KiwiSaver – how is New Zealand tracking?

KiwiSaver uptake is high

The total number of KiwiSaver members as at 31 October 2008 had grown to 837,881.

As the table to the right shows, Kiwis of all ages have been joining up – and it's obvious that New Zealand has embraced KiwiSaver in a big way.

Ages of KiwiSaver members as at 31 October 2008

Age band	Members	%
0-17	118,100	14%
18-24	130,107	16%
25-34	128,880	15%
35-44	142,193	17%
45-54	147,207	18%
55+	155,640	19%
No information	15,754	2%
	837,881	

Source: http://www.kiwisaver.govt.nz/ - November 2008

Morningstar KiwiSaver Performance Survey

In October, Morningstar released their first KiwiSaver Performance Survey, designed to help New Zealanders assess the performance of KiwiSaver investment funds*. The results for the five default KiwiSaver funds are outlined below, with AMP's KiwiSaver Default Fund coming out on top in Kiwisaver's first year.

The complete KiwiSaver Performance Survey can be found on the Morningstar website - http://www.morningstar.net.nz/. If you'd like to find out more, please contact Chris Cloete (Head of Sales, NZ, Morningstar Research Ltd).

Speak to an Adviser for more information on KiwiSaver and to obtain a copy of the relevant KiwiSaver scheme investment statement.

KiwiSaver Performance survey – returns to 30 September 2008

Fund Name	Underlying Investment Manager	Inception date	3 month return %	6 month return %	1 year return %	Net assets ($m)
Default options						
AMP KiwiSaver Default Fund	AMP	01 Oct 07	0.86	3.41	3.45	103.9
ASB KiwiSaver Conservative Fund (Default)	ASB Group Investments	01 Oct 07	0.95	1.59	1.47	187.0
AXA KiwiSaver Income Plus	AXA Asia Pacific	30 Sep 07	-1.23	-0.72	-2.71	–
ING KiwiSaver - Conservative Fund	ING	01 Oct 07	1.10	1.34	2.36	88.4
TOWER KiwiPlan-Cash Enhanced	TOWER	01 Oct 07	0.18	1.45	3.36	102.3

Source: Morningstar KiwiSaver Performance Survey, October 2008

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* Past performance is not necessarily indicative of future performance. Returns are subject to investment and other risks (including loss of income and principal invested) and are not guaranteed by any party.

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In relation to any investment information, it is important to note that past performance is not an indicator of future performance; and neither AMP nor AMP Adviser Businesses guarantee that an investor will receive any of the returns stated in this newsletter.

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Please note: a disclosure statement is available on request and free of charge.

SW Morris & Associates Ltd
123b Dominion Rd, Mt Eden
Auckland
Phone: (09) 630 0070
Email: info@swmorris.co.nz
www.swmorris.co.nz

Financial services from and other leading companies

SW Morris & Associates Ltd **Newsletter**

Welcome to the summer edition of our SW Morris & Associates Ltd newsletter

The end of 2008 is nearly upon us - and what a busy and interesting year it's been including challenges for many of us.

I heard on CNBC in the past week a US economist's summary of 2008. He made the remark in summarising 2008 that he "would prefer 2009 to be a lot less interesting than 2008" making reference to the impact of the Credit Crisis in the United States.

My personal view is that there are a number of economic factors that should begin to help take some stress off our financial systems in 2009. Tax cuts, dropping interest rates and lower oil prices being three key factors, which come to mind.

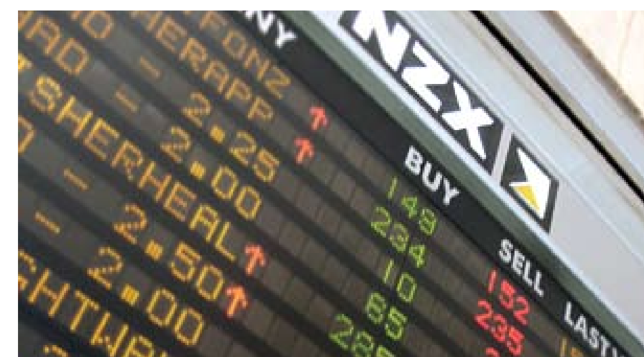
Ros and I are expecting our third daughter in early February so Ros will be taking a year's maternity leave from advising but will still be helping out with the practice management and investment side of the business.

With the thought of another daughter's education fees and wedding (at some stage) my own retirement plans have been deferred for another 10 years (at least age 75 by my estimates of recent inflationary pressures).

We wish you and your family a safe and restful Christmas & New Year period, and we are looking forward to working with you again in 2009

Seasons Greetings

The team at SW Morris & Associates Ltd



Cool calm and collected in the face of market volatility

By Susanna Stuart

It's hard to believe that at the start of the year, economists world-wide were arguing whether or not the economy was entering a period of recession. They talked about the R-word in hushed tones, as if by ignoring the signs they'd go away. But one by one, the financial businesses that had been built on what's known as sub-prime debt (basically loans made with little or no equity) teetered and in many cases collapsed. In the USA, the biggest insurance company, which had branched out into the sub-prime market, found itself mired in debt and was bailed out by a $US120 billion loan from 'Uncle Sam'.

By October, when the US Senate passed a $US700 billion rescue package, the markets were beyond normal reason. In thirty years the world share markets have not seen so many rapid rises and falls.

The problem is that financial markets, unlike commodity markets, run almost entirely on confidence. The price of oil might rise or fall, but most of us continue to use petrol for our cars. But when money markets lose confidence, there's apt to be a freefall. After all, the Dow Jones lost 700 points when the US bailout package failed to go through – but lost even more after the bailout did go through. The cash was there: the confidence was not.

And because confidence is such an uncertain commodity, a number of questions remain pivotal as we watch world events unfold.

- How many bad loans on the brink of defaulting do the world's banks still have?
- How far will house prices fall?
- What will inflation rates do in the wake of such large bailouts?
- Will company earnings fall?
- What about job security?

The fear of so many "unknowns" can create an emotional response. Should we sell up our investments before they disappear? Or is now the time to buy?

But let's return to you. Where does all this confusion and bad market news leave you? What is the best way to weather the current market volatility?

Firstly, put on your rational hat and don't get spooked by the market.

In the fascinating field of investor psychology, repeated tests have shown that investors tend to stampede in strange directions during times of uncertainty. Most investors' first response is to minimise losses; to sell regardless of one's position. When market information is lacking or confused, Wall St brokers have been observed to make more trades not fewer, thereby increasing the risk of getting things wrong. As an investor it's important that you understand and know how to deal with market volatility. Whether you are a saver accumulating funds, or retired and living off your investments, it's important to take into consideration your own risk tolerances and investment timeframes and make rational investment decisions.

If you have any questions about the suitability of your investments to meet your investment goals, you should talk to your AMP Adviser.

Remember that during a market upheaval, even good quality assets may get marked down – just like your own home – which may be worth less now than you could have sold it for a year ago.

Cont. on next page.

Cont. from cover.

Lastly, go back to the basics.

- Go easy on your spending and start living within your means. Get rid of debt as fast as you can
- Don't put all your eggs in one basket. Reconsider your present investment mix if your circumstances have changed
- Seek quality investments and seek advice if you're not absolutely sure about the merits of an investment.

Quote of the quarter

"The more you chase money, the harder it is to catch it.."

Mike Tatum, Cashing In or Selling Out, SXSW 2006

Summer-proofing your home and finances

Over the past six months the financial landscape has changed and the housing market has cooled. It was barely a year ago when lenders were competing to attract borrowers with blemished credit histories, small deposits or unproven incomes. But the credit crunch has resulted in lenders tightening their lending criteria.

If you have an interest rate decision due anytime soon, you may wish to consider fixing for a shorter period (such as a 6 month term) or going on to a variable rate for a period so that you can take advantage of the lower interest rates that are anticipated to be offered in 2009

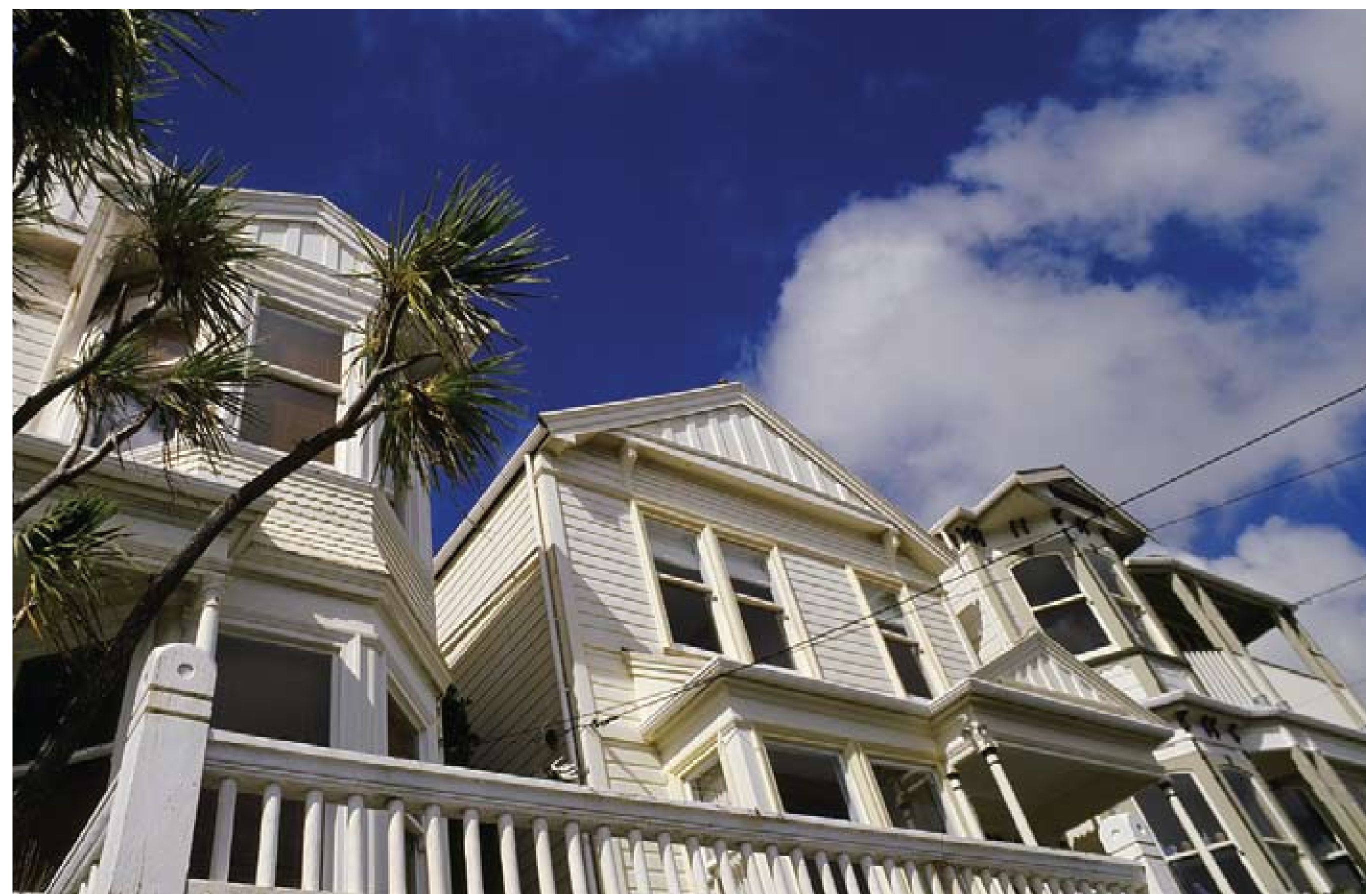
If your interest rate decision date falls on the near side of any OCR review date, you should consider holding off fixing until after the OCR review is made. That's because the trend in rates is down and lenders are likely to drop their interest rates after each review. The next review dates are 4 December and 22 January (a 6 weekly cycle). Indications are that there will be a 1.0% minimum reduction in December and between a 0.25% and 0.5% reduction in January 2009.

Interest rates are getting close to their 5-year averages. In a normal market homeowners would normally be looking to lock in rates for longer terms once those levels are reached. However, the current market and the deteriorating world economic situation may provide opportunities to fix your interest rate at a reasonable margin below those rates. You should talk to your mortgage adviser about how best to structure your home loan to meet your needs.

If your cash flow is looking a bit tight and you're struggling to keep on top of payments, now may be the time to approach your mortgage adviser. You may be able to negotiate reducing your payments, perhaps by increasing the term of your loan, converting your loan to interest-only for a period, or even taking a mortgage holiday (where you don't have to make any payments for up to 3 months). You'd also be wise to look at working with a financial adviser who can discuss your family budget and where you can save or put extra towards the mortgage. It's vital you don't allow insurances to lapse when finances are more stretched. It's more important than ever to have insurances in place to protect you and your family.

If you're in the position of being able to purchase a property, you should consider talking to your mortgage adviser about arranging a pre-approved mortgage. At the moment it's especially important to do this sooner rather than later as lenders are reviewing the terms on which they will lend because of the 'credit crunch'. If you have a pre-approval, the terms of that approval will last between 60 days and 180 days, depending on which lender you go to. After that, it can be a case of re-applying and the lender then has the opportunity to change the terms of their offer. If they have tightened up their criteria then the worst case is that they may not approve the loan again – regardless. If you have a pre-approval you should try to use it within the stated acceptance period, especially if it could be classed as a 'tight' application.

The Christmas season is generally a period of high cost, reduced income (for many, especially the self-employed) and of temptation – not the Christmas cheer variety here, but the temptation to be overly generous with Xmas gifts or to buy yourself end-of-year treats. Given the economic circumstances, now is not the time to be spending up large, especially if you are borrowing the money to do it, either via 'attractive' terms with retailers, credit/store cards, or as additional drawdowns under your mortgage – hold off!



For richer or poorer? Partners have a choice

By Susanna Stuart

It may have taken decades for women to achieve equal voice and equal rights in the management and ownership of household finances. However, by the 1980s it became standard for couples to share joint bank accounts and to totally co-mingle their finances. The marriage vows: "for better for worse, for richer for poorer…" more or less defined the entwined financial possibilities of the typical couple.

But recently a shift has occurred. These days household arrangements are becoming more complex with separation or divorce becoming more commonplace, and in other cases couples deciding not to officially marry at all.

The old laws worked on the assumption that people marry young and broke – starting from scratch. In this scenario a couple builds their assets together.

But these days, (with the average age of first marriage being 29*, and many people finding new partners later in life) each person may be bringing significant assets with them: a house perhaps, or part share in a business.

In these circumstances it may be both more practical and fairer, to keep the assets separated. The decision adds a new dimension to a couple's financial architecture.

When and how to combine your finances:

- It's easier. It suits couples with minimal assets
- Keep joint accounts, and buy assets in your joint names
- Ensure an element of freedom. Make big decisions together, but allow each other some spending money.

When and how to keep things separate:

- When you each have significant assets – for example when marrying a second time around
- It's also ideal when there are children from previous marriages
- You need to prepare a signed property relationship agreement to specify who owns which assets, and that these assets are not part of the relationship. Get a lawyer to prepare this document
- If your main financial streams are separated, you could have a joint account to cover shared expenses – whether these cover the daily cost of living, or more significant items. Discuss this first to work out your operating style.

One factor that may help you decide which route to take is to consider your money personalities. If one is a real spender while the other is frugal, it may be easier all round to keep your income streams and assets separated.

* NZ Statistics.

Protect your business during these uncertain times

These are fast becoming difficult times, and in difficult times it's important that you seek quality advice before making financial decisions. You may be tempted to cut back or go without certain items for your business, such as insurance. However, this may carry long-term consequences that can undermine the financial security of your business in the event of a claim.

A range of business insurance covers

Business insurance can provide cover for a variety of needs. You should ensure you have cover in place to protect the assets in your business (like equipment, stock or vehicles) and protect yourself against professional or public liability claims, employee fraud and loss of income.

While having business insurance in place is essential, it's also imperative that you keep it up-to-date with annual reviews and building valuations.

The importance of annual reviews

Consent and resource issues are now affecting recovery time and costs more than ever so it's vital we take a closer look at policies untouched for more than one year to ensure sums insured and indemnity periods are accurate, relevant and up-to-date.

Your circumstances may have changed since first taking out your policy e.g. acquiring new plant, machinery or staff and it's crucial your details are updated so that your business is fully covered in the event of the unexpected.

Building valuations for your business

Ensuring your building is covered for its full value is key to minimising business loss.

The difference between a market valuation and an insurance valuation

While the market value of a property supposedly includes both the land and all improvements, it's influenced by a number of supply and demand factors and does not necessarily reflect the cost to replace the improvements.

On the other hand, an insurance valuation calculates the sum that would be required to replace the improvements in modern equivalent materials to provide a similar quality of occupation to that currently utilised. It also takes into account:

- council and building consent costs
- building cost inflation and the rebuilding period
- demolition and site clearance of the old improvements.

Put simply, the market value is the price you would expect to get for your property when putting it up for sale, which is usually significantly different from the insurance value. It's important that you obtain an insurance valuation and these should be conducted at least every two years.

An example of underinsurance

Bob owns a building that he operates out of and it's insured at a replacement value of $100,000. The contents such as machinery and fittings of the shop were insured at a replacement value of $120,000. The tools were insured for $8,000 and the profits for $200,000. The total sum insured was $428,000.

When his building suffered a fire loss, Bob lodged a claim only to find the actual cost to rebuild the building was now $425,000 (Bob hadn't obtained an insurance valuation in four years and didn't realise that he should have increased the sum insured). Likewise, the cost to replace the plant had increased to $250,000 and the tools were now valued at $28,000. Bob also hadn't updated his profits sum insured in line with the current $550,000 profit of his business, so his total loss was actually $1,253,000.

Unfortunately, Bob was underinsured by $825,000 and was unable to continue his business.

* The above example is based on an 'actual claim' but the names have been removed for privacy purposes

If you already have business insurance in place, ask yourself – is your existing cover in line with your current situation?

CHECKLIST

- ☐ Do you have an annual review of your business insurance?
- ☐ Do you have any new machinery or motor vehicles?
- ☐ Have you had an increase in the amount of stock or materials in your business?
- ☐ Have you had your building valued for insurance purposes in the last 2 years?
- ☐ Have you checked that the sums insured on the wages, salaries and payroll are adequate?

A tailored approach for your business

Whether your business is small, medium or large, your local AMP Adviser can work with you to gain an understanding of the specific requirements and challenges your business faces. We can then tailor the insurance to meet your priorities and unique business needs.

Note: Always refer to your Insurance Adviser or policy document for full details of cover