Newsletter: Summer 2010

STUART + CARLYON

Financial advisers for your lifetime goals

New decade. New broom.

Making a fresh start financially

The sight of the fireworks on Eiffel Tower was unforgettable. Remember how it popped like a giant bottle of Moet? Yes, it really is 10 years since we went so exuberantly crazy at the turn of the Millennium. Where did the decade go? For the financial markets, it has been a rollercoaster ride. Two boom/bust events marked the decade: the dot.com boom which came to a grinding halt in April 2003, and the global financial meltdown which hit its lowest point in March 2009.

By every measure, 2008 and 2009 were a gloomy finish to the decade. Easy credit came to an end, house prices stalled, finance companies failed, regulations didn't regulate and unemployment climbed to levels we haven't seen in a long while.

So have we turned the corner? Thanks to the "new decade" effect, not to mention a massive rescue package in the USA and other nations there is a tendency for decision-makers in big firms to hit the spend button again. Companies are hiring again, and are looking to improve their bottom line not by slashing costs but by growing their business afresh.

In our own lives it is time also to sweep away some of the financial baggage that has accumulated during the last 10 years. Here are 5-Fresh Start Strategies. They boil down to these steps. Dream. Equip. Plan. Step Forward. Enjoy.

Dream. Re-evaluate where your life is heading. What are some of those "really want to do" things in terms of travel or family or career? Be specific, not vague. Think about how you're going to get from here to there. Having clear goals or priorities is the first step in the financial planning process, and once you've made your goals, ask – are you ready?

Equip yourself. This year move your skills forward, increase your own potential. Equip yourself with greater financial knowledge. Take steps to add to your employability skills.

Plan. Get organised. For each one of your goals and dreams tailor your financial arrangements to match these. You have a long-term goal to travel? Then earmark a separate account and save into it. If you want a certain lifestyle in retirement (every year it gets closer!) you have to plan for it. Don't procrastinate on Kiwisaver any more!

Take the first steps. Alongside every goal on your list you should be able to write an action list. Break up big goals into small steps. The first steps are, of course, the most important. That goal to get qualified? Pick up the phone and find out how to enrol. Your goal to buy a house? Find out from your bank how much you can borrow so you have an idea of the amount you will need for a deposit.

Enjoy. There's something exhilarating about commencing on a journey. Defining your goals and taking concrete steps makes the process enjoyable.

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Tips to making it easier to achieve your goals.

1. Write down your goals and priorities. It's a good way to commit yourself to action. We have clients who still refer to plans drawn up 20 years ago – they've served as a reliable roadmap.

2. For every goal work out the cost and timeframe. That dream of taking time out to write a book? How much would you, in fact, need for those 6 months?

3. Calculate. For retirement – do the numbers using the calculators on sorted.org.nz. Start by asking yourself how much you'd need each year. Then map out how you will meet it.

4. Allow for the unexpected. Build up an emergency fund.

5. Automate what you can. By using automatic payments or deducting monies from your wages beforehand is a powerful discipline: if you don't see it you don't spend it.

6. If your situation is too complex, get a good professional to put a financial plan in place with you. This is like an architect's plan which puts the facts and figures around your dreams and desires.

Valued team members

Going against the tide, Stuart & Carlyon lifted staffing levels late last year by...er...25%! Some of you may have already encountered Louise O'Brien on the phone or at our Christmas function and she is a welcome addition to our team. Our business is going strong – and by avoiding the various finance company and structured credit product debacles last year we're placed in a very good position. As you all know our business is founded on providing unbiased advice and acting in the client's best interest. There are now 5 of us: Deborah, Susanna, Donna, Sue and Louise.

Sue Baldwin

Louise O'Brien

Here's a little more about our new people:

Sue Baldwin

Sue's background is in the finance sector including 5 years at Russell Investments, a global investment services firm, where she was responsible for everything operational. Juggling between motherhood and studies, Sue joined Stuart+Carlyon shortly after completing her Diploma of Financial Planning.

Louise O'Brien

Louise also has a very varied background in the financial industry both here and overseas. Having worked as an adviser in a corporate environment she decided the more tailored personal approach was more her style. Louise is currently studying for the Diploma of Financial Planning.

Both Sue and Louise are working towards their Certified Financial Planner status which includes a two year mentorship.

Tax reform ahead

The Government has enjoyed an actual surge of popularity thanks to its moves to overhaul the tax system though as we go to press the details have yet to be fully worked out.

What resonates with most of the public however is the idea that in an ideal world we ought to have a lower tax rate on all investment earnings regardless of what these investments are – shares, property or other assets entirely. So long as the tax regime is inconsistently applied a lot of wasted effort goes into minimising tax rather than focussing on fundamentals such as finding assets that represent intrinsic good value and fair returns.

The proposed reforms aim to reduce tax on earned income but ensure other areas of the economy are taxed more comprehensively to compensate. Here's what the government is considering:

- Potential reductions in all personal marginal tax rates
- For rental properties, removing depreciation on buildings to make more rental income taxable
- Ring fencing rental property losses – to stop PAYE taxpayers offsetting rental losses against wages and salaries and getting tax refunds
- Increasing the GST rate from 12.5% to 15% - but with some form of compensation package for lower income earners who won't have more cash in hand from lower income tax rates
- Changing the criteria for Working for Families to prevent high net worth individuals using trust and company structures to qualify.

Revenue shuffling? At this point it looks as if the tax benefits that accompany rental property may be removed, and that the net effect will be to drive investor capital toward assets that generate income for New Zealand.

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If the new regime can put more money in middle income earners' hands and if investments are taxed more evenly, perhaps savings rates will be boosted. The May Budget will reveal more and as the Government working parties are already finding: the devil is always in the details.

Investment update

This year sees a big rebound for foreign investment funds in portfolios. It is likely the Fair Dividend Rate tax method will be applied for the first time. However, for clients with high foreign cash balances, currency losses may provide tax relief. Sound complicated? Well our tax reports will reveal all, and these are being sent out in June.

In the meantime, the market outlook is bumpy with major adjustments still evident in the USA and in Europe the financial health of the PIIGS causing the next wave of jitters. This unfortunate acronym refers to Portugal, Ireland, Italy, Greece and Spain who have all borrowed excessively, with Greece at risk of defaulting on government debt. This is a real test for the EU and another short term worry that reveals a greater point: while most economists acknowledge that the global economy is back on the rise, the financial sector remains easily spooked.