

IN PRIVATE

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NEW ZEALAND EDITION



Keeping your head

When emotion is running high, discipline is the key to successful investing.

Liquid investment

Investing wisely so that both your palate and your wallet can reap the rewards.

A certain future

Many high income earners fail to adequately protect the thing that is most important to them – their own and their family's future.



CHANGING TIMES

THE FIRST FEW WEEKS OF 2008 HAVE BEEN A BUSY TIME, WITH A CONTINUATION OF THE VOLATILITY IN GLOBAL ECONOMIES AND FINANCIAL MARKETS THAT CHARACTERISED THE LATTER PART OF 2007.

In this environment it is more important than ever to have a clear understanding of your investment objectives, and a clear strategy for achieving them.

While the headlines will always focus on short term movements, for many of you investing is a long term proposition. Discipline and patience are the key to success, and they have always been the foundation of the Private Bank approach. In this issue of In Private, Head of Portfolio Management and Advisory Services Rosemary Hambling explains how we apply that discipline to the management of your portfolio.

In a volatile environment, preserving wealth takes on a greater focus. Protecting your capital continues to be a fundamental part of our approach, and protecting you and your family's lifestyle should be an important part of your financial planning. In this issue ANZ insurance specialist Ross Ironmonger explains how to ensure you and your family are protected against unexpected events which could threaten your future.

Of course, there are some investments where the heart can be just as important as the head, and wine is one of those. We explore fine wine not only as an investment option but also as a rare and exquisite thing of beauty, to be appreciated and enjoyed.

Thank you for continuing to trust us with your business, which we will continue to manage through this uncertain period. **IN PRIVATE**

Catherine McDowell
Managing Director, Private Banking

Into the wind

THE NEW ZEALAND ECONOMY SITS AT A VERY DELICATE JUNCTURE. TAILWINDS ARE BEING PROVIDED BY FISCAL POLICY, HIGH COMMODITY PRICES AND A STRONG LABOUR MARKET. YET HEADWINDS IN THE FORM OF TIGHT FINANCIAL CONDITIONS, A HIGH CURRENCY, WEAK HOUSING MARKET AND GLOBAL CREDIT UNEASE ARE INTENSIFYING.

Stepping back, three key themes dominate the outlook for the economy.

First, inflationary pressures keep bubbling away. It's a simple equation. The greater the inflationary pressure, the less room for growth. Core inflation measures sit above three percent – outside of the one to three percent policy band, and the Reserve Bank is leaning against the economy by keeping monetary conditions restrictive. This process will continue until growth slows, and inflation pressures recede. Given continued tightness in the labour market and corresponding wage increases, there looks to be a considerable inflation pipeline, which means an even greater sacrifice in economic growth.

Second, domestic demand is slowing. The housing market continues to slide – houses are taking longer to sell than at any time over the last five years, the median house price has fallen \$12,000 in two months and there is growing evidence of a large amount of properties on the market. Retailing is soggy – despite income growth remaining strong. As the impact of a slowdown in housing filters, the rising costs of core staples such as food and petrol siphon money away from other discretionary areas. It just seems a question of time before it impacts on the labour market. The rural chequebooks are beginning to close in response to prolonged drought conditions throughout the country, although a week's worth of rain could change the picture quickly. While there is a lot of talk about tax cuts acting as a stabiliser, we doubt \$20 per week will do much if house prices are moving backwards, which is the case at present.

The third key theme is global credit conditions. Conceptually, this is the potential show-stopper. As a country we are heavily reliant on overseas capital markets thanks to our poor savings record and corresponding savings shortfall. This makes us particularly vulnerable to adverse turns in the credit cycle and swings in global sentiment.

Across credit markets, conditions are the toughest people have seen in decades. Risk is being repriced. The cost of credit is



Keeping your head

WHEN RUDYARD KIPLING FAMOUSLY ADVISED US TO 'KEEP YOUR HEAD WHEN ALL ABOUT YOU ARE LOSING THEIRS', IT'S UNLIKELY HE HAD THE STOCK MARKET IN MIND. EVEN SO, IT'S A VALUABLE PIECE OF INVESTMENT ADVICE – PARTICULARLY IN THE CURRENT ENVIRONMENT.

continuing to push higher. This is filtering through to the New Zealand economy and is a cost that borrowers will have to bear. But the real risk is that as risk appetites change, there is also a reduced availability of credit to certain pockets. Easily available credit has been a significant impetus to the economy, helping to set in train a cycle of rising asset values, spending, profits, employment, credit, rising asset values and so on. As global conditions continue to deteriorate, the greater the risk that the outright supply of credit is impacted, and a reverse cycle unfolds as a more cautious stance is adopted. Both the positive and negative credit cycles have strong behavioural aspects that keep the spirals in motion until a circuit breaker emerges. US subprime was the circuit breaker on the top. The real risk from this point is that international financial intermediaries are forced to restrict the supply of credit to restore balance sheets as asset prices come under pressure.

Tough conditions are impacting on New Zealand's trading partners. The US economy is weak. Europe is slowing, and Japan is fragile. If the Australian and Chinese economies come under pressure, so will commodity prices – a significant risk for New Zealand.

So for the next two years, the economic bear in me has the upper paw. New Zealand is entering a period of adjustment. We've pencilled in a rather benign (David Lange style) 'stop for a cup-of-tea' type outcome. Such an outcome fits with a normal business cycle where booms are followed by periods of consolidation. Unfortunately, the combination global credit dislocation and inflation pressure skews the risk profile to a less benign outcome. While hardly a comforting message to investors, leaner times do tend to present opportunities to those that have been cautious and patient late in the cycle. **IN PRIVATE**

Cameron Bagrie
Chief Economist

Investment markets are driven as much by emotion and sentiment as reason and logic. It's emotion that drives investors to behave in seemingly illogical ways, such as jumping in at the top of the market (when prices are at their highest), and selling out when panic sets in (and prices are at their lowest). There have been plenty of examples in recent times.

"We're seeing some extreme volatility in markets at the moment from irrational fear to irrational exuberance," says Private Bank Head of Portfolio Management and Advisory Services Rosemary Hambling. "That creates opportunities, but only if you have a clear strategy and the strength to follow it through." As with all successful investing, says Hambling, discipline is the key.

"At Private Bank we have a consistent philosophy based on preserving our clients' wealth and generating positive, inflation-adjusted returns. And, we also have a highly formalised set of investment disciplines. That helps us identify risks before the market prices them accordingly. We will proactively exit situations where we feel we are not receiving sufficient reward for that risk."

"We don't try to 'time' the market – history shows that it's impossible to do so consistently, because markets don't always behave rationally. But we do put a considerable amount of time, effort and resource into analysing what is happening in the markets, identifying the longer-term trends, and using that understanding to form all our investment decisions," says Hambling. "For example, we came to the conclusion some time ago that equity markets were becoming overheated. As a result we moved to reduce our exposure to international equities before the recent market correction."

"It can be uncomfortable if you are swimming against the tide of market sentiment – but that's when it's important to back your judgement. When a bull market is running, as it was until very recently, the temptation is to stay in the market and try to squeeze out every last bit of profit. We formed a clear view that a correction was inevitable, so we adjusted our portfolios accordingly."



A liquid investment

INVESTING IN WINE CAN BE A UNIQUE MIX OF BUSINESS AND PLEASURE. IF YOU INVEST WISELY, BOTH YOUR PALATE AND YOUR WALLET CAN REAP THE REWARDS.

“That view wasn’t shared by everyone at the time, but events have shown it to be a prudent approach. It’s also given us the confidence to be looking for the opportunities that arise in current market conditions. As a result we are now increasing our exposure to those areas that we believe offer the best opportunities.”

Private Bank investment disciplines are centred on the Investment Committee, which meets for a day every month. It’s chaired by the Bank’s Chief Investment Officer and includes the Chief Economist, other senior investment experts, Private Bankers from within the business and an independent consultant. They spend the day reviewing and discussing the latest market information, and testing whether the behaviour of the markets over the previous month is consistent with our view and overall strategy.

At each meeting, the Investment Committee reviews activity in four regions – the US, Europe, Japan and the Rest of the World – and forms a collective view on prospects and trends in each region. That view is communicated to Private Bankers who are responsible for translating it into the client portfolios they manage. Every portfolio is reviewed on a monthly basis, taking into account our Bank’s investment outlook and the individual risk profile of each client, and take action as required.

For example, Hambling says the Bank believes the Japanese equity market, a perennial underperformer in recent years, offers some opportunities in the current environment. As a result, portfolios which have an appropriate risk profile (which includes equities) will be upweighted accordingly.

“It’s a very thorough, very considered process,” says Rosemary Hambling, “which clients have every right to expect. But it’s precisely that rigour and discipline which enables us to keep a clear head when emotion is running high.”

It’s an approach Rudyard Kipling would thoroughly approve of. **IN PRIVATE**

According to Simon Mickleson, wine expert at Webb’s auction house in Auckland, a number of New Zealanders use wine as an investment vehicle – though activity here is tiny in comparison with overseas.

Investors tend to be wealthy people who enjoy wine in its own right, and know enough to spot an opportunity. And there are some very good opportunities. Mickleson knows of one trader who bought a consignment of Chateau LaTour for \$600 a bottle and sold it for \$1100 a bottle – a near 100% return – just 6 months later.

Of course, it’s not always that easy – or profitable. As with any investment, knowledge is the key. The price of fine wine is dictated by the vintage – a good vintage is the difference between the very best and the also-rans.

The rule of thumb, says Mickleson, is that wine should form no more than 5% of your investment portfolio. “The advantage of investing in wine is that even if it doesn’t go up in value you can still drink and enjoy it.”

Whether you are looking to buy wine as an investment, or to cellar and keep for drinking, the key is to choose wines that will last and improve with age. Most often, that means red wine.

Perhaps the most reliable approach is to buy good vintages from top vineyards in the Bordeaux region of France (referred to in England as Claret). If you are looking for New Zealand wine with cellaring and investment potential, Bordeaux-style blends of Cabernet Sauvignon, Merlot and Cabernet Franc grapes, such as Te Mata Coleraine or Stonyridge Larose, are a good place to start.



Bordeaux styles are far from the only option, however. The Burgundy region of France is the home of Domaine Romanee Conti, whose wines are amongst the most expensive in the world. Vintage white wines can also cellar well. Whites from Alsace in northern France can last 50 years, while the best examples of the highly concentrated sweet white wines from Sauternes such as Chateau d'Yquem can last for a century or more. In 2006 a 'vertical' collection of every vintage of Chateau d'Yquem from 1860 to 2003 sold for 775,000 pounds (around \$NZ1.8 million).

Simon Mickleson says most New Zealand wines have less cellaring potential. "To a large extent our wines are made in a fruit-driven, early-drinking style. That's why we don't accept New Zealand whites over six years old for auction. Our experience is that they don't often last."

Mickleson's advice for those looking to establish a cellar for drinking rather than investing is simply to start with wines you enjoy. "If you like New Zealand reds, for example, buy the best examples of it you can. Read widely and find out which labels are the most highly regarded. Producers such as Te Mata, Stonyridge and Felton Road all have a great track record, but there are some excellent newcomers too – for example Unison, Bell Hill estate and Pyramid Valley. These wines can be hard to get so if you like a particular label, join their mailing list."

Alternatively, you can buy a ready-made cellar. For some clients, Mickleson puts together a broad selection of wines for a specific budget. For \$15,000 to \$20,000, for example, you can put together an excellent cellar with 3 bottles of 40 different premium wines, all designed to give a breadth of styles and 'best drinking' dates.

For any cellar, the right storage conditions are essential. "Consistent temperature and humidity is vital for the wines to develop. We won't accept any wines for auction unless we're sure they have been cellared properly. These days, the best bet is to buy a wine cabinet that is designed for the purpose."

If you can't wait ten or fifteen years while your Chateau Margaux matures, you can always buy one already aged at auction. Buying at auction allows you to enjoy mature wines in perfect condition, without having to cellar them yourself. It may also be your only opportunity to buy some of these rare vintages. **IN PRIVATE**

A certain future

FOR MOST HIGH INCOME EARNERS, PROTECTING THEIR WEALTH IS JUST AS IMPORTANT AS CREATING IT IN THE FIRST PLACE. YET SURPRISINGLY, MANY DON'T HAVE ADEQUATE PLANS IN PLACE TO SAFEGUARD THEIR PROPERTY AND FAMILY AGAINST AN UNEXPECTED EVENT SUCH AS A SEVERE ILLNESS, ACCIDENT OR EARLY DEATH.



Ross Ironmonger, insurance specialist at ANZ National Bank says many high net worth individuals often make the mistake of thinking they don't need insurance, because their wealth is enough of a buffer.

But that's a very high risk approach, says Ironmonger, which could put their economic future at stake. Just as any business must actively manage their risks, high income earners should protect against potential events that could radically alter their own and their family's lifestyle in the future.

What happens, for example, if you and your spouse are both in key roles in the family business and your child suffers a critical illness? One or both of you would probably want to take time off to be with your child, but imagine if financial constraints or work obligations meant this was impossible. While insuring your offspring may sound far-fetched, it's part of a range of different policies that are worth looking at as part of your overall financial management.

Putting the right structures in place takes planning. That should be done in conjunction with your financial adviser, as what is appropriate for one person may not be necessary for another. Here is an overview of the most common types of cover.

LIFE INSURANCE

Life insurance is all about providing for your family. If they are coming to terms with the huge emotional upheaval of your death, you don't want them confronted with big financial changes as well. Even if you have significant assets, they could take some time to sell and leave your spouse in a very difficult situation at the worst possible time.

The key question is how much life cover to have. At a minimum, you should have enough to cover any debt and provide your dependants with an income.

Take John and Lisa, both 40, and their two school-age children. John earns \$200,000 a year, Lisa works part-time for \$30,000 a year and they have investment properties with total mortgages of \$500,000. They also have a mortgage on their family home of \$750,000 and owe \$40,000 on a car.

The starting point for John and Lisa would be \$800,000 in life cover to pay off the house and car. Rental income on the investment properties is enough to cover the mortgages, but they would want the surviving partner to have about \$150,000 a year for living expenses, including school fees. To get that (assuming a conservative return of 5% net per annum), they'd need \$3 million – a total of \$3.8 million in life cover. While that may seem a lot, it's a good illustration of what you need to consider.

INCOME PROTECTION

Your income is the foundation of your and your family's lifestyle, so protecting it should be a high priority in your risk management strategy.

Income protection provides you with an income if you are unable to work because of a serious illness or accident. It pays up to 75% of your income, depending on the type of policy you choose. However, there is usually a cap on the amount of the benefit.

"Most insurance companies in New Zealand cap income protection payments at a maximum of \$20,000 per month. For very high income earners, that may not be enough," says Ironmonger. "In that case, other types of cover such as Total and Permanent Disability, and/or Trauma insurance (see below) can be used to make up the shortfall."

Income protection benefits have a waiting period before they kick in – anything from four to 104 weeks. The longer the waiting period, the lower the premium. Which waiting period you select depends on your individual situation and the resources you have (including your leave entitlements) to get you through the initial period after you become unable to work.

TOTAL AND PERMANENT DISABILITY

Total and Permanent Disability (TPD) cover provides a lump sum if you suffer an illness or injury that leaves you unable to work again.

TPD is often offered as an 'add-on' to your life insurance to provide



| Staying safe

an accelerated benefit – i.e. you can have all or part of your life insurance benefit paid out early if you suffer total and permanent disability – which is useful if your key requirement is clearing debt. However, this reduces your life cover accordingly if a claim arises.

Alternatively, you can take out ‘stand-alone’ TPD cover, which is more expensive but does not reduce your life insurance benefit in the event of your death. Stand-alone TPD is useful if you need the capital to generate an income in the event of total and permanent disability (for example, to top up your income protection benefit) rather than to pay off debt.

TRAUMA

Also known as critical illness cover, Trauma insurance pays out a lump sum if you are diagnosed with one of a number of medical conditions. The medical conditions covered can vary widely between policies so make sure you understand the fine print.

Trauma cover is relatively expensive compared to other types of insurance, so is often taken out as a ‘stop-gap’, for example to top up any shortfall in income protection cover.

Like TPD, Trauma cover can be taken as an accelerated benefit, which will reduce your life cover if a claim arises, or as a stand-alone benefit.

MEDICAL INSURANCE

Medical insurance provides cover for major medical expenses such as operations, specialists’ fees and ongoing medication. It provides access to more timely private treatment (with correspondingly faster recovery), rather than going on waiting lists in the public health sector.

“The type and extent of insurance you need depends entirely on your individual circumstances,” says Ironmonger. “What is appropriate for one person may not be necessary for another. It’s important to work closely with your financial adviser to understand your needs – and your options.” **IN PRIVATE**

Debra Christensen

We live in an increasingly interconnected world, where technology has made many day to day tasks much easier and more convenient – including doing your banking and managing your finances. But technology also provides fraudsters with new options to separate honest people from their money.

Fortunately, there are some very simple precautions you can take to deter fraudsters. Here is a summary of some of the basic steps you should take to help keep your finances safe.

PROTECT YOUR PINS AND PASSWORDS

In this technological age, PINs (Personal Identification Numbers) and passwords are key, so protecting them should be a priority. Simple rules for keeping PINs and passwords safe are:

- › Memorise your PINs and passwords – never write them down or record them anywhere.
- › Choose PINs and passwords that are hard to guess – e.g. don’t choose sequences like 1111 or 1234, or your date of birth as a PIN; don’t use children’s names or other easily identifiable personal information as a password.
- › Make sure no-one can see you enter your PIN at ATMs or when using EFTPOS – e.g. by covering the keypad with your other hand.

Never tell anyone your PIN or password – not even Police or Bank staff. We will never ask you to reveal your PIN or password. You should always make sure that only you know it.

STAY SAFE ONLINE

You may have heard of ‘phishing’ emails or ‘spyware’ (programs attached to emails) sent by fraudsters. The purpose of these is to gain personal information such as bank account and password details. Once again, there are some simple, common-sense precautions you can take.

CONTINUED FROM STAYING SAFE, PAGE 6...



- › Don't open unsolicited emails from people you don't know. Delete them immediately.
- › Don't respond to emails or click on any links in emails that ask you for any personal details (for example, 'phishing' emails that pretend to be from your bank and ask you to provide account information, passwords, etc.) Remember, we will never ask you to reveal your PIN or password so never provide them to anyone.
- › Install anti-virus, anti-spyware and firewall software and keep it up to date. If you're not sure, ask your computer supplier.
- › If you use Internet Banking, only log on by typing www.anz.co.nz into your browser. Never click on a link to Internet Banking in an email or elsewhere.

- › If you suspect you may have been the subject of online fraud, change your passwords for Internet Banking, Internet auction sites, etc. immediately and contact us.

Remember the golden rule – if it looks too good to be true, it almost always is.

MORE INFORMATION:

The Ministry of Consumer Affairs website www.scamwatch.co.nz, contains useful information about how to spot financial scams. See also our website www.anz.co.nz for more tips about protecting your finances. **IN PRIVATE**

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