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MacKay on Money

AUTUMN 2016

Investments - Insurance - KiwiSaver - Mortgages

Professional Financial Advice since 1976

Happy Leap Year

Yep, 29th Feb occurs once every four years to help balance the calendar.

How they knew that way back when is astounding.

In some places, leap day has been known as 'Bachelors' Day'. A man was expected to pay a penalty, such as a gown or money, if he refused a marriage proposal from a woman on Leap Day.

Here's the math:

> *A solar year is actually slightly shorter than 365 days and six hours (365.25 days).*
>
> *More precisely, as derived from the Alfonsine tables, the Earth completes its orbit around the Sun in 365 days, 5 hours, 49 minutes, and 16 seconds (365.2425 days). The currently accepted figure is 365 days, 5 hours, 48 minutes and 45 seconds. Thus adding a calendar day every four years is an excess of around 44 minutes each time, or about 3 days every 400 years.*
>
> *To compensate for this, three days are removed every 400 years. The Gregorian calendar reform implements this adjustment by making an exception to the general rule that there is a leap year every four years. Instead, a year divisible by 100 is not a leap year unless that year was also exactly divisible by 400. This means that the years 1600, 2000 and 2400 are leap years, while the years 1700, 1800, 1900, 2100, 2200, 2300 and 2500 are not leap years.*

Simple, eh?

PAY-OUTS TOP $1.1 BILLION AGAIN

Financial Services Council (FSC) Chief Executive Peter Neilson said the pay-out by FSC members of the insurance industry for personal insurance including Life and Income Protection insurance had topped $1 billion a year, each year since 30 June 2011.

The FSC's latest figures show life insurance products comprise about 60% of personal insurance premiums but they are growing more slowly, at 4% a year, than Income Protection insurance products at 7% a year. Term Life insurance policies had the largest amount of pay-out, at $421.8 million over the year. That was followed by Whole of Life and Endowment policies at $200.7 million and Trauma at $136.9 million.

Sickness and Life Insurance & Income Protection cover

According to retiring Financial Services Council Chief Executive, Peter Neilson, "Many New Zealanders don't know until it is too late that the family income test for a sickness benefit makes most earners with a working partner ineligible for a sickness benefit.

Having a long term sickness that prevents employment like cancer treatment, a stroke or a major heart trauma is the greatest vulnerability most working New Zealanders face". The 2012 FSC survey uncovered some unfortunate truths about how ill prepared some New Zealanders are in terms of personal insurance. The survey reported that 1 in 7 households experienced a serious illness over the past 5 years that resulted in an inability to work for 3 months or longer and a loss of income.

Once sick leave and annual leave ran out:

- 20% could only meet expenses for 1 week
- Another 14% could meet expenses for 2 weeks
- Overall, 55% of all households could not meet their expenses after 4 weeks!
- Once the main earner's annual and sick leave ran out, 53% of those renting couldn't pay rent after 8 weeks.
- Among home owners, 50% could not meet their mortgage payments after 9.4 weeks.

Derivatives

A derivative is a security which has its value 'derived' from a separate underlying asset.

Its value changes with price fluctuations in the underlying asset. The most common underlying assets include shares, bonds, commodities, currencies, interest rates and market indices.

However, derivatives do not have to be based on financial assets. For example, there are derivatives based on weather data, such as the amount of rainfall over a period of time in a particular region.

The derivative itself is a contract typically between two parties. When the value of the underlying asset goes up one party benefits; when it falls the other party gains.

Derivatives can be used for hedging, or insuring against risk on an asset. For example, some fund managers use foreign exchange forward (derivative) contracts to at least partially hedge their offshore investments from movements in their underlying currencies

Derivatives can also be used for speculation or betting on the future price of an asset.

Derivatives play a large part in financial markets. Last year the Bank for International Settlements calculated the total notional value of derivatives contracts around the world to be an astounding USD710 trillion dollars.

“What is a soup kitchen?”. —*Paris Hilton*

Risks of Buying Insurance Online

Here’s an interesting fact: In the current ‘internet age’, every smartphone user has more information at their fingertips than the entire global population had just one generation ago.

Of course, having such vast quantities of information readily available has led to huge changes in the way we communicate and find answers to our questions.

One of the trends emerging as a result of this change is medical self-diagnosis. Instead of going to the doctor and paying for a professional diagnosis, more and more people look online to find out about what their symptoms might mean.

While this approach might save time and money, and be helpful in resolving minor medical issues, it’s a risky way to manage your health.

Fortunately most people take a common sense approach to more serious health complaints. They see a GP or specialist for accurate professional advice, and follow a treatment plan designed specifically for their circumstances.

We believe that, in this day and age, the same principles apply to insurance advice.

You may have noticed a number of web-based insurance providers in the market. These ‘DIY’ solutions claim to deliver lower-cost premiums by taking the whole process of researching insurance quotes online.

While this might seem like a quick way to find a solution, in reality using an online provider exposes you to a much greater risk of choosing the wrong insurance policy. What might seem ‘cheap’ upfront can easily lead to an omission that becomes very expensive come claim time.

Why? Well, simply put, there is no way that an online form will be able to assess your unique needs as well as an insurance specialist.

CMFP advisers understand the real impact of a life-threatening illness or injury, and can help you make a customised plan that offers financial certainty for your family, no matter what the future holds. They also understand the subtle differences in policy fine print and can recommend the best provider, product, and plan for your specific circumstances.

If ever you need to claim for the benefits of your policy, a CMFP adviser will also be there to answer your questions and liaise with the insurance company on your behalf. Plus they will advocate on your behalf if there are problems with the claim.

While online insurance quotes may seem like a cheap and convenient solution, the reality is that people often choose the wrong product and, unfortunately, the mistake isn’t usually discovered until claim time.

So if you’re wanting to compare insurance companies, don’t hesitate to call one of CMFP’s friendly, knowledgeable and qualified advisers for an expert opinion.

And remember; we deal with all the main providers. So if you can buy it online, we will be able to better the rate.

“A bank is a place that will lend you money if you can prove that you don’t need it”. —*Bob Hope*

FIXED INTEREST

	Grosvenor Income Securities Portfolio (ISP)	Heartland Bank	Kiwi Bonds	UDC
On call	2.75% p.a.			2.20% p.a.
3 months	3.00% p.a.	2.75% p.a.		2.70% p.a.
6 months	3.25% p.a.	3.30% p.a.	2.00% p.a.	3.20% p.a.
12 months	3.75% p.a.	3.40% p.a.	2.00% p.a.	3.45% p.a.
24 months	3.65% p.a.	3.60% p.a.	2.00% p.a.	3.40% p.a.

Ask for an Investment Statement

“The art is not in making money, but in keeping it”. —*Proverb*

“A wise person should have money in their head, but not in their heart”. —*Jonathan Swift*

Spotlight on KiwiSaver Diversified Portfolios

The Grosvenor ‘Geared Growth’* KiwiSaver Fund

Recommended Minimum Investment Period: 15 years

Range of Expected Gross Returns in any one year *(after fees)*: -29% to +49%

Range of Expected Gross Returns in any rolling ten year period *(after tax & fees)*: -2%pa to +22%pa

Expected Long Term Return Forecast per annum (after tax and fees)

With a PIR of 17.5%: 9.1% pa
With a PIR of 28%: 8.6% pa

* **Note: This is a really ‘aggressive’ portfolio.**

Information supplied by Grosvenor Investment Services. All portfolios are market-linked and no future returns are guaranteed. The ranges have been calculated using 2.5 standard deviations of return volatility. Statistically, this means that actual return outcomes are expected to fall within these ranges with 99% confidence. Put another way, actual return outcomes would be expected to fall outside these ranges in only one year out of every 100 years.

TEAM NEWS

George MacKay has joined the CMFP team, initially in an administration role, with the view to completing the studies required to becoming a Financial Adviser.

Dale, Chris’ former PA, is enjoying her well earned retirement. She called in recently and looks great.

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Adviser disclosure statements are available free & on demand.