

# Investing in knowledge

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

## Q1/14

## Rubbing the CRYSTAL BALL

PREDICTIONS ARE NOTORIOUSLY INACCURATE  
AS THEY ARE BASED ON A SET OF ASSUMPTIONS  
MADE AT A SET POINT IN TIME.



What is predicted may not come to pass due to a whole host of political, economic, social or even physical events (such as the Christchurch earthquake) which can significantly alter the situation.

Based on the economic environment in February 2014, our crystal ball (compiled using economic consensus data) predicts:

### Life's tips/1

"Price is what you pay.  
Value is what you get."  
– Warren Buffett

- Interest rates in New Zealand will rise in 2014 by up to 1%. This along with rising mortgage rates, higher deposit thresholds, more new housing stock coming on stream, and repeated economic warnings about the unsustainability of high house prices will start to have an effect and the housing market will start to slow.
- Election Year will create its fair share of market jitters and we could see slower growth in the NZ stock market in 2014 compared to previous years
- International sharemarkets are likely to show continued strong performance despite some nerve wracking bumps

**GENERATION**   
WEALTH MANAGEMENT

#### Albany Office

PO Box 64001, Botany, Manukau 2163

TEL. 09 448 5083

EMAIL. [albany@generationwealth.co.nz](mailto:albany@generationwealth.co.nz)

#### Botany Office

PO Box 64001, Botany, Manukau 2163

TEL. 09 272 9030

EMAIL. [botany@generationwealth.co.nz](mailto:botany@generationwealth.co.nz)

#### Pukekohe Office

PO Box 66, Pukekohe 2340

TEL. 09 238 3322

EMAIL. [pukekohe@generationwealth.co.nz](mailto:pukekohe@generationwealth.co.nz)

## 'MY WEALTH' AND KIWISAVER?

The latest Kiwisaver survey has shown that a third of members are unaware of how much they have in their retirement savings account. People are more confident of reaching their savings goals if they know what their balance is otherwise they can remain detached from their retirement savings and the steps that they could take to help them achieve their goals. We have a fantastic free programme available to clients, their family and friends called "My Wealth" which allows Kiwisaver members to track their balance whenever they choose and also to help them to plan their financial retirement. Please contact us and we'll provide you with a free log on to get underway.

## Inside

- ... Are you a help to your kids? Or a hindrance?
- ... Flexible opinions about fixed interest.
- ... Life's milestones: key questions for each step along the way.

4	1
3	2

along the way. Performance for NZ investors may be enhanced if the NZ dollar weakens against major trading currencies.

- International fixed interest is likely to outperform NZ fixed interest which will be impacted by rising NZ interest rates.
- Term deposit rates will rise but will probably not outperform a well-managed diversified multi-sector fund.
- The price of goods and services will start to increase – especially labour rates and building supplies.

Finally, there will be more bad news in the media. This will jaundice our view and make us think things are all bad whereas in reality, New Zealand is doing very well in the international arena and we survived the GFC remarkably well.

*In many respects, NZ is the envy of the rest of the world.*

## Tough times ahead for FIXED INTEREST

IN 2013, NZ FIXED INTEREST HAD ITS FIRST NEGATIVE CALENDAR YEAR SINCE THE MID-1990S. INTEREST RATES IN NZ ARE PREDICTED TO RISE IN 2014 AND THIS COULD SEE THE MARKET VALUE OF BONDS FALL.

Fixed interest funds will be struggling to outperform cash over the next 12 months. One could wonder, “why hold any fixed interest in a portfolio?”

Morningstar’s view is that high quality fixed interest plays the role of an insurance policy. Nothing is guaranteed. An event could happen somewhere in NZ or around the world which could see the predicted interest rate rise delayed, or significantly reduced, from the predicted level.

Fixed interest provides a degree of portfolio protection if equity markets take a tumble. If equities continue to rise as they have in recent times, then the lower returns from fixed interest will be offset by the higher equities return.

It all balances out over time.

Fixed interest can also be used to produce income within a portfolio as the interest rate stream is often more predictable than dividends from equities. However, high quality fixed interest such as government stock typically has a low interest rate and hence is the insurance policy while corporate bonds, which are more risky, provide the income stream – albeit at a higher risk.

*Therefore, when it comes to fixed interest, diversification is the key in order to obtain both protection and also income for those in need.*



### Life's tips/2

“In the short run, the market is a voting machine, but in the long run it is a weighing machine.”  
– Benjamin Graham

### Summing up

- ... The crystal ball is making some good predictions. Are you prepared to act on them?
- ... Fixed interest should be considered like insurance. Use it to protect and stabilise.

# A fantastic way to HELP THE KIDS



Research by Massey University academics using data from 2000 Nielsen interviews has found that New Zealanders are under-insured by about \$650 billion. The Financial Services Council chief executive says the research paints a picture of serious financial risk for New Zealanders and their families should an income earner die or suffer a serious illness like cancer, heart attack or stroke.

The results indicated that the burden of under-insurance would be likely to fall on the family of those affected by serious illness, with nearly 40 per cent of respondents indicating that family would have to bear the weight of supporting them financially if the family unit's first income earner were to die suddenly or suffer a long-term illness. This is despite the fact that 82 per cent of respondents' family units had two income earners.

The research also underlined the importance of assessing levels of insurance cover, concluding that of the 56 per cent with life insurance, more than half had inadequate life insurance cover (less than

80 per cent of ideal life insurance) and more than 40 per cent were severely under-insured (less than 60 per cent of ideal life insurance).

The perception that insurance premiums were unaffordable was reported as the major barrier to taking out insurance, with 36 per cent of respondents indicating they were prevented from having adequate cover in some way. Many respondents said they believed the government would provide for them via ACC in the event of a serious injury or sickness.

Often the difference between being highly vulnerable and having adequate personal insurance is only \$1,000-\$2,000 per year of additional premiums.

*Talk with us about how you can potentially identify what level of insurance cover your sons or daughters need and what it might cost to make the 'top-up'. It might be the best annual gift you can provide to not only them but to their entire dependent family.*

## Milestones in LIFE

**Getting married:** Are there any advantages in reassessing our insurances and investments to maximise efficiencies and obtain greater benefits?

**Having a child:** On birth, have I added the new-born to our medical insurance at no cost? Have I increased the most appropriate insurance cover? Are there any benefits we might be entitled to?

**Kids growing up:** Do we have the most appropriate medical insurance for their health status? Are we saving enough to fund their schooling?

**Aging parents:** Have we determined how we will assist our aged parents? What is the cost?

**Divorce or separation:** What financial implication would this have on both parties? Have we adequately documented the existing ownership structure?

What can we do right now to minimise the risk of divorce?

**Death of a spouse:** Are our wills and enduring powers of attorney up to date? What other asset protection and estate planning tools should we have in place BEFORE the event?

**Retirement:** What advance planning should we do to achieve a smooth transition? Have we sufficient capital in the right places? What should we do with our home? What should we do with the business?



### Summing up

- ... Rising house costs, uncertain job security. Do you really need to add stress to your kids' lives by becoming a burden to them?
- ... Your adviser is equipped to help with all of life's questions.

4	1
3	2

# TRUSTS GOOD PRACTICES GUIDE

BEFORE ACCEPTING APPOINTMENT AS A TRUSTEE IT IS IMPORTANT THAT THE FUTURE TRUSTEE HAS KNOWLEDGE OF WHAT IS INVOLVED AND EXACTLY WHAT IS EXPECTED OF THEM.



The following is a short and by no means full guide on good practices for trustees:

1. **Know what a trust is.**
2. **Know the trust deed.** The trust deed contains the rules setting out the terms of the trust. It lists who can benefit and what powers and limitations the trustees have.
3. **Ensure that a memorandum of guidance for the trustees is prepared by the settlor(s).** This does not legally bind the trustees, but it should advise the trustees why the trust was formed and what the settlor(s) wishes are for the trust fund.
4. **Know what the trustees' duties are.** The adviser who is assisting in the formation of the trust or in the appointment of a new trustee, should provide details of these duties. The Law Commission, in its recent review of the Law of Trusts, has recommended that if a new Trusts Act is enacted, mandatory and default trustees' duties should be set out in this new Act.
5. **Know who the beneficiaries are and**

## Life's tips/3

"Although it's easy to forget sometimes, a share is not a lottery ticket... it's part-ownership of a business."

– Peter Lynch

6. **know their circumstances, needs and requirements.**
7. **Take appropriate advice.** Suitable advisers should be consulted for at least accounting, tax, legal and investment matters relating to the trust.
8. **Ensure annual accounts are prepared and signed off by all trustees.**
9. **Ensure that income tax returns and GST returns are filed with the Inland Revenue Department in a timely manner.**
10. **Ensure all income tax and GST payments are up to date.**
11. **Ensure regular trustee minutes are held.** Appropriate agendas should be prepared and followed at the meetings and minutes of the meetings should be prepared and signed off by all of the trustees.
12. **Know the risk and responsibilities of the trustees.**
13. **There is no such thing as a "passive" trustee.** Most trusts provide that trustees should be unanimous in the exercise of most of their powers and decisions. Each trustee should apply his or her mind to the exercise of a power or the making of a decision, and not just follow the other trustees.
14. **Have an investment policy document in place.** The investment adviser to the trust will help to prepare this.
15. **Arrange for regular investment reports for the investment portfolio to be issued by the investment adviser.** Ensure the trustees names are listed on the insurance policy documents.
16. **Ensure the appropriate insurance covers are in place for the trust assets that require insurance.**
17. **Know and regularly check what responsibilities and/or liabilities the trustees have to banks or other financiers.** Are there guarantees in place and what is the status of those guarantees?
18. **Check periodically that the trust is still performing the function for which it was established and if not, ask why not.**
19. **Ensure that the trustees do not exercise powers for an improper purpose – this is a difficult area.** If in doubt the legal adviser to the trustees should be consulted.
20. **Record the actual decisions made, not the reasons for those decisions.**

There are likely to be other items that should have been included on this list but the matters above are matters that should definitely be included in any good trusts guide.

*Trusts and the various individuals involved are not static and trustees should always be conscious of this.*

**DISCLAIMER:** This publication has been prepared for your general information. While all care has been taken in the preparation of this publication, no warranty is given as to the accuracy of the information and no responsibility is taken for any errors or omissions. This publication does not constitute financial or insurance product advice. It may not be relevant to individual circumstances. Nothing in this publication is, or should be taken as, an offer, invitation, or recommendation to buy, sell, or retain any investment in or make any deposit with any person. You should seek professional advice before taking any action in relation to the matters dealt within this publication. No part of this publication may be reproduced without prior written permission from our company.

Disclosure statements relating to the financial advisers associated with this newsletter are available on request and free of charge.