

IS THE ECONOMY ON A DIET?

Diets are about losing weight and getting healthy. This is a positive thing in one's life, unless the diet is undertaken too speedily or unless the end game is not fully understood and we undertake a crash diet, lose the weight then pile it all back on again.

One could be excused for thinking the same about the economy right now. We had a period of economic bingeing up until 2007 and prices rose to unsustainable levels. Then along came the mother of all economic diets – the Global Financial Crisis (GFC) that sent the majority of the world onto a crash diet. 2009 was a year of mild recovery and it looked as if the economic diet had worked and we were recovering from our skinny self and putting on economic weight in a measured way. However, it was not to be. The excess of debt in New Zealand and the western world has proven to be too great and these economies have undergone another decline or economic diet.

However, not everyone is on a diet. Many economists around the world are now talking about the emerging and the submerging economies. The emerging economies are those still growing. These include the likes of China, Vietnam, India and Brazil. The submerging economies are drowning in their own indebtedness and are slowing at an alarming rate. These include the likes of USA, UK, Greece and Spain. The submerging economies need to reduce their level of government and personal debt in order to balance their books and start to grow



again. Historically, the emerging economies were heavily dependent on the western world for their economic wellbeing. If the western world was doing well, then consumers bought goods from China, Vietnam and others. If they were not doing well, then the cheque books were put away, goods were not purchased and the emerging economies suffered a downturn. Today, the tables have turned. The emerging economies now have such a growing middle income population that they can consume much of the consumer goods they produce and are now less reliant on exports.

In New Zealand, the Governor of the Reserve Bank wants to keep our economic well-being on as even a keel as possible. He uses the Official Cash Rate (OCR) to help to do this. He will probably delay any increases in the rate until early 2011, in order to help prevent the New Zealand economy slowing too greatly. Using a health metaphor, the Governor of the Reserve Bank would prefer to see us eating healthily (living within our means), rather than bingeing and dieting (boom and bust). This is difficult to do as we are all human and subject to the emotions of fear and greed. If our economy is managed carefully over the next two years and there is just the right amount of personal debt reduction and government economic stimulus, then our economy has a good chance of recovering well from the current economic malaise we find ourselves in.

inside >>

- Gone are the days when buying a plot of earth was the best investment on the planet.
- Is your emergency planning due for a shake-up?

SEASONS GREETINGS

Christmas is just around the corner and you have to ask yourself whatever happened to the year. The years get busier and shorter, or is it that we are just getting older.

It is always a surprise to the Britannia team how quickly the year end arrives.

The Britannia team would like to thank you for your continuing support and wish you a great Christmas and a prosperous New Year.

CHRISTMAS HOURS

Our office will be closed from 23 December 2010 and reopens 5 January 2011.



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HOUSING IS NO SHORT TERM NIRVANA

GONE ARE THE DAYS WHEN HOUSE PRICES ROSE YEAR AFTER YEAR AND ONE COULD BE FORGIVEN FOR THINKING IT WAS THE BEST INVESTMENT ON THE PLANET



By its nature, residential housing should be considered a long-term investment. It should be purchased for its lifestyle (assuming you are going to live in it) or for its yield, if you are going to rent it out. Capital gain should be regarded as the icing on the cake – not the sole determinant for purchasing the house in

the first place. It is likely house prices will rise again but in the short-term expect prices to go sideways for some time. Statistics can be misleading and care needs to be taken in interpreting them. The Real Estate Institute's house price index showed the national average house price as being up just .09% for the year to September 2010. However, it is 5.3% below its peak in late 2007. The rise in house prices from 2002 to 2007 was

accompanied by a massive increase in debt. Household debt is now a massive 160% of disposable income, up from 100% ten years ago and 50% twenty years ago. Net equity in housing has grown almost as fast – rising from 240% of income to 375% of income in the past decade. Housing now represents 70% of households' net wealth. Home loans also make up 56% of bank lending.

What all this means is that residential property plays a huge part in the economic fabric of New Zealanders and their banks. If house prices plummet, then confidence drops and a vicious cycle commences. New Zealanders have woken to the imperative to reduce personal debt levels. This is good, but it needs to be done gradually so that the economy does not slip into a deep recession. Houses will need to become more affordable over time but in the interim, expect house prices to go sideways. What is causing this?

- Cash flow is the life blood of business and household budgets. At present, there is constrained cash flow due to rising rates, increasing insurance premiums and other expense items and subdued wage increases. People have less ability to increase the mortgage to trade up or undertake renovations on their homes.
- Individuals are more risk averse. They are conscious of reducing debt and understand

life's tip #1

"WHOEVER SAID MONEY CAN'T BUY HAPPINESS SIMPLY DIDN'T KNOW WHERE TO GO SHOPPING."
– BO DEREK."

that house prices just do not keep rising forever, unless there is an economic imperative for them to do so.

- Banks are more risk averse. They need to increase their capital adequacy ratios plus they want to see greater deposits and cash servicing ability from their borrowers. This makes it harder for some to borrow money.
- Many house owners are struggling financially whilst interest rates are still at a cyclical low. As and when interest rates rise, the ability to service the mortgage may become strained. Those who can, are currently engaged in debt reduction in preparation for the inevitable increase in interest rates.
- Things are not looking good for the landlords. Rents have not increased to keep pace with house and other price increases. The tight economic environment has stifled the ability of many landlords to increase rents to achieve a viable economic return from their properties. Some landlords are over-committed and will need to sell.
- Immigration remains subdued and hence there is not a huge pressure to build new homes so house prices are not being pushed up by consumer demand.

All of the above is not necessarily bad. It is part of the long overdue correction that had to occur with house prices. What it does do is signal to New Zealanders that funding ones retirement by borrowing to speculate on housing is not necessarily the best course of action. We need to return to the age old principles of saving and investing in a diversified portfolio (which includes property) in order to fund our retirement.

- Investment properties are a business, not idle speculation. Like all good businesses, you need to know how to make money from it, and if it is the investment for you.

Lessons from CHRISTCHURCH

The Christchurch earthquake was a horrific experience for those who lived through it. We are educated to have an emergency disaster kit for the home, but what about the finances? Key financial tips for us all to consider to minimise the financial impact of any future potential disasters are:

- Photocopy and keep off-site, in a secure location, copies of important documents such as your insurance policies, bank account details, wills, trust deeds, passports, lists of investments, key phone numbers, etc. These should be stored far enough away so that if an earthquake destroyed your home, there is little chance the building where your documents are stored is also destroyed.
- Scan the above important documents and upload to a secure storage location on the web. This will enable you to access this information, if all physical records are destroyed.
- Check your home and contents policies annually to ensure they cover you for the events that could occur. It pays to read the policy documents from cover to cover. If

you purchase expensive items, get them itemised on the policy schedule.

- Review your level of term life cover, income protection cover and total and permanent disability cover to ensure you have sufficient cover in the event of your death illness or injury from a disaster.
- Check your car and other vehicle insurance policies to ensure you are covered for disasters such as what Christchurch experienced.
- Have a cash reserve at home (only a few hundred dollars) plus have an emergency account at the bank. The home cash account gives you the ability to purchase things immediately after a disaster when eftpos payment may not be working. The emergency account with the bank gives you the ability to purchase items, until the insurance company can make a payment.
- Check your property and investment portfolio to ensure you do not have an over exposure to one geographic region.

Contact us for a review to ensure you are prepared financially for any future disasters.



HAVING A SENIOR MOMENT?

An elderly couple had dinner at another couple's house, and after eating, the wives left the table and went into the kitchen.

The two gentlemen were talking, and one said, "Last night we went out to a new restaurant and it was really great. I would recommend it very highly."

The other man said, "What is the name of the restaurant?"

The first man thought and thought and finally said, "What is the name of that flower you give to someone you love? You know... the one that's red and has thorns."

"Do you mean a rose?"

"Yes, that's the one," replied the man. He then turned towards the kitchen and yelled, "Rose, what's the name of that restaurant we went to last night?"

We all age at different rates. Forgetfulness seems to come with the territory of aging.

For some tips that can help keep you mentally sharp check out:

<http://www.healyourlife.com/author-susan-smith-jones/2010/02/wisdom/inspiration/too-many-senior-moments>

life's tip #2

"I'M NOT AFRAID OF STORMS FOR I'M LEARNING HOW TO SAIL MY SHIP."
- LOUISA MAY ALCOTT

summing
up

- Emergency planning is commonsense. Not thinking it might happen to you is nonsense.

NEW REGULATIONS COMMENCE

1 December 2010

Throughout the year you may have heard from the media about the upcoming changes to how financial advisers will operate under the new regulatory environment. The new regulations commence on 1 December this year and the implications for you are:

- Britannia has voluntarily engaged a leading supplier of Best Practice compliance services in the financial services industry to conduct quarterly reviews of all processes to ensure that Britannia remains fully compliant with all legislation and regulations.
- Britannia and its advisers have joined an external disputes resolution scheme thereby enabling a more speedy resolution of a complaint should one occur.
- All advice will need to be in writing.
- We will be encouraging you to have an annual review of your financial circumstances or at the very least, a telephone call. There will be a requirement for you to have to advise us of any key changes that may occur to your circumstances that could impact on how your investments are structured.
- All advisers have had to go back to 'school' in some shape or form to pass new education standards that are required under the Code of Professional Conduct.
- Any advice or transaction will need to be accompanied by additional forms that you will need to sign.

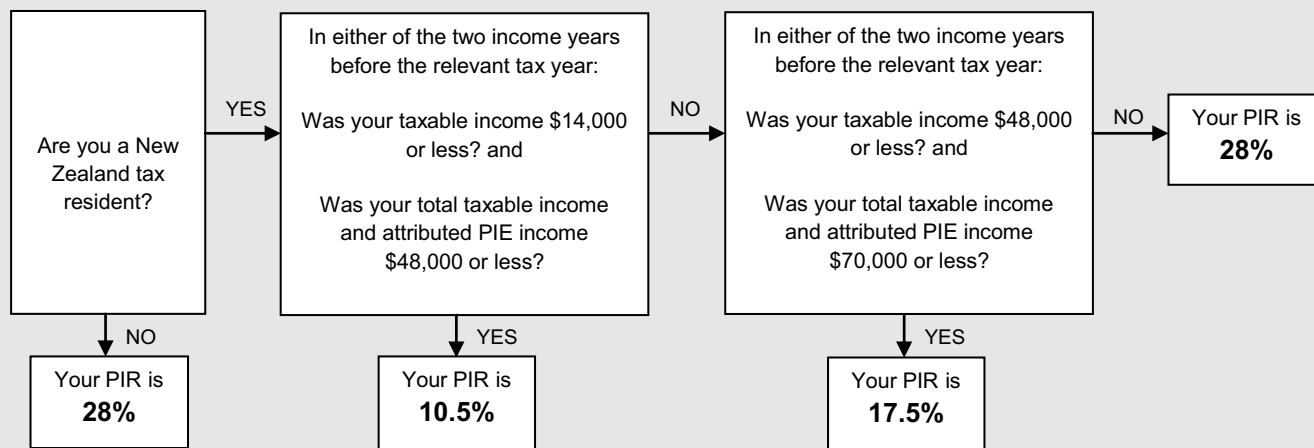
Britannia fully supports the new financial regulatory environment and the raising of professional standards. These standards will help improve the level of advice offered within the industry, but it will inevitably increase the costs of doing business – some of which will have to be passed to our client in due course. Feel free to call your adviser to discuss any of the new regulatory changes that will become evident in coming months.



Don't pay too much tax

A number of significant tax changes occurred on 1 October 2010. The Britannia Superannuation Scheme is a Portfolio Investment Entity (PIE) so was previously taxed at a maximum rate of 30%. It is now taxed at 28% unless your Prescribed Investor Rate (PIR) is lower. Review the below diagram and if your PIR is less than 28%, then please email us your IRD number and correct rate.

Which PIR should I use?



The following website is a useful guide for determining the effects of the 2010 Budget on personal tax, for most forms of personal income: <http://www.taxguide.govt.nz/>

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