Financial Freedom

QUARTER I 2012

NEWSLETTER

OUR SERVICES

- Full financial planning
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INSIDE THIS ISSUE:

Avoid Being A Victim Of Investment Bias

Have you noticed the change in investment mood music over the past few weeks? 2011 ended with little optimism after a tough year in which most investors saw their portfolios decline amid a slew of global economic concerns.

Fast forward two months and the talk is of meaningful recovery in the world's largest economy, USA, crisis avoided in Europe - for the moment at least - and a hard landing in China looking less likely. These are the key reasons why stock markets have tugged sharply upwards. In many cases, portfolio losses accumulated during the whole of 2011 have already been recovered in the early weeks of 2012. Such is the nature of markets.

The nature of investors is, however, somewhat different. Studies of behavioural tendencies show that often the greatest threats to successful investing is what goes on, not out there in the markets, but inside investors' heads.

One such threat is known as 'Conservatism bias'. According to investment experts Bodie, Kane and Marcus: "a conservatism bias means that investors are too slow (too conservative) in updating their beliefs in response to recent evidence".

The early signals of a market upswing may be present. Markets may already have moved significantly. But if your mind is still stuck in the gloom of three months ago, you will already have missed the best buying opportunity.

Closely related is a different behavioural threat referred to as 'herding'. None of us need a definition for that. We only need to think about the pre-GFC stock market boom when everyone was buying shares, or successive property cycles, to see how herd-like behavior can lead to people making the most reckless investment decisions, believing they are safe because "everyone else is doing it".

Loss aversion is a third behavioural threat: "The central assumption of the theory is that losses and disadvantages have greater impact on preferences than gains and advantages" (Tversky and Kahneman 1991). For investors who have followed global markets through the most volatile period in living memory, any losses they may have incurred during the past five years will make them even more reluctant to enter the market again - thereby strengthening both conservatism bias and a herding instinct away from equity investments.

This is unfortunate. Research shows that the times when markets can deliver the very best growth to investors is during the early stages of an upswing. Which is exactly when most people aren't participating. Wait for an upswing to become blindingly apparent over a period of months (conformation bias) like everyone else (herding) and you lose out on all the initial gains.

So is now the time to be getting into the market? Is the change of mood music a sign to the alert investor that the next upswing has begun? The truth is: nobody knows. Even the most experienced and well informed market professionals are not clairvoyant. Their guess about the future may be more educated, but it is still a guess.

What we can say with confidence is that overcoming investment biases like conservatism, herding and loss aversion is difficult to achieve without objective, professional assistance. Exactly what level of exposure you should have to equities and other asset classes is as much about your own personal circumstances, temperament and financial objectives as it is about market cycles.

If you want to avoid being a victim of investment bias, rather than trying to second guess what way the market will go according to the latest headline, you're better off sitting down with a qualified financial adviser. He or she will help review any existing investments and help structure a portfolio with exposure to the right asset classes to help deliver the out comes you seek from your long term investment journey. Bias free!

Sourced from Plan B Wealth Management - Insight March 2012

G3 Financial Freedom Editorial

from the desk of Cathy Fletcher (G3 Office Manager)

Although summer has hardly had a look in this year, January/February is still the time to spend relaxing and enjoying doing what kiwis love doing; going to the beach, having barbeques and catching up with some chores around the home.

All of us here at G3, had at least a couple of weeks off relaxing and catching up during the office closure over the Christmas period. It was Jane's turn to take some extended leave and she had a long list of things she was going to do with her time. One of those things was a short escape to the beach. It's a pity the weather was so uncooperative but that doesn't stop a lie in bed without the alarm clock to disturb the peace. It did, however, mean that she never got those windows cleaned that were on the list. Windows are very patient. They just wait.

Tracey spent time at her family holiday batch with lots and lots of family and friends. Charlene also spent lots of the time with her family. Also for me, that is exactly what I did too.

A sign of the modern age we live in is that technology has put to an end the complete get away from the office. Mobile phones and laptops are all very handy but does that mean we are not relaxing the same with our time off?

What's happening with G3 this year, I hear you say? Well, things just get busier and busier and most of that business seems to be coming from Auckland with both Tracey and Charlene there one or two days a week and Jane also visiting clients there this month.

The rules are being changed on the transfer of UK pensions and the new rules will come into effect on 6th of April 2012 so there is a bit of a rush on in that department. It is great having two experts in the field, Jane and Charlene, right here in the office.

Finding Happiness

We have all heard that money can't buy happiness, but, I bet, there are quite a few of us who would like to find out for ourselves if that is true. We all know that not having enough money causes us to worry and even become stressed. Maybe if we had lots we could be happier sharing the benefits. Financial planning and budgeting can help us keep control of the money we do have and so relieve the stress, but assuming all those in the know are right, then what does make us happy?

Behold the turtle. He makes progress only when he sticks his neck out.

James Bryant Conant

Have you ever visited a blog? I hadn't, however I recently saw the movie Julie and Julia. Julie Powell became quite well known keeping her online blog about cooking all the recipes from Julia Childs' first cook book. Then Hollywood made the movie Julie and Julia so now she is very famous. Blogging is just saying what you want to say online, to anyone and everyone with the time to go and read it. There is a myriad of information out there on the online super highway if you had unlimited time to search and read. Anyway, that got my curiosity going. Of course, not everything on the internet is true but I thought the following had some merit.

I have just visited Gretchen Rubin's blog about finding happiness. Here are some excerpts in case you don't get the time to visit there.

We can help with the budgeting and planning to give you control of your money now and in the future.

Make yourself happier in the next hour

1. Boost your energy. Stand up and pace or take a ten minute walk outside. Research shows that when people move faster, their metabolism speeds up, good for focus, mood and retaining facts.

2. Reach out to friends. Make a lunch date or send an email to a friend. Having warm, close bonds with other people is one of the keys to happiness.

3. Rid yourself of a nagging task. Answer a difficult email, make that dentist or financial planning appointment. Crossing a chore off the list gives an energy rush.

4. Clear your desk/lounge room/bedroom. Sort papers, toys, clothes, and stow supplies. A tidy environment creates a more serene mood.

5. Lay the ground work for future fun. Studies show that having fun on a regular basis is a pillar of happiness, and anticipation is an important part of that. You just have to talk to a child about Christmas coming or their birthday to see anticipation happiness.

6. Act happy. Put a smile on your face right now, and keep smiling. Research shows that even an artificially-induced smile has a positive effect on emotions.

Good deeds that take less than five minutes.

"Do good, feel good," is one of the great truths of happiness - but you may be thinking, "Sure, good deeds would make me happy, but I barely have time to get through the essentials of my day. I don't have time to do any good deeds!".

1.Be friendly. Gretchen decided that there are five degrees of social interactions with strangers: hostile, rude, neutral, polite and friendly. Most of us might find it difficult to be outright friendly to strangers, but you will find yourself energised by a friendly interaction. It only takes a minute to exchange a few pleasant words or a smile, and it does make a real difference to two people.

2. Say "yes" if you can, and if you should, say "yes".

3. Say "no". If someone is waiting for your "no" put them out of their misery.

4. Do someone else's chore. Try not to keep score, don't focus on everything coming out even.

On thinking about Gretchen's advice I can see some value in what she is saying. You might too. Relish in the feel good factor!

strategi

KEY FINANCIAL DATA FOR 2011

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All data and information is current as at 1 July 2011 and subject to change and verification

Individual income tax rates (including sole traders)

PAYE rates from 1/4/2011 (excluding ACC earners' levy)		PAYE rates from 1/4/2011(including ACC earners' levy)	
Income to $14,000	10.5%	Income to $14,000	12.54%
$14,001 - $48,000	17.5%	$14,001 - $48,000	19.54%
$48,001 - $70,000	30%	$48,001 - $70,000	32.04%
$70,001 and over	33%	$70,001 and over	35.04%
No notification	45%	No notification	47.04%

1. Maximum liable earnings for ACC Earners' Levy is $111,669 from 1 April 2011. Maximum levy payable is $2,278.04.
2. ACC earners' levy rate for the tax year 1 April 2011 to 31 March 2012 is 2.04% ($2.04 per $100).

Residents Withholding Tax (RWT) - on interest income

Annual total income range	From 1/4/2011
Must provide a certificate of exemption from IRD	0%
$0 - $14,000	10.5%
$14,001 - $48,000	17.5%
$48,001 - $70,000	30%
$70,001 or over	33%
Companies	The issuer may apply a RWT rate of 28%
Dividend income	33% less imputation credits
If no IRD number	33%

KiwiSaver Contribution Rates

Contributor	From 1 July 2011
Employees	• New employees: 2% of gross pay • Existing employees: choose 2%, 4% or 8% of gross pay
Employers (compulsory)	2% of gross pay
Self-employed, Contractors, Unemployed, Beneficiaries	As per contract with scheme provider
Government	• From 1 July 2011 $521 pa to employees as member tax credit • $1,000 kick-start for new accounts

Goods and Services Tax (GST)

- GST rate is 15%.
- GST payments threshold < $2 million in annual revenue
- GST registration threshold > $60,000
- GST six-monthly filing threshold < $500,000

Fringe Benefit Tax (FBT) Effective from 1 April 2011

Income range	Tax rate
$0 - $12,530	11.73%
$12,531 - $40,580	21.21%
$40,581 - $55,980	42.86%
$55,980 and over	49.25%

Single rate option: From 1 April 2011 pay 49.25% on all fringe benefits for each of the four quarters.
Alternate rate option: From 1 April 2011 pay 43% at each of the first three quarters. In quarter four perform attribution calculation based on rates shown above.

Prescribed Investor Rate (PIR) from 1 April 2011

NZ tax resident individuals	**10.5%,17.5% or 28%**
Non-NZ tax residents	28%
Registered Charities, companies, PIE Proxy, or trustees who notify this rate	0% is only available where the investor notifies the investment manager of this rate and where the investor's IRD number is provided
NZ Resident Trusts/Trustees	Elect 0%,17.5% or 28%
Testamentary trusts can also choose the 10.50% PIR	
CAPPED AT 28% - unless an incorrect PIR is notified by an investor	

Company and trust tax rates

Company rate from 2011/12 income year (previous year 30%)	28%
Trust income and minor beneficiary income (exemptions may apply)	33%
Widely-held super fund, unit trust, GIF from 2011/12 income year (previous year 30%)	28%

Secondary tax thresholds – with non student loans. Tax codes are excluding ACC earners' levy) – from 1/4/2011

Annual income range	Tax code	Tax rate
0 - $14,000	SB	10.5%
$14,001 to $48,000	S or S SL	17.5%
$48,001 to 70,000	SH or SH SL	30%
$70,001 or over	ST or ST SL	33%

Tax codes (up to 31 March 2012)

Code	Applies to main source of income
M	• When ML or MSL do not apply
ML	• Work more than 20 hrs/wk in all jobs and do not qualify for Working for Families tax credits • Income < $9,880 • Does not apply to a child or student attending school
M SL	• Student loan borrower AND • Total income is > $19,084
ME	• No student loan • Income between $24,000 and $48,000 & qualify for Independent Earner Tax Credit
ME SL	• Income between $24,000 and $48,000 and qualify for Independent Earner Tax Credit • Student loan borrower
	Applies to secondary source of income
S	• When other 'S' rates do not apply
SB	• Total income is < $14,000
SH	• No student loan • Total income is > $48,000 and not > $70,000
S SL	• Income < $48,000 • Student loan borrower
SH SL	• Total income > $48,000 and < $70,000 • Student loan borrower
ST	• Total income is > $70,000 • No student loan
ST SL	• Total income is > $70,000 • Student loan borrower
	Other
WT	Schedular payments
CAE	Earnings of casual agricultural employees, shearer or shearing shed hand.
EDW	Earnings of election day workers
NSW	Employer under the Recognised Seasonal Employers scheme
STC	Special tax code

Above you will find a table of financial data current, as at 1 July 2011.We hope you will find this useful.

Key Financial Data for 2011 reproduced with the permission of OnePath NZ Ltd.

Business Risk Planning - A Case Study

From Tracey's desk (names have been changed to protect privacy and identity).

Mark (50) and Cathy (48) run a successful company and have done so for the past 5 years. They came to see us when they were completing a review with their Accountant and realised that they had not reviewed their business risk insurance since they had set up the business 5 years ago. Obviously a lot had changed in this time and they were now in a very different financial situation than when they had started out.

This is very common amongst business owners as we all know how busy you become working in the business to ensure you make a profit. The day to day running of our own company often means that we work in the business and forget that sometimes we have to take time out to work **on** the business.

Mark and Cathy have a loan against their home for business expansion costs. This is now down to $50,000 and has 2 years to run. They also have an overdraft of $10,000. They employ 5 staff and feel a real obligation to their staff to ensure that if anything should happen to either of them, of a death or disablement nature, then they would not wish their staff to be adversely affected.

The business is very well run and they earned a net profit of $300,000 in the March 2011 year. They pay themselves a PAYE salary of $69,000 each per year. Both Cathy and Mark are key to the business and work equally in the company. They currently have life cover.

When completing our review of their life insurances they told us they see themselves working until Mark's age 65 as they currently are. They have an employee who they have identified will take over the running of the company in stages. They currently have personal life cover which would repay their home loan of $150,000 if either of them were to die and they also have trauma cover of $50,000 each should either of them suffer a major health event such as a cancer or heart attack.

Our recommendations to ensure the future of their business were as follows:

1.Debt repayment cover was placed in the business to cover the debt of $60,000 should either of Cathy or Mark suffer a death or disablement. We were able to offer them one solution which covered all these eventualities to save costs and keep the covers simple and easy to understand.

2. We provided an agreed value revenue protection for the business for 6 months which would ensure that the business could continue to meet its financial commitments . No financial information will be required at claim time which means that claims are paid efficiently and quickly.

3. Mark and Cathy also required income protection insurance for each of them should either of them become permanently disabled and unable to work again. This was taken to age 65 and we were able to save money on premiums by extending the stand down period

4. We will also look at key person cover as they begin the transfer of shares to their employee who wishes to purchase the company progressively

5. After a meeting with their Accountant we are able to change the way they are paid and as a result we have arranged an agreed value ACC cover for them which comes at a reduced cost. Because they have the right type of income protection cover they were able to take agreed value ACC at a reduced level, save money and not compromise their cover.

Everyone's situation is unique to them. If you have not reviewed your covers for some time we suggest you address this. You may save money and achieve a better level of cover for your needs.

Success is the good fortune that comes from aspiration, desperation, perspiration and inspiration

Evan Esar.

Happy Easter

Easter Closure

The office will close at 4pm Thursday 5th April

Reopening

9am Tuesday 10th April

G3 Financial Freedom Ltd - We Make Every Day Count

We are the financial advice company that can help you create the financial future you desire with peace of mind, security and confidence. We operate under the rules of the Financial Markets Authority and abide by the Financial Advisers Act 2008. We are voluntary members of the New Zealand Institute of Financial Advisers.

We are a group of Certified Financial Planners, Chartered Life Underwriters, Accredited Investment Fiduciaries and we are all Authorised Financial Advisers. Talk to us about your financial future now. It is never to late to begin.

Directors, left to right - Tracey Coxhead, Jane Benton and Charlene Overell

G3 FINANCIAL FREEDOM
Goals + Guidance = Growth

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