Chris MacKay Financial Planning

Level 5, MacKay House, 92 Queens Drive, Lower Hutt
Phone: (04) 5702233 or 0800 MACKAY
PO Box 31-440, Lower Hutt 5040
Email: office@mackay.co.nz
Web: www.mackay.co.nz
www.britishpensions.co.nz
www.plus4.co.nz

MacKay on Money

Investments - Insurance - KiwiSaver - Mortgages

Professional Financial Advice since 1976

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The Eight Steps to Financial Freedom

There are two paths to wealth creation—one based on using your own financial resources and the other based on borrowing money to invest. It's not a good idea to borrow money to invest until such time as you have mastered the art of creating wealth with your own financial resources. After all, if you can't manage your own money properly, how can you manage someone else's? There is a very simple formula for creating wealth using your own financial resources. Whether you are a risk taking entrepreneur or a would-be saver, this simple formula applies to you. It comprises eight steps which are not necessarily taken one after the other. The order of the steps represents their priority and the emphasis that should be given to them when planning how to use surplus cash.

STEP 1: SPEND LESS THAN YOU EARN

Spending less than you earn is all about creating a surplus which is then applied to steps Two and Eight. The bigger the surplus, the more wealth you are likely to create. Unfortunately, the first step is where most people stumble. Once you've cracked it, the rest is relatively easy. Spending less than you earn is a matter of mind-set. The easiest way to do it is to use the 'pay yourself first' principle and set aside money each payday into a savings account by automatic transfer.

STEP 2: JOIN KIWISAVER

Your first priority with the surplus cash created in Step One is to join KiwiSaver or another subsidised superannuation scheme, if you haven't already done so. Employer subsidies and tax credits mean that you will achieve a high rate of return on your money with a high level of certainty.

STEP 3: PAY OFF SHORT-TERM DEBT

Paying off debt gives a tax-paid rate of return on your money which is the equivalent of the rate of interest on the debt. The higher the rate of the interest, the better off you will be by getting rid of the debt. If you have several debts, there are two schools of thought as to how they should be paid off. Strictly speaking, you should start with the debt with the highest interest rate, but the alternative view is to start with the smallest debt so as to quickly get a feeling of success.

STEP 4: SET UP AN EMERGENCY FUND

The best way to avoid getting into debt is to set up an emergency fund to cover unexpected loss of income through illness or job loss, or unexpected expenses such as car repairs, white ware replacement or medical and dental bills. This should ideally be the equivalent of around three month's living expenses. If you have a mortgage, you may be able to use an offset arrangement with your bank whereby the amount of your savings is offset against your mortgage for interest calculation purposes.

STEP 5: BUY AT LEAST ONE HOUSE

By the time you retire, you will be financially better off if you have a mortgage-free home to live in. The sooner you can achieve this goal the better. If you are not ready to settle down in one place yet, or can't afford to buy in the area where you want to live, then consider buying a house that you rent to someone else.

STEP 6: PAY OFF YOUR MORTGAGE

Paying off your mortgage gives you a guaranteed, tax-paid rate of return on your 'investment' equivalent to the rate of interest on your mortgage. If you have surplus cash of your own, it makes sense to place a higher priority on paying off your mortgage than on using this cash to set up an investment portfolio for which the returns carry risk, unless of course you are investing in KiwiSaver or a subsidised superannuation scheme.

STEP 7: SET UP A SAVINGS AND INVESTMENT PORTFOLIO

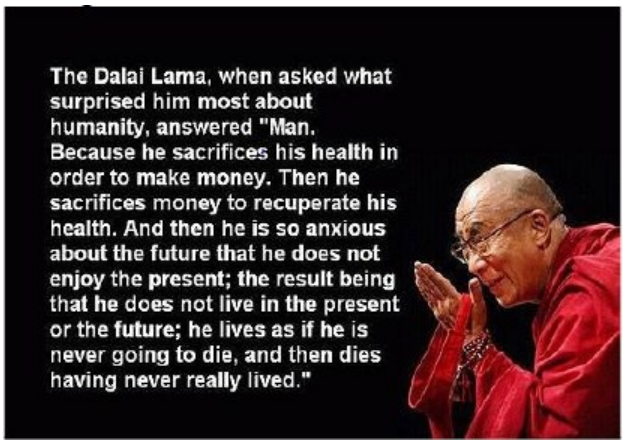
Saving for your retirement should become a priority once your mortgage is paid off. However, not all of your saving and investing should be focussed on these two objectives or you may have a very boring life! Have two streams of saving: one for retirement and one for your shorter-term goals such as travel or home renovations. Working out how much you will need for your retirement will help you achieve balance between the two.

STEP 8: PROTECT YOUR WEALTH

It is easy to overlook the risk of losing the wealth you have created. Risks include loss of income through illness, loss of assets through disasters such as fire or theft, relationship property claims and business failures, to name a few. Insurance brokers and solicitors can help you identify the risks you face and give you options for dealing with them. Creating wealth takes time and it doesn't always happen smoothly. Life goes in cycles and your wealth may well ebb and flow over time as your circumstances change. The most important thing to remember is to find ways to create surplus cash.

Liz Koh is an authorised financial adviser and author of *'Your money Personality: Unlock the Secret to a Rich and Happy Life'*, Awa Press 2008.

The advice given here is general and does not constitute specific advice to any person.



"If you live to be 100, you've got it made. Very few people die past that age". —*George Burns*

"Behind every great man is a woman rolling her eyes". —*Dale Lightfoot*

"The problem with people who have no vices is that generally you can be pretty sure they're going to have some pretty annoying virtues". —*Elizabeth Taylor*

Income Protection

Most of you have probably seen or heard statistics that around 87% of us have car insurance, 50% Life insurance and only 11 % Income Protection insurance. Half of all adult Kiwis have Life insurance, so most can imagine the catastrophe if the family breadwinner died, but can't imagine losing the breadwinner's income through 'disability' from illness or accident. Yet we face a much bigger risk financially than death. People will often take Life insurance cover and reject Income Protection insurance as 'too expensive', even though it might prove to be the more valuable cover. They underplay their chances of having an accident or falling ill.

We grow our business by referrals, so please don't keep us a secret !

If any family members, friends, colleagues or clients would benefit from talking to one of our Advisers about their financial planning and insurance protection needs, then please contact us— we welcome referrals from you.

"Always bear in mind that your own resolution to succeed is more important than any other one thing".
—***Abraham Lincoln***

TEAM NEWS

Ian Jordan's family has had a special new arrival on 2 May — a beautiful new grandson — William Jack Mahoney, to Ian's daughter Nichola and son-in-law Andrew. William weighed 8lb 2oz and is the apple of his father's eye! Nichola and baby are both doing very well. Congratulations to them all on William's safe arrival !

We are very sad that CMFP has farewelled Neil Henderson who has decided to move on to a new phase of his career. Neil has been a very loyal and dedicated financial adviser for over 13 years and we all wish him good luck and our very best wishes.

If you were a smoker when you took out your insurance and haven't smoked in the last 12 months, it may be possible to get your premiums reduced. If this sounds like you, contact us and perhaps we can save you a few dollars !

Chris MacKay

AFA, BCA, CFP^{CM}, CLU, Fellow IFA, JP, FNZFAA

Investments, Insurance & KiwiSaver

Ian Jordan

AFA, Dip FA, Cert PFS, CeMAP

Investments, Insurance, UK Pension Transfers & KiwiSaver

Blair Bennett

AFA, MBS, Dip Bus & Admin, Dip Banking, F Fin.

Investments, Insurance, KiwiSaver & Mortgages

Chris Cornford

AFA

Investments, Insurance, & KiwiSaver

Adviser disclosure statements are available free & on demand.

He passed the quiz

No English dictionary has been able to adequately explain the difference between these two words…..

In a recently held linguistic competition held in London and attended by supposedly the best in the world, Samsundar Balgobin, a Guyanese man, was the clear winner with a standing ovation which lasted over 5 minutes.

The final question was:.. How do you explain the difference between COMPLETE and FINISHED in a way that is easy to understand.

Some people say there is NO difference between COMPLETE and FINISHED.

Here is his astute answer……..

"When you marry the right woman, you are COMPLETE. When you marry the wrong woman, you are FINISHED, and when the right one catches you with the wrong one, you are COMPLETELY FINISHED!!"

He won a trip to travel the world in style and a case of 25 year old rum.

"Men don't care what's on TV….. they only care what else is on TV". —***Dale Lightfoot***

"Always be nice to your children because they are the ones who will choose your rest home".
—***Phyllis Diller***

FIXED INTEREST

Grosvenor Corporate Bond Portfolio (PIE) *

Current running yield of around 4.59% pa (after fees)

Grosvenor Income Securities Portfolio (PIE) *

Special rate for 2 years 4.75% (interest at maturity)

Current 3 and 6 month rate is 4.25% pa

Current 12 month rate is 4.50%

Current call rate is 3.75% pa

* Ask for an investment statement.

Our disclosure statement is available on request and free of charge.

English is a funny language

An oxymoron is usually defined as a phrase in which two words of contradictory meaning are brought together:

1. Clearly misunderstood
2. Act naturally
3. Exact estimate
4. Found missing
5. Small crowd
6. Fully empty
7. Pretty ugly
8. Seriously funny
9. Only choice
10. Original copies

And for some, the mother of all …..

11. Happily married

PLEASE DO KEEP US IN THE LOOP !

We do like to know any changes to your contact details, occupation or change of work, marital status or new additions to your family, your new tax rate or if your financial circumstances change substantially.

These things may affect your insurance, your Will, your Family Trust or perhaps your tax rate for KiwiSaver and other PIE investments.

It's in your interest that we know, so please do let us know !