

Welcome from the team

Greetings from the Team at CFS as we cross the half way point of 2011; I'm sure it was only the other day that the developed world was concerned with Y2K problems at the changeover of century, is it just me or has time sped up!! If time is passing you by as quickly as me and you haven't seen Adam, Daniel or Nicola in the last three years then it's definitely time to review what insurance you have, why you have it and whether it remains the most suitable product in an ever changing array of insurance offerings.

A discussion about savings and investments should be included and our main article below will provide perspective on how to achieve savings goals, albeit an American perspective. We've also included an interesting look at taxes, especially when some of our politicians are starting to make outrageous statements with no regard to the law of 'Unintended Consequence'! Lastly I'll make only one public prediction in this newsletter, and that is an All Black victory on 23 October 2011!

Beyond Wealth: The Road Map to a Rich Life

Excerpts from a book by Alexander Green

To determine real wealth, you need to look at a balance sheet – assets minus liabilities – not an income statement.

Just ask Dr. Thomas J. Stanley, the bestselling author of *The Millionaire Next Door* and perhaps the country's foremost authority on the habits and characteristics of America's wealthy. Many of his findings are just the opposite of what you'd expect.

For example, we generally envision millionaires as Bentley-driving, mansion-owning, Tiffany-shopping members of exclusive country clubs. And, indeed, Stanley's research reveals that the "glittering rich" – those with a net worth of \$10 million or more – often meet this description.

But most millionaires – individuals with a net worth of \$1 million or more – live an entirely different lifestyle. Stanley found that the vast majority:

- Live in a house that cost less than \$400,000.
- Do not own a second home.
- Have never owned a boat.
- Are more likely to wear a Timex than a Rolex.
- Do not collect wine and generally pay

less than \$15 for a bottle.

- Are more likely to drive a Toyota than a Beemer.
- Have never paid more than \$400 for a suit.
- Spend very little on prestige brands and luxury items.

This is certainly not the traditional image of millionaires. And it makes you wonder, who the heck is buying all those Mercedes convertibles, Louis Vuitton purses and \$60 bottles of Grey Goose vodka? The answer, according to Dr. Stanley, is "aspirational," people who act rich, want to be rich, but really aren't rich.

Many are good people, well educated and perhaps earning a six-figure income. But they aren't balance-sheet rich because it's almost impossible for most workers – even those who are well paid – to hyper-spend on consumer goods and save a lot of money. (And saving is the key prerequisite for investing.)

According to Dr. Stanley, "The pseudo-affluent are insecure about how they rank among

the Jones and the Smiths. Often their self-esteem rests on quicksand. In their minds, it is closely tied to how long they can continue to purchase the trappings of wealth. They strongly believe all economically successful people display their success through prestige products. The flip side of this has them believing that people who do not own prestige brands are not successful."

Yet "everyday" millionaires see things differently. Most of them achieved their wealth not by hitting the lottery or gaining an inheritance, but by patiently

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and persistently maximizing their income, minimizing their outgoing and religiously saving and investing the difference.

You Aren't The Car You Drive or The Watch You Wear...

They aren't big spenders. They just recognize that real pleasure and satisfaction don't come from the car you drive or the watch you wear, but time spent in activities with family, friends and associates.

They aren't misers however, especially when it comes to educating their children and grandchildren – or donating to worthy causes. Although they are disciplined

savers, the affluent are among the most generous Americans in charitable giving. So while millions of consumers chase a blinkered image of success – busting their humps for stuff that ends up in landfills, yard sales and thrift shops – disciplined savers and investors are enjoying the freedom, satisfaction and peace of mind that comes from living beneath their means.

These folks are turned on not by consumerism but by personal achievement, industry awards, and recognition. They know that success is not about flaunting your wealth. It's about a sense of accomplishment... and the independence that comes with it. They



are able to do what they want, where they want, with whom they want.

They may not be smarter than you, but they do know something priceless: It is how we spend ourselves – not our money – that makes us rich.

How Taxes Work

Suppose that every day, ten men go out for dinner. The bill for all ten comes to \$100. If they paid their bill the way we pay our taxes i.e. proportionally, it would go something like this:

The first four men - the poorest - would pay nothing; the fifth would pay \$1, the sixth would pay \$3, the seventh \$7, the eighth \$12, the ninth \$18, and the tenth man - the richest - would pay \$59.

That's what they decided to do. The ten men ate dinner in the restaurant every day and seemed quite happy with the arrangement — until one day, the owner rewarded their loyalty with a benefit (in tax language a tax cut).

"Since you are all such good customers," he said, "I'm going to reduce the cost of your daily meal by \$20." So now dinner for the ten only cost \$80.00.

The group still wanted to pay their bill the way we pay our taxes. But the six men realized that \$20 divided by six is \$3.33. If they subtracted that from everybody's share, then the fifth man and the sixth man would end up being PAID to eat their meal. So the restaurant owner suggested that it would be fair to reduce each man's bill proportionally, and he proceeded to work out the amounts each should pay. And so the fifth man paid nothing, the sixth pitched in \$2, the seventh paid \$5, the eighth paid \$9, the ninth paid \$12, leaving the tenth man with a bill of \$52 instead of his earlier \$59. Each of the six was better off than before. And the first

four continued to eat for free. But once outside the restaurant, the men began

to compare their savings. "I only got a dollar out of the \$20," declared the sixth man who pointed to the tenth. "But he got \$7!"

"Yeah, that's right," exclaimed the fifth man, "I only saved a dollar, too . . . It's unfair that he got seven times more than me!"

"That's true!" shouted the seventh man, "why should he get \$7 back when I got only \$2? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison, "We didn't get anything at all. The system exploits the poor!"

The nine men surrounded the tenth and beat him up. The next night he didn't show up for dinner, so the nine sat down and ate without him. But when it came time to pay the bill, they discovered, a little late what was very important. They were FIFTY-TWO DOLLARS short of paying the bill! Imagine that!

And that is how the tax system works. The people who pay the highest taxes get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up at the table anymore. "



Financiers

Einstein dies and goes to heaven only to be informed that his room is not yet ready. "I hope you will not mind waiting in a dormitory. We are very sorry, but it's the best we can do and you will have to share the room with others" he is told by the doorman.

Einstein says that this is no problem at all and that there is no need to make such a great fuss. So the doorman leads him to the dorm. They enter and Albert is introduced to all of the present inhabitants. "See, here is your first room mate. He has an IQ of 180!"

"Why that's wonderful!" says Albert. "We can discuss mathematics!"

"And here is your second room mate. His IQ is 150!"

"Why that's wonderful!" says Albert. "We can discuss physics!"

"And here is your third room mate. His IQ is 100!"

"That's wonderful! We can discuss the latest plays at the theatre!"

Just then another man moves out to capture Albert's hand and shake it. "I'm your last room mate and I'm sorry, but my IQ is only 80."

Albert smiles back at him and says, "So, where do you think interest rates are headed?"

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