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STUART + CARLYON

Financial advisers for your lifetime goals

Don't slam on the brakes: downshift!

Some of our work is with clients who are in a position to focus on their future lifestyle. They tend to be debt free and - if they are lucky – no longer have kids at home. Now they are able to make more choices about their future.

The basic choice in this situation is whether or not to stop (or ease back) your work and rely instead on the assets that you have accumulated. It is appealing to at last get off the treadmill and to place greater emphasis on getting more satisfaction out of relationships and life now, rather than later.

People are doing this before "retirement" age. In fact a survey by the Australian Institute found that 23% of Australian adults aged 30-59 have downshifted over the last 10 years. Downshifters accept significantly less income and consume less. Another 7% have downshifted by resuming tertiary study or becoming self-employed – often with a similar drop in income and consumption.

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Freedom and enjoyment are attractive, but the other major consideration in planning for the future is the prospect of living longer and needing your assets to last the distance. Does that mean working to 65?

A "third way" is to consider working longer, but downshifting gradually for example by moving from full-time to part time or contract work.

To make the lifestyle change now or to position your future lifestyle you will need to do the following:

- Plan your career – being sure to enjoy the field you're in, and to enhance your future employability, for example as a consultant. Treat yourself as an asset to be managed.
- Review your other assets. For example, have you got assets that should be earning more? If you are in business have you got an exit plan in place?
- Know how much you will need to be financially independent.
- Set out a financial roadmap. Get a clear picture of how you are going to accumulate the necessary money to fund your lifestyle in retirement.
- Look for flexibility. Put together a strategy that enables you to move through the different phases of "downshifting" at the speed that eventually suits you.
- Get an investment strategy in place with the right balance of returns, risk-minimisation as well as tax effectiveness. For example, salary sacrifice through a super scheme may suit an employee with a top marginal tax rate of 39%.
- Focus on investments that will give you capital growth not just income. Over the medium to long term these are the assets that will work hardest for you.

Stuart + Carlyon Online

Our website is up and running and we welcome any feedback. Check us out at www.stuartcarlyon.co.nz

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China - Economic Superpower

Earlier this year, author Jim Mellon was interviewed on TV One's Close Up programme about his book, Wake Up, Survive & Prosper in the coming Economic turmoil. The thrust of the book was to challenge the West's thinking that the prosperity of the past 50 years will continue into the future. His thinking comes at a time when many pundits are reviewing the prospects of the once invincible US economy.

> "China will soon displace UK as the fourth largest economy in the world, with US, Japan and Germany ranking ahead."

He believes that the balance of power is shifting to more entrepreneurial countries and that this, coupled with the widening gap between rich and poor, global terrorism, the massive expansion of the Chinese economy, spiralling debt and an ageing population is why fundamental change is inevitable.

Susanna also appeared with Susan Wood to comment on the implications of this shift for individuals.

China's economy expanded by nearly 10% in 2005 and has been averaging 9.5% per annum since 1978. The 20th Century was the century of America but it appears, even in 2006, that the 21st Century is the century of China. It will soon displace UK as the fourth largest economy in the world, with US, Japan and Germany ranking ahead.

Most agree that China's growth shows no signs as yet of abating. China's trade surplus has almost tripled to US$102 billion (NZ$148 billion).

Because China has over a billion people it supplies cheap labour to the rest of the world. As an example China graduates half a million engineers each year who then earn US$120 per month. In the US, those engineers might earn US$150,000 a year.

China now produces so many goods, so cheaply, that this has compensated for the rise in the price of oil and money.

It seems that the world can't do without China anymore, and China has a very high savings rate and relatively low domestic consumption rate.

So what does all this mean for individuals in NZ?

Businesses in NZ will have to work smarter and put more focus on adding value through design and creativity. Clearly, we're not going to be able to compete on price. At the same time there is a very huge market of new consumers that we can export to.

How do investors or savers tap into investing in China?

The rise of China has implications for investors. Because NZ's economy is slowing down, investors will have to look elsewhere for growth, namely some exposure to Asian markets. Buying directly on the Chinese bourse is not recommended as there is little investor protection due to dubious accounting practices and bad bank loans.

There are two main ways for Kiwi investors to have a slice of China.

- Via Australian companies. China has a strong appetite for resources such as coal and copper which benefits Australian companies like BHP and Rio Tinto.
- Via managed funds with exposure to companies in Japan and Korea with extensive operations in China.

What are the risks?

Possible risks include inflation following on from years of rapid growth, a bird flu pandemic, or social unrest arising from poverty, joblessness, intolerance for dissent and challenges to the unilateral rule of the Communist Party. China also needs to be serious about financial reform.

The Asian markets and the resource sector have produced strong returns which are likely to continue, but they will come with a bumpy ride. Our advice: stick to global share funds which have a percentage in these sectors – and keep watching this space.

The unwinding of the kiwi dollar

In terms of the Trade Weighted Index, the NZ dollar has fallen around 10% since early December. We have been forecasting a fall for some time now and client portfolios with offshore investments are well positioned to benefit from currency gains. Will it continue?

The factors once supporting a strong NZ dollar have now turned with further weakness expected over the next year or two due to the closing of the gap between interest rates in the US (rising) and NZ (probably peaked already) and the widening NZ trade deficit. Overall, there is a growing rift in growth prospects for New Zealand compared to global economies and there is still some way to go for the NZ dollar to move down.

	Dec 2005	Mar 2006	NZD Movement
AUD	0.95	0.87	-8.4%
USD	0.72	0.64	-11.0%
GBP	0.41	0.37	-9.7%
YEN	86.6	75.9	-12.0%
EURO	0.60	0.54	-10.0%

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