REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

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Steve's Soap Box

The following is yet another contentious piece of opinion Steve has written for the newsletter. As we have warned previously, these pieces are on current issues affecting New Zealand and will be hard hitting and sometimes controversial. Steve is not known for his diplomacy and political correctness, and he has given himself licence to say it as he sees it. The opinions stated in these pieces will be his own and not necessarily those of the company or other staff members.

We hope you enjoy them as much as Steve enjoys writing them.

Who Owns Your Kiwisaver Scheme?

KiwiSaver is being lauded as a great success by everybody. Admittedly you do hear the odd grumble concerning the low contribution level paid by employers (very low by international standards), or the locked in nature of the scheme until you attain eligibility to NZ Super (currently age 65). Generally however, KiwiSaver has been given a big tick by all of us. However, there is one very big problem with New Zealand's premiere superannuation scheme – New Zealanders don't own much of it!

Readers will remember how indignant I was that such large amounts of our hard earned bank profits were disappearing across the Tasman. I have noted, with increased cynicism, that this years bank profits are even higher than last year. I am only consoled by the fact that generally we don't have much choice when it comes to our banks. Most NZ owned banks offer restricted banking services especially for businesses. When it comes to KiwiSaver schemes however, all KiwiSaver schemes are similar.

Here are the facts taken from the latest Workplace Savings NZ data:

- There are 2,299,000 current KiwiSaver members.
- There is $21,987,000,000 invested into KiwiSaver schemes.
- The average KiwiSaver balance is $9,564 per member.

These figures aren't too bad considering the scheme has only been going for 7 years and is voluntary. Can you imagine how much money will be invested into KiwiSaver in a few years time when average balances increase towards $100,000 and KiwiSaver becomes compulsory!

So what is my problem I hear you say? My problem is this:

- Of the 2,299,000 current KiwiSaver members, a mind boggling total of 1,810,000 have elected to place their money with Ozzy or International owned managers. This is 78.73% of all members.
- Of the $21,987,000,000 invested by hard working Kiwis into a KiwiSaver scheme, a staggering total of $16,414,000,000 is invested with Ozzy or International owned managers. This is 74.65% of all money invested.

The profits generated by these managers is crossing the Tasman in ever increasing plane loads every year. The exponential nature of KiwiSaver savings means that no matter how big the profits are today, they will be dwarfed into insignificance compared to a few years time. **Perhaps we should rebrand KiwiSaver – OzzySaver?**

So why are Kiwis so generous to our Trans Tasman neighbours? Why are we flocking to Ozzy owned banks and KiwiSaver managers (over 90% of all banks lending is by Ozzy banks, and now almost 80% of all KiwiSaver profits goes to Ozzy managers)? Isn't giving them the Super 15 crown enough?

The reasons are many and varied and are both structural and social in nature.

1. Initially there were only 6 appointed Default Providers when KiwiSaver commenced. 5 of those 6 were Ozzy owned banks and insurance conglomerates.
2. The banks have employed a number of underhand methods to transfer members from other schemes to their schemes. They also have escaped a considerable amount of compliance, and attention from the regulator.
3. Kiwis have inexplicably shown a serious lack of national pride when it comes to where they place their money. For a nation who loves to beat our Trans Tasman neighbours on the sports fields, we seem to roll over meekly when it comes to the financial game.

When it comes to KiwiSaver, we all have a choice. Kiwis can elect to have their money managed by any number of very good Kiwi owned financial management companies, and transferring between schemes is very easy. The KiwiSaver playing field is much more even. We can elect to have our money managed by those big Ozzy banks or insurance companies (and send the profits west across the Tasman) or we can elect a Kiwi owned manager. There is no material difference, other than the profits staying here in Godzone. There are some excellent Kiwi managers to choose from such as Grosvenor, Fisher, Fidelity and Kiwibank.

If your money is being managed by a big Ozzy manager then transfer it today. At Rede Advisers, we currently recommend two managers – both of which are proudly Kiwi owned.

QUIZ

1. What is a person's net worth?

A. your total assets less liabilities, B. money in your savings account, C. your yearly salary minus your taxes

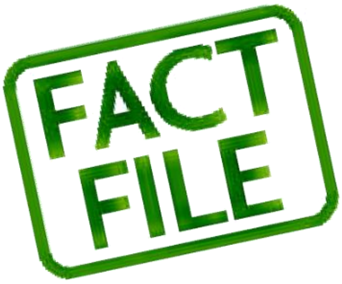
2. If you had 10 billion $1 notes and spent one every second of every day,
how long it would take you to go broke?

A. 50 years, B. 160 years, C. 317 years

3. How many double folds (forward and backward) are required before a note will tear?

A. about 34, B. about 480, C. about 4,000

***Answers on page 4 ***



Did you know that…

- A person who drives 15 km to buy a lottery ticket is 3 times more likely to be killed in a car accident while driving to buy the ticket than he is to win the jackpot.
- People tip more on sunny days than they do on dreary days.
- Since money gets dirty with use, many Japanese automated teller machines will sterilize and iron yen-notes before dispensing them.

What Do Changes In Our Economy Mean For Investors?

Since the new Reserve Bank governor Graeme Wheeler came to the helm, the Reserve Bank has been operating a 'no surprises' policy. The July interest rate review meeting was no exception, and they proceeded to hike the OCR (Official Cash Rate) by another 0.25% to 3.50%. This was the 4th 0.25% increase since the commencement of increases earlier this year.

Also of no surprise was the comments from the Reserve Bank that the interest rate increases will now pause, and the analysts will take stock of the impact that the recent increases will have on our economy. We now anticipate no more increases this year however we do expect another round of increases to re-commence early next year and continue through 2015. The consensus view is still for the OCR rate to reach around 5.00% by mid 2016. This should see 12 month bank deposits reach around 6.00%.

Again, also of no surprise, was the Reserve Bank comments regarding the recent run of slightly weaker data including the significant fall in Global Dairy prices. The impact of this slightly weaker data should be the following:

1. The Dairy prices have fallen 41.00% since their peak in February. This has knocked farm gate incomes by $3.50 - $4.50 billion.
2. Should these prices remain at this level this could knock around 2.00% off our GDP (Gross Domestic Product).
3. Most economists now predict our growth will now be around 3.00% p.a. and not the heady heights of 4.00% as predicted 6 months earlier.
4. It isn't a surprise then that the Reserve Bank has called for a pause in the upward rise of interest rates.
5. The New Zealand dollar will now come under pressure. The strength of or dollar has always had a link with the strength of our exports. With a 41.00% fall in our main export commodity, we expect a fall in our currency.
6. The New Zealand dollar has fallen back 5.00% against most currencies since the recent data announcements (from 88 cents against the US dollar to 84 cents). This fall still appears inadequate and we expect another fall of 5.00% during the next few months. This could see us hit 80 cents against the US, and around 88 cents against the Ozzy dollar.

What impact will this have on investors? Firstly deposit rates, and other fixed rate instruments that take their lead from the OCR will sit at current levels for the next 6 months. Investors will need to resist jumping too far into longer fixed rates (despite the temptation) and hold off until next year.

Growth investors will see immediate benefits from the offshore assets they own in their portfolios as the Kiwi dollar falls. The fall in our currency will also tempt investors with superannuation money in Ozzy or the UK to make the transfer back to New Zealand.

A note of caution:

1. The fall in Dairy prices is anticipated to be short lived and could commence its upward trend again early next year.
2. This will see the economy continue to be robust which will then flow through to the re-commencement of the OCR hikes next year.
3. Increase in Dairy prices will likely impact our dollar and the trend will still continue upwards after the recent weakness is played out over coming months.

Key Indicators and Rates

OCR (official cash rate)	3.50%	UDC Finance Deposit – 1 year	4.75%
90 day Bank Bill	3.67%	Southern Finance Deposit – 1 year	6.00%
Enhanced Cash Portfolio	3.50%	Heartland Bank Deposit – 1 year	4.50%
Income Securities Portfolio – Call	4.00%	Income Focus 18 Portfolio *(estimated)*	5.10%
Income Securities Portfolio – 3 & 6 mths	4.25%	Income Focus 28 Portfolio *(estimated)*	5.60%
Income Securities Portfolio – 12 mths	4.50%	Income Focus 50 Portfolio (estimated)	6.80%
Income Securities Portfolio – 24 mths	4.75%	Corporate Bond Portfolio (estimated)	4.30%

1. **A -** your total assets less liabilities
2. **C -** 317 years
3. **C -** about 4,000

Staff News

Jasmine Murphy has returned from maternity leave although there is a change of role for her. Jasmine has swapped from the full-time position of Client Services to the more mother friendly and part-time role of KiwiSaver adviser. Ona will continue in the position of Client Services and the almost impossible role of personal assistant to Steve.

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Disclosure Statements are available on request and free of charge.