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### **From Pete's Desk**

Here I am freshly back from a Portfolio Construction Conference in Australia. This is the third year that I have been to this conference and I have found it consistently to be the best of quite a range I attend each year; certainly from a technical viewpoint. From 2013 though the Sydney offering will not be available for New Zealand Advisers but instead a condensed New Zealand version. Personally I am a little disappointed as I find it interesting to talk with Australian advisers and hear their mind-set too.

Over three days myself and a few colleagues from our PIA Group enjoyed hearing from some top class speakers on world economic conditions and prospects. Some of these covered specific market prospects and risks for the near term whilst others gave a long view thematic scenario. It was valuable also to talk and mix with Australian advisers and get some understanding of a very different tax and superannuation scene that Australia has compared to New Zealand,

especially now the Financial Markets Authority (FMA) and Australian Securities and Investment Commission (ASIC) have allowed cross border advice to occur between New Zealand and Australia.

Our group took the opportunity to fly to Sydney on the Saturday and attend the first Bledisloe Cup test at Homebush Stadium (seemed to me the ref. was the most prominent player but a win is a win). I was impressed with how they managed to exit 76,000 people without a jam up, mainly by train—something Auckland would welcome I'm sure.

Monday was a productive day with a visit to Morningstar (one of our research providers) and a visit to Commonwealth Bank Economist—Chris Tennant-Brown, whom we have all known and respected for many years before he defected. All in all an enjoyable but also productive week.

As to getting a solution to “Life the Universe & Everything” there is no silver bullet. With hindsight being a very fine thing it is evident how and why we got to this great global mess but finding the pathway back to sense and sensibility is not so evident. I did however get some useful confirmation of my own thinking plus some good ideas in regard to assessing risk and navigating a logical path forward.

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*"Art produces ugly things which frequently become beautiful with time. Fashion on the other hand, produces beautiful things which always become ugly with time"*

*Jean Cocteau*



## Partial State Asset Sales

We have been asked by some clients about the opportunity to buy into state owned assets, the first of which (Mighty River Power) is now delayed until 2013 due to the Waitangi Tribunal ruling . However in the expectation that at some point, despite public opposition, we will see partial sales proceed; this summary explains the opportunity and how we may approach them.

### Details

The Government is planning to sell shares in (or “float”) up to 49% each of Genesis Energy, Meridian, Mighty River Power and Solid Energy over the next 3 to 5 years. The Government will retain ownership of at least 51% of each company, and no other shareholder will be able to own more than 10% of the shares in any of the companies, so that the Government stays in control. Unlike most similar share sales, ordinary investors will get the opportunity to invest. The Government also plans to sell some of its Air New Zealand shares (again retaining 51%).

### What kind of investment will they be?

The shares will be listed on the NZ stock exchange (NZX50). A listed share is a small part of a large company. The owner of a share (shareholder) usually gets a portion of the company’s profits. They also benefit when the value of the company (and its shares) rise—and suffer when values fall. These daily, monthly and yearly rises and falls (‘short-term volatility’) mean that shares are generally classed as ‘risky’ investments. But despite the short-term volatility, over the longer-term the values of strong companies tend to rise—so those with a diversified mix of well chosen shares can generally expect capital gains—as well as a reasonably steady income from dividends.

### Why they might be a good investment

These are shares in large companies with reliable earnings. The earnings from companies like power companies (utilities: businesses providing services that everyone needs) tend to be somewhat less volatile. Because of this, a longer-term investor in a diversified mix of well-chosen utilities can put aside the short-term volatility and focus on the on-going income and expected longer-term capital gains. There is no way of knowing the initial price of the shares until the details are released but we would expect the dividends to be attractive compared to what you would get from a bank deposit. Given the high media and political attention to the asset sale issue we would expect the pricing of these floats will attract much close scrutiny.

### Should you invest?

Most clients who should have shares in their portfolio may consider these companies in the mix once they are available. The shares can be held directly or through managed funds. The right way to own them will depend among other things on the size of your overall portfolio.

### What do you need to do?

There is nothing to do at this stage. We will consider each opportunity as it comes up and for our direct share investors advise on how many, if any, shares they should have in their portfolio and any other actions required. For clients not holding direct shares, your fund managers will be doing the same with their stock selections. We do have reservations around the way the share floats are proposed to be marketed and potentially sold in small parcels to all and sundry (through the banks for example) we fear an over-sell process could lead to ownership of shares that are not always appropriate or being purchased for the right reasons.

You can get more information from [www.governmentshareoffers.govt.nz](http://www.governmentshareoffers.govt.nz).



## Asset Allocation

You will be used to receiving your asset allocation graph within your portfolio review reports and I thought in this newsletter I would expand on the importance of this aspect of your portfolio.

For each client from discussion and knowledge of individual circumstances as your Adviser I assess your risk profile (tolerance and capacity to bumpiness or uncertainty). From this profile I then set an appropriate asset allocation.

*If a client is already, or is about to become, retired they will require a certain defined level of known income but also want to preserve capital over the medium to long-term.*

This person would require a low-medium risk profile within an asset allocation mix comprising approximately the following range: 50-60% cash & fixed interest, 10%-15% property, NZ & Aust. Shares 15%-18%, International Shares 18%-20%. Within this there would be further diversification within each asset class so that exposure is not limited to one particular investment, manager or strategy.

*If the client is younger, perhaps finished paying off a mortgage and looking to achieve goals through accumulation.*

This person by comparison could consider a medium to high risk profile where shares could comprise a larger component. This strategy can result in negative returns short-term (1-3 yrs.) and both low and variable income streams but perform overall better in the longer view (5-10<sup>+</sup> yrs.).

*Likewise a young person just starting work, looking to accumulate for a house could accept some higher risk but this would be tempered by time horizons.*

Asset allocation decisions are crucial but they are not an exact science. The process requires analysis, knowledge and judgement but in the end is subjective. As economic conditions change we look to adjust asset allocation to suit market changes and forward prospects. We look to profit take and sometimes come back to cash whilst we await opportunities. Overall my view is to consider a long-term strategic view but with proactive changes around each clients base asset allocation position to suit both market view and individual needs. In the current troubled world there is more to do.



### Parking Exemption for over 65's holding a SuperGold Card

Are you aware that as a Palmerston North City ratepayer (sorry Feilding you don't come under this one) and SuperGold Card holder you can get two hours a day parking, between the hours of 9am to 11am, for the price of \$10 per annum? This of course will only work if you come to town fairly often.

Holding the SuperGold Card you can apply to the Palmerston North City Council for an exemption sticker (imagine you will need to produce a rate demand notice). Apparently your car will still trigger the parking sensors but as long as you are displaying the exemption sticker the warden will not issue you with a ticket.

Don't forget to let us know if you are holding this exemption to ensure you get an appointment between these hours.



## Light Relief

### A child's view on retirement:...

We always used to spend the holidays with Grandma and Grandpa. They used to live in a big brick house but Grandpa got retarded and they moved to Paraparaumu where everyone lives in nice little houses, so they don't have to mow lawns anymore.

They ride around on their bicycles and scooters and wear name tags because they don't know who they are anymore.

They go to a building called a wreck centre, but they must have got it fixed because it is okay now. They do exercises there but they don't do them very well.

There is a swimming pool too, but they all jump up and down in it with hats on. At their gate there is a doll house with a little old man sitting in it. He watches all day so nobody can escape. Sometimes they sneak out and go cruising in their golf carts!

Nobody there cooks they just eat out and they eat the same thing every night ... early birds.

Some of the people can't get out past the man in the dolls house, the ones who do bring food back to the wrecked centre for pot luck.

My Grandma says that Grandpa worked all his life to earn his retardment and says I should work hard so I can be retarded someday too.

When I earn my retardment, I want to be the man in the dolls house then I will let people out so they can visit their grandchildren.

## Personal Changes

Just a gentle reminder....

It is important that you advise us if you:

- ⇒ Change your bank account
- ⇒ Change your address
- ⇒ Change your Will

Bank account and address changes are obviously important to ensure that withdrawals and correspondence get to the right place but it is also important if you change your Will. This could mean that your investments may need to be set up differently i.e. if you set up a Tenants in Common structure or a Trust structure. Our recommendation would be 'if in doubt—give us a call' to ensure your portfolio meets current requirements.

## OUT OF THE OFFICE

### At this point in time the following dates Peter will be out of the office:

Thursday 20th & Friday 21st September  
Tuesday 9th October, Monday 15th October  
Friday 26th October  
Monday 29th & Tuesday 30th October  
Friday 9th November  
Tuesday 18th December

The office will be manned through these dates so please just phone ☎ 354 7900



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A Disclosure Statement is available on request at no charge.*

