

# NEW YEAR INVESTMENTS

New Zealand business and economic reports seem to be all doom and gloom at the moment. Are we heading for a recession? Will inflation continue to run out of control? What's the dollar going to do?



success. Consider direct investment in the stock market or check out unit trust investments to diversify your investments. Portfolio investments could see some mixed results over the next year but will hedge against foreign exchange risk and hopefully minimise the negative aspects.

If you are investing for the short term then cash is probably the best option. However, for long term investors, property and equities will continue to be ideal investment choices.

## TAX

Tax has been a hot topic for some time. We know the Government wants us to save more and spend less, but what happens if tax laws change? If they choose to cut taxes, a big concern is that it will be inflationary and upset other areas of the economy.


Tax rules on investments are set for an overhaul in 2006 which should see the removal of disincentives for domestic investment through managed funds, and reduce the differences in how income from offshore shares is taxed.

## LOOKING FORWARD

Given all this, the key thing to remember when you're deciding on your investment options is to go back to the basics and clearly understand why you are investing. You'd plan strategically if you owned a business, so you should do the same for your individual financial plan.

Essentially, financial planning is a process of identifying where you are and where you want to end up. Think about your goals and objectives, what you enjoy doing and when you'd like to be financially independent.

Taking a structured approach to your planning involves understanding your current position, establishing your lifestyle goals, identifying the issues that might stop you from achieving these, then agreeing to a plan that you can monitor against your investing goals.

Taking the time to think about your investing goals allows you to establish a lifetime investing plan. You can then spread your investment across all four asset classes, meaning that if one of your 2006 investment options fails to deliver you'll be protected against the risk. 

HAMISH EDWARDS

*“All I ask is a chance to prove that money can't make me happy.”*

SPIKE MILLIGAN

With so many uncertain aspects to New Zealand's economic outlook, it can be hard to predict what the best investment options for 2006 will be. Cash or bonds? Property or equities? Should you invest in New Zealand or offshore?

Over the past three years growth investments in share markets have significantly outperformed income assets. Similarly, property has gone through the roof. How do we know if these trends will continue?

Sharp investors know to plan ahead, so let's take a look at what could happen with these various investment options over the next year.

## PROPERTY

There are some real concerns in the property market as interest rates continue to rise without rental prices keeping up. If inflation increases so will property prices, and for many, the long term, tax-free capital gains on investment property, and the tax refunds, are the great attractions to rental property. If inflation keeps growing, new acquisitions with good yields may be harder to find.

Properties in regional areas will attract more attention as they tend to have better yields. As existing properties come off their low fixed rates we are likely to see more cash-negative investment property around. That means your investment becomes more speculative over a

longer term and depends on capital gains beating inflation. We may see more interest in commercial property in 2006 as there is a general feeling that it's undervalued throughout New Zealand. This could see an increase in rental prices.

## CASH

Ultimately, cash is a safe investment. With rising interest rates you can get a reasonable return for very little risk. Repaying debt is another alternative providing a good return in that you save on the applicable interest costs. However, this may be less appealing if the interest is tax deductible.

## INVESTMENTS

Infrastructure is going to be a big growth area for some time to come, with significant projects planned in Auckland and throughout Australia. There may be equity offers available in these areas, either privately through brokers, or publicly by way of bonds or debentures.

A balanced investment portfolio is one of the keys to investment

It may be a cliché, but it's always wise to vary your investments, "don't keep all your eggs in one basket".



**HAMISH EDWARDS** is a Chartered Accountant and CEO of Wellington-based business consulting firm Edwards Accounting - [www.eaccounting.co.nz](http://www.eaccounting.co.nz)