

MACKAY

ON MONEY

BY FINANCIAL PLANNER CHRIS MACKAY

WHETHER YOU LOVE 'EM OR HATE 'EM, AMERICANS ARE A REMARKABLE PEOPLE. THE FACT THEY ELECTED BARACK OBAMA AS THEIR NEW PRESIDENT GIVES ME HOPE THE GREATEST SUPERPOWER ON THIS EARTH MIGHT POSSIBLY BE A NATION OF GOOD GUYS ONCE AGAIN.

As a youngster, with parents who had been through the war, and Dad serving in the army, I was very aware it was America who saved our bacon. Britain was in no position to help us, having been well and truly sorted out in Singapore. We were pleased to be very firmly in bed with the United States.

That is until David Lange's anti nuclear posturings led us to be banned from the bedroom and into the doghouse. That is where we stayed for a number of years until George W's then Secretary of State Colin Powell, said we were very, very, very good friends with the US again. Back from the doghouse and onto the couch in the spare room.

Now George W. has not exactly been Mr Popularity during the latter part of his presidency. Iraq has not helped him is an understatement. If there had been oil in Zimbabwe, would Mugabe have been toppled also do you think?

But George is yesterday's man now and instead of leaving the White House quickly, the ex first family hangs around for a couple of months presumably repainting the Oval office, cleaning the ovens and doing their own packing. It is just as well the changeover is slow, because at the time of writing this, President elect Obama had not sorted out all the important jobs for the boys. And in the case of Secretary of State, jobs for the girls. When Barack did not make her his running mate, I told my wife Kathryn that Hilary would have been bought off with something else rosy, like Secretary of State. Seems I was

dead right. Other jobs are yet to be filled. John Key by contrast had everything tidied up in a few days. He is on the ball, that man! He will be good for New Zealand.

Barack Obama's election victory, confirmed in New Zealand on Guy Fawkes' night, my mum's 86th birthday, was remarkable. What an amazing path to the top job in the world. And only 50 years ago African Americans had to sit or stand down the back of the bus!

I was in the States at the time of the \$700 billion bailout package negotiation. First time around, Congress threw out the three page document Treasury Secretary Hank Paulsen had put together. The Dow Jones Industrial Average dropped 777 points in one day. Suddenly all those voters realising this package was not as simple as maybe costing them a few bucks extra in tax, understood basic stuff such as buying a fridge or allowing their boss to make a payroll obligation was at stake. Earlier in the week they had lobbied their Congress person to vote against the package. Now they lobbied them to vote for it. But now it was not three pages; it was several hundred pages long with all sorts of goodies and baddies imbedded in the document. Anyway the vote was positive although nowhere near unanimous. The other big countries' Governments followed suit, and the rest is history.

At the time of writing the world share markets are still extremely volatile, down seven per cent one day, up five per cent the next, down four per cent, up eight per cent. These are unusual occurrences.

A lot of people are under the spotlight. Bankers have been at the heart of most of

the initial problems. Bad lending practices. Making "ninjna" loans to people with "no incomes", "no jobs" and "no assets". Then bundling these loans up and flogging them off to some other bank with all parties making a bob on the way. And then being paid some grotesque bonus for thinking up this brilliant money losing scheme. Or being fired and also scoring some huge package.

I do not think the big Aussie owned NZ banks are entirely blameless either. They have fuelled and funded the ridiculous housing boom in NZ by reckless lending, allowing people to buy multiple properties on the back of unrealistic and unsustainable loan to valuation ratios. Anecdotal evidence of banks lending up to 80 per cent or 100 per cent on properties which are not generating sufficient rental income to pay the mortgage commitments, is rife. And some couples will have four or five of these cash flow negative "investments". It has been reported some of our country's poorer families are struggling to pay their rents. What is this going to do to rental properties' capital values? Make them more, or less?

I am noticing more and more mortgagee sales in the property press. If the banks had been responsible, they would have limited the percentage they would have lent on, which in turn would have kept the sale price reasonable.

As it was, credit was easy, the banks more than happy to lend whatever you wanted. They did not care. While everything looked rosy, the interest payments in the form of profits were going home to their

masters in Australia. And just be aware of this little known fact. Notwithstanding the bank has given you a 25 year mortgage and you are diligently making your fortnightly instalments, they can call in your mortgage at any time and demand you repay them in full. They assure us they will not though. And why would you ever not believe an Aussie? Although, they did tell us they would win the Rugby League World Cup I suppose!

Back to the ridiculous excesses. People like the richest person in the world, Warren Buffet and past Chairman of the Federal Reserve Paul Volcker have been pretty vocal about the excesses in the financial sector and also in big business generally. According to *the Sunday Star Times* of November 23 last "the 81 year old [Volcker] has spoken out against excessive executive pay, blaming it for the world's 'broken financial system'. Tipped for a key role in Barack Obama's administration, Volcker said there had been 'tremendous rewards and payments of magnitude for presumed success and not much penalty for failure'. He said the other main culprit was financial engineering, with securitised loans, credit default swaps and other derivative products trumpeted as a way of minimising and distributing risk. 'In fact the managers of organisations didn't know what they were doing and were not in control. They were trying to turn dross into gold. We had a lot of alchemists out there.' "

The fiction goes something like this. We have to pay multi million dollar salaries to attract the right people who can produce the super profits we want. But it has got to stop.

There was an excellent article by Ian Verrender in *the Dominion Post* of September 11 last. I quote: "Research collated by the centre for corporate governance at the University of Technology, Sydney, has thrown up some startling findings on this subject.

It will be no surprise to learn that executive salaries have grown hugely while those of wage and salary earners have remained steady or even fallen in real terms because of globalisation.

A study by Tony Atkinson of Oxford University and Andrew Leigh from Australian National University found that, in 1992, a typical executive in Australia's top 50 companies earned 27 times the wage of an average worker. By 2002, this had risen to 98 times.

The arguments from business leaders over the years to justify this ever-widening gulf is that Australia has to compete on a global

market and its companies must pay global executive salaries.

But that is a false argument. We have been fed a line and have swallowed it without question. The truth is that it's an Anglo-America-Australian trend only. Executives in Europe and Asia are not rewarded to anywhere near the same levels.

Hiroshi Okuda, the chief executive of Toyota, the world's most successful automobile group, earned A\$903,000 in 2004. Rick Wagoner, head of General Motors, which last year lost pole position in the global auto stakes and is rapidly heading toward financial oblivion, got A\$10.19 million in 2006.

In Australia, Telstra boss Sol Trujillo has

his salary boosted to A\$20 million last year, though shareholders voted against the near-doubling of his pay.

But Norio Wada, his counterpart at Japan's NTT (which is twice the size of Telstra) earned just A\$382,000 in 2004 while Thierry Breton, boss of France Telecom, earned A\$1.52 million in 2004."

In NZ it's similar. Telecom's boss Paul Reynolds has a base package of \$1.75m, a performance incentive of up to \$1.75m and a long term performance bonus of share rights to the value of \$1.75m. Not too bad.

I feel sorry for New Zealand Post Chief Executive John Allen who only made slightly more than \$1m, up about \$150k on last year, according to the State-owned

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company's annual report. It is hard to run a good monopoly. What does the average postie earn? I am guessing \$30k? Let us call it \$40k. So his/her boss receives 25 times this. Give me a break. I mean our new P.M. only earns \$400k p.a. Why should the head postman make two-and-a-half times more than his ultimate boss?

I am not having a crack at Mr Allen on his own. These State-owned corporation salaries are out of whack just like many of the public companies' salaries in NZ, Australia, UK and the US. It is time it stopped. CEOs who own their own company and have their own very private parts on the line, I have no problems with. It is just the top management and also Boards of Directors with their snouts in the public trough (Government-owned and listed companies owned by the masses too) I and an increasing number of financial commentators believe need to get back in to the real world again!

Perhaps Barack Obama and our own John Key may be just the catalysts to start the ball rolling.