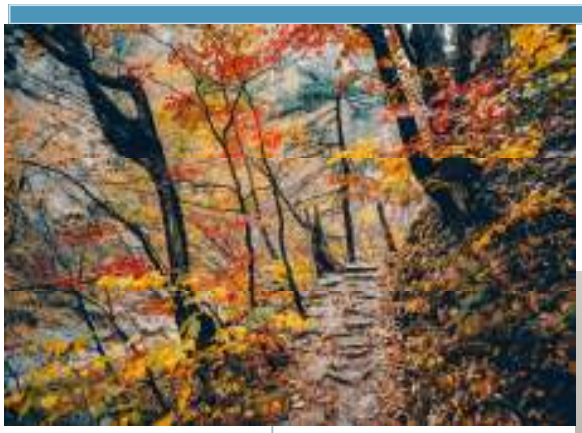

PERSONAL INVESTMENT CENTRE
FINANCIAL PLANNERS AND INVESTMENT ADVISERS

April 2021

"Once upon a time a house was purchased for shelter not for speculative capital gain..."

Inside this issue:

From Pete's Desk

I look at the above picture and realise ahead of me is the clean-up of leaves and that winter is on its way. Hard to believe with the temperatures we have been having.

I have had further surgery on my eye, this time to place a 0.6ml tube as a drain in my eye to help keep my pressures down. I have been absolutely amazed at the things they are now able to do to preserve sight. So far I am seeing well and hopefully I will get the thumbs up soon to tell me all is working as it should.

I have been feeling like "The boy who cried wolf" with regard to the housing market and now finally the Government is trying to correct it. I am not in accord with not letting rental owners claim their interest cost, in my view it is a legitimate cost against their business activity and any other business can claim interest costs. Time will tell I suppose but this, along with other measures, have certainly created a reaction. Once upon a time a house was purchased for shelter not for speculative capital gain but it seems no-one recalls this.

As an exercise, I looked up our very first home in Naenae on www.homes.co.nz We bought it about 40 years ago for the princely sum of $21,000. As a bank officer I was earning at that time between $7,000—$8,000pa. Therefore around "3 times" my salary to purchase . Apparently the very same house is now worth mid-range $705,000. Its footprint is unchanged and it is 40 years older—no doubt modernised internally to some extent. However, a person working in the bank in a similar job today would be paid around $64,000 so they are having to pay "11 times" their salary for this home. This is all unsustainable and I fear that the market now has gone too far for a "soft landing". Anything other than a soft landing will be painful for many.

Regulation

Changes have continued apace despite Covid-19. PIC is now a Financial Advice Provider (FAP) and Stephen & I are contracted Advisers. The FAP is currently under a temporary licence and our next step is to a full licence. Changes also to the Privacy Act and our Disclosure Statements mean that we have had to update our documents to meet the new legislation and will be providing these to you as we catch-up through the year. Fundamentally nothing has changed basically it is just the format.

For those clients that have Family Trusts, there has also been changes in legislation and we will be catching up to discuss implications of this at review time.

> When a man opens a car door for his wife, it's either a new car or a new wife!
>
> Prince Philip

How Long Will My Retirement Savings Last?

I read an article recently noting that many retirees leave large bequests which indicates they could have enjoyed a higher standard of living in retirement if only they had spent some or more of their capital, rather than leaving it for the children. Planning cash flow in retirement is difficult because of a number of variables, including how long we are going to live.

For some, returns exceed withdrawals, and the savings nest egg continues to accumulate. For many others, retirement savings can be compared with a rain water tank, if the cash outflow is greater than the cash inflow, sooner or later the tank is empty. The critical question then is, "How long before the retirement savings are exhausted?" The advice is always; "it depends…" It depends on so many uncertainties that many retirees naturally become over cautious. Rather than simply hoping for the best, the example below provides some guidance for that planning. It shows the number of years it takes for a starting amount of savings to reduce to zero if the percentage withdrawn is greater than the percentage income earned. To make the spending percentages meaningful, I have included a nominal capital value of retirement savings. **Please note**: the starting capital amount is irrelevant in determining how long it will last. What matters is the earning rate and the withdrawal rate.

Assume a couple has $400,000 in savings and a need of annual income of $24,000 (A 6% return requirement, net of tax and fees) to top up NZ Super ($32,000). Assume also these retirement savings are invested but earning 4% ($16,000). Therefore there is a need to liquidate $8,000 of capital in the first year to pay the shortfall in income and the savings balance progressively declines. According to the table below, it will take 28 years until those retirement savings are reduced to zero. If we reduced the income earned to 3% savings will last for only 23 years. The table shows further that if the savings earned only 1% per year (from a term deposit for example), savings will be exhausted in only 18 years. It begs the question why term deposits remain so popular with retirees. This assumes constant withdrawal and earning rates over the whole time period, and it assumes return after fees, taxes and no inflation. This example is not a prediction and the reality is that returns will vary, but it is useful to understand the concepts at work.

Stephen's Ponderings

We have heard a lot about Covid-19 in the media of late and this got me to thinking. Along with the hardship that Covid has brought, it has also had a major impact in accelerating trends which are going to affect us all permanently. The biggest one is probably technology. I have to admit that I have developed conflicted feelings about this. I grew up in the 1980s when major tech developments were just starting to have an impact on daily life. I've always enjoyed using gadgets and can get around new tech and learn pretty easily. But when I was growing up, using technology was still the exception rather than the norm. I had a Walkman cassette player, a video recorder with the TV, and we got our first home computer when I was about 15.

The area that really worries me is tech use with children. I think iPads and phones should be restricted 18... Social media, Netflix, FaceTime calls and texting is all consuming and Karen and I have to struggle constantly with our teenagers to keep them off tech every waking moment of the day! Even their school work is done on computers and tablets (they have to log-in to their school network to do homework). It would be good to get rid of the devices, but when their friends are all online it really is impossible and I know it's something that most parents battle with.

I know that every generation thinks that things were better in their day (and my parents told me I'd get square eyes from watching too much TV), but the social side of tech is new and really insidious. There is a documentary (on Netflix of course!) called "The Social Dilemma", which is really worth watching.

In the investment area, online share trading platforms such as Sharesies and Hatch have some real benefits in allowing people easy, cheap access to the share market. It's a good tool to learn from and helps investors get started. But, in most cases the Sharesies investor really has little knowledge of the nature of their underlying investment and what is driving the price movements. There are full-time company analysts who spend countless hours researching the companies on the market to generate investment ideas, and there is no way that a casual investor can match that. So, while it's good for learning, fun and speculation with small amounts, it doesn't equate to a proper, risk-appropriate strategy for a retirement nest egg. And overconfidence can end badly.

Your portfolios all have some exposure to technology companies (from Tesla to Microsoft, Apple, and chip manufacturers) and that's important given the potential returns over the medium to long-term and the changing environment. Like it or not, I do believe that we are moving into a new "Industrial Revolution" with technological changes going to transform the world of work as well as socially. I think it'll be a good thing in a lot of respects, but definitely not all.

Personal Changes

Don't forget….

It is important that you advise us if you:

- ⇒ **Change your bank account**
- ⇒ **Change your address**
- ⇒ **Change your Will or set up POA's**
- ⇒ **Change your Trustee**
- ⇒ **Change your email address**
- ⇒ **Have any other changes in your life that may relate to ownership structure or strategy**

Bank account and address/email 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 or Estate structure. This could mean that your investments may need to be set up differently e.g. 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 is in alignment.

I have learned that middle-age is always five years older than me and the mid-point keeps moving north too!

Tax Summaries

Aegis are currently reconciling tax figures for year end 31/3/2021 and your tax summaries should be available mid-May.

There was a hiccup with the IRD last year for those that were doing their own return on the MyIR website. Although Aegis provided all figures to the IRD, so did some of the fixed interest providers. There was therefore a double up showing in the income figures. Easily overcome if you know what to look for.

The IRD automated system kindly completed clients tax returns for them, saying to some that they owed. money However they were incorrect. I would suggest that if you are in this situation this year that you give the office a call so we can double check your figures to ensure you are not paying when you should be getting a refund.

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