

Investing in Knowledge



Economic update

2004: The year in review

- 2004 was a particularly good year for New Zealand shares, the local market rising 25% (in gross terms) for the second year in a row.
- The NZ dollar continued to strengthen against most currencies, especially the US dollar.
- The New Zealand economy was also stronger than expected, despite the high-flying kiwi and the highest interest rates in the developed world.
- Rocketing prices for our commodities helped, as did the record low unemployment.
- As a result, the Reserve Bank of New Zealand (RBNZ) tightened the Official Cash Rate six times, from 5% to 6.5%. Despite the rise, longer-term interest rates finished the year at about where they were at the start.
- New Zealand house prices peaked mid year before stabilising. Pricing trends varied according to house value and location.

2005: The year ahead

Predicting future economic trends and investment market movements is often more difficult than predicting the weather in New Zealand; there is always a host of unforeseen events that can disrupt current trends. Our views for 2005 are:

- Foreign exchange markets are likely to remain volatile and, while further weakness is likely in the US dollar, the NZ dollar should peak during the first half before heading lower.
- As widely expected, the RBNZ left the official cash rate at 6.5% in January. However, the Bank indicated that further rises could not be ruled out and there was little scope for an easing in the foreseeable future.
- Domestically, due to the strength in the NZ dollar and higher interest rates, an economic slowdown seems inevitable. However, thanks to a healthy labour market, the New Zealand consumer should remain in pretty good shape.
- The corporate earnings outlook remains solid (albeit not as good as 2004), indicating further positive performance from shares.
- The election should signal a number of tax and other initiatives that will assist the population and keep sentiment positive.
- Globally, we expect growth to moderate - the result of higher energy prices and interest rates. However, overseas economies will still grow at a decent clip.

Talk to us about how to take advantage of these trends.

Contact

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*Creating, Managing and
Protecting Your Wealth.*



"The one thing constant in life is change"

Yes that's right, we have changed the name of the company from Creating Wealth Limited to Lyford Asset Management Limited. We have a new logo, stationery and web site www.Lyfords.co.nz. Apart from that the principals, Alison and Richard Renfrew, are the same. No we are not retiring or selling the business.

Why did we change the company name and why did we choose the name 'Lyfords'? These questions are answered on the back page.

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life's tips : Intelligence

"It is better to keep your mouth shut and appear stupid than to open it and remove all doubt."

Mark Twain



The price is right!

An interesting aspect to consumer behaviour is the attitude we have towards insuring our own lives against the unexpected. We don't seem to ever question the need to insure our houses, cars, boats and chattels. We view these types of insurances as a necessity and we also seem to accept that their price will increase on a regular basis. While we may grumble about such increases, we generally keep renewing these policies.

Yet, when it comes to insuring our own lives, we suddenly become very reluctant to put the required cover in place and we also become acutely focused on cost! Perhaps it's because, under the surface, we are all reluctant to confront the possibility that we may not live the long, healthy lives we all wish for.

While the emotional reluctance to accept the risks we all face to our health and longevity is understandable, the fact remains that the financial burden placed on our families if we die or become disabled during our working lives is likely to be significantly greater than the loss of a chattel could ever be.

It is our ability to earn an income that is, at the end of the day, our greatest financial asset and it makes perfect sense, therefore, to insure against any risk to our ability to continue to produce that income.

Why is it that we accept increasing car insurance premiums, even though the insured value of our vehicles decreases each year – yet we are quite likely to cancel our disability or life insurances as soon as the premiums increase?

Life insurance premiums increase when the overall risk of claims increases over that which had previously been calculated. This means that more people than expected have made claims, or that actual claims have lasted longer than expected and premiums must therefore increase to reflect these increased claims risks.

When you compare the premium costs of insuring your life or income against the significant financial benefits payable upon a claim, it is easy to see the true value of these products.

Continuing on that theme, when you compare the premium payable for the relatively large sums insured provided under life insurance contracts against the annual costs of insuring a car, for example, it is difficult to understand why anyone would consider cancelling their life insurances at any time during their working lives. After all, the older you get, the higher the chance you may have to make a claim against your policy.

So the next time you receive a notice advising you that your risk protection premiums are to increase, take the time to consider just how much value you are provided by these contracts, and accept that the price you are being asked to pay is a fair price for that value.

Don't let your reluctance to accept your own mortality prevent you from protecting your family against the financial burden that is sure to come with the loss of your income.

summing
up

- WHEN YOU CAN'T EARN, INSURANCE BRINGS HOME THE WEEKLY PAYCHECK

Australian property investments

For the many people who have invested in properties on the Gold Coast in Australia, there has been some confusion in relation to their responsibilities for tax deductions when interest is paid on the borrowings used to finance the properties. To clarify exactly when non-resident withholding tax ('NRWT') is and isn't payable, the IRD has released an Exposure Draft, stating:

- Where the Australian financial institution to which interest is paid has a branch in New Zealand (e.g. WestpacTrust), NRWT will not be payable on the interest.
- If the Australian financial institution does not have a branch in New Zealand, NRWT will be payable on the interest, unless the investor has a place of business in Australia.
- If the investor has more than one residential investment property in Australia, they may have a place of business in Australia. If they do, then the investor will not have to pay NRWT on the interest.
- Where property managers are involved, NRWT will not be payable if the property manager works as a property manager only for the investor (a 'dependent agent').
- If the property manager is able to act independently of the investor in the normal course of his or her business (an 'independent agent'), NRWT will be payable on the interest paid.

New Tax Act

A new Income Tax Act comes into force for the 2005/06 tax year. The aim of the new Act is to enhance the clarity of the existing legislation, without making changes to the law. However,

- some policy changes have been made relating to:
- Land and associated persons
 - Timing of income recognition
 - Motor vehicle expenditure
 - Farm land expenditure
 - Livestock valuation. Contact us or your accountant if you'd like details on these issues.

life's tips : Endeavours

"Never be afraid to try something new. Remember, amateurs built the Ark; professionals built the Titanic." Anon

Beware when changing trustees

When a trust makes an investment in a company, these shares are essentially in the trustees' names, i.e. the trustees are the joint legal (but not beneficial) owners of the shares. In the event of a change in the trustees of a trust, the legal ownership of any shares changes to joint ownership by the new trustees. However, this change of legal ownership is not automatic and formal 'transfer of shares' to the new trustees must be noted on the company's register. When trustees change, it would be helpful to check that the company's constitution does not provide that the transfer to the new trustees triggers pre-emption rights.

The Christmas Mum can't remember... and we'll never forget!

Isn't it funny how the relationship with your parents changes? When you are young, you rely totally on your parents. They look after you. They guide and provide. You are totally dependent on them. Then you grow up and you don't need to rely on your parent's support any more. And then, once more, the scenario changes and your parents become increasingly reliant on you.

That's why the Christmas just gone was such a watershed in our family's life. All so horribly memorable. You see that's when we realised that the relationship between Mum and us had gone to the next stage. And worst of all, we hadn't seen it coming!

To cut a long story short, Mum started doing and saying strange, out-of-character things. Things that we probably wouldn't have noticed when we just called in to see her, but which we saw almost immediately when she lived with us over Christmas. Half the time she was in cuckoo land, doing strange things and having conversations and re-living experiences with acquaintances long gone. The other half of the time she was fine. Trouble is you never knew when she was which!

That's when it hit us. All this time, we'd assumed Mum was okay and we had been letting her run her own affairs, just as she'd always done. Trouble is, she wasn't capable and hadn't been capable for ages. But arranging to take it off her was something else.

Happily, we got the problem sorted out but only after a lot of time, trouble and expense. But here's what upset me most. We weren't prepared for it. Nobody, but nobody told me, or the rest of the family that what happened could happen. And nobody told us there was a simple step we could have taken, when Mum and Dad started getting on, which would have solved a helluva lot of the problems. And what is that simple step? It's called getting an enduring power of attorney.

If you don't know what it is or what it can do (or if the people in your family for whom you just may become responsible haven't done it), then take my tip. Do something about it now. And that way, you may just avoid the Christmas (or any other time) from hell.

- Winston Marsh, Business Growth Centre

summing
up

- TREAT YOUR FINANCES LIKE A BUSINESS: KEEP TAX AND TRUST ISSUES UP TO DATE

- BE PREPARED FOR PARENTS WHO CAN'T LOOK AFTER THEMSELVES, WITH AN ENDURING POWER OF ATTORNEY

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Lyford Asset Management Ltd: Why change?

Why change a good thing after 10 years in business? In February last year we conducted a client focus group where clients came along to a session with a mediator and discussed our business - the good and not so good things. In November Business Health Limited, an Australian firm, conducted an independent client survey for us which went out to 200 clients asking their opinion on a wide range of issues.

It was felt the name 'Creating Wealth Limited' was dated. For some time now we have been dissatisfied with the name 'Creating Wealth Limited'. 'Creating' is a verb and many of our clients have already created their wealth. We had wanted a mountain theme, but names like Aoraki did not fit. Last year, after staying the night near Hanmer Springs, we dropped into Mt Lyford ski field (inland from Kaikoura) and fell in love with the place, even to the extent that we bought a log house there. Clients and their family can stay for a discounted rate.

Why Lyfords?

The mountain imagery in the logo reflects the

origin of the name and represents strength, beauty, permanence, and the goal-setting and aspiration required to reach the top and achieve one's dreams. It is representative of the trustworthiness and longstanding reputation of Lyfords as a financial institution.

The traditional Serif typeface of 'Lyfords' conveys integrity and prestige with a subtle creative touch, while 'Asset Management' is in a modern font that conveys professionalism, depth of knowledge and alludes to a firm that is up with the times technologically and within its industry. The colour chosen, blue, signifies loyalty, sincerity and responsibility. All of these are characteristics esteemed by customers and reflected in Lyfords' quality of service.

There are actually two companies, Lyford Asset Management Limited which is the advice company and Lyfords Limited the implementation company. We will market and answer the phone using the generic name "Lyfords".

How will it affect me?

Not at all. We hope you will embrace the new company name and imagery and refer lots of your friends and colleagues to us.

The only changes are:

- new email addresses for Alison, alison@Lyfords.co.nz, Richard, richard@Lyfords.co.nz. and Carol carol@Lyfords.co.nz
- have a look at our new web site www.Lyfords.co.nz
- Carol Johnston has moved back into a consultants role in February. Carol realised her passion is working with clients on a one to one basis, rather than administration work. Carol was one of the best personal assistants we have had. Carol can be reached at 471 0662 or carol@Lyfords.co.nz, and is still very much a part of Lyfords.
- We will be assisting our clients with larger investment portfolios into a more tax effective investment platform during 2005 and we will discuss this with you individually.

life's tips : Performance

"A race horse that can run a mile a few seconds faster is worth twice as much. That little extra proves to be the greatest value..." John D Hess

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next
step

- SEE US ABOUT THE BEST INVESTMENT OPTIONS FOR YOU

