

Mackay

ON MONEY

(AND OTHER THINGS)

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY



Quite like Oz. It's a nice place to visit – but it's always nicer to leave and head back to God's Own.

Australia is of course home to our four biggest banks.

The BNZ has been operating in New Zealand since July 2, 1861 with its first branch being opened in Auckland in October 1861. It was a private company back then, but still was bailed out by the Government way back in 1894. In 1945, the Labour Government bought it for just under eight million pounds. In 1987, there was a partial (15 per cent) share market float. In 1989, the Labour Government dropped its share to 51 per cent with four per cent going to the public and 30 per cent to Capital Markets Ltd (remember those nice Fay Richwhite boys?).

In 1990, Bolger got a special surprise just after the election – the government needed to stump up with \$380 million or else the BNZ would have collapsed. Wikipedia reckons it was because of dodgy Aussie loans. I haven't been able to find out if the \$380 million was a loan or if they provided a loan plus an option to convert the loan to equity – which would have been smart. That's what Warren Buffett of Berkshire Hathaway fame would have done. Buffett did this when Goldman Sachs needed \$5 billion in September 2008. In return for the \$5 billion, Buffett got a 10 per cent return on \$5 billion of preferred shares plus warrants or options to buy 43.5 million additional shares at a favourable price. A month later, Buffett invested \$3 billion in General Electric (GE) in return for preferred shares and warrants. In the meantime, GE paid Berkshire a 10 per cent dividend on the preferred shares, and Berkshire got the right to buy \$3 billion in GE stock at a bargain price at any time over the ensuing five years. Likewise, Berkshire helped Bank of America out in late 2011 to the tune of \$5 billion. Same sort of deal.

In 1992, under Bolger's watch, the BNZ was flogged off to the National Australia Bank (NAB) for NZ \$1.48 billion and it became a subsidiary of its Australian parent. The shareholding at sale time apparently was 57.3 per cent Government and 27 per cent Fay Richwhite interests. So it seems the \$380 million injection two years earlier didn't flow through into a significantly larger shareholding. I reckon this oversight cost the State a quarter of a billion dollars. It appears the other non-Government shareholders benefited at the taxpayers' expense. But when I recall who was at the helm, I'm not surprised.

Back in 2013, one analyst reckoned the BNZ had paid a total of NZ \$5.5 billion of dividends to their NAB masters across the ditch, after being given away for \$1.48 billion in 1992. So in just over 20 years, the NAB got their purchase money back, plus another \$4 billion to boot. And it just gets better for the Aussies every year. Another \$490 million for the six months to March

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2018. Our government should never have sold it.

The irony is that yet another Labour Government has got back into banking with the start-up of Kiwi Bank. That's good – its profits stay on shore.

The ASB is one more success story for the Aussies. It was established in 1847 as the Auckland Savings Bank. In time, along with the ASB, there were a dozen regional trustee savings banks. In 1984, all except Taranaki Savings Bank, took on a common name of 'Trustee Banks'. Two years later, they became 'Trust Banks'. ASB Trust Bank withdrew from the combined Trust Bank group and in 1987, ASB became a fully-fledged commercial bank, under the name ASB Bank. In 1988, the Labour boys passed the Trustee Banks Restructuring Act, which enabled the ASB to become a public company. In 1989, the owner of the bank, the ASB Community Trust sold 75 per cent of the shares to the Commonwealth Bank of Australia (CBA). And in 2000, the CBA bought the remaining 25 per cent. We can't blame the Government for this foolish mistake. But we can blame the previous trustees of the ASB Community Trust, now named Foundation North.

Foundation North provides grants to not-for-profit organisations across Auckland and Northland. That's nice. In 2014, the assets of the Foundation were over a billion dollars and generated an income of \$81.6 million,

\$46.7 million being reinvested for future generations. Not bad you say. But contrast this with what could have been achieved if the ASB Community Trust/Foundation North had simply held their stake. For the year ended June 2017, ASB had a record net profit of \$1.06 billion versus Foundation North's \$81.6 million.

And guess where that billion dollars less tax ends up? Over the Tasman, folks! And what's the ASB now worth? Probably between \$7 and \$10 billion. The Community Trust should never have sold it!

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Back to the other Trust Banks all of which in 1988, became corporatised. Ownership of each bank was vested in a regional community trust like we've seen with the ASB's history. At that stage the Taranaki Savings Bank (who became TSB Bank Ltd) and Trustbank Westland (renamed Westland Bank) left the group.

The remaining nine banks merged into one bank (Trust Bank New Zealand) although they continued to trade under their regional names. The community trusts remained as individual shareholders in the new organisation, with shares distributed as a percentage of shareholder funds.

And then guess what happened?

In May 1996, the well-meaning but dumb old community trusts sold Trust Bank New Zealand to Westpac Banking Corporation for \$1.2 billion with the new organisation becoming NZ's largest bank. The two banks merged as WestpacTrust.

In the *Herald* on May 7, 2018, it noted "Westpac could end its financial year with \$1 billion after tax [not before tax] profit after announcing a "solid" half year profit." That's a thousand millions.

The Wellington Trust Bank, was second smallest and one of the minnows of the amalgamated Trust Bank New Zealand participants. Its owner, the Wellington Community Trust (WCT) got paid out about \$40 million. The WCT now has assets of \$62 million and last year paid out donations of around \$2 million and grew the Trust Capital by just under \$3 million. I will admit they have funded some excellent community projects, but I conservatively estimate the WCT would now have been receiving dividends of over 10 million a year under the old structure. Heck, the Taranaki Savings Bank which was just a bit bigger than its Wellington brother back in 1996, is now worth over \$1 billion. The community trusts should never have sold to the Aussies. Why on earth did they?

As a further twist in the tale, according to Wikipedia, Westpac had promised to keep the funding of the community trusts flowing and to keep "Trust" in its name. However community trust funding has now slowed to a trickle, and back in 2002 the bank launched a major rebranding which included dropping "Trust" from its name. They must have known something, because after the recent debacle in Australia with the Royal Commission taking their banks to task for some seriously shonky practices, having "trust" included in a bank's name would surely have been an oxymoronic joke.

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So you would have to conclude the Aussie banks should be congratulated for snapping up our local banks. That includes ANZ who bought the National Bank from UK Lloyds TSB bank for \$5.71 billion in 2003 and of course also buying Postbank from the Labour Government in 1989. Don't forget National Bank had also taken over Countrywide Bank in 1998.

Those four Aussie banks continue to make an absolute truckload of ongoing profits and apart from the obscene do-remi that ends up in the Aussie CEOs' back pockets, the remainder of this Kiwi cash generally provides serious stuffing for our Aussie cousins' wallets.

NZ did retain a bit of the loot. Back in December 2009, the four Aussie banks reached a last minute settlement with the Inland Revenue to pay more than \$2.2 billion in back taxes. The Revenue Minister of the day, Peter Dunne was reported to have said "The IRD had strongly pursued what it saw to be a clear-cut case of tax avoidance, and its diligence on behalf of the tax-paying public has been rewarded." Well done the IRD for remedying some seriously bad bank behaviour.

While doing my research I found myself getting increasingly brassed off and angry at the dickhead politicians and trustees of local community trusts who gave away NZ's banking system for a song.

As alluded to above, there's a Royal Commission going on in Oz at present, with banks being hauled over the coals for decidedly dodgy practices. But then there is that historical bad bent that just can't be shaken from the Aussie DNA. Heck, it's a mark of pride to anyone over the ditch who can trace their ancestry back to a pommy convict. The worse the original crime-the better!

Which segues nicely to the boss's great grandfather, Johannes Vlietstra whom I wrote about in the April/ May 2018 *Vibrant Hutt* and which you can read on our website www.mackay.co.nz/ under MacKay on Money.

Johannes Vlietstra sailed from Holland to Australia not in chains, but as paid crew on the schooner-brig *Mulvine* in 1853. He is however not without sin, for he did jump ship in Tasmania. His great grandson, Dr Ron Vlietstra, a retired top Cardiologist from the world famous Mayo Clinic discovered Johannes' account of his journeys and adventures down under, had it translated into English and reproduced it in his own book "Dutchman's Gold – Finding the Lost Nugget". And so here's Chapter 2. See my website for Chapter 1.

CHAPTER 2

"My further adventures in Australia [Tasmania, probably 1854]"

We quickened our pace in the pleasant anticipation of meeting people. It was the village of Longford. The first person we encountered was the town's blacksmith, and we summed up enough courage to address him. We bade him good day, as we were unable to say anything more in English. He said to us, "I believe you've abandoned ship?" We admitted it, and he continued by saying, "That doesn't matter, come on in. I will help the two of you." Immediately, fresh bread and a leg of mutton were put out on the table for us. We thoroughly enjoyed all this food, and, what's more, we were treated to tea with sugar.

We were quite surprised to receive such an extravagant reception, not realizing that the local people don't eat rye bread as we were accustomed to, nor did they drink their coffee or tea without sugar. The blacksmith promised to find us employment with his relatives. We were extremely pleased and sorry that we were unable to speak more with the good man. In the evening, being afraid of a police search, he showed us a shed in which to spend the night. He sent his relatives a message and they turned up the next day, agreeing to give us a job. As I was the older of the two, I stayed in the village, where there was more danger of being found. My mate, from Rotterdam, called Willem, was sent further inland. I lived next door to a place where prisoners were being held, called a treading-mill. In this treading-mill mostly minor criminals had to tread a big grinding mill in a flour factory. It seemed to me that they were being punished rather severely for relatively petty crimes, while most of the people living freely there were Englishmen, who had themselves been transported to Tasmania for manslaughter or major theft.

Since the captain had promised the police a substantial reward to find us, I saw policemen snooping around daily. However they assumed that the runaways, having escaped from a ship recently arrived from China, must be Chinese, and they left me alone.

In the first week that I spent there I thought there were no better people on earth. At one point I found seven English pounds, which was the equivalent of eighty-four guilders. When I asked whether anyone had lost this, they said they hadn't, and, unless someone claimed it, I should keep it. They were very fond of me and didn't even want me to do a spot of work. I was treated as

one of the family. I thought, "Giving me money, not allowing me to work, promising everything to keep me with them. There is something wrong here."

When I asked them whether my ship had departed, they pretended it was still anchored in the harbor. That made me feel uneasy, but knowing that the names of ships are written the same in every language, I checked the newspapers every day to see if it had left. But still I remained in the dark. I wrote my friend, Willem, about my suspicions regarding my hosts, and he, being worried about me, turned up three days later. He said that he had been pretty fortunate too, but, unlike me, had to work like a donkey. I told him about my experience with the money that I found and that they had promised me a foal, geese and a lovely dog, if only I stayed with them, and that all these promises made me feel uneasy. We decided to collect our clothes and leave.

Upon notifying them, I realized that I had no reason for having been worried at all. They gave us money and ordered a coach to take us back to Launceston. As we departed with tears in our eyes, they told us that, should we ever fall ill or encounter any other misfortune, we would always be welcome with them.

Soon we reached Launceston, but although we did find the house where we had previously stayed, we didn't find the same inhabitants. A little woman, all dressed in white and with a smiling face, opened the door, and on our question as to what had happened to the other people she replied that the woman had run away with another man, abandoning her husband and four children. The man she ran off with had a

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small boat, which he operated, on the river, fetching firewood for settlers. She could also tell us that clothes belonging to two sailors, which were in her safekeeping, along with silk and other Chinese goods, which I had purchased with a view of selling them at a profit later in another place, had been taken along as well. We told her that we were those sailors. She said she had guessed as much. We suspected that she had some sort of relationship with this other woman and inquired around from other people, but it turned out she had been telling us the truth. This was a big loss for us. We decided to stay together and spent three days looking for employment on a ship. It wasn't to be however. There were jobs available, but not for the two of us on the same ship. We therefore hired ourselves out on separate coasters. We took leave of each other and never met again.

For two years I sailed the waters from Launceston to Melbourne, and along the North West Coast of Van Diemen's Land, including up the Mersey, Forth and Leven Rivers.

The owners of the ship lived on the Forth River. Once on a visit there, when there was no cargo in the offing, it was decided that the ship would stay put for four months. The owners also had a farm and they offered me a position as a labourer with them. Their household consisted of nine people: the mistress of the house, who was a widow and of noble birth, five sons, two daughters and a servant girl. My wages as a labourer would be similar to what I was earning on the ship, so I accepted graciously. I was well treated and since I did good work, they promised me as much land as I wanted, should I want to start farming for myself.

In the meantime something unusual happened. One morning I was sent out with a wagon drawn by eighteen oxen to load it full of stones to make an oven. When the ox-driver and I had almost finished loading the wagon, I wanted to add just one more stone. It was almost too heavy to lift, and suddenly I felt a sting, causing me to drop the stone, thinking it was the bite from one of the large ants found there. Some people's hands swell up, and sometimes the hand becomes red and painful, I jerked back my hand and found a snake dangling from my finger. The ox-driver and I got very frightened. The man-in-charge, one of the widow's sons, was busy in the vicinity searching for bark and branches on a field sown in with grain. The ox-driver went to call him, while in the

meantime the snake dropped from my finger and I trampled it to death.

The man-in-charge got to me quickly. He tied up my arm with my scarf and belt, which served as carrying-strap, and asked whether I had a knife on me, but patience failing him, he took a penknife from his pocket and cut off the tip of my finger. Having asked me whether my mouth was clean, he ordered me to suck the poison and blood from the wound and spit it out immediately. Having done so, he then sent me home. After he had retrieved his own horse he followed me home.

Since the captain had promised the police a substantial reward to find us, I saw policemen snooping around daily. However they assumed that the runaways, having escaped from a ship recently arrived from China, must be Chinese, and they left me alone.

When I arrived home I told my housemates about the accident. They were all startled. It was noon and though food was being served, nobody had any appetite. Shortly after, the man-in-charge arrived home. He placed a piece of paper on my finger, sprinkled gunpowder on it and set it alight, to burn out the wound. Although it was painful, it wasn't as bad as one might have thought. My finger was totally blackened now. Then they gave me some drops of medicine and sent me into the garden, with a guard accompanying me, because I had to keep moving. I wasn't feeling well, and I was dizzy, so I stood still, then walked on again and then fell. Having fallen, I wanted to remain lying down, but was ordered to get up immediately and walk. I tried to get away from the guard, but he understood and didn't let me out of his sight for more than two minutes. He knew that someone who has been bitten by a snake wants to rest, but this can prove fatal and

so he goaded me on to keep moving. I got angry with him but he said, "Vlietstra, don't get mad at me, I am doing this for your own good". He didn't breathe a word about the danger I was in.

Walking around like that I passed a shed where the widow's daughter and the servant girl were doing their chores. I overheard them saying that my face had turned completely blue and I would be dead before sunset. When I explained that I had understood what they were saying, they said they had been talking about something else. I wanted to look in the mirror, but was kept from doing so. I had noticed my arm and hand being blue, but put that down to the bandage, and my dizziness and sleepiness to the medicine.

After sunset the man-in-charge came to me and told me the worst danger was over. We went home, which pleased me, since I wanted to go to sleep. However I still was forced to keep moving all through the night. The guard stayed by my side. The next morning the man-in-charge told me that, should I have lain down to sleep or had I got over-excited I most certainly would have died. I thanked him for his help and good care. He later told me just how dangerous that snakebite had been. I had been bitten by a whip snake, which, although small, is one of the most poisonous varieties. Since then, every year around the same time, in April, I feel a slight discomfort in that hand.

This would have ended this chapter, but for my feeling obliged to explain about the search for bark and branches on a field sown with grain. In Tasmania a forest is one of the most fertile pieces of land. To cultivate such a forest for agricultural purposes, all trees measuring less than four feet in diameter are cut down, and the bigger ones are left. These larger trees are then starved, by chopping a ring around their trunk. The chopped-down smaller trees are burned after six weeks or so, and what is still left is put on heaps to be burnt again later. The really big trees, which were left standing, drop their bark and branches during the next three years, due to being ringed-barked. These are carefully collected. In the first year the forest is lightly hoed with a weeder, then sown in afterwards. Despite this small amount of preparation, the soil produces a better yield than land that is prepared more extensively in the Netherlands."

NEXT PUBLICATION – CHAPTER 3.

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