Newsletter: Winter 2007

STUART + CARLYON

Financial advisers for your lifetime goals

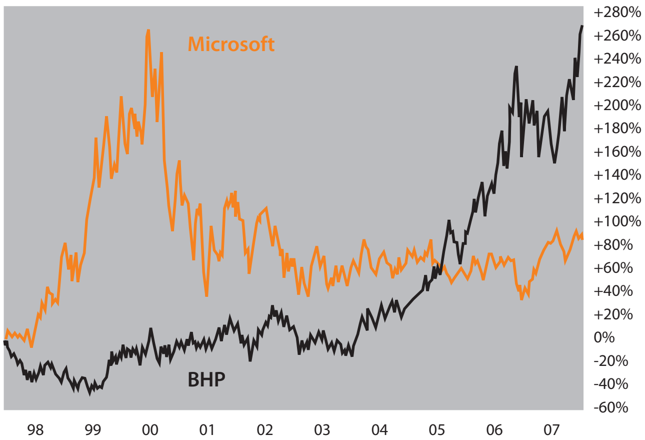
Picking the trends

At the time of the dot com boom, who would have thought that such industrial laggards of the day as BHP and Rio Tinto would be the winners in 2007. As the chart shows, comparing Microsoft with BHP: for everything there is a season.

This is a point made in a recent issue of Fortune magazine (June 25) in which Tom Gardner, the co-founder of the very well-regarded Motley Fool investment advisory website, talked about the six demographic supertrends that will drive select industries to sustained market outperformance.

His picks are underlined by broad demographic trends, big broad seasonal shifts if you like and while he warns investing on a demographics basis demands that you be profoundly contrarian by ignoring what's hot today in favour of a more patient approach – he is confident that the strategy will most certainly pay.

Microsoft vs BHP



1. Home Entertainment.

The consumer electronics industry has prospered over the past decade because, as Gardner puts it: "we want to transform our living rooms into Cineplex Odeons, complete with six-foot-wide flat screens, surround sound, and full integration of PCs, iPods, Wiis, TiVos and DVD players." He says that companies that innovate in this area will benefit hugely and that the market for stuff that links our computers to our TVs and our sound systems has only just begun to grow.

2. Eating Out.

Although we are staying home for entertainment, the eating-out trend is still dramatically increasing mainly because more mothers now work outside of the home. It's all about time, choice and convenience. Tapping into this trend Tom picks a not so obvious stock in US called Middleby Corp which sells energy efficient ovens to restaurant chains.

3. Rising oil prices.

And you thought they had peaked? Think again. Sure, the price per barrel has risen more than 60% since 2004 but demand will continue to outstrip ready supply because of economic growth in India and China where car ownership is about to accelerate.

4. The digital doctor's office.

Less than 10% of American hospitals have implemented electronic medical record keeping. As Gardner points out, most American doctors and hospitals are still not fully utilising digital technology.

5. Home building.

Stocks in the housing industry in US are down. Based on the simple demographics of an increasing population and the trend to ownership of second homes by people over age 45 there will be major construction in the sun belt states of California, Texas and Arizona. Out of favour building companies will become "in" again.

6. Alternative sports.

Get on your skates. Or should that be skateboard? As young people move to more individual and outdoor sports such as snowboarding, skiing, surfing, skateboarding and mountaineering the outdoor apparel companies (Gardner picks hot brand Volcom) are doing well. Back home Icebreaker and Kathmandu are reflecting the growth.

Where do we stand with all this?

Our client portfolios include global share funds that don't follow market-led indices, and they hold companies that have yet to realize their potential future value. Sure, metaphorically, there can be rain in the meantime, but you can bank on January being warmer than it is right now in July.

We think it's a good time to invest offshore, with a high NZ dollar and a positive outlook for global growth.

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Notes for our investors

Your overseas portfolio – still waiting for that lasting shine.

We should call it the Rachel Hunter effect. Yes the high NZ dollar is causing grief to your offshore holdings but it cannot stay that way. As Rachel used to say in the Pantene shampoo advert, "it won't happen overnight but it will happen."

Maturing Bonds will do well.

Meanwhile, locally, high interest rates (8%+) are great for new investors, but existing bonds in your portfolio will have a lower market value. Any maturing bonds, though, will benefit.

Offshore Investment Tax – provisional tax is coming.

Because of the new tax regime for offshore investment, some of you will have provisional tax. If this is the case, let us know, as payment for the tax should come from the portfolio. Remember we have structured your investment holdings to maximize the income in order to cover the tax on 5% of the value of your offshore holdings as at 1 April 2007. Note that earnings in excess of 5% are tax free.

Is KiwiSaver for you?

Any one under age 65 may join KiwiSaver but your money is locked in until you reach NZ Super age. Most investors expect some trade-off before depriving themselves of access to their money for so long. The initial reaction was lukewarm so the recent Budget had some surprises which make the new KiwiSaver more palatable.

KiwiSaver™ Poua he Oranga

- A one-off tax free kick-start of $1000.
- A matching contribution from IRD capped at $1040 per year.
- A fee subsidy of $40 paid to your scheme provider each year.
- Compulsory tax free employer contributions from April 2008, rising to 4% by 2011.
- A matching tax credit for the employer capped at $1040 pa per member.
- A housing subsidy of up to $5000 for first home purchases after contributing for five years (if you meet Housing New Zealand's requirements.)
- Qualifying first home buyers can also take their contributions out for the deposit.
- After 12 months, KiwiSavers can divert half their contributions to repay existing mortgage on their principal home.
- The tax rate on fund investment earnings will be reduced to 30% (although this will apply to all other managed funds also).

What's the impact?

An employee on $52,000 per year who chooses to contribute $2,080 per year (4%) will eventually have an extra $3,120 per year added by the government and their employer. In this example, they'd have a total of $5,200 a year going into KiwiSaver or 10% of gross salary. Do the sums on your own income to see how attractive it can be. But you'll only get the extras if you choose KiwiSaver.

So should you join – and if you do, what type of fund should you invest in? Some key points to consider:

What's your stage of life?

Young people planning the big OE – KiwiSaver may not be suitable yet.

Future first home buyers – save into a low risk fund as you'll want the money out sooner.

Younger home owners – work it into your budget, save into a growth fund then use the mortgage diversion.

50 plus – save 4% into a growth fund, invest more elsewhere if you want to retire earlier.

60 plus – consider a salary sacrifice, choose a lower risk fund, you'll only be locked in for 5 years.

What will you receive?	$1,000 kickstart	$1,040 per year	Employer Contribution 4% by 2011
Employee	✔	✔	✔
Sole trader	✔	✔	✘
Shareholder/ employee	✔	✔	Only if on PAYE
Not employed 18 - 64	✔	✔	✘
Children	✔	✘	✘

In our view the biggest decision is not whether to enter KiwiSaver, but to choose the best investment provider. Go to www.kiwisaver.govt.nz for a list. Employees can choose their employer's provider, elect to have a provider chosen at random (don't turn your savings into a lottery!) or to seek independent advice.

How to get going? You choose a KiwiSaver provider and the type of fund, complete the application form and send it to the fund provider. If you are employed, tell your employer to start deducting 4% or 8% from your salary. Your employer will send this to IRD along with PAYE tax. If not employed, arrange contributions directly with the KiwiSaver provider.

If employers need help with how to approach KiwiSaver for staff or strategies for executives, or if any clients want help, we can provide holistic advice that puts KiwiSaver into the context of your other financial arrangements.