

Mackay

ON MONEY

(AND OTHER THINGS)

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY



In my last year at Hutt High, after footy practice, a couple of my first fifteen buddies would periodically don their duffle coats over their regulation short pants, fold over the white stripes on their long black socks and head down to the Family Hotel on High Street for a quiet pint.

As was the fashion of the day walk shorts were customary garb for many of the hostelry's clientele. So they fitted in perfectly. These two had a lot of facial hair and looked quite old; also the barmen weren't facing the large fines for serving minors like today. I'm pretty sure their mums didn't pick them up outside so no doubt they drove home too. Those were the days!

Well the Family has long gone, along with the Valley Inn, the Taita and in the past year or so the Kings Cross has made way for the New World carpark. The Kings Cross wasn't a bad pub in the 80s and in order to cater to the cognoscenti of the valley, it even sported a library bar. I recall having a beer there with some work colleagues on one Thursday before Easter. On the way out, I spied what I thought was some monopoly money in the gutter. I picked the notes up and they turned out to be eight green crisp 20 dollar bills. My business was in its infancy with cash flow being lean and besides, \$160 was a lot of dough back in 1980 – today worth about

\$800 when inflation adjusted – so later that evening I gleefully told my father-in-law of his daughter's and my windfall. My excitement turned to custard when he told me this was most likely some poor joker's weekly pay packet and the right thing to do would be to immediately hand it in to the police station. Bugger! Long story short, I did just that, forgot all about it and a couple of months later got a phone call from the cops saying no one had reported it missing and it was all mine! Fantastic.

Well just last week I found a slightly muddled 20 dollar note well camouflaged in the greenery of the agapanthus just by our letterbox. That came on top of discovering 15 bucks in some pants that had gone through the wash unscathed. Needless to say, I was feeling rather pleased by my good luck and consequently – unexpectedly relatively rich. This time, I didn't report either of the finds. I kept the lot!

While still basking in my good fortune, I then read a *Dom Post* article about Jeff Bezos and felt rather subdued. Bezos is the dude who started Amazon and who doesn't seem to be slowing down. He's number three on the world's rich list at \$72 Billion. The *Dom Post* author reckoned that Bezos will be number one in a short space of time and if he kills retail shopping like he wants to in Oz, he probably will be.

As at April 20, 2017, here is the list of the world's top 10 billionaires. The figures are American dollars. B means billion. That's 1,000 million. I've also included what their business is called and what country they're from.

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Bill Gates	\$86.0B	U.S.	Microsoft
Warren Buffet	\$75.6B	U.S.	Berkshire Hathaway
Jeff Bezos	\$72.8B	U.S.	Amazon
Amancio Ortega	\$71.3B	Spain	Inditex Fashion Group/ Zara clothing & accessories retail shops.
Mark Zuckerberg	\$56.0B	U.S.	Facebook
Carlos Slim	\$54.5B	Mexico	Grupo Carso
Larry Ellison	\$52.2B	U.S.	Oracle Corporation
Charles Koch	\$48.3B	U.S.	Koch Industries
David Koch	\$48.3B	U.S.	Koch Industries
Michael Bloomberg	\$47.5B	U.S.	Bloomberg

Just so we Antipodeans don't feel completely out of it, the richest Kiwi is Graeme Hart with an estimated US \$9.5B fortune.

From this list, the guy I want to talk about is Warren Buffett. Buffett is a hero of mine and the subject of many books including my favourite "The Snowball – Warren Buffett and the Business of Life" by Alice Schroeder.

According to the Forbes Global 2000 list and formula (May 2016), Buffett's company Berkshire Hathaway, is the fourth largest public company in the world by market capitalisation. Berkshire owns various other companies outright and has positions in many others. The sectors in which Berkshire has 100 per cent ownership include insurance (GEICO & General Reinsurance) & finance, retail, railroads & logistics, food & beverage and materials & construction. Minority holdings include companies like American Express, John Deere, IBM, Coca-Cola, Kraft-Heinz, Wells Fargo, and Johnson & Johnson.

Known as the "Wizard", "Oracle" or "Sage" of Omaha, Buffett and his business partner Charlie Munger are still active in the business at ages when most have been smelling roses or pushing up daisies for years. Buffett is 86 and Munger is 93. Seriously! I watched a recent interview with both of these guys along with their buddy Bill Gates from Microsoft. They were sensational. Full of wisdom and common sense. Interestingly, Buffett is a Democrat and supported Hillary while Munger is a Republican.

Money isn't the thing with these guys although they believe in capitalisation and want their company to continue to grow and to buy under-priced businesses. Buffett in that recent interview said Berkshire had about US\$95 billion in cash (as a New Zealand comparison, this year our core crown revenue is expected to be NZ\$83.8 billion and the government will spend just a little less than that) just waiting for the right opportunities. "The best thing that happens to us is when a great company gets

into temporary trouble... We want to buy them when they're on the operating table." He has recently advised anyone who prefers bonds to stocks today is making a big mistake. He said "it's ridiculous for someone to buy a 30 year bond at these rates." What he's referring to is you can buy a 30 year bond in the States at an annual interest rate of around three per cent. A 50 year bond in France is yielding around two per cent. Stocks or shares (owning companies) are a better investment although he admits he's "cheap" and wants to buy them at bargain prices. While not liking bonds, he's a "cash is king" bloke. Berkshire has been cash rich before and bought into some excellent companies around the GFC when many firms were cash strapped and Buffett crunched some great deals by buying into a number of these organisations at distressed prices. These have turned out to be fabulous investments. "It's far better

to buy a wonderful company at a fair price than a fair company at a wonderful price."

In this part of the world, it seems to me some company directors and CEOs have an aversion to money in the bank. They invariably want to get rid of all their profits by distributing the lot to shareholders versus simply paying a fair dividend but also retaining a war chest to be used to snap up some great future opportunities. "Cash... is to a business as oxygen is to an individual: never thought about when it is present, the only thing in mind when it is absent."

The personal analogy is most financial advisers believe it's an essential plan for their clients to have at least three months living expenses as a buffer sitting in the bank as an emergency fund. Statistics tell us though many Kiwis are one pay packet away from insolvency.

At least two of our preferred KiwiSaver providers, Booster and Generate currently have direct holdings in Berkshire Hathaway with good reason. A \$10,000 investment in Berkshire Hathaway stock in 1965 would be worth \$88 million today and it has averaged an almost 20 per annum compound return since then. Buffett owns about 38 per cent of Berkshire's stock.

But he's a good guy too.

He has committed to giving more than 99 per cent of his fortune to charity. So far he has given \$28.5 billion.

He's a modest spender. He lives in the

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same Omaha, Nebraska home he purchased in 1958 for \$31,500.

He fully admits he's made lots of mistakes and regularly confesses to these at Berkshire AGMs. He acknowledges how clever Charlie Munger, his partner is and how he should always listen to him. This is how many robust discussions with the two end. Charlie says "Warren, think it over and you'll agree with me – because you're smart and I'm right."

Other great Buffettisms, some of which have been referenced from the Generate newsletter:

"I try to buy stock in businesses that are so wonderful that an idiot can run them because sooner or later, one will."

"Be fearful when others are greedy, and greedy when others are fearful."

"Look for three things in a person [with whom you may be doing business]: intelligence, energy, and integrity. If they don't have the last one [despite how good the money or profits may look], don't even bother." There's more than a few of us (me included) have been caught out by not following this maxim.

"We derive no comfort because important people, vocal people or great numbers of people agree with us. Nor do we derive comfort if they don't. A public opinion poll is no substitute for thought."

"What's the secret of a great marriage? It's not looks, nor intelligence, nor money – it's low expectations."

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"For 240 years it's been a terrible mistake to bet against America, and now is no time to start. America's golden goose of commerce and innovation will continue to lay more and larger eggs... And, yes, America's kids will live far better than their parents did."

"Most of our large stock positions are going to be held for many years and the scorecard on our investment decisions will be provided by business results over that period, and not by prices on any given day." In other words, don't worry about short term fluctuations.

"My successor will need one other particular strength: the ability to fight off the 'ABCs' of business decay, which are arrogance, bureaucracy and complacency. When these corporate cancers metastacisise, even the strongest of companies can falter."

"Smile when you read a headline that says 'Investors lose as market falls. Edit it in your mind to 'DIS-investors lose as market falls – but investors gain. Though writers often forget this truism, there is a buyer for every seller and what hurts one necessarily helps the other."

"The smartest side to take in a bidding war is the losing side." Generate suggest that here Buffett makes it clear he has a strong preference for being the only bidder when he is considering buying a company. Fortunately for him, Buffett's reputation is such that this is usually the case as companies often come to him when they get into financial trouble (for both capital and the prestige of having

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Buffett on the share register). There are also other reasons why company vendors seek out Buffett when they are wanting to sell up. Chiefly amongst these is they know Buffett won't try to cut costs aggressively and sack large amounts of staff. Plus they know if they continue to do a good job he will largely leave them to their own devices to run the company.

"I bought a slot machine a long time ago and put it on the third floor of my house. I could then give my children any allowance they wanted, as long as it was in dimes, and I'd have it all back by nightfall. I wanted to teach them a good lesson. My slot machine had a terrible pay-out ratio, by the way."

"Risk comes from not knowing what you're doing."

"Home ownership is a wonderful thing. My family and I have enjoyed my present home for 50 years, with more to come. But enjoyment and utility should be the primary motives for purchase, not profit or refi possibilities. And the home purchased ought to fit the income of the purchaser."

"The snowball just happens if you are in the right snow, and that's what happened to me... It's in terms of understanding the world and what kind of friends you accumulate... You'd better be picking up snow as you go along, because you're not going to be getting back up to the top of the hill again. That's the way life works."

Buffett is an interesting eater and drinker too. He loves hamburgers, French fries & Heinz tomato sauce.

"I really wish I had a twin, and that twin had eaten broccoli his entire life. I know I would have been happier and I think the odds are I would have lived longer."

And on his coke habit.

"I'm one quarter Coca-Cola" Buffett tells Fortune "If I eat 2700 calories a day, a quarter of that is Coca-Cola. I drink at least five 12-ounce servings". His explanation for his sugar-centric diet "I checked the actuarial tables, and the lowest death rate is among six year olds. So I decided to eat like a six-year old. It's the safest course I can take."

"Life is like a snowball. The important thing is finding wet snow and a really long hill."

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