

# Investing in Knowledge

Your **quarterly** newsletter from

1ST QUARTER 2004



creating *wealth*

## Economic update

# The New Zealand Dollar - has it gone crazy?



**The continued strength of the New Zealand dollar has provoked considerable media and market interest since the start of the year.** The rapidly appreciating dollar is positive news for New Zealand consumers purchasing imported goods but negative for New Zealand exporters and for investors with money already invested in US-dollar-denominated investments.

The recent appreciation of the New Zealand dollar is largely against the US dollar, as opposed to other international currencies. US dollar weakness and the outperformance of the New Zealand economy in world terms have been the two key drivers of the New Zealand dollar's rise.

In broad terms, the US dollar trade-weighted index has fallen by more than 25% from its peak in early 2002. US dollar weakness reflects a diminished appetite for US dollar assets. This is largely due to the recent volatility of international sharemarkets and perhaps more pertinently at present, exceptionally low US interest rates.

Improving New Zealand commodity prices, the prolonged outperformance of the New Zealand economy and sharemarket, and relatively high short-term interest rates have all continued to encourage a healthy flow of funds into New Zealand.

During the months ahead, the US dollar is expected to remain a major driver of New Zealand's trade-weighted index. Given its significant appreciation post-Christmas, some analysts are already revising upwards last year's estimates of the NZD/USD cross rate, reflecting sentiment that the US dollar will depreciate further than

was expected only a month ago. Although exchange rates are notoriously difficult to forecast, there are few signs of the fundamental drivers of the New Zealand dollar reversing in the near future.

The average cross rate between the New Zealand dollar and US dollar for the period since March 1985 is 56 cents. During this period, the cross rate has peaked twice in the low 70s (see chart) and although no one can forecast where this cycle will peak, past cycles usually prove useful guides.

### Historical movements in the NZD/USD exchange rate



The strong New Zealand dollar creates a positive environment for international investing for two reasons. Firstly, the New Zealand dollar's overseas purchasing power has significantly increased, meaning every dollar buys a bigger share of the investment pie. Secondly, as discussed above, past cycles suggest the NZ dollar will likely weaken in the future. Therefore, future tightening of the NZ dollar will result in positive currency gains for those invested in offshore funds.

Contact us now to find out more about offshore investment opportunities for 2004.

Source: Recent trends in the New Zealand dollar exchange rate ~ The Treasury ~ 9 January 2004.

# Inside:

- HOSPITAL WAITING LISTS CONTINUE TO GROW
- HOW TO SAVE ON YOUR HOUSE INSURANCE
- GETTING HARDER FOR YOUNG PEOPLE TO OWN THEIR OWN HOME

## Worrying trends

**The Retirement Income Report 2003 published just prior to Christmas contains some worrying trends.** Of note, home ownership has declined markedly. In 1991 almost three-quarters of New Zealand households owned their home; in 2001 it was just over two-thirds. This is partially due to social factors, such as a shift in consumption away from housing, later marriage and an increase in the number of single people. However, economic factors such as increased mobility and reduced affordability of houses for low-income families have also played their part. Household financial wealth (financial assets less debts) fell 19% (inflation adjusted) in the 1990s. By comparison, it grew 23% in the 1980s. This can be attributed to a huge growth in household debt. This is further highlighted by the fact that while personal financial assets actually grew faster in the 1990s than in the 1980s, debt more than doubled even after adjusting for inflation.

On the residential property front, house values grew 47% after inflation in the 1980s compared to only 37% in the 1990s. The bottom line is that the 1990s saw household wealth grow at only half the pace of the 1980s. The report attributes the change to easy credit and mortgage innovations such as lower down-payments and revolving credit mortgages. The report states that, in future, middle income New Zealanders may not make adequate provision for retirement "because easy access to credit may reinforce a tendency to consume today rather than save".

Contact us to discuss how you can counter these well-publicised trends and attempt to secure your wealth over the next 10 years.

*Source: Retirement Income Report 2003*



*Fewer young families are able to afford to live in their own home*



*Family trust planning and management is a serious matter*

## Contracting with trustees

**A recent court case serves as a reminder that the basic rules for contracting with trustees of a family trust should always be followed.** We've provided some basic rules that will be helpful if your business deals with family trusts or if you, as a trustee, are asked to sign contractual documentation.

- A trust is not a legal entity - it is made up of trustees who must deal with trust property for the benefit of the beneficiaries of the trust
- Trustees contract in their own personal names, not in the name of the trust
- The contract is with the trustees, not with the trust
- The name of each trustee (not just the name of the trust) must be recorded in each document
- Each trustee must sign each contract personally
- The powers of the trustees are set out in the trust deed (and, to a lesser extent, in the Trustee Act)
- Examine the trust deed to ensure the transaction is within the powers of the trustees and not a breach of the trust deed
- Trustees are personally liable under the contracts they enter into as trustees unless their liability is expressly limited
- It is usual for 'professional' or 'independent' trustees to have their liability limited to the assets of the trust, unless they act negligently or fraudulently or otherwise in breach of the trust deed
- Trustees are usually entitled to be indemnified out of trust assets for their authorised actions.

*Source: Bell Gully*

## Managed funds show strong recovery

### Managed funds demonstrated a strong recovery in 2003.

The average balanced fund achieved a positive return of 10.3% after tax and fees, which is very welcome news compared to 2002's result of -8.5%.

Outstanding results were produced by funds invested in New Zealand, Asian and technology shares. International share funds returned to positive territory but in many cases, only just. The rapidly appreciating New Zealand dollar negated many of the investment gains made by international, particularly US-managed, funds. However, past cycles indicate the New Zealand dollar will eventually weaken against the US dollar and create foreign exchange rate gains for those already invested into international markets. Now is a good time to capitalise on the New Zealand dollar's strength and invest offshore.

## Save on your house insurance

### Here are some helpful tips for saving money on house insurance premiums:

- Age discounts - some insurers offer discounts of 15-40% for those aged over 50 or 60 years
- Alarms - a professionally installed and monitored security alarm can reduce premiums by 5-20%
- Instant discounts - some insurers offer cheaper premiums for policies purchased on-line with credit cards
- No claims bonus - these vary with insurers but could amount to 40%. Think carefully before submitting a claim. Negotiate your bonus when transferring from one insurer to another
- Higher excess - ask the insurer how large a reduction is available if the excess is increased. An example is increasing your contents insurance excess from \$100 to \$250 and receiving a premium discount of 10%
- Multiple policies - many insurers will provide a discount if both your contents and house insurance are with them
- Other discounts - pay the premium annually rather than monthly. Ask if membership of certain associations entitles you to a discount, e.g. AA members.

In many instances, the discounts outlined above are not automatically offered. YOU NEED TO ASK!

## Understanding the real crisis

**Medical insurance is a product that everyone who is young enough and healthy enough to obtain should consider purchasing sooner rather than later.** Everyone has heard about the length of public hospital waiting lists, but did you know that people often have to go on a waiting list just to get on 'the' waiting list? This keeps reported waiting list numbers closer to government targets!

When you have to wait for something as important as an operation, normal life is put on hold. The frustration caused by this situation is amplified if you have absolutely no control over it.

### A 2003 Ministry of Health Report found that in New Zealand:

- Over 16,000 patients were waiting for treatment longer than six months and 4,606 had already waited for more than two years
- 32,512 patients (as at 31 December 2002) were waiting more than six months for their first specialist appointment
- As at September 2001, there were more than 25,000 patients on active review in the public system. They will have to wait until their condition becomes more severe before more funding is made available
- Since 1980, 79 public hospitals have closed and 77 private hospitals have opened.

Contact us now for a competitive quotation on the type of medical insurance for your circumstances.

*Source: NZIER Future Healthcare Funding 2001, Ministry of Health Report 2003.*



*Medical insurance helps you avoid the 'waiting lists' for the waiting lists*

## Birthday Celebration

This is the 10th anniversary of Creating Wealth Ltd - Financial Planners and Investment Advisers. We have now been through three share market corrections; the bond /Asian share market of 1994; the Asian sharemarket correction of 1998; the world sharemarket corrections of 2000 and 2002. Alison also went through the sharemarket crash 1987 as a financial adviser. Any adviser can advise in a rising market. Their true worth comes out when markets correct. We have always been open with our clients, keeping them informed when market news is good and also when it is not so good.

Throughout 2004 we will be celebrating, with the main event taking place in June/July. The directors Richard and Alison will also be celebrating 20 years of marriage in October.

## MDRT meeting in Hong Kong and investing in Asia

Asian markets have performed very well over the last 12 months. After Alison attended the MDRT (Million Dollar Round Table - membership is restricted to the top 5% of insurance advisers from around the world) conference in Hong Kong she travelled to Beijing to see for herself how rapidly China is developing. New high rise buildings stretch out from the city in every direction, as do the highways to accommodate the growth. Beijing is hosting the 2008 Olympics so they have a deadline to achieve their development objectives by then. Chinese people and other Asian cultures are prepared to work and study hard to enjoy the comforts that we Kiwis take for granted. The growth is inevitable and this is demonstrated by investment performance in Asia. If you are not currently invested in Asia call us and we will assist you.

By the way, Creating Wealth has a very high education budget. We believe it is essential to attend top level financial conferences around the world so that we will always be riding the wave of changes in technology and investment.

## Website

We update our web site weekly so it's well worth taking a regular look at what's new.

- Economic news - updated monthly
- Money articles - updated fortnightly
- Client Portfolios (access is dependent on the level of on-going service) - updated daily
- Financial calculators
- New product launches

Our web site is a great way to introduce your friends to our services. Of course a personal phone call is best.

**Disclaimer:** This publication has been prepared for your general information. While all care has been taken in the preparation of this publication, no warranty is given as to the accuracy of the information and no responsibility is taken for any errors or omission. You should seek the personal advice of your financial adviser before taking any action in relation to the matters dealt with in this publication.

## Company Restructure

In December we re-structured our business. Denise Pilcher moved to Invercargill with her husband who is on secondment there. Catherine Beal chose to spend more time being a mum and studying for a diploma in financial planning. Carol Johnston has taken up a new position of Business/Practice Manager. Carol will also continue to advise her clients.

## Introducing Carol Johnston

Carol has been in the financial planning industry for 10 years, both here and in the UK. Carol entered the financial planning industry in 1993 via a Canadian life insurance company, joining the London-based office of Confederation Life Assurance Co as a Life Underwriter/Adviser. She has a UK Certificate of Financial Planning and became a Member of the Life Insurance Association by Diploma. Over the five years she spent in the UK financial planning industry Carol built up a high level of expertise in the areas of risk protection, retirement planning, estate planning and protection, tax planning, managed investments, mortgage planning and debt consolidation. In her final two years in the UK she specialised in advising the many ex-patriot New Zealanders, Australians and South Africans based in the UK on maximising the advantages of UK-based pensions and investments. Carol returned to New Zealand in 1998 and continued to work as a financial adviser before joining Creating Wealth in August 2003.



Carol Johnston



## Contact

For further information please contact the team at:

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*Providing quality,  
impartial investment advice with integrity*

# More info?

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A WIDE RANGE OF INVESTMENT SERVICES