



**From Pete's Desk**

Lynne and I attended an industry conference in Auckland through July. Attendance was low this year, only 342 participants compared to a conference held in Palmerston North five or so years ago at 700+ - apathy I think had a fair bit to do with it!

I am involved in the local IFA Committee and am also their representative on the IFA Council. The Securities Commission has been working with the IFA on governance and legislation issues and recognizes the expertise within the organisation. Our members do not seem to realize what the legislation will mean for them going forward so I think I have my work cut out over the next 12 months.

We recently held a Financial Awareness Week and I gave a presentation to lecturers and staff at Massey. It was well received and got me to thinking that I could probably get the message out through service/recreational groups too. So if you are looking for a speaker let me know.

We did manage a little R & R while in Auckland with an evening at the Cirque De Soleil. It was

marvelous to watch such athletes in action. Lynne did comment however that my "six pack" didn't quite match up to the young men on the wire!

Markets have been kind to us of late and isn't that a wonderful thing. We had a presentation at the conference by a Dr Xisu Wong, Dean of Nanjing University in China. He was quoting figures like "China is growing cities the size of Auckland at around four a month". And this was with the average living area per person at 25m<sup>2</sup> and the average area for farming was 1200m<sup>2</sup>. He believes that their speech has changed so much that if a person that died 30 years ago was able to come back they would barely be able to communicate!

This is where global economic growth along with the likes of India, Brazil etc. will be strongest. It is little wonder then that companies the likes of Fonterra and Fisher and Paykel are looking to break into these areas. The sheer numbers make it a very healthy prospect, provided they can get the locals to play by decent rules!

Lynne has taken pity on me (I have had a lingering cough as those who have been in the office of late will be able to testify to) she has taken advantage of the cheap fares and shouted us a trip to Rarotonga for my birthday this month. I have to say we are looking forward to a bit of sunshine!

We are also heading back to the Coast for a bit of a family re-union on Lynne's side—her sister is celebrating her 50th wedding anniversary—not too many of them about now is there. I'm also going to catch up with a few Christchurch clients.

*"The Average farming area in China is 1200m<sup>2</sup>!"*

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*"The first step to getting the things you want out of life is this:  
Decide what you want."  
Ben Stein*



## A Little Light Relief .....



### Money Go-Round

It is a slow day in the Queensland town of Quilpie. It hasn't rained for months and the little town looks totally deserted. Times are tough, everybody is in debt and everybody lives on credit.

On this particular day a rich American tourist is driving through town. He enters the only hotel in the sleepy town and lays a hundred dollar bill on the desk stating that he wants to inspect the rooms upstairs in order to pick a suitable room.

As soon as the man walks up the stairs the hotel proprietor takes the hundred dollar bill and runs next door to pay his debt to the butcher.

The butcher takes the \$100 and runs down the street to pay his debt to the pig farmer.

The pig farmer then takes the \$100 and heads off to pay his debt to the supplier of feed and fuel.



The guy at the Farmer's Co-op then takes the \$100 and runs to pay his debt to the local prostitute, who has also been facing hard times and has lately had to offer "her services" on credit.

She then runs to the hotel and pays off her debt with the \$100 bill, paying for rooms that she has rented.

The hotel proprietor then lays the \$100 bill back on the counter so the rich traveller will not suspect anything.

At that moment the traveller from America walks back down the stairs after inspecting the rooms. He picks up the \$100 bill and states that the rooms are not satisfactory and pockets the money, walks out and leaves the town.

No one earned anything, however the whole town is now out of debt, and looks to the future with a lot of optimism!

## 71% Polled Did Not Trust Investment Advisers



This was a headline we faced in a newspaper article not so long ago. Pretty horrendous news for our industry as a whole, especially so when it is at times like this that people should be consulting a Financial Adviser .

Many people have invested directly and committed too much of their position to single type investments and have suffered badly in the recession. Many were taking on too much risk, especially if they were mortgaging their properties to invest.

Although people with a diversified portfolio through a qualified adviser may have had some exposure to distressed investments, as markets have rebounded since March they will find portfolios are returning to positive territory with long term returns holding okay.

The Institute of Financial Advisers (IFA) held a Financial Awareness Week early in September, in which I was heavily involved. We continue to take the message of a Financial Planners role into secondary schools and other learning institutions and to the population generally. As a nation we need people to be more financially aware at a younger age.

New Zealanders have spent the last two decades borrowing to spend and this can't continue. In general the stats indicate that too many of my generation of Baby Boomers face reaching retirement with the best of assets for lifestyle but too little else to generate a retirement income. I hope that the world will not go through another "credit crisis" as experienced in the last two years but I am yet to be convinced that people have learnt anything from this and the "bucket loads" of debt have not gone away!

## What's Yield?

I recently read an article written by Martin Hawes, a Financial Adviser/Author in Christchurch. He was commenting on rental properties and how the newly initiated are what could be considered “speculators” rather than “investors” and I have to say I agree with him on this. New Zealander’s just love rentals without properly understanding what they are taking on..



He has been conducting seminars around this subject and recently observed an “old hand property investor” talking with some “newbie’s” who advised that they had just purchased some rental properties. He congratulated them and asked what their yields were? They looked confused and asked “What’s Yield”? This shows the difference between a “speculator” and an “investor”. The “old hand” (investor) would have looked at the purchase price, then the ongoing costs vs. income before committing to a purchase, any capital gain would have been perceived as a “plus”. The “newbie” (speculator) had merely looked for capital gain—which may not be there in the short-term.

With house prices so high and wage levels unlikely to be leaping up in the near future the rental stream is unlikely to be rising too far just now. I am frequently told by the avid speculator “But I can claim the losses on my tax return”. *A loss is a loss is a loss*, no matter how you dress it up. Most residential rental yields at the moment would be around 4 percent gross. If you have a mortgage (and most do) against the property and you lose a tenant you could be in a serious negative cash flow position, which means you will need top up funds from some other source of income to meet the mortgage. Direct property as an investment can be great over the longer-term but you must do the arithmetic and understand the risks.

## Marac Finance and South Canterbury Finance

On the 13<sup>th</sup> August 2009 Standard and Poors ratings service lowered South Canterbury Finance and Marac Finance long-term rating from BBB<sup>-</sup> to BB<sup>+</sup> which places them below their previous investment grade status. This shows that the finance sector is still shaking down as company books are affected by loan defaults etc. Both companies are moving to correct the situation by various means.

South Canterbury are looking for a cornerstone investor and capital reconstruction. Marac have restructuring in progress and have signalled an intent to become a kiwi owned bank—why would they look to do this? Believe it or not the shareholder capital required to be a bank is less (percentage wise) than for a finance company under the new rules.

Although the Finance Minister, Bill English, recently announced that the Government will be extending the Deposit Guarantee out to 31st December 2011, there are new conditions that finance companies must meet to comply—just one of these is that they must hold a BB rating. It is therefore unknown just who will be able to take this extension up and I believe it prudent to take only short-term options for now, covered under the current guarantee due to end on the 12th October 2010. I am pleased that we pushed through 2008 and early this year to get some good quality long-term bonds into most of our portfolios as options are very lean out there just now. There are some potential new bond issues to come to market this month and we will be taking a close look at them to see if they suit the client base and represent good enough value.

## TAX SUMMARIES

All tax summaries have now been sent out, apologies to those holding Princes Property, we were in the hands of the fund manager who seemed to take an inordinately long time to supply the information. If you are not in receipt of tax summary please contact the office.

Reminder: Please ensure that you provide your Tax Consultant / Accountant with all the information we send out to you, especially in the case of Trusts — this will quicken up your Consultants preparation of tax return and saves us having to reprint cash accounts etc.

## PIR Rates

You will find enclosed with this newsletter a form requesting your PIR rates. You have completed these before and for most it is probably the same but we will be putting these out annually to update any that may have changed from the previous year.

**Please take the time to complete** by phoning your Tax Consultant / Accountant or ask them to complete and return on your behalf.

## OUT OF THE OFFICE

Peter and Lynne will be out of the office

**16th to 27th October Rarotonga**

**29th Oct to 5th Nov Christchurch**

**3rd to 7th December New Plymouth**

**Michele** will be in the office from:

**8.30am to 3.30pm**

If you phone outside of these hours please leave a message on the answer phone and we will attend to your query as soon as possible.



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