Investing in

knowledge

I am always ready to learn although I do not always like being taught – Winston Churchill

Q1/12

MARKET OUTLOOK

What will 2012 look like from a financial perspective?

THAT'S THE QUESTION SOME OF THE SMARTEST MINDS IN THE FINANCIAL WORLD HAVE BEEN PONTIFICATING ABOUT SINCE THE NEW YEAR BEGAN. IT IS IMPOSSIBLE TO PREDICT WITH ABSOLUTE CERTAINTY WHAT THE FINANCIAL OUTCOME WILL BE AS THERE ARE JUST TOO MANY POTENTIAL VARIABLES SUCH AS NATURAL DISASTERS, POLITICAL SHOCKS, WARS, AND HOW QUICKLY THE WORLD CAN RECOVER FROM THE CURRENT ECONOMIC MALAISE.

What will 2012 look like from a financial perspective? The consensus seems to be that 2012 will be similar to 2011 and both New Zealand and the wider international community will limp along at varying speeds as we slowly work our way through the massive debt overhang that threatens to cripple a number of economies.

A few themes are emerging that will enable investors to undertake a degree of planning.

These include:

- Interest rates will remain low around the world. In New Zealand, we do not anticipate an increase in the OCR until 2013. This will make it easier for those with mortgages to repay a larger amount of principal if they retain the same repayment levels. It will also make the borrowing of money cheaper and this will aid those companies on an expansion path.
- New Zealand house prices (as measured by the national average house price), will continue to recover, but we do not anticipate any major housing boom. Price increases will be location dependant and they could easily stutter and stagnate if there was a significant decline in public confidence. In many areas, houses are still over priced when measured against the realistic economic return and the affordability index.
- It will remain difficult to obtain high-quality, high-earning bonds. Bond issues are currently few and far between and the allocations are snapped up by the institutions leaving

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Authorised Financial Adviser Status

It is approaching 9 months since the new standards and qualifications set down by the Financial Markets Authority (FMA) came into play for all professionals giving financial advice.

We continue to work with our clients under the new regulations which have been put in place to ensure all investors receive fully researched professional advice under a government-approved legislative structure.

We are extremely pleased with the new standards that have been introduced for the industry.

Inside

little available for retail investors. The high demand for quality bonds will probably result in bonds being issued with a lower coupon rate.

- Banks will remain cautious. They have plenty of money to lend to borrowers but they will demand a higher degree of security and deposit levels from those to whom they lend money.
- Local and international share markets will be patchy. There will be some excellent performing stocks and managed funds. However, volatility will possibly be high and any further strengthening of the New Zealand dollar will likely offset gains made offshore if the investment performance is reported in New Zealand dollars. Investors should take a long-term view with their investments and not expect to make a fortune in just one year.
- There will be periods of market nervousness which could cause the prices of stocks and equity managed funds to fall. This will create excellent buying opportunities especially if the investment is of a high quality. The idea is to buy when prices have fallen. This is often difficult to do when all the news is negative but talk to us about this and we can assist you in identifying what and when to buy.
- European economic woes will continue to feature in the news as will a slowdown in the breakneck growth of China. These factors will create buying opportunities for the well-informed investor.
- Keep your investment portfolio well diversified. Now is not the time to have 'all your eggs in the one basket'. Diversification will enable investors to ride out these tough times and profit as the markets and the world economy slowly recover.

Talk to us about your financial goals and how your portfolio is positioned to achieve those goals in the 2012 market.

Is the Kiwi dream CHANGING?

HISTORICALLY, AS THE WEALTH OF NEW ZEALAND FAMILIES INCREASED, THEIR DESIRE FOR A BACH OR CRIB INCREASED.

Owning one became a status symbol and signified that you had 'made it' on the financial ladder. As time progressed, a bach or crib evolved from something simple and low cost that was often built by the owner beside a beach, river or lake, to now being a more palatial dwelling often akin to the family home. These are clustered in areas of high popularity but are now often many streets back from the water or river front, and are located in a new form of suburbia. These dwellings are built by professional builders and are often debt funded.

The world-wide economic crisis; a desire to reduce personal debt levels; a decline in holiday home capital values; the changing family structure; personal time restrictions and the impact of the internet, have all combined to cause many New Zealand families to reassess why they own a bach or crib and what they should do moving forward.

FOR MANY, THE DECISION IS SIGNIFICANT AS THE BACH OR CRIB HAS BEEN PIVOTAL IN THE EVOLUTION OF THEIR FAMILY, BUT IT ALSO NOW REPRESENTS A SIGNIFICANT FINANCIAL AND TIME INVESTMENT THAT MAY NOT BE PROVIDING THE REWARDS IT ONCE USED TO.

We are spending increasing amounts of time working with clients to resolve this financial, family and lifestyle issue. For many, the decision is significant as the bach or crib has been pivotal in the evolution of their family, but it also now represents a significant financial and time investment that may not be providing the rewards it once used to. We have developed a useful checklist that we use with all clients who own or are contemplating purchasing a bach or crib. It will help take the emotion out of any decision you are making regarding these dwellings and will provide much needed balance and guidance as to what may be best for you and the family. This checklist covers issues such as the financial cost of owning a bach or crib; how frequently it is used; what is the likely usage rate in the future; where could the money be better spent; how have family views regarding holidays changed, and much, much more.

Visit our website to download a copy of this valuable checklist.

Life's tips/1

"Wealth may be an excellent thing, for it means power, and it means leisure, it means liberty."

– James Russell Lowell

Summing up

- 2012 is a good time to repay debt and take advantage of volatility in the sharemarkets.
- Owning a holiday home is an emotional decision. Make it a rational choice, download our checklist.

It's still fantastic!

KIWI SAVER

THE SUCCESS OF KIWISAVER HAS EXCEEDED THE WILDEST EXPECTATIONS OF THE GOVERNMENT. AS AT 31 DECEMBER 2011, THERE WERE 1,863,572 KIWISAVER MEMBERS REPRESENTING A TOTAL OF $9.4 BILLION IN FUNDS *

This year will be the first year that eligible members will qualify for the maximum KiwiSaver first home deposit subsidy of $5,000. Where else can you get a government handout of $5,000 for having enrolled in a voluntary savings scheme? The other big bonus is that from 1 April 2013, the employer contribution rises from a minimum of 2% to 3%. Members who are making regular contributions will also have to increase their minimum contribution to 3% but this 1% increase is probably healthy as it is a form of enforced saving.

Morningstar has recently published a detailed analysis of the largest KiwiSaver schemes and there is more research to follow in coming months. We now have definitive research to enable us to better compare the myriad of schemes available and recommend the one most appropriate for each client.

As the balance of each client's KiwiSaver scheme increases, the requirement to assess which fund is most appropriate increases. Talk to us at your next review about your KiwiSaver and whether it is in the right scheme and fund for you.

* Funds as at 30 June 2011 (www.kiwiSaver.govt.nz/statistics).

Where to live when you get older?

Where to live when one gets older is an issue we all need to confront at some stage in our lives, be it making the decision for oneself or assisting a loved one to make that decision. One option that is becoming increasingly more common is to move into a retirement village or home, however there are other choices.

These include:

- Stay in the same house and modify it with ramps and rails, install assistance alarms and get in some home help, but take into consideration the costs of doing so.
- Take in a boarder or move in with family or friends – that way the person has some companionship and security plus added cash flow.
- Down size to a smaller home that is closer to the desired facilities. This could be an apartment or town house or a cottage on the property of family members. It should provide added security and reduced maintenance.

The decision that is made will be determined by issues such as financial status, desire for fewer home-related commitments and greater flexibility, health status, desire for a better climate, proximity of your interests, access to health facilities, plus location of family and friends. When making a decision, take your time and do the research.

Consider all the costs and issues and in particular, consider what you need to live a good life.

Life's tips/2

"When I was young I thought that money was the most important thing in life; now that I am old I know that it is."

– Oscar Wilde."

Summing up

- Time to start weighing up the value of your KiwiSaver scheme.
- Retirement village apartments are a long-term commitment. Don't rush decision-making.

Bonus Bonds
A GAME OF CHANCE

WE OFTEN HEAR CLIENTS REFERRING TO BONUS BONDS AS BEING GOVERNMENT BACKED, GUARANTEED MONEY WITH REGULAR PAYOUTS. HOWEVER THE REALITY COULD NOT BE FURTHER FROM THE TRUTH.

Bonus Bonds is a game of chance operated by ANZ Investment Services. Investors purchase units in the Bonus Bonds Trust. The Trust invests into a range of fixed interest investments and instead of the profits being paid out equally to every unit holder, the profits after a management and trustee fee of 1.18% is used to provide the monthly bond pool from which the prizes are paid.

The principal and returns of Bonus Bonds are not guaranteed or secured. Units do not represent deposit or liabilities of ANZ or any other member of the ANZ group. Bonus Bonds are subject to investment risk, including possible delays in repayment and loss of income and principal investment. The good news is that the Bonus Bonds investment portfolio is rated AAA by Standard & Poor's, which indicate that the "Trust Fund's portfolio holdings provide extremely strong protection against losses from credit defaults."

What about the return?

The return depends on how lucky you are. The manager follows an investment philosophy designed to maintain the unit price at $1.00 plus generate income that can be paid out as prizes to the lucky winners.

The Bonus Bonds' website depicts a pot of gold at the end of a rainbow. In reality the mathematical odds of winning a big prize aren't rosy. For each Bonus Bond your chance of winning the monthly $1 million prize is one in 2.6 billion. In fact if you own $6 worth of Bonus Bonds, your chance of winning the $1 million prize is 11 times worse than your chance of winning first division Lotto using a $6 ticket.*
The average net return over 2005-2010 has been 3.6%.

* Source NZ Herald Article 24 January 2010.

Trust administration
AND GIFTING

The Taxation (Tax Administration and Remedial Matters) Bill has been passed by Parliament and was given the Royal Assent on 29 August 2011. The Act includes the provisions for the abolition of gift duty.

Some commentators have suggested that now gift duty is abolished consideration should be given to forgiving all remaining debt in one go. However, if this is done it may affect a person's entitlement to residential care funding in the future. There are some traps when forgiving all debt in one go and we would encourage you to contact us to arrange a time to discuss your circumstances so we may advise you accordingly.

If a person requires residential care, they are subject to a means assessment to determine their entitlement to a subsidy for the cost of the care.

The means assessment looks at the assets and income the person has available to them to meet the cost of their care. If the person who requires care or their spouse or partner has "deprived" themselves of any income or property, the means assessment can be completed as though the deprivation had not occurred. The result of this is that the amount which it is considered the person has deprived themselves will be added back in the means assessment and may affect a person's entitlement to the subsidy.

The important issue is that if a person gifts the remaining debt they are owed in one go, as suggested by some commentators, this can affect their entitlement to a residential care subsidy in the future. Those persons who do not want their gifting to affect their entitlement to residential care subsidies should continue with their existing annual gifting programmes making sure that they keep within limits prescribed under the Social Securities Act 1964.

The Social Security Act gives Work and Income New Zealand (WINZ) broad powers in assessing a person's entitlement to a residential care subsidy. This has not changed with the abolition of gift duty for taxation purposes.

Please contact us to discuss the best way to deal with your trust annual review and gifting.

Next step

••• See us about the best investment options for you.

GENERATION
WEALTH MANAGEMENT