PERSONAL INVESTMENT CENTRE
FINANCIAL PLANNERS AND INVESTMENT ADVISERS

Christmas 2011

From Pete's Desk

As 2011 draws rapidly to a close I have to say it has been memorable for mostly the wrong reasons. The Christchurch February quake will mark 2011 as significant. From an investment perspective I think it will go down as the year of realisation that the problems of the Global Financial Crisis 2007/08 had simply been smoothed over and the real fix might be a decade in the making.

Most developed nations in the western world continue to grapple with excess sovereign debt, weak government financial positions and super cautious consumers. These issues remain most prevalent in Europe and with the EU Summit at an end and some progress made it remains short-term relief not long-term solutions. I expect to therefore see continued volatility in all asset classes and currency for some time yet. New Zealand and Australia remain in reasonable shape in relative terms against this ugly and uncertain backdrop and I have belief that 2012 will see a positive aspect to it for our part of the world. Our corporates are generally in good shape with strong balance sheet positions and we are well positioned for even tougher times if that eventuates. My focus for next year will still be on protecting capital and seeking out quality and value.

Currency movements have often been an unwelcome factor in portfolios and particularly a New Zealand Dollar appreciating markedly against the US Dollar and British Pound over the last few years. I am looking at options going forward to mitigate this in the International sector and will likely be introducing changes in 2012.

We have family visiting over Christmas and New Year but as always I am available if you need to discuss anything urgently.

Thank you once again for your continued support through 2011, not a memorable year for markets or the world, I am looking forward to a better environment in 2012.

The office will close midday:

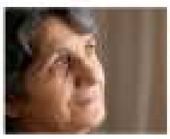
Wednesday 21st December

We will be back on deck fully:

Tuesday 24th January

"… the problems of the Global Financial Crisis 2007/08 had simply been smoothed over and the real fix might be a decade in the making."

Inside this issue:








Gold Bullion—Investment or Speculation?

(Excerpts from an article in the NZ Herald)

With low interest rates and volatile equity markets gold has gone "absolutely nuts". Can we consider gold as an investment? The simple answer is " No". If you are deriving no income from it and are relying on capital movement then it can only be deemed as speculation. As you will see from the excerpts below it is an area where you need a lot of knowledge before embarking down this pathway.

Although gold has some industrial uses, its price is much more closely linked to public sentiment. While it has, indeed, mostly proven a rewarding long-term investment, there have been some wild swings in its price since former US President Richard Nixon stopped the US dollar from being convertible into gold in 1971.

New Zealand investors need to bear in mind that they are also taking a bet on the value of the New Zealand dollar against the Greenback. In US dollar terms, the price of gold has increased a whopping 560 per cent over the past decade. However in kiwi dollar terms its growth has been only around half of that. In inflation-adjusted terms, gold has yet to return to the price it hit in 1980. Whether the price of gold will continue to climb is a matter of almost perennial debate but across the Tasman mining companies are continuing to make hay while the sun shines.

A sudden plunge in the price by more than 5 per cent in August was its biggest drop in nominal dollars in 30 years. Although it has since returned to near-record levels some economists are convinced it will continue to be volatile for a while yet. Mike O'Kane, NZ Mint's head bullion dealer said. " As we see the gold price surge we are going to see people taking profit. As different functions are put in place to try and protect the US economy and the eurozone we will see surges and drops because of that" .

It could be said that there is too much information available about gold as an investment. It is worth bearing in mind the very sane advice offered by the Investopedia website, "The volatility of precious metals can be harnessed to accumulate wealth, but left unchecked it can also lead to ruin."

However while gold has never shone so brightly for some buying bullion has been a costly mistake. Like many investors they were sufficiently spooked by the global financial crisis to decide to invest/speculate a fair chunk of their life savings into the international market for precious metals. Unfortunately they had not understood the leveraging effect they had also taken on and in one case US$180,000 became only US$6,000. One investor admitted that in hindsight investing such a large portion of his savings in a single asset was a particularly silly thing to do. He also admits he got greedy. His advice to other people was, "Don't do it, it's too highly speculative. Speculative trading is for people whose life it is, not for Mums and Dads like us. If you can't afford to be without your money you shouldn't do it".

A diversified portfolio, whilst not giving you the absolute highs should protect you from the absolute lows.

Gift Duty Abolition—One-off Gifts to Trusts Require Caution

On the 1st October 2011 Gift Duty ceased. An IRD report on the abolition of Gift Duty estimated Accountants and Solicitors might look to lose around $70 million in lost work around Gift Duty compliance. In the short-term, since removal of the tax, their work has in fact likely increased as existing clients checked what they needed to do to finalise their gifting programmes and a number of new clients looked to make large transfers where previously they had been restricted.

As with most changes to long standing regimes not all is simple and straight-forward. Some people may see the change as an opportunity to now immediately move all their assets to a trust with no gifting regime to abide by. This is something however that should not be done lightly and certainly not without well considered professional advice looking at all implications.

Some folk may also think it now an opportunity to shift their assets to set themselves up to possibly obtain eligibility for Residential Care if needed in later life. The eligibility requirements set out in the Social Security Act 1964 (and the accompanying Regulations) for residential care subsidies have not changed however. The Social Security Act has means-testing provisions for both assets and income. Section 147A states that where a person (or person's spouse or partner) applies for a means assessment, and that person has "directly or indirectly deprived himself or herself of any income or property" Work and Income have a discretion to assess the person as if the deprivation has not occurred. The Regulations state that this definition of deprivation of property includes gifts in a 12-month period that exceed $27,000. Any person who gifts more than $27,000 in a 12-month period is treated as having deprived himself or herself of assets for the purposes of the residential care subsidy. The amounts gifted could then be included in a means test of the person's assets. ***Importantly there is no time limit for the application of this provision unlike the five-year clawback on "allowable gifts" of up to $6,000***.

As I have stated many times before; a Trust can be a very useful vehicle for asset and estate planning but it must be created for reasons and needs specific to you and it is essential to have a good understanding of your structures. Obtaining both initial and on-going quality legal, accounting and financial advice remains vital if you have or want to form a family trust.

"Some cause happiness wherever they go; others, whenever they go."

Oscar Wilde

Light Relief

When Insults Had Class

" I am enclosing two tickets to the first night of my new play; bring a friend…..if you have one."

George Bernard Shaw to Winston Churchill

"Cannot possibly attend first night, will attend second….if there is one."

Winston Churchill's reply

Bank Accounts

Just a gentle reminder….

Please ensure that you advise us if you close your bank account(s) that we have loaded in Aegis. If we do not have your current accounts we will be unable to transact any withdrawals until new account details are loaded and verification is confirmed by Aegis.

THE PIC TEAM WISH YOU ALL A VERY MERRY CHRISTMAS AND A BRIGHT AND PROSPEROUS NEW YEAR

CHRISTMAS HOURS

Our last day for 2011 will be Wednesday 21st December and the office will re-open fully after Anniversary Day 23rd January 2012.

As in previous years we will however be working "Glide-Time" through January. We will be in the office some days checking mail, emails etc. and still meeting some clients as required.

☎ **Peter is available by phone 0272464061**

If you need to contact for cash etc.

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