Investing in
knowledge

In investing, what is comfortable is rarely profitable – Robert Arnott.

Q4/15

It pays not to *panic*

THE CYCLE LIVES ON

THE LAST ECONOMIC QUARTER WAS DOMINATED BY NEGATIVE NEWS: DECLINING NZ DAIRY PRICES, OVER-INFLATED AUCKLAND HOUSE PRICES, BIG FALLS IN GLOBAL SHAREMARKET VALUES, TERRORIST EVENTS, AND THE LIST GOES ON!

In September and October, a follower of media commentary could be excused for thinking that the investment markets were collapsing and the world was coming to an end. However, as always, pragmatism rules: the markets absorb the good and the bad news and sort themselves out.

Those who panicked and moved to cash or conservative funds did so after the markets had already fallen and missed the subsequent rebound in values. Those who stayed true to their longer term investment plan rode out the short term turmoil and their portfolios are back to where they were at the beginning of the quarter. In some instances, they are actually ahead.

What all this shows us is that markets will always go up and down and if you are invested for the long haul, then there are more ups than downs. If one reacts to every negative event that the media highlights, then the outcome will be either sitting for too long in low risk investments earning too little, or else flip flopping and trying to trade assets to take advantage of the short term fluctuations.

The problems with active trading is it costs to buy and sell, plus you have to get two important calls correct i.e.: when to sell and when to buy. Often it is easy to get one right – but frequently hard to get both calls correct.

Talk to your adviser if you have concerns about the markets and the stage of the market cycle we have now entered.

GENERATION WEALTH MANAGEMENT

Albany Office
PO Box 64001, Botany, Manukau 2163
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

WISHING YOU A MERRY CHRISTMAS!

As another year rapidly draws to a close, all of us at Generation Wealth would like to wish you and your families a Merry Christmas and prosperous new year.

Christmas hours
We will be closing our offices to give everyone a well earned break to refresh and spend time with their friends and families. Our last day will be Wednesday 23rd December and we will be reopening on Wednesday 13th January.

We look forward to enjoying another successful year with you again in 2016.

Inside

GENERATING RETIREMENT INCOME

NEW ZEALAND INVESTORS WHO SEEK INCOME TO FUND THEIR RETIREMENT NEEDS HAVE HISTORICALLY BEEN SOMEWHAT SPOILT.

New Zealand has had historically high returns from bank deposits, bonds, company dividends and residential property appreciation. This has created the belief and expectation that one can live off the income from one's retirement nest egg and retain the capital for the kids. However, the rest of the western world has largely lived in a lower interest rate environment where bank deposits and bond returns have been in the vicinity of 1-4% before tax. For these people, retirement has been about having a well-diversified, relatively liquid investment portfolio, and discussing 'capital drawdown ratios' has had much more significance than how much income they can generate from their lump sum. For much of the western world, retirement has been about calculating how many years their retirement funds will last if they erode the capital at 4%, 4.5% or 5% per annum. New Zealand investors may need to start thinking the same way. Our economy is becoming increasingly aligned to the rest of the world. Interest rates are likely to stay low for some time and the government is starting to take steps to slow down residential property price appreciation. Obviously, if your retirement nest egg is large enough, then a discussion on capital erosion is not required, but for the average investor, capital erosion is definitely more on the cards than before.

We recommend that a diversified approach to funding retirement be considered. This will provide you with greater flexibility, less risk and potentially more cash to enjoy retirement. Enjoy your retirement and use your capital and income. After all, you worked hard to accumulate the capital so spend it yourself rather than giving it to the kids to spend.

Talk with us about how best to achieve your retirement funding.

TABLE: Options for funding retirement income needs are many and varied and include:

OPTION	COMMENT
Invest into higher returning products	This is dangerous as normally the higher the return, the higher the risk and once retired, one cannot afford to suffer permanent losses. Higher returning products often have higher volatility and this may mean that the value of the investment is low just when you need to access the capital
Draw down capital at a sustainable rate	A diversified portfolio would be constructed with a conservative projected return. Capital would be withdrawn from the portfolio each month at a rate calculated to sustain your desired lifestyle and to match your expected longevity
Living off rental income	The problem with having one's retirement based upon investment property is that capital values are becoming more volatile, property is illiquid and can be hard to sell in depressed times and if a major event, such as an earthquake or volcanic event, occurred then you may have no tenants and an insurance pay-out could be some time away. Christchurch has been a traumatic experience for those retirees who were funding their living needs from rental properties which have ended up being uninhabitable.
Selling a business	NZ is a nation of small business owners and many people are anticipating funding their retirement from selling their business. However, the sale may occur too late and the business may have been in decline for some time - resulting in a much lower than expected sale value being achieved. It is recommended a well-structured succession plan is implemented so ownership is transitioned to more energetic people while the business is performing well. Businesses are illiquid assets and cannot always be sold just when the retiree needs the cash.
Sell home and trade down	This works best if one sells and purchases a smaller home, and/or moves to a lower socio-economic area. However, many are reluctant to do that and would prefer to remain in the same neighbourhood. Consequently, the amount of capital freed up is often less than anticipated. One option here is to discuss with the family the concept of a reverse mortgage or where they lend you money at a preferential rate using your house as security.
Sell unused assets	We often hold onto some assets longer than we really need to. This includes holiday homes, caravans, boats etc. If they are not being regularly used then consider their sale as their continued ownership incurs costs.

Summing up

- Living off your savings may be have to be thoroughly rethought.
- Time to talk to your adviser as to what the options are.

Christmas – a time of joy?

TIME TO GET IT SORTED!!

AS WE AGE OUR VIEW ON CHRISTMAS SEEMS TO CHANGE.

When young, Christmas is a period of presents, fun and excitement. When we are middle-aged, Christmas becomes a time of stress, rushing, expense and a sense of having to do one's duty and catch up with long lost family. Once the kids have left home, Christmas still seems to be stressful and you are confronted with who to share Christmas Day with, what sort of presents will the grandchildren like, plus how to stay awake after a huge meal and a few drinks.

Christmas seems to have taken on too much commercialism and we seem to be trying too hard to jam too much into just one day. If you think this way, then it's time to get Christmas sorted this year. Consider some of the following changes:

- Give the present of time and wisdom rather than money or some toy.
- Spread the joy over the entire Christmas break rather than jamming it into one day.
- Experiences are usually remembered long after the more tangible gift. Spend time thinking of each person you love and consider carefully what sort of experience you can provide for him/her that they will remember long after Christmas Day.
- Surprise the kids and/or grandkids by embracing technology and communicating with them using their technology. Get them to help you build your Facebook page, web page or personal electronic vault.

Encourage a more relaxed Christmas Day. Be light on the presents but make the presents more relevant and enjoy the time discussing what to do and how to give it. Everyone will benefit.

Life's tips/1

"Just about every time you go against panic, you will be right if you can stick it out."

– Jim Rogers

THE IMPORTANCE OF AN ENDURING POWER OF ATTORNEY

An enduring power of attorney gives legal authority to your appointed attorney to deal with your assets and/or make personal care and welfare decisions in the event that you are not able to do this for yourself (whether temporarily or permanently). Incapacity can occur as a result of an accident or by natural deterioration of the mind, and is assessed by a specialist who performs these assessments in the usual scope of their practice.

If you are assessed as being incapable of looking after your own property and/or personal care and welfare matters and you have not appointed an attorney to act on your behalf, the only option is for an application to be made to the court for the appointment of a property manager and/or welfare guardian. This is an expensive and very stressful process for you and your family, and the appointment is usually limited to a period of three years, at which stage a new application must be made.

Enduring powers of attorney aren't just for "old" people. We have had cases of younger people who have been incapacitated by stroke or severe head trauma. If no nominated attorneys are in place then the families have to use the Court process before anyone can make decisions for them in relation to their welfare or their assets and liabilities. Enduring powers of attorney can save a lot of time, expense and stress at a time when you and your family do not want to be engaged in a legal process.

For more information regarding enduring powers of attorney or other estate related matters, please give us a call.

Summing up

••• New Year's resolution? Who would make your financial resolutions if you were incapacitated?

The economy continues to go through HIGHS AND LOWS

ALTHOUGH THE RESERVE BANK GENERALLY ONLY MOVES INTEREST RATES BY A SMALL AMOUNT AT A TIME, PREDICTING MOVEMENTS CAN BE DIFFICULT. EVEN THE RESERVE BANK ITSELF ISN'T VERY GOOD AT IT: IN THE MIDDLE OF 2014 IT WAS 95% CERTAIN THAT 90-DAY RATES WOULD NOW BE BETWEEN 3.5% AND 6.5% – THEY ARE UNDER 3%.

With that caveat noted, ANZ expects one more cut in the Official Cash Rate, but probably not until early next year. The difficulty for the Reserve Bank is that inflation is low, but housing market mania is spreading around the country, and there are signs of a return to our borrow-and-spend ways of old. When it comes down to it, though, the Reserve Bank has an inflation target (that it is missing), and the financial stability risks associated with housing can be addressed through other measures, such as restrictions on riskier mortgage lending.

Why might rates be higher or lower than we expect? The Reserve Bank may hold off cutting if the recent improvement in economic data continues; it is looking like growth in the second half of 2015 may be somewhat better than the tepid first half. Or it may cut sooner and by more if dairy prices continue falling, the el-nino drought is severe or global financial markets throw a serious wobbly.
As always, individuals must consider their own situation and the problems that would be caused by making an error one way or the other when deciding whether to fix one's borrowing or investment interest rates.

We have had success recently achieving a higher return for clients investing term deposit funds than they could achieve directly. If you would like us to help you in this regard please contact your adviser.

Life's tips/2

"The stock market is a device for transferring money from the impatient to the patient."

– *Warren Buffet*

BIG CHANGES FOR PROPERTY TAX FROM 1ST OCTOBER 2015

A number of property tax rules the Government proposed as part of Budget 2015 have been passed into law. There are some pretty significant changes which have happened in the property tax and conveyancing areas. The taxation change is the well publicised test brought in to assist IRD with taxing property speculators. The 2-year bright-line test has been introduced to strengthen existing tax rules for determining when profits from property sales will be taxable. This law change will apply to sale and purchase agreements after 1 October 2015. Under current rules a property sale can be taxable if your intention when buying the property was to sell, but this rule is often very difficult for IRD to impose as it is a subjective test and often hard to prove.
The 2-year rule will now mean quick property sales will definitely be caught unless an exemption applies. The 2-year test applies only to residential property (so not business and farmland) and does not apply to your main home, inherited property, or the transfer of relationship property. The old property tax rules still also apply so this change does not mean you can avoid any possible tax on property sales by holding longer than the two year period. The conveyancing law change is designed to enable further information to be collected to better track property transactions information, in respect to both foreign and domestic buyers. Further tax information is going to be collected with sale and purchase agreements which will be passed to Land Information NZ ("LINZ"). IRD will be able to obtain that information to assist in its audit activity. You will be exempt from this new law if you are a NZ resident and you are buying or selling your family home. If you are not exempt you will have to provide your IRD number.

A big impact of this change is that Trusts will not be exempt, so all Trusts in NZ are now going to need an IRD number when entering property transactions. If you are an "off-shore person" you will have to get a NZ IRD number as well as a NZ bank account, and your tax number from your own country.

Next step

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

GENERATION
WEALTH MANAGEMENT