

MackKay

ON MONEY

(AND OTHER THINGS)

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY



For my birthday last year, I was given a DNA kit to determine my ancestry. It is a straight forward process. You fill a test tube with spit, then add a few mls of special goop to keep the sputum healthy until it wings its way to Ireland. Men in green then analyse it so they can report to you, from whence you came.

After a few weeks the much anticipated results were emailed back to me. It turns out I have zero Neanderthal, no missing link, zippo African antecedents and zilch Tribes of Israel. It's very disappointing. The Ethnicity Estimate indicates I am 100 per cent European. I am 63

per cent from Great Britain (primarily located in England, Scotland, and Wales), 19 per cent from Ireland (Ireland, Wales, Scotland), seven per cent from Scandinavia (Sweden, Norway, Denmark), nine per cent from Europe West (Belgium, France, Germany, Netherlands, Switzerland, Luxembourg, Liechtenstein), less than one per cent from Italy/Greece (not surprisingly Italy and Greece), and less than one percent from Iberian Peninsula (Spain, Portugal).

I'm a Philippa Gregory fan and have read all her novels set around the Tudor period in Great Britain. Over the Christmas break I also read Ken Follett's "A column of Fire" set

in the same time. Henry the Eighth (Catholic, then Protestant) and his daughters, Mary (a Catholic) and Elizabeth Tudor (a Protestant) were not nice people. Mary habitually burned "heretical" non-Catholics alive at the stake. Owning a Bible written in English (versus Latin) was especially evil. Her dad had people murdered for any minor misdemeanour. A constipated Henry was a must to avoid for a number of reasons. Elizabeth was fond of hanging, drawing and quartering.

Remember the stories of Saddam Hussein who would excuse himself from a dinner party to go and personally shoot some poor wretch whose political views were not synchronised with his leader's. Likewise, Kim Jong-un, we are told is not fond of criticism, or indeed of his top officials falling asleep at a meeting. Kim has publicly executed at least two by blasting them with anti-aircraft guns, which you will agree does seem a trifle over the top. Snoozers are losers in North Korea.

Well these two were pussy cats compared to the Tudors. So burning alive, hanging, drawing and quartering those of an opposing view, amongst other things the Empire did, does not make me that thrilled to be two thirds tied up with the Brits – much to the glee of my good pommy mate. Just so you understand hanging, drawing and quartering, they would hang you until you were almost dead, then cut you open and pull out your insides while you're still alive and then chop you into four pieces and display these publicly in various parts of the country. It was only abolished by the Forfeiture Act 1870. Beheading was

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abolished in the UK in 1973. They are very civilised now I'm told!

My wife Kathryn on the other hand has come out more European West, which is not surprising as her great grandfather Johannes Vlietstra sailed out to NZ from Holland in the 1860s, after having many adventures in Australia in the 1850s. He wrote a journal about his time in Australia and had it published in Harlingen in 1868. I may reproduce it in *Vibrant Hutt* one day! In 1871, he journeyed back to Holland, married his sweetheart Annie Roos and took her home to Central Otago.

Johannes Vlietstra was the son of a doctor – Rudolphi – from the now very smart island town of Terschelling way up north in The Netherlands. The physician Rudolphi must have got crook, could not heal himself and died prematurely. So instead of having a relatively affluent middle class lifestyle, great great grandma was overnight in the financial cactus. I'm assuming in those days life insurance wasn't sophisticated or indeed available at all in Holland. I do know AMP opened for business in Australia in 1849 and in New Zealand in 1854, so perhaps there were insurance companies operating in Europe. Maybe not in the far north.

So instead of being insured for the 2018 equivalent of say one million dollars, which invested in say a Balanced portfolio of Fixed Interest investments and Shares and Property, generating a cash flow of say \$50k a year, granny was in the poop. Which was good really, because otherwise her boy Johannes wouldn't have left home, removing one more mouth for her to feed, earning some dough to send back to her to look after his young siblings, and finding his way eventually to Luggate in Central Otago. For without those events, Kathryn and my kids wouldn't be here.

So the missus is 25 per cent Dutch and is pretty pleased with that heritage, for as one of my good mates says "If you're not Dutch, you're not much"!

And if you're still with me, this Dutch theme segues nicely into some financial bubble stuff in the news recently.

Some commentators believed in the past few years, we had an Auckland property bubble all ready to burst. Well, it seems instead of a bubble, it has taken a breather and there's instead been virtually no growth in Auckland house prices in 2017.

Share markets too have performed very strongly. Global markets were up around 25 per cent for the 12 months until the end of January 2018. At the time of writing, in early February there's been a bit of a "pullback".

Is there still a bubble to burst or simply just anticipated corrections?

And of course there's this Bitcoin phenomenon. I don't profess to understand it but some financial gurus think it's a bubble poised to explode and as I write this article, there's already been a big drop in its price.

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But who knows? The FMA has put out some guidelines on cryptocurrencies <https://fma.govt.nz/compliance/cryptocurrencies/cryptocurrency-services/> and PWC has a good article on the differences between the Blockchain technology and the separate issue of the coins themselves <https://www.pwc.com/us/en/industries/financial-services/fintech/bitcoin-blockchain-cryptocurrency.html>

And here's a really cool bubble history lesson from the Dutch (finally got there!) with lots of help from Wikipedia, an old book "Some extraordinary popular delusions and the madness of crowds" by Charles Mackay (possibly a relation) first published in 1841 and republished by Penguin in 2010, plus some pre-Christmas history blog from an economist at a financial institution.

In the 1600s, the Dutch were going through a "Golden Age". They were the bees' knees and dominated Europe at trade, science, military and art. With the backdrop of this, history notes the first recorded speculative bubble, Tulip mania or "tulipomania" as cousin Charles called it.

The tulip, named from a Turkish word signifying a turban was introduced into Europe in the mid 1500s. They had originally come from central Asia and had already been cultivated by besotted gardeners in the Ottoman (Turkish) Empire for decades. They were different from every other flower known to Europe at that time, with an intense petal colour no other plant had.

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Tulips became very popular by the wealthy, especially in Holland and Germany. Rich people in Amsterdam bought the bulbs from Amazon's branch in Constantinople (Istanbul), Turkey and paid big bucks for them. Even the Brits joined in. If you were rich and didn't have a collection of tulips, you were nothing. The middle class then got in on the act and prices started rising ridiculously.

In 1634 the normally industrious Dutch stopped doing what they had been making a buck doing (growing grain, dairy farming and cheese making, fishing (especially herrings), gin manufacturing, building ships and windmills, dyke restoration, being good international traders up the Baltic, in the Med and in North America) but instead the population got into buying and selling tulips. Did this create anything? Nope – nothing. A bit like what happened in NZ before the 1987 crash and the US Tech boom of the late 1990s. Buying and selling shares in many companies that largely weren't actually making or creating anything. They often just owned interests in other companies not making anything – cash especially. And it's like buying and selling an existing pool of houses. Nothing is created. Contrast this with sales of new houses which generate jobs for chippies and sparkies and encourage the purchasing of fridges and stoves and paint and furniture and which keeps the whole economy turning over. (Sensible building of course though. Let's kick for touch, this crazy Hutt Council infill housing idea of 10,000 more people or houses. We can't cope with the limited infrastructure as it is. Roads are already clogged, water is restricted. C'mon Council. Be smart!)

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So, back in 1634 Holland, many speculators would invest a fortune of say 100,000 florins or guilders (worth US \$979k today) to purchase 40 tulip bulbs. What's a florin or a guilder? Back in 1378, the Dutch made their own version of the original Florence golden florin (in Dutch a "gulden florijn"). The Dutch liked brevity and shortened the coin's name to a "guiden" or "guilder". Just recently, in 2002 they changed their currency to the Euro.

The demand for tulips of a rare species increased so much in 1636, that regular marts for their sale were established on the Stock Exchange of Amsterdam and other towns. Tulip-jobbers speculated in the rise and fall of the tulip stocks, and made large profits by buying when prices fell, and selling out when they rose. Tulip bulbs became the fourth leading export earner after gin, herrings and cheese. Many individuals grew rich overnight. Even common bulbs began to increase in price so that any old bulb would sell for heaps. Everyone imagined the passion for tulips would last forever and the wealthy from every part of the world would send to Holland and pay whatever prices were asked of them. People of all classes converted their property into cash, and invested it in flowers. (It reminds me of a kiwi bloke who years ago cashed up his diversified super scheme and bought a couple of number plates to make his fortune when that bubble was upon us. I hope he got out in time but probably not!). Houses and lands were offered for sale at

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crazy low prices in payment of bargains made at the tulip-mart. Foreigners became smitten with the same frenzy, and money poured into Holland from all directions. In the 1630s, some single tulip bulbs sold for more than 10 times the annual income of a skilled craft worker (putting this in perspective, say NZ \$800K.) Eventually, the more prudent began to see that this folly could not last forever. Rich people no longer bought the bulbs to grow for their gardens, but to instead sell them again at a profit. Someone was going to get annihilated in the end. Prices fell never to rise again to the highs of November 1636. Confidence was destroyed and a universal panic set in. Buyers who had contracted to buy bulbs in the future, defaulted. No one would buy anything. People from the lower classes who had been doing well for a while, ended up back where they had been. Merchants in the middle classes got hammered. Rich dudes lost their fortunes. Some lucky ones got out before it all turned to custard. But like every crash it was a train-wreck for most punters. The Dutch tulip bubble had burst!

A few years later in 1642 another Dutchman, Abel Tasman, working for the Dutch East India Company was the first European to "discover" New Zealand. He sighted the north-west coast of the South Island on 13 December 1642. After a ding dong with the local Maori in Golden Bay, their two small ships, the Heemskerck and the Zechaen sailed via Tonga back to Batavia (Jakarta) in June 1643. Company bosses back in Amsterdam were pleased with the outcome of Tasman's voyage but despite Abel's pleas, rejected the idea of another expedition back down our way.

Here's a theory. Six years earlier in 1637, Dutch East India Company owners had all taken a pasting with the tulip bubble bursting and had lost their clogs. No money left for exploration. If they hadn't, Tasman would have returned and we would be having a current debate whether to compulsorily be teaching Te Reo in addition to – not English but...Dutch.

And if Johannes Vlietstra's antecedents from 200 years earlier had got in and then out of the Tulipomania phenomenon and made a fortune, he would have put up his clogged and privileged feet back in Terschelling and forgotten all about adventuring in Australia and then settling down 18,000 kms away from Holland and farming in Central Otago.

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