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Financial advisers for your lifetime goals

The Pumpkin that helped save an island

For our summer newsletter a pumpkin? Hasn't Halloween been and gone? Well this story is actually a holiday one with a little economic kick at the end. The pumpkin is on Naoshima Island, located in the Inland Sea in Southern Japan. Susanna and her partner were exploring southern Japan just a month ago and their visit to Naoshima Island was like discovering a lost jewel.



Naoshima is a small island not much larger than Waiheke. It has a recent history as a declining copper mining centre, but those days are passing. Today (alongside a cluster of neighbouring islands) Naoshima is home to a world class collection of art which attracts hundreds of thousands of visitors each year. The collection of art work was begun by corporate sponsors in 1992 and today you can see amazing Japanese and international works, including a marvellous Monet painting from his Water Lilies series. Displayed in a gallery designed by inspirational architect Tadao Ando, Monet's work is a huge, gorgeous canvas bathed in the shifting nuances of natural daylight.

Tadao Ando is responsible for many of the amazing galleries – with his brutal but playful structures that use precast concrete and natural light in equal measure. Elsewhere there was a museum dedicated to the architect. The Pumpkin, a beloved outdoor installation, is by celebrated Japanese artist Yayoi Kusama.

Despite a typhoon that hurtled through the island, knocking over a few bicycles, Susanna said the island stay was the highlight of her 5 weeks in Japan. "We were fortunate to be staying at a wonderful bed and breakfast run by a very hospitable young couple."

Art has revitalised an island that was on the decline with a shrinking, aged population. It has created employment not only for the locals but for an influx of young people who can see a future for themselves in this unique and somewhat bucolic community. It suggests one idea that New Zealand would benefit from: using world class art collections to win overseas visitors. Naoshima and its associated art islands attracted at least as many overseas visitors during their Setouchi Triennale 2016 (130,000) as the Rugby World Cup did for NZ in 2011 (133,000.) The added bonus is that art-filled buildings can be enjoyed all year round by locals and tourists alike.



To get there from Tokyo, it takes a day, three trains and a ferry ride - as thousands of visitors can attest, it's worth all that effort!

Favourable rates! Easy loans!

Does the Bank of Mum and Dad need protecting? Many of our clients are in this boat. A son or daughter decides it's time to buy a house while it's affordable. Well, affordable if mum and dad stump up with a chunk of the deposit. The Bank of Mum & Dad to the rescue.

Most parents are able and willing to help out, but it is wise to make the arrangement quite formal. It can save a bucket load of problems that neither you or your kids anticipate.

If the son or daughter is single

- Document everything. Get any gifting or loan arrangement written down and signed. Make the terms very clear.
- Consider the other children. In assisting one daughter or son, are you inadvertently creating a divisive sense of 'unfairness' amongst the other kids?
- Does this impact on your Will? It would pay to clarify the will so that it takes account of money already forwarded to the child. Until the loan is paid off, they still owe the estate. Otherwise the Will may be unfair on the other beneficiaries.
- Don't compromise your own retirement plans. If you have squillions to share around, then no problem. But if your retirement plans demand a tight budget, then consider very carefully the impact of lending out the money.

- If there are health issues on the horizon, remember, loans or gifts get clawed back into your asset pot if you ever apply for a Residential Care Subsidy.

What if your child has friends with whom they are buying a house together?

- Protect yourself. Always make sure their ownership is arranged as “tenants in common” and they have a property sharing agreement to agree costs and how each party may exit. You don’t want to be left holding the baby if the friends fall out, or if one party decides to sell-up and move on.
- Document parental loans to one or both parties.

Helping the happy couple to buy a house

- A gift becomes relationship property when it’s used to buy a house unless there is a clear “contracting out” agreement and separate legal advice for each partner.
- A loan documenting specified terms should be made to and signed by both partners. Then if there’s a break up the departing spouse owes half as well.

“ Our advice: before entering into any arrangement, you must see your lawyer and ensure any documentation reflects your wishes. ”

A guarantee? Parents’ home equity pledged for a deposit

Guarantees are easy to offer, and we underestimate what could possibly go wrong. Well, you could lose everything.

- Never make a mortgage guarantee unlimited. Imagine if your kids spend up large and default on repayments? Or they are incapacitated, and uninsured, in an accident. The banks would go straight to you as guarantor. Now what do you do?
- Negotiate terms and limits with the bank.
- Set a finite term for the period of guarantee. Don’t forget about it. Have the guarantee removed after a few years as your offspring’s equity in the new house grows.

Parent and child share ownership

- Co-ownership might render your child ineligible to make a “KiwiSaver” purchase; so check that first.
- By sharing ownership both you and your child benefit from any capital gains.
- Parents in this situation often lose track of how much equity they have in the new house. Yet you are still vulnerable to risk, and your retirement may demand the freeing up of your capital. The ownership terms need to be crystal clear to both you and your child including a formula for who pays costs and what happens when mum and dad need their money back.

Family trust buys for child

- In some situations, a Family Trust may still be an appropriate vehicle for assisting a daughter or son into a home of their own.
- The Trust can instead lend the money or gift the money which comes with very different implications. For instance, if the Trust makes a gift, it will become relationship property unless there is a “contracting out” agreement.
- Trustees are obliged to consider all beneficiaries and the impact it will have on the other beneficiaries.

Our advice: before entering into any arrangement, you must see your lawyer and ensure any documentation reflects your wishes.

Share market wobbles

Let’s keep this brief. The markets started to sour in October. Reflecting the tensions caused by Trump’s trade wars, not to mention the uncertainty around Brexit, and the sluggish European economy: investors have become subdued.

There’s an element of wait and see over the question of how frequently the Federal Reserve will lift interest rates and meanwhile many commodity prices are down. Yet the outcome of the US mid-term elections restored some confidence in Asian markets other than China. Overall, this is a good time not to quit the market, but to quietly invest.

For most client portfolios we have been capturing gains made by the share sector over the last 12 months and this has cushioned the portfolios from a hard landing. For new clients it’s unnerving to see negative returns but as our long-term clients can attest - the ups and downs are par for the course and it’s a matter of staying with your strategy.



Season’s greetings

We close for the Christmas-New Year break on Friday 21st December so if you require money from the portfolio, we suggest you contact us to arrange this before then. Our office will be open from 7th January 2019.

We wish you and your family a safe and happy holiday!