Bramwell Brown Ltd

Investment Advisers – Brokers

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Sharemarket Terms

I have previously discussed some of the terms used in the financial pages of the newspaper, but continue to receive queries at times. Here is an explanation of some of the more common terms

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P/E (Price/Earnings) Ratios

The P/E ratio is the company's share price divided by its earnings per share. It is a ratio used to compare companies. The higher the P/E ratio the more you are paying for each dollar of earnings. All other things remaining equal a company trading on a lower P/E ratio represents better buying. Of course other things very seldom remain equal so you should not base a buying decision on this alone. A high P/E ratio may not mean the company is "expensive," it may indicate an expectation from investors of higher future earnings.

NTA (Net Tangible Assets)

The NTA figure is a company's tangible assets minus its liabilities, divided by the number of shares on issue. Intangible assets such as goodwill are not included. Net tangible assets are what should be realised if a company was wound up. We divide it by the number of shares on issue to see whether the company share price is at a premium or a discount to its asset backing. Like P/E ratios NTA cannot be looked at in isolation. Take a service company for example – it may generate strong revenues without much in the way of tangible assets. Its NTA is likely to be significantly less than its share price.

Imputation Credits

Dividend imputation credits are tax credits attached to the dividends you receive. When you receive a dividend from a company you are expected to pay tax on that income. But if the company paying the dividend has already paid tax on that income the Government is getting two bites at the cherry. Therefore companies are able to provide you with a tax credit if they have already paid tax on the income they are distributing. You can claim these tax credits when you file a tax return. In some circumstances a company will pay a dividend even though they have failed to produce a profit, and have therefore not paid any tax. In this case the dividend will have no imputation credits attached, and you will be expected to pay the tax on the dividend you receive.

Dividend Yield

The dividend yield is the dividend (cents per share) divided by the share price. For example Fletcher Building paid 34.00 cents in dividends in the last year. Their share price is currently $6.19. Their dividend yield is therefore 5.49%. The newspaper will also show the gross yield, which includes the addition of any imputation credits that have been attached to the dividends paid. Remember the yield calculation is based on today's share price and last year's dividend, so there is no guarantee the company will continue to generate the same yield.

KiwiSaver

The KiwiSaver anniversary (July 1st) is not far away again. Any members who have been in the scheme for a year or more should ensure they have deposited at least $1,043 with their provider before July. This will ensure you receive the maximum Government matching payment of $521.43. Up until July 1st 2011 this matching payment was dollar for dollar and equalled $1,042.86, however the rules were changed with the last budget and the subsidy has been cut in half. It is still worth having however, and I would encourage all members to contribute at least $1,043. If you contribute less than $1,043 from your wages you can make voluntary contributions that top it up to the desired amount. Your provider can inform you how to make voluntary contributions. Alternatively you can lodge funds directly to the IRD with deposit slips available at Westpac Bank. You need to provide your IRD number and use "KSS" as the payment code.

You will receive the 50% Government matching payment (they call it a tax credit for some reason) up until the date you are eligible to withdraw your savings. You become eligible to withdraw your savings when you qualify for NZ Super (currently at the age of 65), and so long as you have been in the scheme for five years. So if you join KiwiSaver when you are 62, you would have to wait until you are 67 to be able to withdraw your funds. You would receive the 50% subsidy ($521.43) for each of those five years – not just until you turn 65.

What happens when you become eligible to withdraw your savings? You must apply to your provider to withdraw your savings and will be asked to verify your identity before your funds are transferred. You don't have to withdraw your funds and your provider will of course be more than happy if you don't. In fact you can continue to contribute to your KiwiSaver scheme for as long as you want. Your provider will also allow regular withdrawals and you have the ability to set this up to act much like a pension.

Because KiwiSaver is in its infancy there is minimal information at present about the options available to newly retired KiwiSaver investors. Current account balances are typically likely to have around $10,000 to $15,000 for those who joined at its inception. Most of those people are likely to withdraw those funds to update their car or enjoy a holiday, the bulk of which has been provided by their fellow taxpayers. However in the future there will be KiwiSaver accounts with balances in the hundreds of thousands of dollars and many of those account holders will be inexperienced investors. I'm sure in time you will see KiwiSaver providers actively promoting the use of their schemes for investors well beyond the date at which they become eligible to withdraw their funds. Annuities will possibly also become more readily available as the sums involved increase over time.

My argument against retaining funds in your KiwiSaver account is one of cost. Although legislation keeps KiwiSaver fees below the usual daylight robbery that is the managed funds industry in New Zealand they are still high in my view at between 1% and 2% per annum. A retiree aged 65 would presumably have most of their investments in bank deposits, high quality bonds with perhaps a few shares, all of which require little in the way of "management." Do you need to pay a KiwiSaver provider 1.50% per annum to hold those investments for you? At Bramwell Brown Ltd we offer a portfolio administration service where we handle all the paperwork relating to a client's investments. We receive all communications from individual companies including interest and dividend notices, annual reports, offers of securities, and voting papers. Interest and dividends can be banked to your own account or can be processed through our trust account to call accounts we hold at the National Bank in your own name. We liaise with your accountant at balance date and we report on your portfolio at a cost of 0.50% per annum. This service is ideal for those people who are away from home for long periods of time, or those who simply don't want to manage the paperwork that goes with the investments they hold.

The performance of the KiwiSaver providers has been variable since its inception in 2007. In some cases the balanced or conservative funds of some providers have tended to outperform some of the growth funds. This is not surprising given the nature of global equity markets since 2008. Of the three providers we promote Gareth Morgan had a very good first year and Fisher Funds has done well recently. OnePath is the largest provider and has generally performed well. With so many fund choices available you should expect to see a large variation in results. Reporting of those results with comparisons between the providers should become more prevalent as the funds grow in size. I believe it's too early to be switching providers based on only three to five years of data. All providers will have variable results across the funds they offer and if history is anything to go by a good result one year won't necessarily manifest into a good result the next year. I would only be changing providers if they consistently underperform the market they are operating in. If you have any questions about KiwiSaver don't hesitate to ring the office.

Shares

The sharemarket has had a reasonably strong start to the year. We are not seeing the same volatility we were seeing last year and volumes are increasing. We are seeing interest being shown in the traditionally higher yielding stocks as investors look outside bank deposits for a return on their money. Yields of some shares on our market are listed below:

Company	Price	Dividend (Cents/Share)	Gross Yield
AMP Office Trust	0.96	5.04	6.02%
ANZ Banking Group	30.35	187.04	6.16%
Argosy Property Trust	0.84	6.25	7.44%
Auckland Airport	2.50	9.10	5.13%
Barramundi	0.63	6.67	10.99%
Briscoes	1.57	10.00	9.10%
Contact Energy	4.77	23.00	6.89%
Ebos	7.59	31.50	5.92%
Fisher & Paykel Healthcare	2.20	12.40	7.83%
Fletcher Building	6.19	34.00	6.56%
Freightways	4.03	15.75	5.58%
Goodman Property Trust	1.03	6.62	6.72%
Hallenstein Glasson	3.80	31.50	11.84%
Infratil	1.90	7.25	5.44%
Kiwi Income Property	1.05	7.00	7.62%
Opus International	2.12	8.50	5.73%
Property for Industry	1.15	7.17	7.49%
Restaurant Brands	2.00	16.50	11.79%
Skellerup	1.46	7.00	6.84%
Sky City Entertainment	3.86	17.00	5.43%
Steel & Tube	2.33	14.50	8.89%
Vector	2.63	14.50	7.66%
Vital Healthcare Properties	1.24	7.90	6.48%

These yields are based on today’s share price, and the dividends paid in the previous year. The gross yield is calculated after any imputation credits are added to dividend payments. Obviously these yields cannot be guaranteed as dividend payments fluctuate with market conditions.