View this email in your browser

Total Wealth

In this issue:

- **Update from Katrina Studholme**
- **KiwiSaver - Does your fund match your risk profile?**
- **Mortgages - To break or not to break? That is the question!**
- **Coronavirus - Here we go again!**
- **Bonus Bonds to be Axed**
- **Check your PIR rate**
- **Tony Alexander's View of the World**
- **Trivia - Keeping Pace with the Generations**

Update from Katrina Studholme

When I look back at our last Newsletter in April, I ask myself, 'what has changed?'. Covid19 is still very much front of mind.

Opportunities for travel and connecting with loved ones overseas in person seem just as distant now as they were back in March when the borders closed. Life is all about change and adapting.

It is the same at Total Wealth - investment markets are not static, nor are the insurance or mortgage areas and, for us, it is about staying current, keeping up with the changes and adapting our advice to reflect those changes so that our clients achieve the best outcomes.

We are always happy to work with friends or family who may be looking for help with investments, KiwiSaver, mortgages or insurance and I am available for a free no obligation chat about how we can assist.

This newsletter does not constitute personal advice. If you have any questions please contact your adviser who will take into account your personal objectives or circumstances.

There has been comment in the media over recent months about the reasonably significant number of KiwiSaver members who switched to conservative funds after the initial fall in value of equity markets following the outbreak of the Coronavirus pandemic. Generally, it appears, those changes were made directly by KiwiSaver members without advice from an Authorised Financial Adviser.

As we all know, equity markets have largely rebounded from that initial sell-off and those who moved from KiwiSaver funds with a higher component of growth assets to a more conservative fund effectively crystalised those losses and when they increase their exposure to growth assets again will pay a higher price.

It is easy to be too emotionally involved with your retirement savings - after all it is YOUR money. Fund managers have also made it very easy to self-manage your funds with the ability to switch between conservative, balanced or growth funds, but, and this is a big BUT, in almost all cases those in KiwiSaver funds will benefit from professional advice from an Authorised Financial Adviser.

The key is to correctly identify your risk profile and then also take into account your investment timeframe. It is understandable to be lulled into a strategy heavily weighted to growth funds when markets are performing strongly but those who are correctly assessed as growth investors and have a long investment horizon will hold the course when markets dip and will often take that as an opportunity to invest more funds rather than reverting to a risk averse setting.

As is often the case, something which can appear quite simple is in fact much more complex and of course the ramifications of a poor decision can be significant.

Give Katrina a call and discuss with her what would be most appropriate for your situation.

Mortgages

Interest rates remaining lower for longer now appears to be the consensus among economists and economic commentators . For those of us who can remember the heady days of the 1980s when home mortgage rates exceeded 20% it now seems surreal to have rates for fixed terms hovering around 2.5%.

The Reserve Bank held the OCR at 0.25% in it's August Monetary Policy Statement. Not only that but Infometrics senior economist Brad Olsen, recently said, “We expect the Reserve Bank will take the OCR negative by mid-2021 once retail banks are able to implement a lower rate."

“However, we expect to see the Reserve Bank make it clear publicly ahead of this move, what its preference is between a lower OCR and an expanded LSAP (Large Scale Asset Purchases) programme, which will provide us with greater direction as to the likelihood of the move.”

The LSAP programme is another tool that the Reserve Bank has to control interest rates. Some commentators believe that residential mortgage lending rates have the potential to move lower by another 3-4 basis points and no lower. This would potentially see one year rates at around the 2.25% level.

Those that took longer fixed rate terms of 3 or 4 years will be wondering whether they should break their current term and re-fix their mortgage at the new lower rates. There is no simple answer to that and it does depend on a number of factors personal to each borrower. Generally though the 'break fee' negates any benefit from lower rates however if also switching banks the new bank may offer incentives which make it worthwhile.

Give Katrina a call and discuss with her what would be most appropriate for your situation.

Coronavirus - Here we go again!

Didn't we do well? - 100 days without any new cases of Covid-19 in the community. But unfortunately it was too good to be true. At the time of writing we are in level 2 with Auckland in level 3 for a couple of more days.

Mask wearing is to become mandatory on all public transport. Here in Canterbury there is no widespread use of masks at present but isn't it a matter of common sense? Anyone with a cough, cold or flu like symptoms should stay at home as much as possible and when out, wear a mask. Those who are most susceptible to contracting Covid-19 or flu or colds should also wear a mask when out in public and where a distance of 2m cannot be maintained from others. Let's make mask wearing the new norm.

The website with the official word on Covid 19 and current Levels or lock-down is covid19.govt.nz This website is the best way of staying informed and getting the latest accurate information.

At Total Wealth we want to ensure that we relieve any anxiousness that you may have regarding your portfolio. **Please email or call if you have any concerns or would just like an update on the current situation with your portfolio.**

Bonus Bonds To Be Axed

ANZ Investment Services have announced that due to the current low interest rates affecting returns that the Bonus Bond scheme will be wound up.

Millennials and Gen Zs most probably don't even know what these are. The Government of the day launched Bonus Bonds through the Post Office (later taken over by ANZ) in 1970. Each Bonus Bond gives its holder an entry into a monthly prize draw (a bit like having a perpetual lotto ticket) but you do at least get your capital back. The monthly prizes come from the investment returns with a top prize of $1 million.

Low interest rates, which are likely to continue for longer,have “affected the size of the prize pool”

Ben Kelleher of ANZ noted that the Official Cash Rate (OCR) may still have further to fall, and says ANZIS will be winding up the Bonus Bonds Scheme from the end of October.

“Winding up the scheme includes the process of returning funds to bondholders” Kelleher said.

"Investors have two choices,” he explained. “They can redeem their Bonus Bonds before the scheme starts to wind up, or stay in the scheme and be entitled to a share of the remaining reserves, after expenses, when the scheme is wound up.

“Those who choose to stay during the wind-up phase will have their investments locked in during this process, which may take up to 12 months.”

“The board believes current reserves are sufficient for bondholders to be confident they will receive back their initial investment,” Kelleher concluded.

If you have a significant holding of Bonus Bonds give Katrina a call to discuss which option to select. It may be more appropriate to have your capital returned now and reinvested rather than wait for 12 months without any certainty of a return for the next year.

Prescribed Investor Rate (PIR) is the tax deduction rate which is applied to your PIE investments. It is similar to Resident withholding Tax (RWT) which is the tax deduction rate applied to the likes of interest earned and dividends from companies.

Unlike RWT, PIR is a final tax and generally the income from PIE funds and the tax deducted are not included in personal tax returns. That is why it is important to ensure that the rate is correct. If the rate is lower than it should be then additional tax will be payable however if your PIR is too high then there is no process to enable a refund of that additional tax.

If you use the IRD MyIR portal then you can calculate the correct PIR there or alternatively use the following link
https://www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate

We can assist you with this. Email or call Brian Coker, brian@totalwealth.co.nz or 03 377 2885 and he will be happy to help.

Tony Alexander's View of the World

Again, we commend Tony Alexander's regular newsletter to you. He is part of a rare breed of economists who can speak in plain English and in terms that everyone can understand. Check out his website and subscribe to his newsletters at www.tonyalexander.nz (note that there is no 'co' in the address).

The newsletter of 27 August is at this link http://tonyalexander.nz/resources/TV%2027%20August%202020.pdf

Key messages in this issue:-

- record low interest rates and heading lower.
- anticipation average house prices rising from early-2021 if not sooner.
- potential for a negative official cash rate next year.
- banks unlikely to charge people to deposit funds if the cash rate goes negative.
- banks are tightening lending criteria,
- banks are cutting term deposit rates little bit by little bit each week.
- rate rises for term depositors lie some years down the track.

Trivia - Keeping Pace with the Generations

If, like me, you sometimes feel left behind by the pace that the world is moving, it is useful to understand some of the jargon that is in use. We are most probably quite familiar with the term 'Baby Boomers' but where does everyone fit in the grand scheme of things**.**

- **Generation Alpha, Gen Alpha.** Born 2010 -
- **Generation Z**, **Gen Z**, **iGen**, or **Centennials**: Born 1996 – 2009.
- **Millennials** or **Gen Y**: Born 1977 – 1995.
- **Generation X**: Born 1965 – 1976.
- **Baby Boomers**: Born 1946 – 1964.
- **Traditionalists** or **Silent Generation**: Born 1945 and before.

The suggestion this week that fullstops in text messages are superfluous is not going to be something that I adopt anytime soon however I will think twice about leaving voice messages on mobiles in future which is another thing which apparently infuriates GenZs. They know you have rung because they have had a 'missed call', so they will call you back or send them a text message - with or without fullstops.

Your feedback makes us better. Let us know what you think about our services and support by visiting our website, sending us an email or giving us a call. All opinions are valued
www.totalwealth.co.nz | *admin@totalwealth.co.nz* | *03 377 2855*