REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

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Economic Update

Offshore the economic picture is mixed. Aussie has just lowered their OCR again to 2.50% and their economy is beginning to struggle. The Euro Zone is still a basket case and the "P.I.I.G.S." economies (Portugal, Ireland, Italy, Greece and Spain) are all fighting desperately to stay in the Eurozone and out of bankruptcy. The Japanese economy is only a little healthier, and only because of a multi billion Yen rescue package. The surprise, and one of the few bright spots outside of Asia, is the US. All the data from the US in recent times points to a solid and sustainable recovery. The big issue for the US Federal Reserve is when to put the brakes on Quantative Easing (QE). Since 2008 the US has been pumping their economy and printing money in an effort to drag themselves out of recession. To a large extent they have succeeded (much to the surprise of some). The big concern now is what happens when the US Federal Reserve stops printing money and starts moving interest rates up above their current effective zero rate? Watch this space.

Here in New Zealand the Reserve Bank left the Official Cash Rate (OCR) unchanged at 2.50%. However, the statement accompanying the announcement contained two subtle and significant changes in tone. For some time the Reserve Bank has held back from acknowledging the pick-up in the New Zealand economy due to fear of driving our high NZ dollar even higher. Unfortunately for the Reserve Bank the evidence of economic momentum has been mounting in recent months. Examples are:

- ANZ Business Outlook survey has economic outlook improving to a high 45% net positive.
- Westpac Consumer Confidence index has risen to its highest levels in 3 years.
- Net migration lifted to highest levels in 3 years.
- Fonterra has announced a projected pay out of $7.50 for the 2013/14 season.
- New housing units authorised are at their highest level for 5 years.

The Reserve Bank has finally admitted that "removal of monetary stimulus will likely be needed in the future." In bank speak this is a significant change. The second change is in admitting that the timing of this change may be sooner than we expect if economic data surprises on the upside.

What does this mean for investors?

Not a lot of change from the last update. Our interest rates in New Zealand are still dominated by the Reserve Bank setting of the OCR. That is still low. Behind the scenes however we are seeing wholesale rates for longer term money move up. We expect to see this continue and this will lead to a steady rise in rates offered to investors – possibly as early as Christmas. Concerns overseas with Quantitive Easing and the sick Euro Zone will see international markets jump up and down as fear ebbs and flows and probably end up going nowhere for a while. The Aussie markets will drift until after the election. Back home, our share market may surprise however the recent Fonterra milk powder scare reminds us how susceptible our markets are to risks.

Key Indicators and Rates

OCR (official cash rate)	2.50%	Southern Finance Deposit – 1 year	6.25%
90 day Bank Bill	2.45%	Corporate Bond Portfolio *(estimated)*	4.50%
Enhanced Cash Portfolio	3.00%	Income Focus 18 Portfolio *(estimated)*	5.40%
Income Securities Portfolio – Call	3.50%	Income Focus 28 Portfolio *(estimated)*	5.90%
Income Securities Portfolio – 3,6 & 12 mth	4.00%	Income Focus 50 Portfolio *(estimated)*	7.00%
Heartland Bank Deposit – 1 year	4.35%	The Hub–Hornby shares – current yield	7.00%

Anti-Money Laundering and Countering Financing of Terrorism Act (AML / CFT)

What is AML / CFT?

1. Anti-Money Laundering (AML)
   Money laundering is concerned with concealing the origins of funds or assets generated through illegal operations such as drug manufacture or from tax evasion. Launders attempt to hide the origins of the illegal funds through complex transactions. The result is that illegal funds are introduced into our financial system and through various transactions are then "laundered" to look like legitimate funds.

2. Countering Financing of Terrorism (CFT)
   Financing of Terrorism occurs where a person directly and without lawful justification collects funds intending that they be used to carry out terrorist acts or for the benefit of another person that will use the funds to carry out terrorist acts. Although New Zealand seems far away from international terrorism, we are not immune from being involved. Terrorists are able to take advantage of any weak AML/CFT processes in banking and money related systems.

How will this affect me?

All entities involved in the New Zealand financial system are now required to have an AML/CFT programme in place. This includes all banks, all institutions who handle money on behalf of clients, and advisers. Like a lot of recent legislation, the onus to identify non compliance has fallen on the advisory profession. Financial advisers are seen as the first defence against illegal activities involving money laundering and financing terrorism.

Rede Advisers is required to have an AML/CFT program. This involves us completing a comprehensive risk assessment of our business and our clients, including assessments on the nature and complexity of our business, the products and services we provide, types of clients we have, and the institutions and countries we deal with. The risk assessment must be completed annually and audited bi-annually by an independent auditor – all at Rede Advisers' cost (of course).

All financial service providers' clients will feel the impact of the regulations. When you next transact business you will find the process has become a little more complex. Customer due diligence now has to be completed on the client, any beneficial owners of the client, and any person acting on behalf of the client.

This involves:

- Identification of clients, their names and addresses, occupation and the nature and purpose of transactions.
- Identification of parents/guardians, Power of Attorney, authorised signatory, director, trustee and settlor, major shareholders and beneficiaries.

If there are any suspicious actions then the adviser is legally required to report the transaction. In summary there will be more requirements to verify any person connected to a transaction in any way – more paper work!

We have no doubt that this program will make business a little more difficult. Here at Rede Advisers we have mostly operated at a level well above normal requirements and therefore we feel our existing clients will see very little change. You may notice a change however next time you open a new bank account, make an international payment, or transfer funds to friends or family.

Life Stages

Although not new in the financial advisory profession, the term Life Stages has recently appeared again in headlines. Life stages is about meeting the demands made by investors having varied requirements in different stages of their lives. A simplistic illustration of this is that clients who are working want portfolios weighted towards capital growth, while clients who are retired want portfolios weighted towards income. In recent years some KiwiSaver providers have gone a step further and introduced an investment strategy which changes automatically based on the age of the investor. The basic principal is that while an investor is young the risk profile asset allocation can be aggressive. When the investor gets closer to the age of retirement then the risk profile asset allocation should be more conservative.

If an investor selects the Life Stages option with this KiwiSaver provider then automatically, based on the age bands, the investor's exposure to various investment assets will change. This KiwiSaver provider does not offer advice therefore there is some logic and sensibleness about offering this "set and forget" solution. Many investors would not remember to make the changes to the risk profile, and even if they did remember only a small minority would have the ability to make an informed and knowledgeable selection.

One example that we reviewed recently had the following life stages:

Life Stages	KiwiSaver Fund Selection	Asset Allocation - Growth v Income Assets	
up to 40 years	Growth Fund	100% Growth Assets	
40 to 44 years	Growth + Balanced	75%	25%
45 to 49 years	Balanced	50%	50%
50 to 54 years	Balanced + Conservative	37.5%	62.5%
55 to 59 years	Conservative	25%	75%
60+ years	Conservative + Cash	12.5%	87.5% Income Assets

What are the problems with this approach?

Life stages assumes that:

1. all investors are the same, and all investors should have identical portfolios based on their age.
2. all investors will be retiring at age 65 and will be withdrawing all their money and requiring an income.
3. the asset allocation selected by the investor's age is suitable for all occasions, regardless of the state of the economy or the health of the financial markets.
4. the only purpose for KiwiSaver is to save for retirement, and that money will not be withdrawn for any other purpose or at any other time, e.g. purchase your first home or for significant health or financial hardship.

We all know the "one fit for all" concept does not work. There are numerous examples that we can recount for all four problems mentioned above. A significant number of our investors have a desire to retire earlier than 65, while another group of investors have no plans to ever retire and wish to remain actively employed contributing to society until they die. Many younger investors use their savings to purchase a home (arguably a more secure family protection option than saving for retirement) and many more are very reluctant to "lock in" savings where they cannot be accessed regardless of their circumstances or better investment options that may be available.

What is the solution?

Use your adviser. Although we can never be experts on every circumstance encountered by our clients, we do have significant experience and professional training. We also have access to other professional experts in various related areas making your adviser the "first point of call" when your circumstances change.

Please keep in touch with your adviser. If you feel you may not be in the correct investment allocation then please feel free to contact us. This is what we are here for.

Trans-Tasman Portability of Super – Aussie Super and KiwiSaver

On 1 July 2013 the KiwiSaver Act 2006 was amended to allow the transfer of retirement savings from Australia to New Zealand (and vice versa). The new arrangements allow a person who has retirement savings in both Australia and New Zealand to consolidate them in one account in their current country of residence.

Key features of the new arrangements:

- Retirement savings may only be transferred between an Australian complying superannuation fund and a KiwiSaver scheme by a member permanently emigrating to New Zealand or Australia.
- A member must transfer the full amount of their savings. This will include all Government contributions received by KiwiSaver members.
- Retirement savings transferred to New Zealand or Australia cannot be subsequently transferred to a third country's foreign superannuation scheme or withdrawn.
- The Arrangement is voluntary for members and for superannuation schemes. Scheme providers need to ensure that transferred savings are separately identifiable within the account established in the host country. Therefore, not all Australian schemes and KiwiSaver providers will allow transfers.

If you have been employed in Australia at any time since 1992 and have an Australian superannuation scheme, then you can now transfer this to your KiwiSaver scheme in New Zealand. We can assist with this transfer, including locating any "lost Super" if you are unsure where your funds are held, and discussing the pros and cons of transferring funds. For more information, a selection of frequently-asked questions has been added to our website – **www.rede.co.nz/kiwisaver** To discuss your personal situation, please feel free to contact Michael or Steve.

QUIZ

1. If an investment drops in value by 20% when the market falls, does the investor recover all their investment when the markets recover by 20%?

2. Investor A – saves $100 per month for 5 years, then is unable to save for the next 10 years.
   Investor B - is unable to save for the first 5 years, then saves $100 per month for the next 10 years.

   Which investor has the largest savings after 15 years (assuming an interest rate of 10%) – A or B?

3. What is a US ten dollar bill made out of?

*** Answers will be posted on our website on Monday 26th August ***

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Check out our new look website at www.rede.co.nz

Disclosure Statements are available on request and free of charge.
