CurreyFinancialServices
Looking after you, your family and your business

Topictalk

ISSUE 20 | SEPTEMBER 2013

INVESTMENT • INSURANCE • SUPERANNUATION • HEALTH INSURANCE • KIWISAVER

Welcome from the team

Greetings again from the ever changing team at CFS, as we welcome Donna to the admin team and farewell Daniel from the adviser team. Daniel has chosen to spend more time at home with his children and specialise in the mortgage brokering business however he remains available to provide assistance on providing mortgages and mortgage advice. If you are contemplating reassessing your mortgage, please call Donna or Jenny in the office and they will arrange for Daniel to call.

This newsletter contains the usual amusing articles as well as one or two that will hopefully get you thinking about your own situation and plans. If you haven't discussed them with Adam, Sherilyn or Yupar in the last year or two, please call and arrange an appointment.

A Housing Bubble in Auckland?

(An excerpt from Dominic Stephens, Chief Economist at Westpac)

Of course, one cannot really talk of a single "New Zealand" housing market. We have become one nation with three separate housing markets, each behaving completely differently from the others. Recent data has, if anything, deepened the distinction between those three markets.

In the half of New Zealand outside Canterbury and Auckland, market turnover is average, house price inflation is running in the low to mid-single digits, and rents are pretty much flat.

Canterbury is a market with a physical lack of houses on the ground. House prices are rising at an annual pace of 11%, and rents are rising at 12% per annum. It makes sense that rents would rise faster than house prices in a market with a temporary shortage. Those looking to buy may be wary of overpaying because they know additional housing supply will come on stream in the future. It is important to remember that houses are long-lived assets, so the price people are willing to pay depends upon their expectations of the future. No such consideration exists in the market for renting. Rental contracts are for short terms only and therefore future building activity has little bearing on today's price. Temporary shortages can lead to higher rents.

The Auckland market is different from most of New Zealand, and is different again from Christchurch. It has become fashionable to talk about a physical shortage of houses and slow building activity driving prices higher in Auckland. But physical housing shortages cannot explain the fact that rents are falling in Auckland. House prices in Auckland are now rising at almost 20% per annum, while rents actually fell 1% in the year to May 2013, according to the Ministry of Business, Innovation and Employment. If physical supply was desperately falling short of demand, rents would be rising alongside house prices like they are in Canterbury. Physical supply shortages simply do not fully explain the Auckland housing market.

A better explanation for the characteristics of Auckland's housing market - low turnover, rapid sales, rising prices, falling rents - is widespread expectation of future capital gain. Owners are reluctant to sell because they expect better prices in the future, hence low turnover. Buyers are desperate to get in and enjoy capital gains, hence rapid sales and rising prices. Investors are keen to acquire properties despite low rental returns, hence falling rents. Tenants would rather own, again pointing in the direction of falling rents and rising prices.

Signs of an Asset Bubble

by Richard Meadows, Fairfax

What do tulips, gold and car licence plates have in common?

&

&

They're among dozens of dodgy investments that have undergone spectacular booms and busts over the years. History always repeats. After months or years of euphoria, the bubble bursts, the brown stuff hits the whirly thing and there is much wailing and gnashing of teeth. Huge fortunes are made and lost. It's mostly the latter though, because it's practically impossible to call a bubble at its peak.

You have to be able to sell your stake to an even bigger sucker before the bubble gets so bloated that everyone else is getting out, too. Inevitably, there are a few lucky winners and a whole lot of losers. Bubbles are transparent and ethereal.

Until the actual implosion - which is usually accompanied by a sad and undignified squelching noise - they can be very tricky to spot.

Here are some tell-tale signs for spotting a bubble before it bursts:

Forever unproductive

Some of the biggest booms have been built on assets which aren't necessarily very useful. Gold is the classic example. It looks nice and has some minor applications in technology, but it's generally not much use. While the shiny stuff's value has rocketed over the last decade, it's not because jewellers are suddenly doing a roaring trade. Last year legendary investor Warren Buffett dismissed gold's ascent as a bubble in the making. "As 'bandwagon' investors join any party, they create their own truth - for a while," he said. He pointed out that the only way to actually make money from gold is by hoping someone else will buy it from you at a higher price.

"But bubbles blown large enough inevitably pop," Buffett warned.

Distortions

If you went to the supermarket and saw that the price of peanut butter had rocketed, you'd probably buy less of it or choose Marmite instead. But in a bubble situation, rising prices will often stimulate demand rather than curtail it. That means you'd eventually have to re-mortgage your home to get a jar of peanut butter despite the fact that its underlying utility - tastiness on toast - hasn't changed a whit. That doesn't sound so absurd when you revisit the "tulip mania" of the Dutch during the 17th century. The introduction of a new flower, with several unique colour variations, caused a whole lot of speculation on tulip bulbs.

The higher prices rose, the more the Dutch believed that the tulip market had no boundaries. Dealers stocked up their inventories, increasing the scarcity factor, and in a single month tulips increased in value 20 times over. By the time the bottom fell out, some people had traded their land, life savings or houses for a bulb now worth as much as a common onion.

Greater fools

The tulip style of investing goes by the name of "greater fool theory". In simple terms, that means buying something with the sole intention of flicking it off to another sucker. While the supply of fools is plentiful, it is apparently not infinite. Some New Zealanders found this out the hard way in our own little re-enactment of the tulip craze. This time it was personalised number plates that were all the rage. In the mid-1990s, investors crowded into bustling auction nights at top hotels and paid tens or hundreds of thousands for unique plates. Then the market stalled, almost overnight. Eventually, there was no-one left who was willing to pay a king's ransom for a piece of plastic with no intrinsic value. Today, the endlessly optimistic owner of a unique set of MAORI plates is still trying to get a sale for $99,000 on Trade Me.

Judging by the comments section, which has overwhelmingly slammed him as a "dreamer", the boom-times are well and truly over.

A Perfect Husband

Several men are in the locker room of a golf club. A cell phone on a bench rings and a man engages the hands-free speaker function and begins to talk.

Everyone else in the room stops to listen.

MAN: "Hello"

WOMAN: "Honey, it's me. Are you at the club?"

MAN: "Yes" **WOMAN:** "I am at the mall now and found this beautiful leather coat. It's only $1,000. Is it OK if I buy it?"

MAN: "Sure, go ahead if you like it that much."

WOMAN: "I also stopped by the Mercedes dealership and saw the new 2006 models. I saw one I really liked."

MAN: "How much?"

WOMAN: "$80,000"

MAN: "OK, but for that price I want it with all the options."

WOMAN: "Great! Oh, and one more thing....the house we wanted last year is back on the market. They're asking $950,000."

MAN: "Well then, go ahead and give them an offer, but just offer $900,000."

WOMAN: "OK. I'll see you later! I love you!"

MAN: "Bye, I love you, too." The man hangs up.

The other men in the locker room are looking at him in astonishment.

The Man then asks: "Anyone know whose phone this is?"