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MacKay on Money

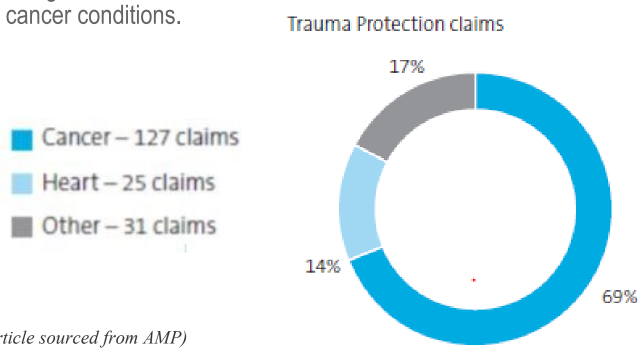
Investments - Insurance - KiwiSaver - Mortgages
Professional Financial Advice since 1976

WINTER 2016

Compelling reasons to consider Trauma Protection

Arguably the most important major medical condition covered under Trauma Protection is cancer and accounts for the highest level of claims made – 69%.

It's a really scary statistic; Cancer was the leading cause of death for both males and females in New Zealand in 2010, accounting for nearly a third of all deaths according the NZ Ministry of Health. Around 70% of all AMP Trauma claims in 2014 were for cancer, equating to a total of $15.3 million in claims to New Zealand families for cancer conditions.



(Article sourced from AMP)

> "How tall are you? So I can know in advance how far to step back when you fall down!" **—Mohammad Ali**

The Mania of Mr Market

In the 2013 Berkshire Hathaway Annual Report, Warren Buffett told the tale of Mr Market and a parcel of farmland. The farm in question is a great asset, producing a substantial yield of corn year after year, despite the short term ravages of locusts, drought and the occasional flood. On a daily basis, the farmer from down the road – he's called Mr Market — approaches and offers to buy the farm or sell his at a quoted price. Mr Market is a moody character – a bit of a manic depressive. Some days he is euphoric and exuberant and offers a very high price. On other days though, like a flipped switch, he is quite depressed and quotes a particularly low price. We can ignore Mr Market as much as we want, but he always comes back.

Given that the fundamentals of the farm are sound – increasing revenues, a strong track record and high rates of return – we can be reasonably certain that the farm will continue to perform well into the future. We do not need to respond to our moody neighbour, and we certainly shouldn't come under the spell of his exuberant highs and his depressed lows. On down days when he offers his farm at depressed prices, we may choose to look at its intrinsic value and perhaps buy it – taking the opportunity to earn a high rate of return on a fundamentally sound asset. On his high days, should we sell our farm? Well if the price is considerably higher than its intrinsic value, we may choose to sell, though we should always relate the price to the fundamental value. A business can be held forever. Despite short term gyrations, intrinsic value will always prevail.

As a business partner, Mr Market should never be considered as having the upper hand. He is moody and if we choose to ignore him today, he'll be back tomorrow! *(Article sourced from Fisher Funds)*

Lower interest rates make KiwiSaver more attractive for over 65s – ANZ survey

More New Zealanders are intending to leave money in their KiwiSaver after they reach 65, according to the latest ANZ Retirement Savings Barometer.

The survey of 700 people found that just 27% of them intended to withdraw all their money from KiwiSaver once they turned 65, down from 35% in November last year.

Of those people planning to withdraw all their KiwiSaver money, 48% intended to reinvest their money in a term deposit, compared with 53% in November.

ANZ Managing Director Retail & Business Banking & Wealth, John Body, said the current low interest rate environment was making it more attractive for people to leave their money in KiwiSaver.

"More people say they plan to leave their money in KiwiSaver and fewer people are planning to invest their funds in term deposits. While the current low interest rate environment is great for borrowers, it's a tough situation for savers. It's becoming more attractive for over 65s to leave their money in KiwiSaver, continue to earn investment returns and still be able to access their money at any time," said Mr Body.

Mr Body said the survey showed a large number of people – 52% - had no idea what they'd do with their KiwiSaver money once they reached 65: "Young people today may need their retirement savings to last for 30 years or more so it's important to have a plan to make good use of your savings."

Recognising this, the UK recently moved to allow people to withdraw up to 500 pounds from their pension savings to pay for professional financial advice on how to manage their retirement savings.

The ANZ survey found that 36% of New Zealanders would be willing to withdraw up to $1000 from their KiwiSaver to pay for independent financial advice to develop a financial plan for retirement.

Mr Body said that as people got older, they were prepared to pay more for financial advice while younger, less affluent people were prepared to pay only a small fee.

Other key findings of the ANZ Retirement Savings Barometer:

- 40% of people are confident about their retirement savings
- 48% of men are confident and 33% of women
- 80% of people are currently saving for their retirement
- 18% of people plan to live solely on NZ Superannuation

> "I have to be seen to be believed." **— Queen Elizabeth II**

Inflation gets a haircut

Former baseball player Sam Ewing once said "Inflation is when you pay fifteen dollars for the ten dollar haircut you used to get for five dollars when you had hair."

Many of our investors, regardless of how much hair they have, will know that inflation has been trending downwards for a long time and inflation rates now sit just above or below zero in many countries, including New Zealand. Expectations about future inflation have also fallen.

Managing inflation is a tricky task for central banks. There is a "Goldilocks" level—not too high and not too low as either can be harmful — but that level is not defined, it can change, and it depends on inflation expectations.

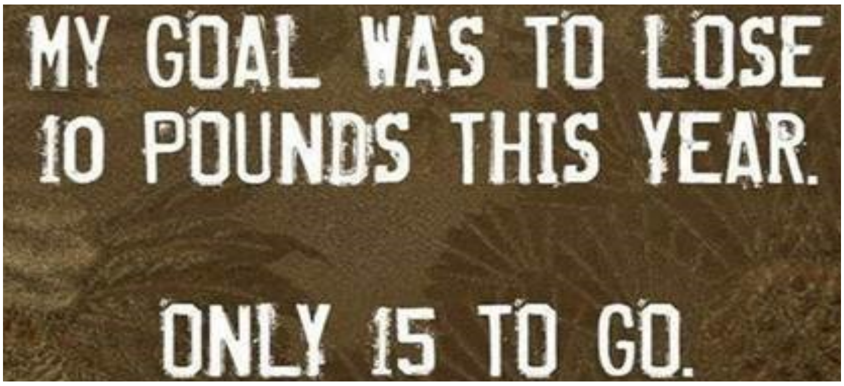
The Reserve Bank of New Zealand's March Bulletin concluded that low inflation expectations are "contributing to the current need for low interest rate settings". This suggests that investors should get used to low term deposit rates for a while to come. The paper also hinted that low interest rates themselves may help keep inflation expectations low. This seems to point to a virtuous circle — as long as inflation expectations remain low, interest rates will follow suit, making it hard for savers to achieve decent returns.

In contrast, officials of the U.S. Federal Reserve think inflation expectations are now too low. They believe that inflation will be higher than the public and markets expect, and are preparing to raise interest rates over the next year or two.

The one similarity between the two central banks is that both consider the impact of a low oil price on inflation will be temporary. Time will tell whether they are correct in their assumptions and which of the two approaches — raising interest rates to manage inflation or lowering interest rates to manage inflation expectations — proves most successful.

One thing is certain — inflation will continue to be the most followed, most discussed, and most challenging economic metric for markets to consider in the year ahead.

(Article sourced from Fisher Funds—Snapshot April 2016)



FIXED INTEREST

	Grosvenor Income Securities Portfolio (ISP)*	Kiwi Bonds*	UDC *
On call	2.75% p.a.		2.20% p.a.
3 months	3.50% p.a.		2.70% p.a.
6 months	3.25% p.a.	2.00% p.a.	3.20% p.a.
12 months	3.25% p.a.	2.00% p.a.	3.45% p.a.
24 months	3.25% p.a.	2.00% p.a.	3.40% p.a.

*** Ask for an Investment Statement**

"Dishonest money dwindles away, but whoever gathers money little by little makes it grow".
—Proverbs 13:11

"If you're interested in 'balancing' work and pleasure, stop trying to balance them. Instead make your work more pleasurable".
—Donald Trump

Spotlight on KiwiSaver Diversified Portfolios

Grosvenor's Socially Responsible Investment Balanced Fund

Recommended minimum investment period	5 years
Range of expected gross returns in any one year *(after fees)*	-8% to +22%
Range of expected gross returns in any rolling ten year period *(after tax & fees)*	1% pa to +10% pa

Expected long term return forecast (after tax and fees)

With a PIR of 17.5%	6.0% pa
With a PIR of 28%	5.5% pa

The ranges have been calculated using 2.5 standard deviations of return volatility. For each return period shown (1 year or rolling 10 years), actual return outcomes would be expected to fall outside these ranges in only one period out of 100. Statistically, this means that actual return outcomes are expected to fall within these ranges with 99% confidence.

TEAM NEWS

Ian Jordan & Chris MacKay recently attended the international Million Dollar Round Table meeting in Vancouver. Founded in 1927, the MDRT is a global independent association of the world's leading life insurance and financial services professionals from 67 countries. MDRT membership is recognised internationally as the standard of excellence in the life insurance and financial services business. Ian and Chris first met at an MDRT annual meeting in Orlando, Florida in 1986.

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Adviser disclosure statements are available free & on demand.