PERSONAL INVESTMENT CENTRE
FINANCIAL PLANNERS AND INVESTMENT ADVISERS

Christmas 2018

I am not sure they could convince me it was consistent with the Adviser Code of "Client First" ....

From Pete's Desk

Almost another year done and dusted, must be getting older, the years are passing by so fast!!

We have had a busy 12 months.

Stephen has been with us for 6 months now. He has grasped everything quickly, has taken some time pressures off me and is proving to be a great asset for the business.

Lynne and I managed to slip away for a week in Rarotonga in October, with Stephen covering. Weather wasn't too brilliant but it was interesting to see the island in another mode to our last visit there. The surf was certainly working out on the coral reef.

Stephen and I have been away to our professional body conference where it has been good to catch up with colleagues and share differing viewpoints.

Markets, after a long golden run, have suffered a correction in Oct/ Nov and at the time of writing have managed to wipe out much of the year's capital increases, income delivery though remains intact. We have been working on portfolios to regularly sell down on profits and lock that in, putting proceeds to more stable assets for the last few years.

The Reserve Bank and FMA have reported on the banking activity culture in New Zealand, prompted by a scathing Royal Commission enquiry in Australia. Disappointing that their scope was very narrow, I have certainly heard of cases here in New Zealand that seemed dubious.

I am not sure they could convince me sales incentives are consistent with the Adviser Code of *"Client First"*. Especially when staff are achieving more in bonuses than their base salary. How can client interest and needs be the principal consideration in the highly pressured "sale culture" of our largest financial institutions?

Our regulators are now taking a look into insurance industry practice and again I don't think this will paint a pretty picture.

If these enquiries facilitate positive change that will be great but from discussions at recent conferences about the pending changes to the legislation it seems that the "Big-end of town" still have huge political influence.

"Your portfolio looks fine. It's your dreams we need to talk about."

Inside this issue:

Stephen's Ponderings

The last few months have flown by and the end of the year is approaching really quickly! It has been a very eventful year for me, gaining my "Authorised Financial Adviser" (AFA) status and joining with Peter and Lynne. I have now had the pleasure of meeting many of you and corresponding by email with others, I look forward to meeting you all in person. Being a financial adviser is certainly a "people business" and about getting to know people and their circumstances well.

Since I received my AFA confirmation and have told family and friends, I have had the impression that a lot of people are unsure about what a financial adviser actually does! Some think that the profession is similar to a share market analyst, others that it is simply selling insurance. I have also had quite a few people asking why I got into financial planning as a field.

The first attraction for me was investment and the financial markets. I had been interested in investing for some time and when the Global Financial Crisis hit I bought some shares at cheap prices, just to see how it worked. They went up in value over the following years so I thought I might have a knack, until I kept learning and realised that most asset prices were increasing and my success was probably no more than luck (as Warren Buffett has said, "A rising tide lifts all ships")!

After finishing a period in business I looked into options in the investment world and found financial planning, which instantly appealed because of the broadness and contact with people. I enjoy the fact that no situation is ever the same, and you never know what circumstances a client will present. There is always something interesting happening!

If you know someone who you think may benefit from an initial discussion to see if I could help and add value for them, I would appreciate the referral - so please feel free to pass on my contact details.

I've also come into the industry at a fascinating time from an economic and market perspective. Ten years after the GFC and we are still seeing the effects of years of low inflation and interest rates. As this position is gradually unwound globally, we're likely to see more market volatility. It will be interesting to watch how this affects the debate between passive and active management.

Huge amounts of money have poured into passive funds (which track share market indices) over the past decade and returns have been good, but the problem with passive funds is that they also simply follow the market when it falls! Active managers can take measures to protect in market downturns, so even if they fail to beat the market in the good times they can outperform over the cycle if they reduce the effect of bad times. With increasing volatility likely, we need experienced fund managers to do a good job navigating through for us. Volatility can cause nervousness but the three keys of long-term investing always apply – Diversification, asset allocation, and time.

I hope you all have a great Christmas period and enjoy any holidays you have planned. My partner. Karen, the kids and I will be going to Taupo for a few days to chill out and relax (at least, Karen and I would like to relax, but I'm sure the kids have other ideas). I'm sure that there are plenty of jobs around the house that have my name on them too!

Happy New Year

I trust that it will bring great things for you all.

"Bull markets go to people's heads. If you're a duck on a pond, and it's rising due to a downpour, you start going up in the world. But you think it's you, not the pond."

Charlie Munger

Tax Working Group

At conference I attended a presentation from one of the members of this group giving us an overview of considerations they are having to make.

I have had a high level of scepticism on this process from the outset and nothing in the presentation helped allay this.

Firstly; the terms of reference are quite limited, but what is under the spotlight for change is enough to be worried about—especially these three things:

- Capital Gains Tax: (by whatever means but let's give it a different name—capital income—and not just on rentals, it will be on everything).
- Environmental Taxes—(punishing bad behaviours -but by who's definition?)
- Tax on Retirement Savings (This could be a positive one—the sweetener!)

I already had a view that any implementation of Capital Gains Tax was going to be complex and totally fraught with many, many potential unintended consequences, almost all of which will be negative ones. The presentation just built on this view and multiplied it three times at least.

There are a lot more "cause & effect" aspects to adopting these proposed tax changes than I thought and I struggle to find anything positive that would off-set all the negatives that would occur, especially when it is "supposedly" going to be "tax neutral".

There are just so many moving parts and complexity to be added to an already overly complex tax regime and the likelihood that unintended and unfair harm will be done to some. My conclusion at the end of the presentation was "*Why on earth would you go there*?"

The process from here is to receive the Working Group's report & recommendation in February, Government will decide and then to consultation before submission of a Bill in 2019. In July 2020 legislation could be enacted. They will have to get through the General Election in September 2020 before any tax changes would take effect (1st April 2021). That is some pathway and will require watching. My concern is this has a lot of political ideology behind it and no common-sense! My fear is no positive good will occur but significant harm will result.

PETER

China

China has had plenty of negative press recently on the back of reports of a slowing economy, Asia tariff actions and talk of Global and Pacific undue influence. One of our highly respected New Zealand fund manager teams recently conducted a China trip for analysis and due diligence. Some of their findings reported to us make for an interesting insight.

China itself is saying they want a "Shared Future" and an "Open World" economy just as America appears to be closing their borders. The recent tariffs applied between the two countries will do neither any good and serves to be a potential negative for many other countries, including New Zealand.

The sheer scale of China is so hard to comprehend. When looking at the Chinese power of consumption; Beijing and Shanghai are oft quoted, and they do have the largest population bases but there are 55 other cities in China with population bases north of 2.5M people and these residents are the future big spenders. They are looking to spend on skin care and makeup, home appliances, infant formula etc. The Chinese middle-class are the fastest growing segment globally. So, there is plenty of scope for trade in China. At a recent "Singles Day" trade show, held in a venue 100 times larger than the ASB arena in Auckland, 30^+ billion was spent. A2 Milk stocks, which took up a fair volume of space, sold out in 2 hours. Two New Zealand companies (A2 being one) got to meet the Chinese President. New Zealand has a presence.

China purports to be looking after their people and they are keen to push "made in China". You can't buy goods unless you also have a sales trade to create employment to enable wages. It could therefore be seen to be fair to be asking for a "Shared Future" and an "Open World" or should we all go back to "closed borders and self-sufficiency" as President Trump appears to be actively pursuing? Fat chance of New Zealand being able to achieve that!

We don't profess to know half-enough about China, it is fascinating though to hear from our fund managers who visit these cities and factories and hear their take on investment opportunities to come.

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

Peter

Stephen

Lynne

Personal Changes

Our usual gentle reminders….

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 Trustee**
⇒ **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 shout" to ensure your portfolio meets current requirements

HOLIDAY HOURS

The office will close at lunchtime on:

Thursday, 20th December 2018

And re-open on

Monday, 14th January 2019

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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