

Investing in knowledge

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

Q4/13

US politicking has IMPLICATIONS FOR NEW ZEALAND

ONE COULD BE FORGIVEN FOR THINKING THE US POLITICAL SYSTEM IS POPULATED BY MADMEN OR PEOPLE MORE INTERESTED IN THEIR OWN PARTY IDEOLOGY AND VESTED INTERESTS THAN IN WHAT IS BEST FOR THE COUNTRY.



The recent brinkmanship, which caused a 16-day partial government shutdown and came close to seeing the US default on its debt, is reported to have cost the economy at least NZ\$28.4 billion (White House estimate published by the Telegraph on 19/10/13) and, in the words of President Obama, “has tarnished America’s credibility in the world”.

What are the implications for New Zealand and should we be concerned? In answering this, we need to put this politicking into perspective. It is not something new. This bickering has occurred before and each time, it weakens the US and strengthens its competitors. A number of commentators

have referred to the USA as “watching the decline of the Roman Empire”. The implications for New Zealand and investors are both short-term and long-term. Short-term, the NZ dollar strengthened against the US as investors realised the October resolution merely pushed the problem out to January and even then, a longer term resolution may not be achieved.

There is a growing sense the US dollar may no longer be the only world reserve currency. A high NZ dollar means it is a good time to be investing offshore, especially if there is a longer term likelihood our dollar will weaken. Short-term, our exporters suffer more pain with a

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HERE COMES 2014!

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.

We will be closing our offices to give everyone a well earned break to refresh and spend time with their families. Our last day will be Friday 20th December and we will be returning to work on Wednesday 15th January.

We look forward to working with you again in 2014.



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high dollar plus those with international investments denominated in US dollars will see a short-term hit on their investment values when converted back to NZ dollars.

Some credit rating agencies are taking a more negative view of the US debt. A 'negative status' being applied to the US credit rating could see US interest rates rise which can lead to increased volatility in those international fixed interest funds which have a high exposure to US debt. If US interest rates rise, then the US economic recovery will slow. This means investments which are dependent on a strengthening US domestic economy will not perform as well as they otherwise might have.

It is still important for New Zealand investors to be investing a good percentage of a diversified portfolio offshore to counter our small economy. The US is still a major world-wide economic force and many of its companies offer quality investment opportunities which should not be ignored. Fortunately, these international companies are increasingly focussing on international growth opportunities so are becoming less reliant on US economic performance.

The US political system may appear to be 'broken' but international US companies most certainly are not. Don't confuse Washington madness with the quality management of US international companies – they are still very much a good investment and potentially become cheaper to invest into when our dollar is high.

Talk to your adviser about investing offshore while our dollar is high.

Life's tips/1

"Know what you own,
and know why you own it."
– Peter Lynch

Your education may potentially be THE BEST INVESTMENT YOU MAKE

OUR SOCIETY IS INCREASINGLY BECOMING MORE KNOWLEDGE BASED. REGULATION, TECHNOLOGICAL ADVANCEMENTS AND A REQUIREMENT FOR MANY TO CONTINUE WORKING PAST AGE 65, MEAN MANY OF US NEED TO PERIODICALLY INCREASE OUR SKILL OR KNOWLEDGE LEVELS PLUS EVEN RETRAIN FOR A NEW CAREER.

Adult education is not free – in fact, in some instances it can be darn expensive, but usually this expense is money well spent and should be regarded as an investment in one's future rather than something negative.

Let's look at some common scenarios to assess the investment return.

Education on leaving high school is potentially even more profitable as obtaining a trade qualification or a degree can result in potentially a higher paying job for a longer period.

Education is also more than just increasing our potential to earn money. It can be a

way to gain added confidence, broaden one's perspective on the world, develop new social contacts and gain added understanding in an area of personal interest. A monetary value may not be able to be applied to this but it can result in a happier person which in turn can add years to one's life.

Access to adult education is improving and the range of courses and content is enormous. Consider building into your goals an education fund for both yourself, your children and grandchildren. It can pay handsome returns for all concerned.

SITUATION	EDUCATION EXPENDITURE	OUTCOME	% RETURN ON INVESTMENT
A middle manager undertakes a part-time degree course.	\$8,000	Increase in pay by \$5,000 p.a. over next 20 years.	1,250%
A 60 year old up-skills and partially retrain so they can retain their existing job for a further 5 years making them less vulnerable to redundancy.	\$5,000	Retains current \$60,000 p.a. job for a further 5 years.	6,000%
A 68 year old retiree retrain so can now work part-time in a role different to previous career.	\$5,000	Now earns \$20,000pa for next 5 years.	2,000%

Summing up

- ... There are high returns on your educational dividends. Invest in retraining now.
- ... A new skill or even training for a new job can mean extra years of earning power.

It's not all BAD

THERE IS RISK IN ALMOST EVERYTHING WE DO BUT OFTEN, SCANT ATTENTION IS PAID TO IT AS THE ACTION WE ARE UNDERTAKING IS AUTOMATIC OR ROUTINE.

Life's tips/2

"The individual investor should act consistently as an investor and not as a speculator."

– Ben Graham

The same applies to our finances. Some of the key risks we face are:

- Dying or becoming disabled too early and not being able to accumulate sufficient to provide for our loved ones;
- Living beyond the time our accumulated finances will provide us with a comfortable retirement;
- A major economic event such as the Global Financial Crisis hitting just when we enter retirement, devastating our retirement portfolio;
- Becoming sick and needing to pay a large lump sum for high quality and rapid medical attention;
- Taking too cautious an approach to accumulating assets resulting in having insufficient to meet our later financial goals.

Talk with us about ways to identify and then reduce these and other similar type risks.



KiwiSaver and the DEFAULT FUNDS

MANY KIWISAVER INVESTORS ARE IN THE VARIOUS DEFAULT FUNDS EITHER THROUGH LETHARGY OR IGNORANCE AS TO WHAT THE DEFAULT FUNDS ARE AND WHAT BENEFIT THEY MAY PROVIDE.

The default funds are low risk as they are heavily exposed to New Zealand assets (minimal exchange rate risk), are predominantly cash or fixed interest and have low fees. Therefore, they are good for investors who may need access to their money shortly (eg: first home purchaser or someone 65 or

older who needs to cash up some or all of their KiwiSaver funds within the next three years. Contrary to popular opinion, default funds are neither government guaranteed nor immune to capital loss or performing at below the rate of inflation.

Those who are accumulating towards retirement and do not need to access their funds for at least three years should seek financial advice around whether it is appropriate to move to a higher risk fund with the potential to, over time, earn a higher return. Many commentators argue that the younger one is, the more thought

should be given to using more volatile funds where the power of compounding interest and volatility of unit prices can be maximised via regular contributions.

KiwiSaver does not necessarily need to mirror the asset allocation used for other savings. If we discount the first home buyer and the soon to be retired, then it is conceivable an investor could operate via a financial adviser, a number of different portfolios with KiwiSaver being the higher risk one due to the longer duration.

Talk with your financial adviser around whether you are in the appropriate KiwiSaver fund to meet your needs.

Summing up

- ... Are you thinking about the big risks in life, or being sidelined by the little ones?
- ... Default KiwiSaver funds are neither risk free nor government guaranteed.

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Foreign pensions tax shake-up in NZ TO AFFECT UK PENSIONS!

THE INLAND REVENUE (IRD) IS PROPOSING A SHAKE-UP OF THE CURRENT COMPLEX TAX LAWS ON FOREIGN PENSIONS.

Under existing laws most holders of foreign pension funds, including UK pensions, should pay tax as the funds grow overseas. But as most pensions cannot be accessed to pay the tax people have not reported the growth in their New Zealand tax return.

The proposed new IRD rules seek to tax when a payment or transfer is made from an overseas pension. They do this by treating a payment or transfer as income which will need to be reported in your income tax return. For the first four years that someone is in New Zealand the portion treated as income will be 0%. For

each subsequent year the portion increases, until it reaches the point where 100% of the transfer or payment is treated as income.

Given the widespread non-compliance with existing rules the IRD have proposed that if you have previously transferred a pension you can declare it and pay tax as if 15% of the transfer value was income. This amnesty is for all transfers prior to 1 April 2014. Anyone that has been in New Zealand more than seven years should therefore transfer their foreign pension prior to 1 April 2014 to take advantage of a significant tax opportunity – for someone

that has been in New Zealand for 20 years and has an overseas pension worth \$100,000 the tax savings would be \$18,655.

Defined benefit scheme values are at historical highs due to low interest rates in the United Kingdom. When interest rates rise which in recent news they are starting to do the transfer values of these schemes will fall, making now an excellent time to transfer.

In addition, transferring to New Zealand should allow for a larger lump sum in the future and no tax charge on death benefits. On death 55% of UK pension rights can go to the UK taxman! So there are many compelling reasons to transfer now.

We recommend that everyone with a UK pension or who has transferred a UK pension go to the following website to get an idea of the implications for them and what they should be doing:
www.qropsnz.com/nz-tax-legislation-options

IS THERE SUCH A THING AS INDEPENDENT FINANCIAL ADVICE?

Questions have been raised about how easy it is to gain access to independent financial advice after research revealed just 325 investment advisers were not linked to a bank, stockbroker or financial institution.

Life's tips/3

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."
– Robert G Allen

In a breakdown of the industry, financial commentator David Chaplin found the number of authorised financial advisers had shrunk by around 100 people in the last year to 1895 and of those operating only 1264 offered personalised investment advice.

Further analysing the 1264, Chaplin found just 520 did not work for a bank or broker and only 325 were not owned or affiliated with a financial institution.

Chaplin said it appeared that "independent financial advice" was a rare commodity. But both the financial adviser regulator and the Retirement Commissioner have played down the importance of using a non-aligned adviser.

Retirement Commissioner Diane Maxwell said that there were advantages to using both an independent and an aligned adviser. "Alignment can provide an infrastructure and support services but it

does narrow the product suite."

Maxwell said the key was ensuring the customer knew from the start whether an adviser was aligned or independent and what that meant. "They can then make their decision accordingly."

Simone Robbers, acting head of primary regulatory operations at the Financial Markets Authority, said not all aligned advisers limited their advice to products issued by their employer. "They may also recommend other financial products that are not issued by their employer and the range of those products can be more extensive."

Robbers said it did not follow that good advice could only be given independently by non-aligned advisers. "FMA is working with the profession to help ensure consumers have improved access to quality advice."

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Next step

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

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