# MacKay ON MONEY (AND OTHER THINGS)

**BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY**

I've always supported Air NZ. Even when they were not doing so well. But then they go and do stuff which really brasses you off.

A few years ago, when Rob Fyfe was holding the joystick, he completely buggered up the Air NZ Airpoints Dollars system. This is their loyalty rewards programme. One free coffee every 10 sort of thing. Although probably more like one every 100.

The old deal was you could use your built-up air Airpoints to buy an upgrade. There was a finite number of Airpoints required per particular flight.

It worked well. But then Captain Rob decided it would be better to have an online auction for these upgrades and not to confirm whether you were successful or not until the last minute. Not quite in the departure lounge, but almost. They give you a clue though beforehand. They provide you with an indication whether you're "hot or cold" but in my experience, I've been "hot" before, and still I'm figuratively left out on the wing seat with the outside toilet. Not where I want to be. Not for a long flight anyway!

Unless of course I was a Gold Elite traveller. These guys should be looked after. They do a truck load of flying and I reckon they should be rewarded. These travellers do get told an exact number of air dollars which will buy them an upgrade. They don't have to go to the auction rooms for certain failure like us other plebs.

So good old Rob. Just before he jumped ship (plane) he decided to ditch the old system and thereby throw into the can all of us who had been loyal Air NZ flyers hitherto.

I wrote to him and suggested his legacy would be the dismantled and now munted Airpoints regime. I got some PR BS (the TIF) reply and he flew into the sunset, no doubt with a hefty bonus and in Business Class.

I was at Christmas drinks many years ago and a former Air NZ director told me how the PR department at our national carrier used to work when Morrie Davis was the Wing Commander. Morrie was a "hands on" boss and apparently liked to go through the complaint letters and would suggest to the PR department what the response should be. The ones he felt particularly aggrieved with, he would mark "TIF". I asked the former director what that was short for. He replied "Tell im something". I never did find out what the "F" stood for.

Just recently, the latest head pilot, Christopher Luxon, next National MP for Botany and wannabe leader of the Nats has buggered up one of the few pleasures left being a Koru Club member. A few years ago, while Air NZ was struggling, and was on the verge of going bust, I showed faith in them and paid out good dough to buy a lifetime Koru Club membership.

In the course of my business, I have to do a bit of travel and enjoy getting to the airport early to have a coffee and read the newspaper at leisure. No more. These idiots at Air NZ have stopped supplying newspapers to the Koru Club.

Newspapers are not sustainable they say. And flying is? Sustainable air travel is simply not possible. In one blog I've read, even a short return flight from Amsterdam to London emits 110 kg of $CO_2$. In the pop-up Koru Club in Wellington they were providing nonsustainable disposable cutlery and crockery but no newspapers. It's all a bit of a joke. Why aren't they honest and say ditching newspapers is to save some money?

An airline trying to be sustainable by cutting out newspapers. Give me a break.

Reminds me of an American Airlines story from 1987. Some bright spark Vice President got a bonus for eliminating one olive from each salad served in first class. Saved 40 ,000 bucks a year.

Hey, but maybe a would-be sustainable company, owned 52 per cent by you and me (the government that is) should also stop dishing out lollies wrapped in plastic, stop using plastic disposable glasses, stop the flight attendants using disposable plastic gloves and plastic rubbish bags. And, stop flying full stop!

I did write to Air NZ voicing my disapproval and when I didn't hear back, fired a follow-up copy to Mr Luxon just before he started door knocking in Botany. As you would expect, I got a "TIF" letter back from the PR boys.

But who gives a flying fig about Air New Zealand? Let's talk money.

Anyone who has any money on deposit with our wonderful friends – the banks – will know the interest rates currently on offer are at an all-time low.

A savings account with one of the big Aussie banks will get you a meagre 0.05 per cent per year. I'm serious! If you deposit 20 dollars a month, and don't make a withdrawal, they'll give you bonus interest of 1.25 per cent to give a massive 1.30 percent per year. Woohoo.

But then there's tax to come off. So, if you are relying on the interest from your investments then you are getting pretty slim pickings at the moment.

Online savings accounts with no penalties for withdrawals will get you the 0.05 per cent p.a. only. What they don't give you they give their CEO in the form of quite a few millions of remuneration each year. He or she gets the bonus. You don't. But even the bankers themselves are suffering. Poor old Angie Mentis, BNZ boss got a meagre $3.08 million for the year to September 30, 2019. You've got to feel sorry for her. And the previous head teller at ANZ, David Hisco had to forfeit his right to share options which had not vested. They were worth $6.4 million. And he misses out on the use of chauffeur-driven cars and having his wine stored. So, the bankers are doing it tough too in these low interest times. Heck, he must be feeling lucky his wife had already bought their St Heliers house from the ANZ for $6.9 m back in July 2017. The ANZ had paid $7.55m for it in early 2011, and it was valued at $11m at time of sale. That seems immensely fair at a time when interest rates were higher than now. Did the bank ever pay FBT on the difference I wonder?

But I digress. Back to current rates.

An average term deposit for 12 months is around 2.70 per cent less tax and even if you lock up your funds for five years you only get around 2.65 per cent less tax.

They still are happy to charge their clients 13.90 per cent for personal loans! And more for credit cards.

But it seems depositors are in for low interest rates for some time to come.

So, what to do?

The Governor of the Reserve Bank, Adrian Orr, has suggested we need to start thinking of alternative investment vehicles to the traditional term deposit.

What about investing directly in a New Zealand Government Bond or in a Commercial Bond? Well, while not in negative territory like some European Government Bonds (you invest $100,000 for 10 years and you get back $95,000. What a good deal! Yeah, right), the N.Z. rates aren't that flash either. And there can be (lack of) diversification issues if you buy less than 10 or 20 different bonds.

You could invest some money in a finance company paying a higher rate of return. Remember the GFC though and what happened to most of these guys. One of the biggest to fail with losses of around $500 million, was Hanover Finance owned by Eric

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Watson and Mark Hotchin. Eric has been in the news recently with his messy fall out with philanthropist Sir Owen Glenn. Eric has been ordered to cough up just under NZ$90 million to Sir Owen. It's also interesting to note a former Hanover CEO, Sam Stubbs is now running KiwiSaver provider Simplicity.

Learning from the past, you really would want a minimum of an "investment grade" Standard & Poors rating (BBB-) or equivalent before giving a finance company a penny. A CCC rated security has a 25 to 30 per cent chance of default over an average one-year period for example. A BBB has a 0.2 to 0.4 per cent chance. And you'd want 20 or 30 different companies to invest in to give you some diversification. However, there's just not that range available. Even then, it's not truly diversified unless you have other asset classes in the mix.

There's a finance company story I heard years ago. Sir Colin Meads used to endorse a now defunct crowd called Provincial Finance. They would advertise in *the Sunday Star Times* and one Tuesday morning when they opened the mail, there was a $50,000 cheque stapled to the newspaper clipping with the term of loan circled and with the cheque made out to "Colin Meads"!

You could buy some direct shares with a high dividend yield (maybe even Air New Zealand shares). You need some expertise here, but it's an option and if well-chosen you should do far better than a term deposit. Plus, there could be some capital gain (or loss of course). But you should have some diversification, so a managed portfolio of at least 20 shares is generally a sound practice.

A residential investment property may do the trick.

Net rental yields have been trending down of late and I read somewhere recently the average return nationally is now around three per cent.

That's after rates, insurance, maintenance, property management fees and accounting fees, but before tax.

There are of course the potential capital gains (or losses) on top of the three per cent. If held long term, property just like shares always goes up. But, short term, and if you need to sell, you can lose money if the market turns against you. For example, a Corelogic report noted, in the first quarter of the year, six per cent of Auckland sales were for a loss. Christchurch's losses were 10.6 per cent. People who had lost money on properties had held them for a median of 2.9 years. Property doesn't always go up over time. Take Japan. Their Real Residential Property Index still hasn't recovered from the highs of the early 1990s. It's just over half what it was. But it's still eight times higher than it was in 1955.

Residential property has lost some of its allure recently, as additional regulations require more capital expenditure and more hassle for landlords. It's really hard to kick out bad tenants now too.

In the past, some losses could be offset against other income, but these are now ring-fenced, and so the favourable tax perks have largely gone.

As an income generator for retirees, as a rule, the cash return on market value for residential property investment is not great and nor can you easily access additional chunks of cash to fund a new car or a trip or whatever. It's usually a more appropriate investment if one is trying to accumulate capital pre-retirement.

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There are some commercial property syndicators coming back into the market. We saw a number of these in the late 90s and before the GFC (Global Financial Crisis). The syndicated properties generated quite good returns, but the lack of liquidity (being able to get your capital out) became an issue. They also lacked diversification, often having only one or two properties per syndication. If there were tenant issues (not renewing, going broke, not paying), consequences were mortgages not being paid, banks becoming grumpy and revenue to investors dropping or ceasing completely. Having a number of properties in a portfolio tends to overcome these issues.

Buying one commercial property on your own can result in similar problems. I know of one (as it happens, common) example where a punter bought a well-situated commercial property with a reasonable deposit, had a bank mortgage and a national company as a tenant. The tenant didn't renew and a new tenant couldn't be found. The investor funded the bank interest out of other income for a while but had to sell and took a large haircut on the sale price versus the purchase price.

When I see a shop or industrial property empty for several months, I often wonder whether it's a retired mum or dad investor who is relying on the non-existent rental income for their ongoing cash flow.

Commercial property does tend to perform very well over time. Sir Bob Jones hasn't amassed a billion-dollar property empire by putting his money in the Post Office (sorry – Kiwibank!). Likewise, Warren Buffett isn't one of the world's richest by having all his dough in the bank. His vehicle, Berkshire Hathaway buys ownership (shares) in great companies who make great profits. He does have a huge war chest too of course ready for the next big purchase.

One of the fund managers we deal with provides a diversified portfolio of land and property that is targeting but not guaranteeing an annual return after fees but before tax of around 8 per cent over rolling seven-year periods from a combination of income distributions and capital growth. The fund size is currently around $38 million. And growing every month.

Investments can be cashed in once a month or can be sold on the NZX at any time, which gets over the liquidity issue.

Another manager we deal with offers our clients a regular fixed monthly pension/annuity of much better than the bank and guarantees it until you die.

A well-diversified portfolio including NZ and International Bonds (income assets) and Kiwi, Aussie and International Shares and Commercial Property (growth assets) is often the theoretical best solution, depending on how much volatility/risk (ups and downs) you are potentially prepared to accept. Even a lower volatility portfolio in this low interest rate environment and with a 60/40 mix should deliver a long term return of over 4 per cent p.a. before tax. A 40/60 mix should generate a long term return of over 5 per cent p.a. before tax.

So, remember Adrian Orr's suggestion. There are alternatives to lining the pockets of the (mainly Aussie) bankers, by not putting all your dough into bank deposits. The above, are some examples.

Talk to an Authorised Financial Adviser if you need to seek some advice.

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*These are generalised and sometimes tongue in cheek comments only and should not be taken as personalised advice. Any returns mentioned are not guaranteed. Disclosure Statements are available on request and free of charge.*

*Disclosure: MacKay family interests have investments in some of the fund managers alluded to in this article.*