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STOP PRESS - GREENLAND IS NOT FOR SALE

NOT ONLY IS THE WORLD GETTING MORE COMPLICATED, IT IS GETTING MORE UNCERTAIN AND MORE VOLATILE - YOU AND I NEED TO DIG IN WITH OUR OWN BUSINESS AND FAMILY DECISION MAKING - THIS REPORT IS SIMPLY TRYING TO HIGHLIGHT A FEW BUSINESS TYPE ISSUES IN THIS REGARD

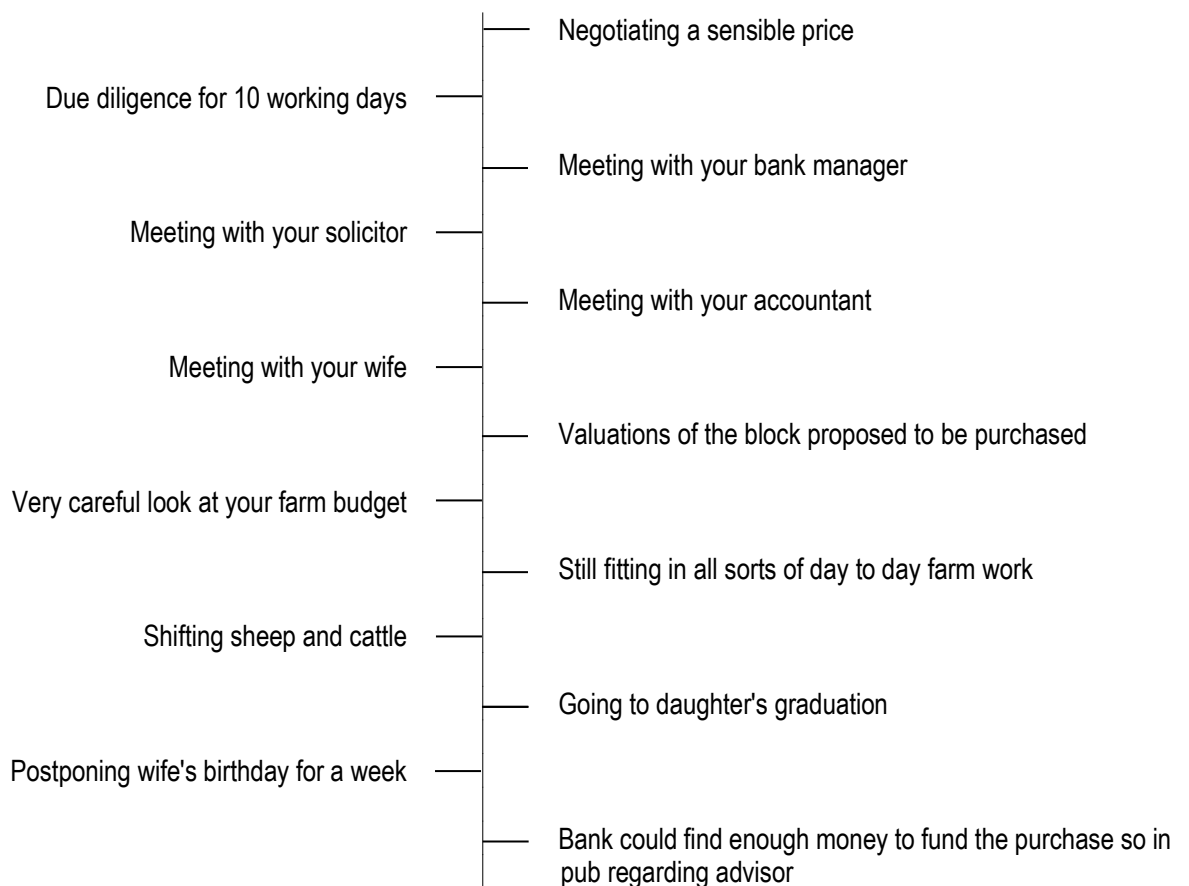
- (1) Despite Mr Trump, Greenland is apparently not for sale - but he is going to, nevertheless, open a USA consulate there. Greenland has a population of 58,000 people with the capital, Nuuk, having a population of around 18,000 - there are no roads outside of Nuuk. Denmark has owned Greenland since 1721. What is the message here - it is about the fact that there is much more interest in the whole Arctic area and consequently about China and Russia.
- (2) The Australia banking industry, which controls around 85% of the NZ banking industry, wants NZ farming to start reducing its term debt - their idea of a long term loan is 20 years and they want to see any term loan being able to be repaid over that period - this calculates out at 5% a year - around 2% a year would fully stretch most NZ farming operations - term debt reduction is not Income Tax deductible, so in many cases, 1% will be flat out - what's the message here? Plan for it.
- (3) You and I need an emergency fund outside of our regular banking arrangements that we can call on at a moment's notice with the only approval for a withdrawal being our own - how much - probably \$10,000 per family as an absolute minimum - Bonus Bonds would be as good as any other holding mechanism - a single hip operation now costs \$15,000 - \$20,000.
- (4) How much life assurance cover do you really need - particularly once you have retired - a lot of people keep paying life assurance long after they need it, however the funds could be much better spent elsewhere.
- (5) National Superannuation is the best income protection cover you will ever strike - it is Government guaranteed, cannot be taken as security, cannot be transferred away from you and presently also increases by around 2.85% a year. Once you have turned 65 years of age, there would be very few circumstances where continuing to pay income protection premiums could be justified - or at least at a much lesser rate.
- (6) Paying things monthly is easier on our cashflow, but multiply the monthly figure by 12 every so often and the annual cost may surprise you and may change some decisions or actions as a result.
- (7) Every year or at least every two years under the new insurance arrangements where building area replacement type insurance is no longer available (with the new cover called sum assured cover) you and I need to check up as to what our house would cost to replace in the event of fire or flood or earthquake. The capital cost of building a house is still creeping up and if you are not on top of this issue your rebuild cost will not be fully covered by insurance - this gap with a typical house could easily be 10%, which is around probably \$40,000 - \$50,000.
- (8) Education costs regarding our children is more important than boats, caravans and overseas travel - particularly as the former is for a fixed time period only whereas the latter goes on forever.
- (9) Don't be annoyed by the fact that the bank term loan you moved onto a fixed rate basis a few months ago could now be fixed at a slightly lower rate again - the key with fixing is to be very near the bottom of the curve - right at the bottom of the curve would be pure luck - it is a good example of heading for excellence rather than perfection.
- (10) Your and my bank margin fees with our term debts is on the rise - you won't read much about this but work on it coming - if you are a good operator with the bank having sound security, then fight the issue at the time this happens - not later.

- (11) Maintaining a good long-term relationship with your bank and bank manager is usually the right action - every now and then though with interest payments probably being your highest business cost, then a change in banks may be a key strategic move - the problem usually is, at what point is this change worthwhile in your particular situation - the answer partly will depend upon your level of term debt borrowing. A 10% drop when your total debt is \$1,000,000 and your present interest rate is 4.8% and you may be able to replace it at 4.3% represents an annual saving of \$5,000 - but if your debt is \$3,000,000 then the savings is \$15,000. What's the message here - do your homework carefully and discuss it with your present bank manager to give him or her a chance to narrow the gap or match the gap - in some situations though, the advantage from change is too big to back away from.
- (12) Many farming situations are now close to paying \$650 - \$850 per week (\$34,000 - \$44,000 per year) for their annual general insurance costs regarding buildings, vehicles, plant and domestic cover, etc. You and I need to review carefully our total insurance schedule every two years and maybe get a completely new insurance quote if the costs have crept up unduly - this insurance re-quote can be very worthwhile - just assuming you are receiving fair value is not nearly a good enough answer.
- (13) Reviewing your vehicle and plant insurance schedule also every two years has another plus - make sure there is nothing on the schedule that has been sold, has been traded in, is obsolete or should never have been there in the first place.
- (14) A good contractor can have a place in many businesses - when the minimum wage is \$20 per hour, which is only just around the corner now, this means a business with two employees will have a minimum annual wage cost of close to \$90,000 when you allow for ACC levies and one or two other costs that come with employees. Employers are the unsung heroes of this country and have been for a very long time now - pay yourself first.
- (15) Regulatory and compliance type work is driving some business people mad and it is getting worse - if you don't enjoy doing something, then you won't do it well, but this type of administration done poorly will come back and bite you badly - if you are in this group, then see if you can contract it out to somebody competent - yes, it will have an annoying cost but it may still be a better option. If there is somebody who is good at and even likes this stuff in your locality that offer their services on a business basis, then providing they have integrity, have a discussion with them.
- (16) The best type of ACC cover for self-employed business people for most situations would be the ACC cover plus extra options. Don't assume you may already be in this option - you need to be specific here.
- (17) Around 30% of people in NZ, I feel, are poor with money - for some years, I have been suggesting 25% but many parties have said I am too low at that level, my son Paul being one of them. This is a major financial cost - years ago, I feel that this trait could be reversed, but now I feel it is like Iron Disease (a love for vehicles and plant) - that is, that it is in an individual's DNA from day one. What is the best thing that people with this problem can do - move heaven and earth to give their children the tools and education to avoid this issue being inherited again - hardnosed discussions across the family kitchen table is the best starting point.
- (18) One credit card is enough - if you must have more than one, then they must all be cleared within the 55 day interest free period - credit card interest is around 17% - 19%. If you can't cope with this, then at least help your children avoid your weaknesses.
- (19) Compound interest is the 8th wonder of the world - this issue can work against you or it can work for you - working for you is the only way to travel - once it works against you for any length of time, and with substantial dollars, then you will be on the back foot for years and years - it must work for you.
- (20) If you can't afford it, you can't afford it - enough said. Good discipline is close to good breathing and it is certainly very close to sound long term financial planning and running a good business.
- (21) One income families must be very good with money right from the outset - NZ beneficiaries outside of National Superannuation total right now around 554,550 people - these are often very genuine people, but financially this issue is ongoing and is costing the rest of the NZ population a substantial annual sum. What's the message here - if you are in this group or heading for it then your family decision making really needs backup from strong financial advisors - in practice though this unfortunately does not tend to happen and it all falls back onto Government assistance in some form or other.

- (22) There is nothing wrong with one or more of your children ending up with a Student Loan of, say, \$30,000, particularly if they have successfully completed their course/degree/diploma etc. I would be for mum and dad paying off 50% of this loan with the child concerned paying off the other 50% - mum and dad need to remember that if there was no Student Loan, that they would probably have had to find and service maybe 80% or more of the equivalent of that Student Loan cost.
- (23) Low interest rates tend to lead to poorer decision making regarding asset purchases, particularly with the 30% group who are poor with money - you may swear to me that it does not apply in your situation but directly or indirectly it will - present interest rates are about 50% of what they were 12 years ago - if your interest payments reverted to this figure now (that is doubled), where would your business be? I would suggest that 50% of NZ businesses would be in severe financial trouble particularly if their bank also wanted, say, 2% loan principal repayments each year. High interest rates encourage debt repayments but low interest rates make debt repayment easier, but in the main this debt reduction issue does not happen in practice to anything like the extent it could do or should do.
- (24) Some people have a helicopter view of their future, financial affairs and their business - other people only get about a week ahead of themselves at the most. In today's economic and financial environment and only getting a week or so ahead of yourself is no way to live - if you are under real pressure on this issue, share the pain and develop a better plan with one or two key forward thinking and successful people - don't just turn the issues over and over in your mind.
- (25) There is no halfway house regarding top advice - sure, top advice will cost more but quality always prevails even if it may take longer - don't get this wrong - top advisors on all issues are a must for yourself, family and business.
- (26) At present, there is approximately \$170 billion dollars (NZD) on deposits with NZ banks from NZ residents which is going to presently involve an annual future return of around, maybe, 2% - 2.5% and may drop a little further - allowing for an inflation rate of, say, 2% and an Income Tax cost of, say, 0.50 (20% of 2.5%). This means there is absolutely no real return whatsoever - you are paying your bank effectively to store your hard earned savings - the offset, of course, is that you should get your capital back in due course, which is always essential. Many NZers are going to get the stitch with this and will end up taking a lot more risk to get a much higher return - this same issue is happening right now in other developed countries around the world - never forget though that the return of your capital is much more important than the return on your capital.
- (27) Real wars (approximately 12 going on around the world right now) involve a substantial loss of human life as well as major costs in all sorts of ways - trade wars involve substantial financial cost, loss of business confidence and the destruction of good relationships built up over often many, many years. The major countries that NZ exports to are:
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| China (Trade war with USA) | } | The NZ export of goods (excluding services) to these six countries total around \$32.5 billion (NZD). This total represents around 81% of NZ total goods exported - what's the message here - volatility and uncertainty are very much present now and it is hard to see anything but downside for NZ within a year or so - make sure your forward planning allows for this. |
| Australia (Very dependent regarding mineral sales to China) | | |
| USA (Trade wars with China) | | |
| Japan (Trade wars with South Korea) | | |
| UK (Trade wars effectively with the EU and itself) | | |
| South Korea (Trade wars with Japan) | | |
- (28) When things go wrong in your business, don't just watch - remember losses manage themselves very well. Delegate a major problem in this area to yourself to fix - you have the most skin in the game and will bear the biggest loss if you just watch it but equally will benefit most from fixing it. There is an enormous difference in this issue with the top and bottom operators - the bottom group have a very bad habit of just watching to give the problem time to turn itself around - all that happens, of course, in 95% of situations, is that the financial hole just gets a lot, lot deeper.
- (29) Right now, many NZ businesses are having to deal with their working costs creeping upwards constantly, but they are not able to recover this by increasing their prices - there is nothing much new here but in a down cycle, your mood is just as important almost as your money - don't let your mood take over your business management as it can so easily do either directly or indirectly - if your mood takes over, your family and your employees or working colleagues will notice it immediately and it won't do you any good.

- (30) Expect a drop in your gross and net income, perhaps over the next few years coming one way or the other from the world's uncertainty - in a down cycle, everybody pulls back - about 70% - 80% of our NZ gross domestic product comes from our people's consumption so that if consumption falls it effects a lot of businesses very quickly - you will notice I said expect a drop in your gross and net income - I did not say aim for it.
- (31) Maximising your gross business income is definitely a part of the equation, but over the years I have found that the law of diminishing returns does have a place - I find that optimising your net income is such that at around 93% of your gross income is where maximising your net income takes place - the point being that the last 7% of marginal income is often exceeded by the last 7% of marginal costs - on top of that at 100%, everybody including you is under a lot of pressure.
- (32) When you are in a good business patch, then you should have your Financial Statements and Income Tax return actioned early on so you know what your income tax payments may be and when. When you are going through a bad business patch, then the same early actions apply, but for the reason that you may be due for an immediate Income Tax refund.
- (33) Don't get too down about one or more of your children being late developers - the writer was a late developer, at least, according to my father - all my school reports for my whole school life said the same thing - 'not motivated, has potential'. The potential, according to my now late father, never came. The writer, of course, is biased on the issue, but give your children time, space and some financial support over this period - despite your concerns. The funny thing is that some late developers actually survive and prosper - don't encourage your children into some early pathway where it becomes obvious that they are not going to get any job satisfaction from it – job satisfaction almost invariably means you will be doing the job very well.
- (34) Low interest rates may be encouraging in any financial decision, but the actual repayments of the loan principal itself is the more important issue in many cases - keep this point firmly in the back of your mind.
- (35) If you are living beyond your income and you know very well that you are, then unless there is something in the background that will reverse this, then don't only pause - stop and really think. A confirmation of this spiral will mean you will eventually lose complete control of your financial affairs - in my troubleshooting years, I found that this bottom of the spiral was not a solution in any sense of the word - you become effectively a financial slave - the spiral is the easy bit - clawing up out of it is the hard part.
- (36) Grandparents have very strong feelings about their grandchildren's education – as parents we all like to think we can cover these costs ourselves but sometimes for a fixed time period getting or letting grandparents get involved has a real place.
- (37) If you sometimes wonder where your own financial position is heading, then think about the world's monetary system - it is actually presently breaking down and the 'powers that be' are quite uncertain as to what will replace it. Quite a few countries are struggling with their economies and many are not strong enough to generate any inflation which, strange as it may seem, is actually a key issue. What's the message here for you and I - we must at least balance our own business and domestic budgets regarding cash in and cash out each year almost at any cost.
- (38) What does the existing NZ husband and wife expect to leave (upon the death of both of them) to their children - the average NZ husband and wife would presently leave around \$350,000 - \$400,000 - say, \$175,000 - \$200,000 each if there were two children. What's the point here - the real point is that this would be very helpful for many families, but with longevity with one of the parents getting to, say, 93 years old, that inheritance would not come until the children are probably in their 70s or very close to it – quite a number also will tend to live on their capital over that last 10 years.
- (39) Opportunities do not often come across your bows - you almost invariably have to swim out - even then only one out of 10 of these opportunities will come to anything and you will have to swim back, which is the hard part. The real point though, is that you need to make your own future - luck only applies to Lotto - you must though, learn to swim well to be in the hunt.
- (40) The Australian sheep numbers are down to 62 million and NZ sheep numbers are down to 27 million - a combined total of 89 million - this is a drop of 151 million or 63% compared with the combined total some 40 years ago of 241 million - Australia has dropped 63% and NZ by 61% - what's the message here - with no other countries really exporting sheep meat of major quantities coupled with this substantial drop in numbers, sheep meat values should hold for the next few years - treat your sheep numbers like gold.

- (41) Your financial status quo may be hard going with gross income and gross expenditure being at a similar level in the same box with the lid firmly down. If you are not going to live forever and want to achieve something worthwhile, then waiting for an upwards creep from the box is not a good enough answer. Sometimes, instead of trying to work forward, you are better to pitch back - that is, work out where you want to be several years forward and then work back from that point. This approach forces you to commit to a timeframe and dollars required. Successful people and businesses project where they want to be and then come back to calculate what returns and costs are required to get there. The upwards creep approach does not focus you hard enough in that it tends to wait to see what happens, whereas coming back forces you to focus harder, calculate the costs in advance and how best to implement the plan - you may know where you want to be but you also need to know when.
- (42) Developing any business from surplus tax paid profit has a place and many years ago was considered the best place to be in. Today, though, with low interest rates and Income Tax deductibility for some of the development costs, and the fact that you will not live forever, means in many situations a part funding from surplus cashflow and a part funding from borrowing tends to be a better 'mix'.
- (43) Time management never goes away, both in farming and in many other businesses. If a business completes a time log fairly and accurately, then you would find that about 65% - 70% of our total business time being soundly productive is as good as we are going to get - yes, it seems very low but any number of contractors and professional people will tell you that this lost time of approximately 30% - 35% is par for the course. A timeline in writing has a place - let us take an example of a potential farm land purchase adjoining your own property that is unlikely to come up for sale again in your lifetime, so you want to do the homework on it now:



Sometimes the plus is committing to writing and sometimes getting the sequence right – but normally both.

- (44) The costs of irrigation from a farming perspective are starting to frighten me particularly with the newly developed schemes - we are close to \$1,000 per ha each and every year, plus consent and regulatory issues of often \$100 per ha - for many that is, costs are getting close to \$1,100 per ha. Water storage is another issue that is crucial and essential but worthwhile - for many to cope with these costs they need \$150 per lamb - \$4,500 per ha cropping - \$6.75 kg dairying. Everybody will have their own idea of what is required here, but if we are not careful the operation will be successful but the patient will still die. Without low interest rates for the last ten years, this issue would have hit the fan years earlier.

- (45) Our NZ Reserve Bank Governor wants NZ citizens and our Government to spend a lot more in all sorts of ways and in all sorts of areas with the thinking being that it will be good for our overall economy and for each of us. This, of course, from a citizen's point of view, is unnatural and illogical and is unlikely to happen on any scale. The 'powers that be' can lower interest rates as much as they like, but people will still dig in and batten the hatches down in their business and domestic affairs when they have to cope with a down cycle - they are much more concerned if they borrow more as to how they will repay the monies borrowed rather than the interest rates. The Governor may have a good grip on all money matters but people's mood with money in a down cycle will prevail.
- (46) We are all going to read more and more about the problems around the world with inequality of income and inequality of assets regarding a country's people - The USA pre-election media is already full of it. The USA approaches being referred to deal with it are:
- (a) Taxing high earners more and taxing low earners less.
 - (b) Estate duty focus at a high percentage rate and setting in at a lower level to start with.
 - (c) Essentially taking money from the well off and giving to the poorer off in all sorts of ways.
 - (d) Increasing the food stamps type approach.

The issue also applies in NZ, but don't you spend any time thinking about it - you can't take money from those people who have had a good work apprenticeship, worked hard, taken business risks, made good decisions, employ people, already pay most of the Income Tax, want to grow their business - then give it to the poor. This is not a solution in any sense of the word - 30% of people are poor with money management and they will waste anything you give to them - this is all a bottom of the cliff approach - the real answer is to help these people a long way back from the cliff top.

I feel those people on the better side of these two issues are there in 90% of cases because they have worked their tails off with the other 10% perhaps being lucky with their inheritances because probably their parents and grandparents worked their tails off years earlier.

- (47) Recently, I read an article written by a Northland High School Principal which I thought was topical, well thought through and coming from the voice of experience - he said that he and his team are often hearing the cry from teenagers as to "What can we do and where can we go?" His reply was:
- Go home.
 - Mow the lawns.
 - Wash the windows.
 - Learn to cook.
 - Build a raft.
 - Get a job.
 - Visit the sick.
 - Study your lessons.
 - Read a book.
 - Your town does not owe you recreational activities.
 - Your parents do not owe you fun.
 - The world does not owe you a living.
 - You owe the world something.
 - You owe it your time, energy and talents, so that no one will be at war, in sickness and lonely again.
 - In other words, grow up.
 - Stop being a cry baby.
 - Get out of your dream world.
 - Develop a backbone, not a wishbone.
 - Start behaving like a responsible person.
 - You are important, and you are needed.
 - It's too late to sit around and wait for somebody to do something someday.
 - Someday is now and that somebody is you.

This would be a good sign to put up somewhere at every high school in the country.

- (48) When things go negative on you it may well be your fault, or it may not be your fault - this hardly matters as there is no questions as to who will have to deal with it. I have noticed over the years how these negative issues really swamp some people, whereas others look hard at getting something positive out of it - don't get swamped - apart from the experience learned, develop some positive features from that annoying issue - that's what the experienced operators do in every business.
- (49) The NZ media is anti-farming at present and has been for a while. They focus on dairy cows in the main and the effluent issues - Keith Woodford has written some good articles in this regard. If dairy farmers are going to be forced into reduced numbers or building some sort of herd house/covered loafing type barn, maybe Government will need, through the banks, to lend those farms, say, 25% of the cost (based on, say, a per cow basis) interest free for, say, 10 years or something like this. This approach is not new - we need to laterally think some of these issues - 60% approximately of NZ exports still are from agriculture. Would you rather swim in the Waimakariri river or the Avon river?
- (50) The present US and federal term debt is \$22.4 (USA\$) trillion dollars - that is \$224,000 billion dollars. Let's have a look at a few features relating to this:
- (a) The debt is presently growing at around \$2,460 (USA\$) million per day - which represents around \$900 (USA\$) billion per year.
 - (b) The USA is the largest economy on earth by quite a margin.
 - (c) Its public debt though per USA citizen at \$68,090 (USA\$) is actually lower than both Greece and Japan, and 23 other countries – NZ looks reasonable per citizen at \$7,715 (USA\$).
 - (d) In 2018, the annual interest cost on this debt was \$325 billion.
 - (e) In 2025 it is estimated the annual interest cost will be \$725 billion.
 - (f) Who is this debt mainly owed to:

China	\$1.11 trillion
Japan	\$1.10 trillion
 - (g) Mr Trump promised in the lead up to the 2016 election that he would not only balance the USA budget, but also repay the entire USA federal debt (the 20 trillion dollars, at that point).
 - (h) It took the writer 11 seconds to get this data from the Federal Treasury. In that 11 seconds, they advised me that the USA debt had increased by \$227,748 (USA\$).

What's the message here? Firstly: that surely this cannot keep going like this and, secondly: probably that democracy is not the whole answer for many countries - the best people are often doing well in their own businesses and getting job satisfaction for 90% of the time – people, unfortunately, often wreck the other 10%.



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