REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Newsletter
April 2013

In This Issue

Economic Update

The last few years have been tough for the New Zealand economy. The major theme has been "re-balancing". For us ordinary folk that means we have been going through a period of repairing the damage caused by the Global Financial Crisis (GFC) by spending less and repaying debt. During this period interest rates have stayed low, prices of property and shares have stayed low, and risk protection has been dominating investor sentiment.

In recent times however, we have seen a change. Our economy is beginning to move forward thanks largely to the Canterbury rebuild. Our uncomfortably high exchange rate has kept inflation well in check and therefore the Reserve Bank has been able to keep interest rates low. The result of this set of circumstances is that house prices have begun to rise uncontrollably and consumer confidence has increased to levels not seen since 2007.

Where to from here?

Our prediction for 2013 is for more of the same. We expect the very high Kiwi dollar to go even higher, interest rates to stay low for longer, and house prices to rise even faster. This is what the economists call economic growth. The consequences of this growth are predictable. The high Kiwi dollar will hurt our competitiveness and restrict overall jobs growth. Economic imbalances such as our current account and household debt are all going the wrong way. The booming construction sector will bring higher inflation. Eventually the Reserve Bank will raise interest rates and when that happens there will be a correction in property prices. We also have to contend with a poor job market and now the effects of the drought.

What does this mean for the investor?

Although nominal interest rates are still at around 3.00% - 4.00% in the bank, when you deduct tax and inflation (especially if inflation picks up as predicted) then you are earning nothing in 'real' terms. Elsewhere in the world 'real' interest rate returns are negative. Bonds are now becoming more dangerous to invest in than shares due to the potential for interest rate rises. Residential property is already looking overpriced and it is tipped to go even higher. Our bet for the better performing asset class in 2013 is well priced, New Zealand and Australian shares with a strong dividend yield (and perhaps commercial property). For low risk investors the menu is looking limited, with very little appetite for risk it will be another year of low returns.

Key Indicators and Rates			
OCR (official cash rate)	2.50%	Income Securities Portfolio – 6 Month	4.25%
90 day Bank Bill	2.70%	Heartland Bank Deposit – 1 Year	4.55%
2012 forecast annual CPI (inflation)	0.90%[f]	Income Focus 18 Portfolio *(estimated)*	5.40%
2012 Real GDP%	2.40%	Income Focus 28 Portfolio *(estimated)*	5.90%
Enhanced Cash Portfolio	3.00%	Income Focus 50 Portfolio *(estimated)*	7.00%
Income Securities Portfolio – call	3.75%	Southern Finance Deposit – 1 Year	7.00%
Income Securities Portfolio – 3 Month	4.25%		

**f - forecast due to final data not available*

Changes to KiwiSaver

1. From 1 April 2013 the minimum compulsory employee contribution rate will rise from 2% to 3% of a member's gross salary or wage. Employees contributing at higher rates (4% or 8%) will be unaffected.
2. The minimum employer contribution also increases to 3% from 1 April 2013.
3. As part of the Government's 2012 Budget, the tax credit for children was repealed. If you were under 18, this tax credit covered the tax on your first $2,340 of income from employment. From 1 April 2013, children under 18 now need to complete a Tax Code Declaration (IR330) and give it to their employer so tax can be deducted from their wages at the correct rate. If you are under 18 and a member of a KiwiSaver scheme you will now need to complete a KiwiSaver deduction form (KS2) as you are also now obliged to make KiwiSaver contributions.

The intention of these changes is to help members reach their retirement goals faster. These changes will be automatic and KiwiSaver members will not need to be involved.

Update – The Hub Hornby Mall

In a newsletter early last year we featured The Hub - Hornby Mall and a rights issue for shares in the company that owns the mall. We are delighted to announce that the rights issue reached its minimum subscription level and the new development project has commenced. A total of $44m was required to develop the mall to accommodate the rapid development in the area. The mall is on schedule and you can see significant progress in the demolition of the older parts of the mall and in the Chalmers Street road re-alignment. The original main contractor was Mainzeal however the project has now been taken over by Leighs Construction with little or no change in the timetable or terms.

We still have a parcel of shares available for investors who may have an interest in this commercial property. The share price is the same as the rights issue ($1.14) and based on a 7.75 cents per share dividend (paid quarterly) the gross yield is 6.8%. If you have a desire to invest into one of the fastest growing demographic areas in New Zealand, then please give Steve a call.

Enhanced Income Fund (EIF)

Many of you will remember the old Enhanced Income Fund (EIF). This fund was the early version of the Income Securities Portfolio (ISP). The EIF was replaced by the ISP in 2008, with all but a small number of assets transferred across to the ISP. The few that remained were left in the EIF either due to a lack of liquidity (being able to get a price) or due to being frozen. Over the last 5 years the majority of the remaining assets have been repaid. The trustees have approved the winding up the EIF and Grosvenor paying out the market value of the remaining assets. For most clients the remaining balances are less than $10.00 and this has been a source of much frustration for many of us. These small balances will be credited to client portfolio cash accounts (PIA) before 31st March. Grosvenor has taken this positive move for clients in an effort to close this investment and avoid ongoing accounting and trustee fees. Grosvenor will now take on the risk of recovery of the remaining assets.

Client Survey on Communication

Recently some clients completed a brief survey and were asked 6 questions regarding how and when Rede Advisers communicate with you, our clients. We would like to thank those clients unlucky enough to have received it. Your responses were fantastic, and very much appreciated. The following is a brief summary of the results:

1. Over 97% of respondents thought the information received from us concerning their investments, taxation and general financial information was sufficient.

2. Over 94% of respondents agreed that the quality of the information was adequate.

3. More than 90% of respondents thought the current six monthly reports were readable and pitched at the right level.

4. When asked if a shorter form six monthly report was a good option only 38% of respondents agreed, with 62% wishing to retain the comprehensive report style.

5. When asked if you prefer communication electronically or by traditional mail the vast majority favoured electronically. A number of specific comments did refer to a preference for a traditional paper copy of the six monthly report. We can accommodate clients receiving communications from us via email with the exception of the six monthly report which can be printed and sent by post. If you would like to change how you receive communication from us please contact Jasmine anytime. Our default setting will remain electronic unless you advise otherwise.

6. The vast majority of respondents enjoyed our newsletters and thought the content was useful. A number of specific comments referred to a desire to receive a more detailed economic commentary. We do have a monthly economic update which is sent out to those clients wishing to receive a more detailed analysis of events. If you would like to be included on this list please contact Michael. We feel this information would suit clients who have a real interest in the financial detail of their investment portfolio, and the impact world events may have on performance and risk.

We know it is difficult to get the frequency and content of information right for everyone. We welcome feedback regarding what you are receiving and where you would like to see any changes.

Thank you again for the overwhelming response – the results will assist us in being better at what we do and in being of assistance to you.

Reporting Timetable

We are now entering our usually very busy administrative quarter with the financial and tax year-end. Over the next three months, we will be working on the following for you.

mid-April	• Non-Custodial assets will be updated ahead of preparing six-monthly reports.
late-April	• Six Month Investment Performance Reports to 31 March 2013 will be prepared and sent. • Tax certificates from financial institutions should have all been received.
mid-May	• Grosvenor RWT and PIE Tax Certificates will be issued. • We will commence preparation of tax worksheets, compiling all investment income for the year ending 31 March 2013. These will be issued to you unless you have instructed us to send them to your accountant or hold them. This is usually completed by mid-June.
late May	• 2013 Tax Packs and Summary of Earnings are issued by Inland Revenue. • Clients wishing us to prepare their tax returns and Trust financial statements should have forwarded us all information by the end of May.
June	• 2013 tax returns & financial statements will be progressively prepared ahead of Inland Revenue's 7th July filing deadline.

QUIZ

These four pictures have something in common - what is it?

Using a combination of the letters below - can you guess the 8 letter word?

□ □ □ □ □ □ □ □

T I N R I T E Y N B S E

*** The answer will be posted on our website on Monday 8th April ***

OUR CONTACT DETAILS

• Office	Tel: 03 964 4207	Fax: 03 357 0008	Email: rede@camelotgroup.co.nz
• Steve Benton	DDI: 03 964 4209	Mobile: 027 205 2130	Email: steve_benton@rede.co.nz
• Michael Shears	DDI: 03 964 4222	Mobile: 021 310 241	Email: michael_shears@rede.co.nz
• Jasmine Murphy	DDI: 03 964 4208		Email: jasmine_murphy@rede.co.nz
• Julie Mardon	Tel: 03 964 4207		Email: Julie_mardon@rede.co.nz

Office location: Level 1, 567 Wairakei Road, Harewood, Christchurch 8053
Mailing address: P O Box 39 100, Harewood, Christchurch 8545

Website: www.rede.co.nz

Disclosure Statements are available on request and free of charge.
