swainwoodhamgroup

Pulse!

Newsletter Winter 2012

Investment is a balancing game

There are only four investment asset classes. Each is different and for an investor, it is important to appreciate the relative risks and potential returns of each.

1. **Cash** products are not cash just sitting around as the name implies, they are bank 90-day deposits, so called because your money can be readily accessed. While these offer lower returns, it can be advisable to have some of your money in these to take advantage of opportunities as they arise.

2. **Fixed Interest** products are those that are fixed for a given period and include bonds (e.g. 2 year). Your money is generally locked in for the chosen term, however the return is higher than cash options and unlike shares and property, the return is known before you invest. However while they pay interest, the original amount doesn't grow in value.

3. **Property.** Property investment requires a lot more capital upfront and access to your money is dependent on selling. You will often hear the statement "You can't lose on property" – but sadly, yes you can, as it carries considerable risks just like any investment. Property is a long term investment, in the order of 10 years plus. However you can buy into listed property companies.

4. **Shares.** Rather than owning your own business, you can invest in the entrepreneurial efforts of others through shares in their companies. Historically these offer the highest return of the four asset classes, but also carry the highest risk and value fluctuations.

Some argue that there is a fifth class, which is the highly speculative class. This includes gold, antiques, art and derivatives, sometimes called options. They have no income component and only appreciate based on sentiment and emotion.

The best option is a mix of the four standard classes. All four will never be up or down at the same time so you cover market fluctuations this way. Feel free to call us for more information.

A Latte a day keeps old age at bay

By 2050 – just 38 years from now – it is believed that Aids, cancer and all other fatal diseases will be controlled and in most cases eliminated (however an influenza pandemic of some sort is almost certain). So rather than disease, the obese and the aged will be the filling our hospital beds.

Putting numbers on it, currently over-65s account for 12% of the population but this will increase by 150%, and 400% for the over-85s. If you are currently in your 40s or 50s, you are highly likely to see 2050. All children born after 2000 are considered to be going to live to over 100.

As we age, medical science will keep our bodies in reasonable form, but our brains are another matter. The possible onset of Alzheimer's and other neurological diseases is very real and growing. Since we will get much older, the incidence of Alzheimer's is going to grow almost exponentially.

What can you do about it? As yet there is no cure, but three things are known to significantly delay the onset of brain meltdown.

1) Doing a crossword or learning new things every day works!

2) Caffeine! So enjoy your latte.

3) Taking Omega-3 (fish oil)

So put your feet up, make yourself a latte and take a fish oil capsule, while doing the daily crossword.

Save money at the click of a mouse

By spending a small amount of time on the Internet, you can save large on living expenses and purchases.

www.pricespy.co.nz compares all electronic stores for computers, TVs, printers and appliances. If you know what you want, then check out the prices here first. The variation between stores is considerable.

www.consumer.org.nz offers comparisons on items to ensure you get the right ones. It costs just $28 for 3 months. Well worth it!

www.wheelndeal.co.nz lists the locations of markets and garage sales by region.

www.whatsmynumber.org.nz allows you to compare power companies.

www.oilyrag.co.nz is a reader contribution site that lists ways to save money on daily living such as food and clothing.

www.Trademe.co.nz I bet if you did a garage or wardrobe cleanout you would find hundreds of dollars worth of goods to sell in a single weekend.

A few minutes a day online can save you thousands a year.

The business 'What if' checklist

Your accountant will no doubt have recently presented you with your end of year accounts. He/she will also be going through your accounts looking for cost saving areas and revenue growth opportunities.

But there is a second set of business health checks you should run as well. The 'What if' check list. Run through it and see how you go.

1. What if a key staff member had a serious illness and couldn't work for say a year? Would the business be ok? Could someone else fill in?

What if you lost your single biggest customer? Would the business survive until you found a new one?

2. What if YOU had a stroke or an accident and couldn't work for a year? Would the business be ok?

3. This is the BIG one. If you are in partnership and your partner can't work, would it be ok that his or her spouse moved in as your new business partner? This one has been known to destroy a number of businesses.

On a positive note, all of these can be insured against in various ways. And at a much more modest cost than you may think. It costs nothing to find out. Call me now to discuss options. Since most businesses have an element of their capital secured against their house, this can be a big stress reliever.

The spending habits of the ultra-wealthy

300 of New York's super-wealthy were interviewed recently as to their spending habits. They had an average net-wealth of just under NZ$120 million. For the twelve months prior to the interview, this was their average spending in each category: (in NZ$)

Fine art: $6.4 million; Yacht charters: $686,000; Jewellery: $601,000; Hotels & resorts: $488,000; Watches: $433,000; Clothes: $326,000; Entertaining friends: $123,000; Wine & spirits for the home: $78,000. It's interesting that they sped nearly as much in watches as hotels! And $78,000 would sure fill a big wine cellar.

The growth of home based businesses

Home based businesses are growing due to two main reasons. First is the Internet, which brings the world to your finger-tips and the second is the desire for a better work-life balance, as you can work from home.

The problem is that these two goals are most often in conflict! Setting up and operating an internet based business may cost very little and can start small and grow, but it can take an enormous amount of time! And this is often late at night and weekends, so can impinge on family life, which is not why you did it in the first place.

There are no statistics on exactly how many such businesses operate in NZ as most are not registered companies, but the number is believed to be hundreds of thousands. Most make little to no money of course, but a few make quite substantial amounts.

We are not saying don't do it, just suggesting that you chat to people such as accountants about it first. This will make things smoother as they can give examples of the impact such endeavours have had on other clients and this can help you make sure you go into it eyes wide open.

Scott Stokes

Crayfish hunter Scott Stokes

Scott Stokes joined SwainWoodham in February of this year as a specialist investment adviser. Scott has a post-graduate Diploma in Financial Planning and is a qualified AFA. This means that he is authorised and qualified to give investment and insurance advice in an unbiased way, reviewing client's current financial circumstances then advising on achieving their long term financial goals.

Scott is a born and bred Cantabrian and thinks the city will rebound if the attitude and desire to do so are there. He is married with two children, one at school and one at pre-school and committed to the area.

But where are the crayfish I hear you ask? Well in his spare time, Scott loves to dive for crayfish.

Why your kids need you to have an income

In 2011 a group of NZ researchers produced the figure of $403 a week as the cost of raising two children, in a modest income home. That equates to about $10,400 per child annually.

The study used a formula which compared the expenditure of households with no children against those with children. It found that a low income household paid around $150 on average per week for a child aged up to 12 years while a high income household would pay about $430 a week for the same child. It seems that the more you earn, the more you spend on your little darlings.*

I'm sure you don't look on your kids as an expense due to the joy they add to your lives, but you wouldn't want your income to stop for any reason, would you? Maybe we can give you the backstop you need in this respect. Income Protection and trauma cover are a wonderful way to have this in the event of your income being interrupted by a prolonged illness or injury. Ask us for more details.

**Statistics from stuff.co.nz in an article dated 26/09/2011*

The MUST HAVE and DON'T NEEDS of insurance

There are many different kinds of insurances on the market. Almost anything that can break, get damaged or suffer a mishap can be insured. So which ones are the 'must haves' and which ones are not worth the cost. Here is a quick guide.

The 5 insurance MUST HAVES:

1. Life insurance. The purpose of life insurance is to replace the economic value of the insured person to the household. If that person dies, it allows the rest of the family to survive financially.
2. Disability insurance, which comes in various forms including trauma and income protection. Medical science keeps you alive far more than ever before. We now survive most strokes, heart attacks and many cancers, but ability to work is severely impaired. So who pays the bills if this happens? It can take many months and even years to return to an income generating position.
3. Health insurance. This is required unless you don't mind being on waiting lists for months and months and months. Did you know that just under half the hospital beds in New Zealand are in private hospitals?
4. Home & contents. You may be surprised how many don't have this. The recent earthquakes showed this up in a dramatic way.
5. Car insurance. Shop around for deals such as those combined with home and contents, as they vary a bit but all companies generally offer some form of discount now.

BUT here are some insurances that you DON'T always need:

- Appliance and computer extended warranties. The conditions are too strict, the cost too high for the cover and few ever claim.
- Credit Card insurance. The best option here is simply to not use your card! If you are offered cover for the balance in the event of loss of income, check with us first as you may already have enough cover anyway.
- Accidental Death Cover, This type of over is not expensive, and the reason is simply that it's so rare to claim on it. Only 4% of deaths are due to accidents.
- Flight insurance (normally a $20 option when you book). As 99% of flights get you to where you want, when you want, is this really worthwhile? Your call, but only if you think the there is a real chance of something going wrong.
- Additional rental car insurance. Statistics show that over 90% of rental cars are only used around town and few dents costs more than $500 to repair. So when they ask if you want additional cover to reduce the excess from $1,000 to $300, give it some thought before agreeing.

They key message here is to stick with the basic five at the top of the page.

> "Life is not measured by the number of breaths we take, but by the moments that take our breath away"

The information in this newsletter is of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008. You should seek advice from a financial adviser which takes into account your individual circumstances before you acquire or dispose of a financial product.

SwainWoodham Group
65 Durham Street, Sydenham, Christchurch 8023
P O Box 25-206, Christchurch 8144
Phone (03) 366 4220 Fax (03) 365 0048
Email: info@swainwoodham.co.nz

swainwoodham**group**

Insurance with heart!