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STUART + CARLYON

Financial advisers for your lifetime goals

A love for Italy – but a financial warning

Over recent years our advice to save as much as possible for retirement has been tempered by life experience. Many clients, friends and family encounter setbacks and tragedies throughout life – so rather than wrap up all our assets for some far-away Christmas, we are suggesting that our clients enjoy life now, while they have the health to do so. It's a case of shuffling priorities and resources around.

Of course other than Milan, the Northern places Susanna found appeared positive (the throngs of tourists give that illusion,) and untouched by the woes of the economy. But perhaps one indicator of a tightening economy is the percentage of holiday homes – in summer just about all of Milan escapes the city heat – that are available for rent during the off seasons.

Taking a leaf out of the same advice book, Susanna decided to take an extended holiday this year. As she explains; "My partner, Duncan was diagnosed with Parkinsons earlier in the year, so rather than wait to do our Italy trip when we retire, we brought it forward."

The 5½ week holiday was during the notoriously patchy September-October autumn season, but they needed an umbrella only twice during the trip which focused on trail walking and day to day exploration.

They had a glorious time; spending a week each in Montepulciano, Cinque Terre, Lake Garda and Lake Como; bookended at the start with five nights in Rome and at the end with two nights in Milan. As Susanna says: it was hard to reconcile the beauty and vibrancy of the place with an Italy that is heading into a recession.

But a recent presentation by fund manager, Magellan, (most of our client portfolios are invested in the Global Fund) highlighted Italy as one of the reasons they have increased their cash weighting.

- Italy, they point out, suffers 12% unemployment, a Government bond rate at 2.3%, a whopping debt to GDP ratio of 110%, yet has not undertaken any significant reform. Rather like the US markets prior to the Global Financial Crisis, the markets are awash with Junk bonds galore.
- It seems odd that the Italian government can borrow money at 2.3%. So desperate are investors to get any return on their money, they will buy bonds at any price it seems.

But Susanna was not looking for financial indicators. The aim was to explore and enjoy the beauty of Italy.

"Each day we would find an ancient mule track, usually involving steep uphill climbs, and get blown away by the most beautiful views. We would come across rustic houses, amazing churches, olive groves, vineyards perching on narrow terraces, ancient stone walls. There was a palpable sense that everything had received the input of generations. It was quite humbling to walk one track and to know that we were in the footsteps of Leonardo da Vinci who had traversed the same trail centuries earlier."

"We also stayed in some fabulous places with views – mostly apartments with kitchens so we didn't have to eat out every night. We used Airbnb and Trip Advisor. This was much cheaper than staying in hotels."

Susanna's Italia highlights.

1. Rome – everything! I did 5 years of Latin and remember reading about the Colosseum – in Latin of course – in reality more massive than I had imagined.

2. A countryside walk in Tuscany. From Montepulciano to Monticchiello 25km return trip!

3. Cinque Terre. Heart-stopping views on the hill trails from Manarola to Corniglia and Manarola to Riomaggiore. The flatter coastal walks were closed due to erosion.

4. Postcard views anywhere on Lake Como. A ferry ride to Villa Balbianello – the home of an intrepid explorer – was well worth the visit. Glamorous James Bond scenes were set here.

5. Gelato. My favourite hazelnut. Always welcome after a day's outing.

6. Bus ride from Bogliaco to Limone (Lake Garda.) A close-your-eyes and grip-your-seat ride on narrow roads through lots of tunnels, with the driver talking non-stop on his cell phone.

7. After 5 ½ weeks of mostly walking everyday got really fit and healthy (and lost some kilos) even after eating loads of pasta and lovely artisanal bread.

Susanna's Money tips for travel in Italy

- You have to carry cash. We paid cash for private accommodation. The food stores (alimentari) don't accept credit cards.

- ANZ issued us with Euro200 notes – mistake! In Montepulciano even the banks would not change these into smaller denominations. Many shops would not take a 200 note.

- It was not uncommon to find ATM machines out of order – come to think of it – public toilets too!

- You can wait hours in the queues to get train tickets in Rome and Milan so use the multi lingual machines that can take credit cards; the queues are shorter. Ignore the helpful 'lingerers' who sidle up to assist. They have one mission: to extort money from you.

- Book intercity train fares on-line and in advance – much cheaper, saves queueing or messing about at the machines.

- Here's one for all true Kiwis. No need to tip if there is a service charge included in your restaurant bill.

- And this just in from the currency market analysts. The dollar always drops when the Stuarts go overseas! Great for the portfolios not so for the travellers.

A joyous time for home owners?

Auckland City's updated property valuation announcements were obviously big news. All at once a third of New Zealand's households would learn how much capital they have gained, and it was a big enough event to crash the Auckland City website.

Responses fell into two basic camps. On the one hand, banks reported an inundation of requests by younger homeowners to extend their loans.

After all, their equity – as measured by property value – had soared compared to the previous valuation. Some CVs had jumped more than 50%, driven mainly by the extraordinary increases in land value.

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While many homeowners are celebrating their new found wealth this Christmas, for those near retirement or on fixed incomes, the news is less glittering.

A big rise in valuations will come with a hefty New Year rates increase: a real worry.

We see several trends for home owners – whether retired or still working – that include ways to access capital and improve cash flow:

- Downsizing to a smaller home within Auckland. Often this doesn't release as much as you'd think though as apartments and townhouses are in demand by all age groups. And don't forget body corporate fees.
- Relocating to another town in New Zealand. This frees up more money but you could be too far from friends and family.
- Selling underutilised assets such as boats and holiday homes – a great idea as it reduces annual maintenance costs too. The downside? It may compromise your lifestyle.
- Reverse annuity mortgages. Not many providers, and compounding interest costs erode equity while you have the same home ownership expenses
- Moving into a retirement village – frees up capital for investment, provides security and companionship, less worry for the family and affordable, often with fixed fees. The trade-off - no longer any house value growth and a capital deduction upon departure.
- Increase income. Not a feasible option for those retired.

None of the options are perfect, and if you face this kind of decision we can assist you in assessing the pros and cons.

Financial planning is not just for the young – revisiting your financial arrangements and reviewing your investment strategy are ongoing and we're here to help.

Financial Housekeeping

You will receive slightly less paper from now on. From 2015, Aegis, the Custodian for our client portfolios, will be sending its statutory audit reports to you twice a year (for the March and September periods) instead of quarterly.