Investing in knowledge

An investment in knowledge pays the best interest – Benjamin Franklin.

Q3/13

Short term noise vs LONGER TERM TRENDS

DISTINGUISHING MARKET NOISE AND NEGATIVITY FROM LONGER TERM TRENDS IS ALWAYS HARD TO DO. ECONOMISTS HAVE AN UNENVIABLE JOB AS ALMOST ANY PREDICTION THEY MAKE CAN BE DISPUTED BY SOMEONE WHO USES A DIFFERENT SET OF FIGURES AND A DIFFERENT TIMEFRAME.

As financial advisers, we tend to take a consensus view of the markets using a number of different economists – both here in New Zealand and overseas.

The New Zealand economic outlook is reasonably optimistic over the next 2-4 years but there will be ongoing quarterly volatility and not all sectors of the economy will show the same trends. Growth should be in the 2-3 percent range for the next few years. This is not something to shout about but at least it is positive growth and better than many countries.

Globally, the USA is improving, China will still grow but it will be slower growth for the foreseeable future, Australia will struggle as it readjusts to a less buoyant resources market and a number of European nations will continue to cast dark shadows over any optimism as they try and sort out their debt levels.

It is anticipated that New Zealand's soft commodity prices will improve over the remainder of 2013 and 2014 but there will still be seasonal fluctuations. The labour market is improving with an expected lowering in the unemployment rate. However, a number of industries will continue to have high profile layoffs as they struggle to adapt to changing times.

The government is keeping a tight rein on expenditure and

GENERATION WEALTH MANAGEMENT

Albany Office
PO Box 301 789, Albany
North Shore CIty, Auckland 0752
TEL. 09 448 5083
EMAIL. albany@generationwealth.co.nz

Botany Office
PO Box 64001, Botany, Manukau 2163
TEL. 09 272 9030
EMAIL. botany@generationwealth.co.nz

Pukekohe Office
PO Box 66, Pukekohe 2340
TEL. 09 238 3322
EMAIL. pukekohe@generationwealth.co.nz

We'd like to help you save yourself

As we all do our best to meet the financial challenges of the working day it can be very hard to even consider how we can fund what is likely to be many non-working years once we're retired. We think it's important that everybody is well informed when it comes to making the most of each pay day. Central to that is carefully considering how much you need to save for your retirement. We are currently running free Wealth Accumulation workshops.

If you think your employer would be interested in holding one of these workshops for the benefit of their staff, please contact us.

Inside

- Celebrating your centenary, the healthy way.
- Insurance and rebuilding your house after a disaster.
- Money laundering - the $1.5 billion (and rising) problem.

its financial accounts are improving and we should be back into surplus by 2015. There are a number of excellent initiatives that have been implemented that will improve New Zealand's competitiveness and attractiveness but these don't usually receive much positive attention.

Inflation is expected to remain low for the remainder of 2013 and gradually rise to around 2% -2.5% in late 2014/15. The strengthening domestic expansion (Christchurch rebuild, commodity price rises and house price increases) will be the dominant drivers of inflation.

The NZ dollar continues to remain over-valued against the US and should end 2013 around 80/81 cents and then gradually decline from there. The official cash rate (OCR) will probably start to rise in 2014 and will possibly peak at around 4.5% over coming years. This will lead to a gradual rise of mortgage rates but not to the extreme levels of the past. However, they could increase by 2% over the next few years so heavily indebted home owners need to be cautious.

Overall, the prognosis is pretty good. New Zealand is tracking very favourably in comparison to many of its trading partners but there will always be short term events and headlines that will make us think that all is not well. This is just part of normal life living in what is now an increasingly more volatile world.

Life's tips/1

"Financial peace isn't the acquisition of stuff. It's learning to live on less than you make, so you can give money back and have money to invest. You can't win until you do this."

– Dave Ramsey

LIVE TO 100!

LIVING TO 100 WAS ONCE SEEN AS AN UNATTAINABLE DREAM BUT NOT ANYMORE. LONGEVITY IS INCREASING IN MANY SOCIETIES INCLUDING NEW ZEALAND.

At the recent Milken Institute 2013 Global Conference, Professor Gary Small, the Professor on Ageing at UCLA, identified that the three locations where a higher percentage of the population than normal live over 100 years was Sardinia Italy, Okinawa Japan and Loma Linda in California USA. The three things in common with these locations was a high level of physical activity, strong social networks and a diet rich in antioxidant fruits and vegetables, healthy grains and proteins.

A multitude of academic studies show that physical exercise concentrating on cardiovascular conditioning tended to translate to larger brain size (parietal, temporal, frontal areas). Physically active adults had lower Alzheimer's risk and activities such as brisk walking vs stretching/toning, improved mental cognition.

Mental stimulation was shown to activate neural circuits and lower Alzheimer's risk. Educational achievement, bilingualism and doing puzzles lowered dementia risk. Interestingly, memory training can improve memory ability quickly and maintain higher performance for five or more years. However, chronic stress can cause depression, increase dementia risk and lead to a two-fold increase in Alzheimer's. Cortisol injections can temporarily impair memory.

Nutrition is linked to brain health. Good weight management, lots of omega 3 fats and lots of anti-oxidant fruits and vegetables combined with avoidance of processed foods can lead to a long and healthy life with reduced mental decline.

Alzheimer's is an age related disease but up to half the world wide cases of Alzheimer's (17.2m) are due to modifiable factors. We want you to live a long and healthy life so you can enjoy the fruits of your labours.

Start investing in your health today. Take time to read about gerontology, research papers from New Zealand experts such as Professor Bevan Grant and Matthew Parsons, and make sure you live healthily so you can truly be healthy, wealthy and wise.

Summing up

- Heavily indebted homeowners need to be wary of rising mortgages.
- If you want to avoid chronic depression and Alzehimers, reduce stress.
- For more about the Finology conference, visit strategi.ac.nz.

Insurance tips:

IS YOUR HOUSE FULLY COVERED?

A NUMBER OF REINSURERS WHO PROVIDE NATURAL DISASTER COVER TO MANY NEW ZEALAND INSURANCE COMPANIES HAVE ASKED FOR HOMES IN NEW ZEALAND TO BE INSURED UP TO A SPECIFIED AMOUNT AS THEY WANT TO KNOW THE MAXIMUM COST INSURERS WOULD HAVE TO PAY TO REBUILD THE HOMES.

Gone are the days of 'full replacement' policies. Most insurance companies are now offering cover based on the cost of rebuilding to a maximum limit – the 'sum insured'. This means it is up to you – the insured to determine the value of your home and to pay the premiums relating to that value. If you select a value too low, then you will only get paid out to that value and this might leave you with a partially rebuilt home. Follow these tips to help make sure your house is fully covered:

- Estimate the rebuild price as accurately as possible. You can use an online calculator such as Cordell's, or www.need2know.org.nz/House-Value. Alternatively, you can pay for a professional valuer or quantity surveyor. If the calculator doesn't ask about an aspect of your house that you think is important, you may need a professional valuation.
- If you have building work done, ask the builder for a schedule of materials used and the cost to help you value the rebuilding work.
- Review your 'sum insured' annually – take into account inflation, renovation, and council building code changes that may impact.
- Be aware of building costs – if they rise suddenly after a natural disaster, it may mean you are not fully covered.
- Every home is different so do not rely upon a standard square metre rate. Include the cost to demolish your existing home, the cost of replacing the services, driveways, fences, walls and outbuildings. These can all add up.

Give us a call if you need help to review or amend your house insurance.

Life's tips/2

"Invest in yourself.
Your career is the engine
of your wealth."

– Paul Clitheroe

AML/CFT: SOMETHING WE CANNOT AVOID

AML/CFT stands for anti-money laundering and countering financing of terrorism and new rules are contained in the AML/CFT legislation that came into force on 30 June 2013. Our government has signed up to international AML/CFT protocols and this will result in greater emphasis being placed on proving the identity and residence of all those who hold investments, open bank accounts or borrow money. Money laundering and terrorism financing are global problems. A recent report indicated money laundering via New Zealand companies is around $1.5 billion a year and globally, the figure is estimated to be between US$590 billion and US$1.6 trillion.

The main implications for you are:

- We and all financial institutions you deal with will want to have certified copies of your photographic identification – preferably a passport, NZ drivers licence or firearms license. You will also need to prove your place of residence and this can be achieved via provision of recent rates demands, utility bills and bank statements (less than three months old).
- You will need to provide these forms of identification whenever you want to open a bank account, make a new investment, withdraw money, obtain a loan etc. It is recommended you have copies of these documents at home or electronic versions on your computer so they are quick and easy to print out.
- If you invest via a family trust, then we need to have proof of identity for all the trustees plus a copy of the trust deed showing who the beneficiaries, or classes of beneficiaries, are.
- For those of us who no longer have a passport or drivers license, then proving one's identity becomes a little more onerous. You will need to have a copy of your birth certificate plus obtain an '18 plus card' which will have a photo of you on it. We can supply you with an application form and once completed, you take it to a Post Shop together with two passport photos and the $20 application fee.

This legislation is not something you or we can avoid. It is just going to become part of normal life and we will work with you to ensure it is as painless as it can be.

Summing up

- As your house increases in value, so does the cost of rebuilding it.
- Money laundering and terrorism regulations affect every investor.

BRING IT HOME

HAVE YOU WORKED IN AUSTRALIA AT ALL SINCE 1992? IF SO, THEN IT IS LIKELY YOU WILL HAVE MONEY SITTING IN AN AUSTRALIAN SUPERANNUATION ACCOUNT.

Trans Tasman portability took effect from the 1 July 2013. This means that you can transfer your Australian Superannuation savings to your Kiwisaver account.

Why might someone transfer their Australian Super to Kiwisaver ?

Firstly convenience, financial affairs can be complex, even more so when different legal, currency and tax jurisdictions are involved. Having a single retirement strategy that you can easily keep track of makes sense. It also makes sense for that strategy to be based in the country you live and in local currency.

Secondly if you have retirement savings in both New Zealand and Australian schemes, you are likely to be paying unnecessary or duplicated fees.

Furthermore it is generally recognised that the fees associated with investing in KiwiSaver are lower than those for other managed funds and superannuation schemes in Australia and New Zealand.

Finally the New Zealand and Australian tax regimes differ. Generally speaking under the New Zealand tax regime, investments in growth assets are taxed at a lower rate. Given that the majority of Kiwisaver members have a large allocation to growth assets, this equates to a typically lower tax rate for Kiwisaver compared to Australian superannuation.

It is worth noting that the rules applying to your Australian retirement balance (the original amount only) transferred into a Kiwisaver scheme will differ from the Kiwsaver rules in the following ways.

Your Australian retirement balance:

- Will be locked in until you are age 60 and retire
- Will not be available for first home withdrawal
- Will not be counted for the government annual contribution
- Can not be transferred or withdrawn if you permanently immigrate to another country.

Otherwise the KiwSaver rules will apply to that balance. Any positive investment performance on your Australian retirement balance in a Kiwisaver account will follow standard Kiwisaver rules.

You can transfer your Australian retirement savings into your KiwSaver scheme if you have permanently emigrated from Australia to New Zealand and your Australian funds are complying superannuation funds and you are currently a member of a Kiwsaver scheme that accepts transfers from Australian funds.

If you have any questions in relation to the transfer process, or would like help to track down the details of your Australian superannuation accounts as well as your Australian tax file number, please do not hesitate to contact us and we will do our best to assist you.

Retirees need to keep INVESTING SAVINGS

People need to keep investing their retirement savings after they retire rather than parking their money in the bank to maximise their nest egg. Adequacy is the biggest challenge for retirement savings because of increasing longevity, low investment yields and the global financial crisis. Changes need to be made to post-retirement investing and how that money is paid out.

Research shows that for every dollar spent after retirement 10c came from a person's contributions, 30c came from the investment earnings while the person was working and a further 60c came from the investment earnings made while in retirement. You can't afford to stop investing in retirement or to withdraw your money from KiwiSaver, leave it in cash or blow it all on a new car or holiday. Some KiwiSaver schemes offer the ability to keep the money invested and have it paid out regularly but take-up has been low because most still have small balances. When it gets to $100,000 or $200,000 it becomes more meaningful.

Australia is concerned that people are retiring with a big lump sum of savings but using it to pay off their mortgage or retire other debt and are then just living off the government pension. Briefly it was debated whether to force people to buy an annuity from their savings which would pay out a regular amount of money.

The move would be politically unpopular here as well because people do not want to lock their money away. People need flexibility – they might need to get their money out for a new roof or to pay big health bills, annuities don't allow for that.

Whatever the way forward money should be managed in a conservative way to allay people's fear of losing money which increases five-fold once they are retired.

Next step

See us about the best investment options for you.