co.uk.
2. Try practical gifts such as a roadside emergency pack, a survival kit or a first-aid kit. It may not be exciting, but who knows when your loved ones might need it?
3. Food always makes an excellent gift. Consider some specialty cheeses, a Christmas pudding, a unique-looking jar filled with sweets or a selection of unusual sauces for the BBQ available from www.wildappetite.co.nz.
4. Anything that is not readily available where your friends and family live is always great. For example, if they live rurally, try some hard-to-find imported chocolates or a rare clothing item.
5. Another great idea, which is slightly less materialistic, is to make a donation to a charity on behalf of the person you wanted to give a gift to, e.g. UNICEF or World Vision.
6. Get the children active – buy them a soccer ball or tennis racket or a cricket set.
7. Why not set up a savings account for your children, saving say \$20 a week (and match their contributions)?

If you are still stuck, there are hundreds more ideas available at www.ferrit.co.nz. Happy shopping!

life's tip #2:

“The bitterness of poor quality is remembered long after the sweetness of low price has faded from memory”.
– Aldo Gucci

New Zealand small business owners overlook income protection insurance

A survey commissioned by the Investment Savings and Insurance Association (ISI) has found New Zealand's small business sector is chronically underinsured, with 62% not having any income protection cover in place. The research covered all businesses (self-

employed and professionals) and found that while 88% knew that income protection insurance is available, fewer than half have done anything about it. This is despite the fact that 82% of those surveyed said loss of income would affect their ability to meet

living expenses. Not having income protection insurance is like driving around without a seatbelt. The ability to earn an income is, for most people, their most valuable asset. So if you have any questions whatsoever, please give us a call.

summing
up

- It is often better for you to leave assets to a trust rather than directly in your survivors' individual names.
- Small business owners need to carefully consider income protection insurance.

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What is **happening economically** and how does this affect you?

1. It might not be a bad time to buy a car

We have seen the prices for used cars fall this year due to:

- The rising cost of fuel
- A resilient exchange rate
- A glut of second-hand used cars.

Less people are purchasing cars. There were 19,700 cars registered in July this year – 904 less than the previous month. With the rising cost of petrol and the stronger awareness of environmental issues, more and more people are looking at public transport, hybrid cars, etc.

So if you've been thinking of a new car or an upgrade, it may not be a bad time to have a look around!

2. Domestic situation points to soft landing

New Zealand faces an economic situation which is slowing somewhat due to the following factors:

- Despite a recently announced massive \$11.5 billion government surplus, the current account deficit is at its worst point since 1975.
- Inflation expectations have risen to a 15-year high.
- We have seen a modest slowdown in consumption.
- Most commentators expect the Reserve Bank to leave interest rates alone until mid-2007 (but the chances of a rise before Christmas have increased).
- Although prices seem to be holding in most property sectors, building consents are down.
- A net 34% of businesses expect conditions to worsen.

For you, this means you need to invest with high quality, domestic fund managers who can pick the right stocks to see you through the current economic climate. You will also want to carefully consider your mortgage options and try not to lock in for any more than two years when refinancing your mortgage (preferably one year).

3. It's still a good time to be investing internationally

Why is this?

- A strong New Zealand dollar, but this is likely to weaken over time.

- There are a range of excellent, active international fund managers who will actively move to different sectors and countries to maximise returns.
- Reducing your exposure to New Zealand which (as outlined above) is slowing and is only around 0.2% of global GDP.

Please contact us if you have any questions regarding the above economic trends.



Everyone at DecisionMakers would like to thank you, our valued client, for your support and business during this year.

We look forward to delivering further on our promise to provide the best financial advisory processes and systems that are available and are excited about the future as there are some big changes on the way for our industry. With the changes we have already made to our practices, we are confident we will comply with the new, more regulated environment and will be seen by others as leaders in our field.

We wish you and your family a very Merry Christmas and a Happy New Year.