

Investing in Knowledge

The falling dollar and how it affects you

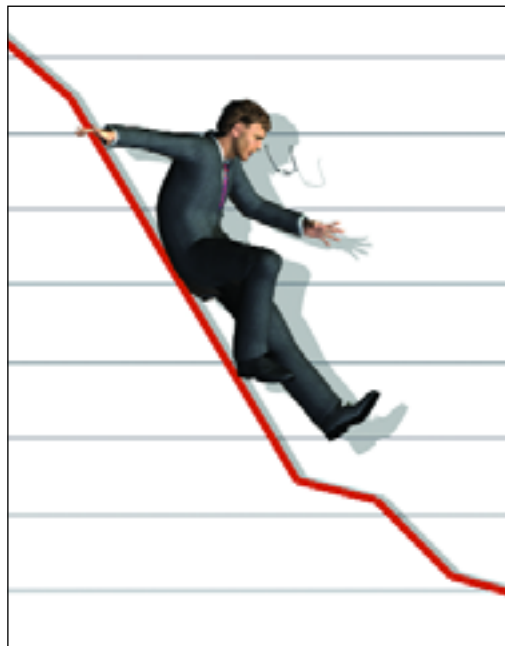
The currency has certainly been in the news recently and with good reason. The wind has definitely come out of the sails of the New Zealand dollar (NZD), with the exchange rate against the US dollar falling from a peak of around 74 cents in March 2003 to around 63 cents currently (and it is generally predicted to fall even further).

What was behind the fall?

The New Zealand dollar has been largely supported by offshore interest as a result of the high interest rate differential (the difference between interest rates here and overseas). While our interest rates are still high in comparison to the rest of the world, the gap has begun to close – particularly with the US Federal Reserve raising interest rates 15 times since 2003! This, combined with weak domestic economic data (including slowing GDP and lower consumer/business confidence), has caused a significant sell-off in the Kiwi dollar, causing the currency to fall.

How does this affect you?

- Petrol has already become more expensive and it will probably continue to cost you more to fill up at the pump.
- Imported goods will become more expensive (so now may be a good time to buy that TV you've been after!).
- If you were planning to take an overseas holiday this year, consider purchasing it sooner rather than later, because if the



dollar falls further, your New Zealand money will be worth less relative to other currencies.

- Those with overseas-based assets (unhedged) will have enjoyed some strong currency gains since the start of this year.

As to how far the currency might go is anyone's guess and we doubt you will find an economist who can conclusively say whether the dollar will fall further, plateau, or perhaps increase as inflationary pressures are maintained. Either way, it is important you are aware of where the currency is tracking and we can help position you to take advantage of it. If you have any questions regarding this, please do not hesitate to contact us.

Contact

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*Creating, Managing and
Protecting Your Wealth*



What makes an excellent financial planning company and why is it that Lyfords continues to achieve industry recognised awards for financial planning excellence?

We felt it was time to stop being modest and remind you that our services are among the best in the nation.

The finest compliment we can receive is a referral from our clients to their friends and family. If you know of someone who would benefit from our services, please forward us their contact details and we will arrange an appointment with them to see how we can assist with their financial circumstances.

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Are we getting richer?

The result of a recent survey into the net wealth of New Zealanders provides some interesting reading. The survey has revealed:

- Household net worth increased 14.7% during 2005
- Liabilities increased by 15% over the same period
- The increase in net worth was driven primarily by a strong price appreciation in the housing market.

While ostensibly the survey is extremely encouraging, if you dig a little deeper there are actually some areas that are cause for real concern. For example, although total net

worth (assets less liabilities) increased by nearly 15%, financial net worth (excluding non-monetary assets such as property) only increased by around 5% over the year. This tells us that the increase has been driven almost solely by capital gains in the housing market.*

Why is this a concern?

1. Most people who own a house, also live in it. Therefore, in most cases, a property is not an income-producing asset. So although it feels good to have an increase in the value of your house, unless you sell or downsize, the increase in value is of little tangible financial benefit.
2. It creates a 'wealth effect' whereby people feel rich and then in some cases begin to make poor financial decisions based on the fact they feel more wealthy. Evidence of this is found in the fact that overall debt has increased by 15% over the year (so in real terms, there is no net gain).
3. Real financial savings in financial investments such as term deposits, managed funds, etc. show little sign of any growth.



There is nothing fundamentally wrong with property as an asset class. However, the danger lies in people making ill-advised decisions because they feel they are better off, when in pure financial terms they actually are not. If you would like to discuss your own financial position with a view to increasing your *financial* net worth, we would be glad to help you.

* Spicer's Household Savings survey

life's tips : effort

Not being able to do everything is no excuse for not doing everything you can.

– Ashleigh Brilliant

Why a family trust may be a good option for you

Establishing a family trust has numerous advantages. It will enable you to:

- Protect your business interests. Almost anyone who owns their own business should have a trust. If you own your own business and place your property into a trust, it can be ring-fenced from potential claims from creditors.
- Save for your children's education. With a trust, you can set aside funds for your children's or grandchildren's education. The advantage of this is not only that you are planning for the education of your loved ones, but if used exclusively for educational purposes, you can also avoid the need for gifting.



- Save on tax. You can set up a trust to distribute income to beneficiaries and if these beneficiaries are in the 19.5% tax bracket (and as long as they are not classed as a minor), there can be a substantial tax saving to you (if your income is normally taxed at 33% or 39%).
- Take control over where your money goes

when you die. Using a trust in conjunction with your will can allow you to avoid gift duty and you can arrange for the orderly and smooth transfer of your wealth to the next generation when it suits you.

- Keep your own money separate. With the Property (Relationships) Act, you need to be aware that your partner could be entitled to half of your 'relationship property' if the relationship ends after three years of being together. Setting up a trust prior to commencing a relationship is a good way to ring-fence your assets for yourself.

Please contact us or your professional adviser if you would like to discuss how a family trust can further benefit you.

Common mistakes made in relation to New Zealand Super

All New Zealand citizens over the age of 65 who meet the criteria set by the Government are eligible for the universal pension, i.e. New Zealand Superannuation (NZS). If you are about to retire or are currently receiving NZS, you should be mindful of the following common oversights:

1. Accepting the single benefit when one partner is over the age of 65 and the other isn't. There are several levels of payment depending on whether you live alone, or with a spouse or de facto partner. If you are over the age of 65 and your partner is not (and you have little other income), you should both consider applying for the married rate (one partner qualifies), as you could be entitled to a greater benefit overall. Be careful though, as this benefit is means (income) tested.
2. Not telling Work and Income (WINZ) you are heading overseas if you are currently receiving NZS. You can only be eligible for NZS if you remain in New Zealand for 183 days of a 365 day period. WINZ can suspend your benefit if you do not make them aware of your overseas travel plans.



3. Not getting advice regarding overseas private pensions. If you have worked in the UK, there is a good chance you have money invested in a UK pension scheme. There are advantages and disadvantages in repatriating the money. On 6 April 2006 there were significant changes in the UK made to the tax treatment of pensions,

life's tips : luck

*Luck is what happens
when preparation meets
opportunity.*

– Darrell Royal

which may affect your decision to repatriate your money. It is important to speak to us if you are in this situation and we can refer you to an expert to help you take the best action before you proceed.

4. Always assuming NZS will be there in its current form. Despite the existence of the Cullen Fund, we know the cost of NZS is likely to increase from 4% of GDP to 9% of GDP in 2050¹. With a rapidly ageing population, it is inevitable the NZS benefit will be reduced, have the qualifying age extended or be means tested at some stage. It is important, particularly if you have many years before retirement, to rely less on NZS and more on private saving for your retirement planning.
5. Assuming you are not entitled to receive NZS because you have been living overseas. There are several countries where any time spent living there will count as time spent living in New Zealand in terms of getting your Super. If you lived in Australia, Britain, Jersey, Guernsey, Canada, Denmark, the Republic of Ireland, Greece or the Netherlands and plan to retire in New Zealand, you may still be eligible to receive NZS.

Contact us to discuss how you can best maximise the benefit you receive in retirement.

¹ Dr Cullen's Casebook, July 2001
www.executive.govt.nz/minister/cullen/casebook.

THE LIGHTER SIDE OF LIFE...

1. I feel like I'm diagonally parked in a parallel universe.
2. Everyone has a photographic memory. Some just don't have film.
3. 42.7 percent of all statistics are made up on the spot.
4. When everything's coming your way, you're in the wrong lane.
5. He who laughs last thinks slowest.
6. I used to have an open mind but my brains kept falling out.
7. Depression is merely anger without enthusiasm.
8. Everyone makes mistakes. The trick is to make mistakes when nobody is looking.
9. They say hard work never hurts anybody, but why take the chance.
10. Always try to be modest and be proud of it!
11. Never argue with a fool. People might not know the difference.
12. Always remember that you are absolutely unique. Just like everyone else.
13. I love deadlines. I especially like the whooshing sound they make as they go flying by.

summing
up

- Investigate your options thoroughly and educate yourself regarding your superannuation entitlements

What makes us excellent?

Alison and Richard recently spoke at the Institute of Financial Advisers meetings in Auckland, Cambridge, New Plymouth and Christchurch about what it is that makes us excellent. We thought you, our valued client, might also be interested.

Achievement and awards

As you will be aware from reading these newsletters over the last two years, we have achieved a number of financial services industry recognised awards. In 2004, Alison was awarded the Certified Financial Planner of the Year Award and earlier this year Lyfords Asset Management was a regional finalist in the *financial* alert Advisory Practice of the Year 2005.

Secure systems

On the systems side there are very few financial services companies (if any) that can match our systems, processes and depth of knowledge. Our computers have been fully networked since 1995. We have been using a computerised client database since 1986. All client records are scanned and we have been paperless since 2003. We are able to access our computers and client records remotely anywhere in the world, and do so regularly. Of course, with any good system security is very important. We have several security levels of passwords, firewalls and anti-virus software (updated hourly).

A complete range of services

Lyfords is a full-service, financial planning company offering:

- Comprehensive financial planning
- Insurances - income protection, life, health, etc.
- Investments - secured debentures, managed funds, direct shares, and bonds
- Direct property investment
- Mortgage broking - we can access 19 financial lending institutions
- A fully functional and comprehensive website - we, and our clients, use this as our resource and knowledge base, and many other financial planners have even said they find the information useful!

- Independent research to backup our recommendations - Morningstar for fund manager research; SQP and Rapid Ratings for secured debentures; First NZ Capital for shares; Kiwi Mortgage Market for mortgages; and Strategy Financial for insurances.
- Network support - PortfolioGroup, of which Lyfords is a part, is a network of 30 independent financial planning companies, collectively managing a total of over \$2 billion of client funds. This network provides enhanced information and support, enabling Lyfords to be positioned as a leader in the financial services industry and provide you with the most relevant and appropriate level of service.

Ongoing education

We feel strongly about education and keeping our qualifications current. Alison is the first woman and second adviser (by examination) in New Zealand to hold both the Chartered Life Underwriter (CLU) and Certified Financial Planner (CFP) qualifications. CLU is the highest insurance and personal risk management qualification available to insurance professionals in New Zealand and CFP is recognised as a global

mark of excellence in financial planning. Richard has also gained CFP status.

Mortgage broking

Since April 2006 we have been able to arrange mortgages for our clients also. Lyfords has an agreement with Kiwi Mortgage Market Ltd (a member of the NZ Mortgage Brokers Association), which provides us with their expertise, as well as mortgage broking quotation software. This software allows us to provide mortgage broking facilities for 19 lending institutions, giving us access to a wider range of lending institutions. The mortgage software is updated daily with all the latest interest rates and any changes in lending conditions. It also allows us to print quotations and applications using the lending institutions' own stationery and application forms.

If you have a mortgage coming up for review or know of someone who does, ask us to review your mortgage and give you a recommendation. This is a FREE service to you. We are paid a brokerage from the lending institutions so it won't cost you anything, and we can often negotiate better terms than you would by approaching the institutions directly.

Collapse of National Finance

The collapse of National Finance has left 2,000 'mum and dad' investors nearly \$3 million poorer. As always, hindsight is a fantastic teacher, but try telling that to the people who stand to lose a lot.

What a shame it is that people often make poor decisions as to their investments' security, based on the investment return rather than the risk-adjusted return.

National Finance was never an investment grade company. Credit rating agency, Grosvenor Bondwatch, rated National Finance as follows: "ability to meet current obligations dependent upon favourable economic and/or business conditions,

concerns about security over the longer term". Interest.co.nz ranked National Finance in the bottom 10%.

It is vitally important to invest in companies that have been well researched and that have a good track record, and it is our job to advise you on the risks involved. To ensure your investment is a wise one, make sure your investment adviser can backup the recommendations they make to you and follow a researched and proven methodology. If you are unsure about the security of your investments, or would like to talk to us further about this, please contact us on (04) 471 0662.

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