



Markets have been volatile over the last six months and I think we will have continuance of that uncertainty ahead into 2016

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From Pete's Desk



Well here we are again almost another year gone. We have had a busy year both on the personal and business front. We have been busy repositioning portfolios through the year, to lock-in profits from the good long-term run we have enjoyed in preparation for some correction. Markets have been volatile over the last six months and I think we will have continuance of that uncertainty ahead into 2016. It is worthwhile to sit on our hands a bit now to watch a few things unfold and get some clarity on where to next.

Michele is studying for her AFA status and is partway through her course. Over the next year Michele will progressively become more involved in Financial Planning and advice.

I am looking forward to the Christmas/New Year break and catching up with the grandchildren is always fun. I also hope to get a few things done around the section— Lynne has lined up a few projects.

"If you don't read the newspaper you are uninformed, if you do read the newspaper you are misinformed" Mark Twain

Non-Active Trusts

In an effort to dampen down investment activity in the Auckland property market, particularly from overseas buyers, new rules have been introduced that require those off-shore buyers to have a New Zealand bank account and IRD number. However, family trusts are also caught up in the new rules in that any trust owning a residential property now needs an IRD number when selling.

The unintended consequence and trap for the unaware is that many family trusts that only have the family home as an asset will often not have ever applied for an IRD number as the entity has no income to declare. A risk exists in the potential for an application for an IRD number to take 6-8 weeks sometimes and without an IRD number a sale may not proceed.

For anyone who thinks they may want to change house and their family trust does not already have a trust IRD number then applying ahead of time might be a good idea. Once obtained and assuming the trust has no income to consider you can then apply under IRD Form IR633 to declare the trust non-active with IRD to remove the need to file an annual nil tax return.

I am happy to discuss this further if you think you may be in this scenario but you will need to discuss the matter with your tax professional before taking action.



EMAIL OF PORTFOLIO REPORTS

We surveyed earlier this year to see who was willing to accept their portfolio reports via email and had a disappointing response. We often reposition portfolios on the quarter review and we are finding that with the postal system now only delivering every second day that the response time is quite slow. With corporate actions usually only allowing us a week to ten days it is important to get a quick response to enable participation. If you have a computer and would like to trial receiving your quarterly reports either via email or client portal please telephone the office 354 7900 or email admin@investcentre.co.nz



How much do I need to have saved to retire comfortably?

This is a question often not asked early enough. Today, with interest rates for term deposits and bonds at the lowest levels ever known to most of us, this question is more frequently being asked. When the question does come up there doesn't seem to be a simple straightforward answer so here is a quick guide to how much you might need to save for retirement:

Government Super is about \$30,000pa for couples (after tax), which most would consider not enough. As a general guide you might draw down say \$4,800 a year as extra cash flow for every \$100,000 saved when you give up work. Every person (couple) is different but you need to start from a position of making some assumptions on longevity and how much money your investments will earn over time to then calculate how long your money may last.

How this works is that taking say \$4,800 a year out of your savings would leave \$95,200 that will continue to earn interest. During the year the fund will have grown by the amount of interest earned (less tax and fees) to cover the drawings. In this example you would need to earn 4.8% pa after tax and fees) otherwise if you earn less then you will use up capital. If your net earning rate was 3% then your funds would run out in around 30 years.

So if you have \$300,000 saved, that's \$14,400 you can add to the Government Super in annual income, taking your retirement income to \$44,400.

See table below as a quick guide:

Amount	saved at	time of	retirement		
\$100,000	\$200,000	\$300,000	\$500,000	\$1million	
Approx.	annual	drawings	from	savings	
\$4,800	\$9,600	\$14,400	\$24,000	\$48,000	
Added to	Government	Super of	\$30,000pa		
\$34,800	\$39,600	\$44,400	\$54,000	\$78,000	

The amounts indicated are only a simple guide. The annual net rate of return, and the variability of that return year by year will impact on the amount you may draw or alternatively influence how long it will take to run out of capital. Inflation is also a factor that will clearly have an effect on your prospects. Your required draw down today will not likely do the job in 10 years time. It is not an exact science but if you get a good handle on this process, set common sense parameters and most importantly regularly monitor the situation then you can get to a point of having some comfort knowing you have some surety of not out-living your capital.

How over/undervalued are home prices today?

Residential property prices in Auckland are by any consideration expensive and many consider now an asset bubble. A recent Deutsche Bank Europe Research Report shows that the three most over-priced and unaffordable housing markets in the world are: New Zealand, Canada and Australia, in that order (these figures are for NZ & Australia, not Auckland and Sydney which will be much worse).

Country	1) Home price/income (% above historical average)	2) Home price/rent (% above historical average)	Current average over/undervaluation of home prices (= average of column 1) and 2) %
New Zealand	34	89	62
Canada	33	88	60
Australia	43	63	53
Belgium	49	54	52
Norway	24	69	47
United Kingdom	28	48	38
Sweden	26	43	35
France	22	28	25
Finland	-2	41	20
Denmark	18	18	18
Ireland	3	29	16
Netherland	18	2	10
Spain	5	12	8
Italy	3	-6	-2
Switzerland	-7	2	-3
USA	-12	3	-4
Greece	-16	-16	-16
Korea	-39	3	-18
Japan	-30	-27	-28

This table shows by measure of house price to income (1) and house price to rent (2) against each country's historical average of those measures. As you can see New Zealand, Canada and Australia are more than 50% overvalued on those comparatives. Interestingly Japan is at the opposite end of the scale at 30% below historical average. It certainly makes one ponder where to next? If prices come down slowly over many years then the impact may not be a major problem; although many will wonder why they have got themselves in poor financial shape. The chances of a sharp decline occurring are in my view building high now and all of New Zealand will notice if that occurs.



**MERRY CHRISTMAS
AND A
HAPPY AND PROSPEROUS
NEW YEAR
FROM THE PERSONAL
INVESTMENT CENTRE TEAM**

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 or set up EPA's**
- ⇒ **Change your email address**

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 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

HOLIDAY HOURS

The office will close at lunchtime on:

Wednesday, 23rd December 2015

And re-open on

Monday, 18th January 2016

We will remain available to some extent through this period - at work as needed so if there is anything urgent please phone: 0272 464 061



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