REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Newsletter
December 2014

In This Issue *Page*

Steve's Soap Box

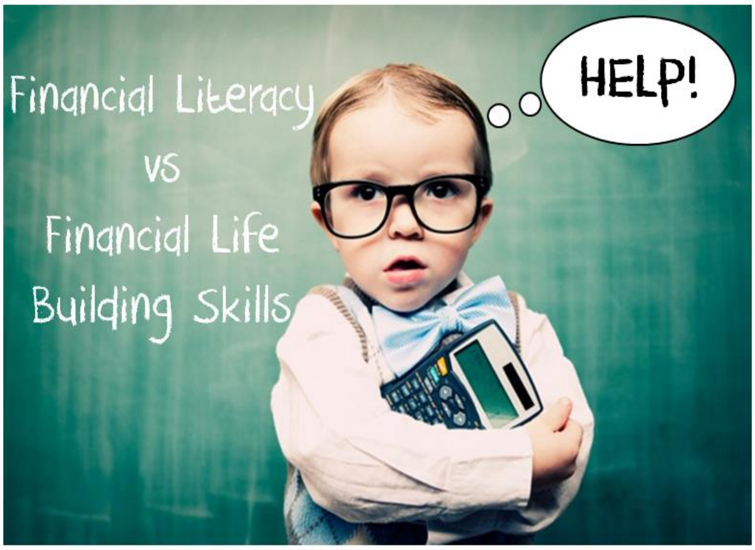
The following is yet another contentious piece of opinion Steve has written for the newsletter. As we have warned previously, these pieces are on current issues affecting New Zealand and will be hard hitting and sometimes controversial. Steve is not known for his diplomacy and political correctness, and we have given him an opportunity 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.

What They Are NOT Teaching Our Children In Schools

A very good client and friend told me recently about cooking not being taught in schools. She was shocked to find out that children were arriving at school either hungry, or having been fed unhealthy or inadequate food. Her concern was not only the matter of hungry children; it was also the lack of teaching children to cook healthy meals. It was her experience that the old 'cooking class' had become a 'technology' class and children were no longer being taught the basics of cooking a meal.

This matter got me thinking about what else is NOT being taught to our children. The obvious area of concern for me is financial literacy. Surely schools teach financial literacy as a core subject unit? But no, like cooking, financial literacy has been hijacked and is more about how much extra you can buy if there is a 25% sale, and not about the dangers of borrowing money on credit cards to buy the products in the first place.



I suspect we could debate the merits or otherwise of schools teaching financial literacy. If schools cannot teach financial literacy to our children, then who can? There is no debate however, about how important this subject is. Many older clients learnt savings habits from the NZ Post Office accounts run through schools, and many more learnt by having to save a decent deposit to buy their first home.

What are the financial literacy skills not being taught that should be? Here is just a few:

1. The dangers of credit card debt.
2. The real cost of paying for a car or holiday by adding the price to your 30 year house mortgage.
3. The miracle of compound interest.
4. How dumb it is to buy high and sell low.
5. The true cost of cup of coffee.
6. How dollar-cost-averaging turns volatility into your friend.
7. The importance of insurance, protecting what you have already accumulated.
8. How does KiwiSaver work and what will I need to accumulate for a comfortable retirement?

This list goes on and on. Core financial skills are arguably more important then many subjects being taught today. From a very early age our children are being bombarded by expensive marketing campaigns encouraging them to eat more burgers, watch more TV, buy more clothes, and borrow more money. Whose responsibility is it to provide balance and perspective?

Like cooking a healthy meal, financial literacy needs to be taught and the earlier the better. The responsibility to do this cannot be left just to our schools - they are struggling to cope with an incredible amount of demands already. No, the responsibility is ours. We are all parents, grandparents, uncles or aunties and we all need to take a lead in this role. When was the last time we sat down with a member of the younger generation and talked to them about obesity and healthy living, or about joining KiwiSaver, or encouraging them to seek financial advice? Personally, I think credit cards should have a maximum limit of $5,000.00 and you should be allowed only one. But – that is only my opinion.

What Does Oil Have To Do With The Price Of Houses?

The recent fall in oil prices, and the related price of petrol at the pump, has caused us to rethink the direction and timing of interest rate movements. Falling oil prices will push our inflation below the 1.00% bottom of our Reserve Bank range, cancelling the need for any official Cash Rate (OCR) increases during 2015.

But cheap oil and low interest rates will also stimulate consumer confidence and economic growth. This is a potent cocktail for the housing market. Financial markets may now begin to speculate on the possibility that the OCR may even be lowered. If this possibility gains some legs then wholesale interest rates will fall, and that will drag down fixed mortgage rates.

For the housing market a further reduction in fixed mortgage rates would be like spiking the punch at a party – things will get raucous, or even a little out of hand. Net migration is now booming, our economy is strong (relatively speaking) and low interest rates will lead to a further surge in housing prices.

This will be a worry for the Reserve Bank from a financial stability perspective. Too much lending on housing assets that appear strongly overvalued could lead to serious capital adequacy problems for banks if there was to be a property correction. This is also bad news for first home buyers, especially in the centres that will experience the most increases like Auckland, as prices rise faster than first home buyers can save a deposit. We are sure this scenario will lead to the Reserve Bank being forced to take action similar to the LVR restrictions introduced last year. Financial commentators will call these 'macro-prudential tools'. We will call them essential and inevitable hand brakes on runaway and out of control Aussie banks.

In summary – plunging oil prices (we are now at 5 year lows) will lower inflation leading to lower fixed mortgage rates leading to a dramatic effect on our economy and on house prices.

New Year's Resolutions – We All Have Them

New Year's resolutions don't change much. At the top of the list you'll always find diet and exercise, spend more time with family, quit smoking or drinking, and save more money or get out of debt. Almost no one follows through - and almost no one gives it a second thought. Maybe you should. Failed New Year's resolutions have a real cost. Seven in 10 people who fail to keep a New Year's resolution will lose more than $1,300 in this manner, according to Grenny's online survey, which also showed that half of people give up on their goals within 30 days and 75% give up within three months. Perhaps most interesting, 77% have made the same resolutions each of the last five years.

So this year why not switch it up a bit and, at least when it concerns your money, make some commitments that won't cost a cent, will help you in the long run - and you are able to keep. The time is right.

1. Set a spending budget - once you have a full picture of where your money goes each month, you can find more places to save.
2. Set a savings budget - learn to make do with what's left.
3. Create an emergency fund - build three to six months' worth of expenses in an emergency fund.
4. Don't count it as saving money when you buy items on sale – no matter how much the price is reduced, you're still spending money, not saving it.
5. Stop looking at your investment portfolios so often. If you're a long-term investor, what's the point in checking your accounts every day, week or month?
6. Eliminate wasteful spending. Candidates might include lotto tickets, groceries that end up going bad, gifts the recipients don't like, clothes you rarely wear and subscriptions to magazines you don't read.
7. Don't justify a new car or home improvements as investments.
8. Have a frank financial discussion with your children. Tailor your remarks depending on their ages.
9. Check your insurance coverage – both the things you own and yourself personally.
10. Understand your investments.
11. Treat yourself and those you love.
12. Come and see your financial adviser ☺

Christmas Period Transactions

Grosvenor will be closed from Wednesday 24th December until Monday 5th January, so the following will apply:

- Regular withdrawals and direct debits due between 24th and 31st December will ALL be processed on 31st December.
- Last day for one-off withdrawals from Grosvenor portfolios (not BNZ accounts) are:
  - 2.00pm, 22nd December where trading is required
  - 12.00pm, 23rd December where cash is available
- Payments from BNZ Cash Manager Accounts will continue as normal on business days.

Key Indicators and Rates

OCR (official cash rate)	3.50%	UDC Finance Deposit – 1 year	4.50%
90 day Bank Bill	3.67%	Mutual Credit Finance Deposit – 18 mths	6.25%
Enhanced Cash Portfolio	3.75%	Heartland Bank Deposit – 1 year	4.50%
Income Securities Portfolio – Call	4.25%	Income Focus 18 Portfolio *(estimated)*	4.90%
Income Securities Portfolio – 3 & 6 mths	4.50%	Income Focus 28 Portfolio *(estimated)*	5.50%
Income Securities Portfolio – 12 mths	4.50%	Income Focus 50 Portfolio (estimated)	6.70%
Income Securities Portfolio – 24 mths	4.75%	Corporate Bond Portfolio (estimated)	4.10%

Our office will close for the Christmas break at 12.00pm on Tuesday, 23rd December 2014 and re-open on Wednesday, 14th January 2015.

As always, both Michael and Steve are available on their mobiles in the event of an emergency. If you require urgent assistance, please call and leave a message and they will get back to you as soon as they can.

We wish you a happy holiday season
and a New Year of health, happiness and prosperity.

OUR CONTACT DETAILS

Office	Tel: 03 964 4207	Fax: 03 357 0008	Email: office@rede.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	Tel: 03 964 4207	Mobile: 027 206 5060	Email: jasmine_murphy@rede.co.nz
Ona Mackonyte	DDI: 03 964 4208		Email: ona_mackonyte@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

Visit our website at www.rede.co.nz

Disclosure Statements are available on request and free of charge.

Disclaimer: The information contained in this newsletter is provided as a helpful guide for clients and is of a general nature. It therefore does not constitute advice. We recommend that you obtain specific advice on how this information applies to your specific circumstances.