Interest Rates

LOWER FOR LONGER

IN NEW ZEALAND BANK INTEREST RATES ARE EXPECTED TO AVERAGE 3-4% PA IN THE NEAR FUTURE.

Recently the United States Federal Reserve announced that while they were ending their quantitative easing programme, they expected it would be a considerable time before they started increasing interest rates from their current levels of 0.0 – 0.25%. In a recent speech the governor of the Reserve Bank of New Zealand suggested that a period of interest rate stability is the most prudent option given current conditions. These two announcements confirmed that we are remaining in an environment of low interest rates.

It is quite possible the developed world could be entering a period similar to the 1950–60s, when interest rates were both low and stable. This lower expected interest rate environment is partly due to the expectation that developed world growth is likely to remain subdued over the next few years. This is due to aging populations and high consumer and government debt.

Having experienced around 35 years of high interest rates, a movement towards low interest rates will have a direct impact on investors. In New Zealand bank interest rates are expected to average 3 – 4% pa in the near future. This is significantly lower than the 6%pa they have averaged over the last 20 years. Returns of above 6%pa from income assets are now unlikely, unless the investor takes on significant risk.

A CHANGING COMPETITIVE LANDSCAPE

For the last twenty years we have become used to the concept that it is very difficult for the developed economies to compete in any form of manufacturing against the developing countries such as China.

However, over long periods of time the forces of market economics are a powerful leveller of the playing field.

In the 1960's and 70's the cheap production came from Japan. However over a period of 30 ye.ars Japan's incomes rose and the Yen strengthened by over 200%; as a result Japan became an expensive place to base production. It may not be obvious but a similar pattern is occurring today with China becoming relatively less competitive, while the United States has become much more competitive.

Looking at the growth of average household income across three countries important to New Zealand — Australia, China and the United States — reveals an interesting pattern.

Urban household disposable income in China remains low, but it has risen dramatically from just US$750 per annum in 2000 to US$4,400 in 2013, an increase of almost 15% per annum. As a result, China is not the super cheap production centre that it once was.

Similarly Australia, thanks in part to the mining boom on the back of China's growth, has seen its household income increase from just US$16,500 in 2000 to US$51,300 at the end of 2013, an increase of almost 9% per annum.

What may surprise readers is that in the United States the average household income has increased from US$42,000 in 2000 to US$51,900; an increase of just 1.6% per annum which is less than the rate of inflation.

Life's tips/2

"In the long run, it's not just how much money you make that will determine your future prosperity. It's how much of that money you put to work by saving it and investing it."

– Peter Lynch

Next step

- See us about the best investment and insurance options for you.

GENERATION WEALTH MANAGEMENT

Investing in knowledge

The four most dangerous words in investing are: 'this time it's different'. – John Templeton.

Q1/15

Why is risk profile important

TO YOUR KIWISAVER SUCCESS?

2014 WAS ANOTHER GREAT YEAR FOR KIWISAVER INVESTORS.

Morningstar in their most recent KiwiSaver survey stated "investors across all KiwiSaver categories were rewarded in 2014, as both income and growth assets performed positively. Investors should note, however, that recent market strength is unlikely to be sustained in the future. KiwiSavers should also be wary of chasing performance, and focus on ensuring that they're in the most appropriate risk profile for their personal circumstances."

KiwiSaver is an outstanding success with over $26bn in funds at the end of January 2015. However, far too much of this money is sitting in the default funds or low risk funds – considering the long-term nature of KiwiSaver.

What Morningstar is warning is that there is limited long-term value in chasing the highest performing fund managers and moving your money from one provider to the next depending on who performed best in the performance ratings. This sort of strategy could be costly as last year's top performer may not necessarily be the top performer in years to come.

Morningstar is a world-wide research company with masses of data to back up their projections. Although nothing

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TARAWERA ULTRA MARATHON

Congratulations to one of GWM's advisers Jon Davies who completed the 100km Tarawera Ultra Marathon on the 7th February. The event is a tough physical test run through stunning scenery around the blue lakes, through the Redwood forests and bush trails. This results in sore legs, smashed feet, tears, sweat, twisted ankles, falls, scrapes, body parts doing weird things – and some colourful language!

Jon ran the event for the benefit of Franklin Hospice so a big thank you if you have sponsored him and please contact the Pukekohe office on 09 238 3322.

Inside

is guaranteed, Morningstar predicts that a conservative portfolio (85% income/15% growth assets) will have a long-term projected return of 5.8% whereas an aggressive portfolio (15% income/85% growth assets) will have a long-term projected return of 8.3%. If this average earning rate was extrapolated over a 20-year time horizon, then the difference in accumulated value between the two risk profiles and their corresponding portfolios would be massive.

So what should you do? If you plan to use your KiwiSaver money in the next few years, then remaining in the more conservative funds is a prudent move.

However, if the money is locked in for five or more years, then you need to talk with your financial adviser about correctly assessing your investment risk profile.

Your adviser has the skills plus the risk profiling tools to help you identify what it is you intend to use your KiwiSaver money for, when you can access it and what your attitude is towards this money over the short-, medium- and long-term.

Your adviser can talk about the pros and cons of taking a higher risk profile and what it might mean for you. It is important you feel comfortable with your KiwiSaver investment but taking too high a risk could potentially be as damaging over the long-term as taking too low a risk and missing out on accumulating those much needed additional savings for retirement.

Life's tips/1

"Calling someone who trades actively in the market an investor is like calling someone who repeatedly engages in one-night stands a romantic."

– Warren Buffet

UK PENSION RULES RECENTLY CHANGED

It is decision time for some UK migrants!

Do you know someone who has migrated to New Zealand from the United Kingdom? If they have not already transferred their pension to New Zealand, then do them a favour and suggest they check on the type of UK pension they have, identify if it is caught under the latest law change, and suggest they get advice on their options.

On 17 December 2014, royal assent was given to legislation which results in UK unfunded defined benefit schemes not being able to be transferred to New Zealand until age 55 years. Those caught under this new legislation are former members of the UK Police, Armed Forces, Fire Service, teachers, civil service and NHS.

There are pros and cons associated with transferring a pension to NZ and we definitely recommend people seek advice before making the move. Give us a call – we are experienced at advising on UK pension transfers.

Summing up

- Markets soar, markets crash. Juggling investments requires advice.
- UK pension schemes: can you move yours? Or is is stuck in the United Kingdon?

6 reasons to reassess

YOUR LIFE INSURANCE NEEDS

WHEN WAS THE LAST TIME YOU HAD A SPARKLING CONVERSATION ABOUT LIFE INSURANCE?

To be fair, it is not something most of us want to think about too often. However, despite our reluctance to discuss them, protection policies such as life insurance are not insurances we should buy once and never think about again. The sad reality is that most of us forget to update our insurance cover when we experience life-changing events, even though this can leave you and your loved-ones in financial difficulty, should the worst subsequently happen.

You are more than likely going to experience a life-changing event at some point in your life. Take note of the following life-changing events, all of which result in a change of circumstances and therefore insurance needs:

1. **You take out a joint mortgage.** When you buy your first property, it is likely your mortgage provider will impress on you the need to purchase some form of life insurance. This is because the bank will want an assurance that, if you die, your mortgage will be repaid in full. If you buy a home with a partner, it's even more important to ensure you have enough protection in place to cover your share of the mortgage debt. If you don't, your other half could end up being pursued for the entire joint mortgage, should the worst happen.
2. **You get married or enter into a civil union.** When you make the commitment to spend your life with someone else, it is likely this will also mean you spend your money jointly (although not necessarily in equal amounts!). Entwining your finances with a partner's can affect the level of life insurance cover you need. If you rely on pooling joint incomes to pay your household bills, it is important to ensure both partners' contributions to the family finances are properly protected. Otherwise, should one of you pass away, the person left behind is likely to experience money worries, as well as heartache.
3. **You have children.** An IRD paper produced in 2009 calculated it costs over $250,000 to raise a child to age 18 for a middle income family and this does not include any contributions towards further education or loss of income if one parent stays at home! Even if both parents in a family work, costs like these can be difficult to cover. However, if one of the incomes you rely on was lost, the right life insurance cover could make a real difference to the surviving partner or loved ones left to bring up your family. Also, don't forget to review your life insurance needs as your family grows. Looking after a family of three or four children will cost significantly more than meeting the needs of an only child.
4. **You have other, non-mortgage debts.** If you have outstanding borrowing on personal loans and credit cards, it is important to understand that these will have to be repaid out of your estate (the wealth you leave behind) when you die. It is a good idea to ensure you have enough life insurance in place to cover such debts, especially if you have dependants who rely on your income to survive. If you don't, your family will have to deal with your creditors after you've gone.
5. **You get a new job.** If you are lucky enough to be offered a new job and an increased salary, you may need to increase your life insurance cover. This sounds contrary, and it is easy to assume being better off might mean you would need less, not more, life insurance – but remember, most people become accustomed to the lifestyles they lead. If a career move means the start of a more affluent standard of living for you and your family, it is worth considering how they would maintain this if your income was lost. Also, it is worth checking the terms and conditions of any new employment contract you sign. Some jobs may offer a degree of income protection as part of your package.
6. **Your health or lifestyle changes.** A change in health or lifestyle may enable you to remove a premium loading. For example, you may have taken out life insurance and been a smoker at the time. You may have since given up smoking and so, depending on your policy and how long ago you gave up smoking, you may be able to remove a premium loading from your policy. Another example is where you may have changed jobs from what was classed as a high risk job, to a lower risk job.

It is a good idea to seek personal advice from an expert whenever you address or re-visit your insurance needs. Please contact us if you would like to discuss your life insurance or any other key insurance policies. We will happily assist you to ensure the appropriate level of cover is in place for you and your family.

Summing up

- How many life changing events happened to you last year? Did your insurance change with it?
- You may be overinsured, and paying too much, or underinsured and risk not being paid enough.