Bramwell Brown Ltd

Investment Advisers – Brokers

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Bramwell Brown Limited – Newsletter – April 2019

Interest Rates

We continue to see gradual reductions in interest rates, with recent corporate bonds now being issued with coupon rates around 4%. Here is a list of some of the corporate bonds issued over the last twelve months.

Company	**Coupon**	**Issue Date**	**Maturity Date**
Investore Property	4.40%	April 2018	April 2024
WEL Networks	4.90%	August 2018	August 2023
Summerset	4.20%	September 2018	September 2025
Infratil	4.85%	December 2018	December 2028
Infratil	4.75%	December 2018	December 2024
Trustpower	3.97%	February 2019	February 2029
Argosy Properties	4.00%	March 2019	March 2026

The rates on the Government issued Kiwi Bonds have also reduced steadily over the last few years, with the most recent reduction last week to 1.75%. The table below shows this gradual decline.

Kiwi Bonds	**6 Months**	**12 Months**	**2 Years**
March 2011	2.75%	3.00%	3.50%
August 2014	2.75%	3.00%	3.25%
August 2015	2.50%	2.50%	2.50%
December 2017	1.75%	1.75%	2.00%
March 2019	1.75%	1.75%	1.75%

A few years ago, I remember being disappointed when new corporate bonds were being issued with rates around 5%. My advice at the time was that we need to keep reinvesting our maturing deposits. Those who think they should hold maturing deposits in cash, while they wait for rates to rise, may be in for a long wait. Although the Reserve Bank has just left the Official Cash Rate at 1.75%, there was a clear message that the next change may be a further reduction. If so, in a few years' time, a five-year bond with a coupon of 4% may look very attractive.

Capital Gains Tax

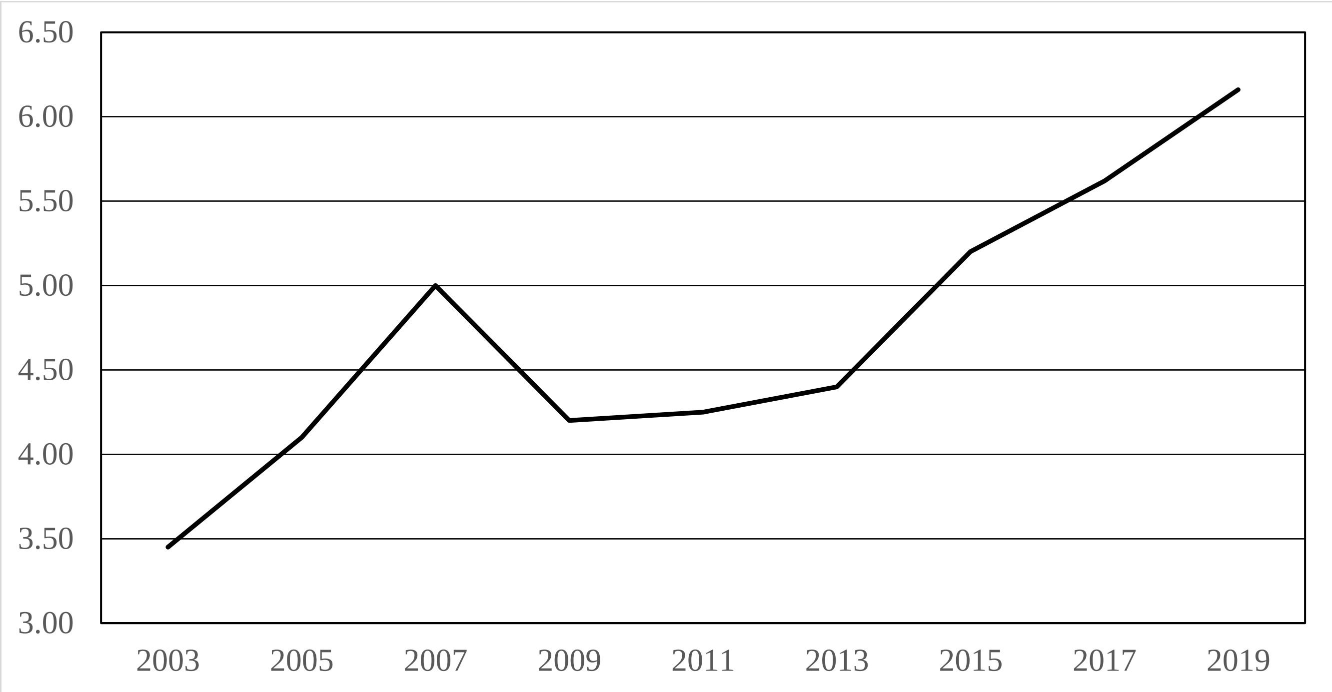
In September last year the Tax Working Group issued their interim report into the future of the tax system in New Zealand. Most of the media focus at the time was on the possibility of a capital gains tax (CGT) being introduced, however the Tax Working Group had a much wider brief than just that. In February the final report was released, with among other proposals, the recommendation to introduce a capital gains tax. Why introduce a capital gains tax at all – what is the Government trying to achieve? Fairness is mentioned in the interim report, with the statement that "failing to tax gains from the sale of capital assets reduces the fairness of the tax system, and benefits the wealthiest members of our society." This is at the core of what any Socialist Government grapples with – how to move wealth from the wealthy, to those less fortunate, in a manner that is acceptable to the majority. If it's not acceptable to the majority, the Government soon finds itself in opposition, so it's a fine line they need to navigate.

My stance on CGT has softened (a little) over the years. Ten years ago, I would have been firmly against a capital gains tax, and my arguments would have followed a similar line to many others. Why should hard work, risk-taking and savings ethic be penalised in order to provide for those who sit around all day, without a job, bludging off the state? I started with nothing – when I left school I had $130 in the bank. I sold my pride and joy, (my MK3 Ford Cortina) to pay for my wife's engagement ring. My wife and I sacrificed luxuries in order to scrape together a deposit to buy a herd of cows. We took big financial risks throughout our sharemilking career, and we employed many staff over those years. Since then we have invested our money wisely. Why penalise people like us?

If we take my argument to the extreme (I like to use exaggeration to make a point), then we would be debating Communism. The State would take the earnings of its workers and distribute them evenly amongst fellow citizens, so that we are all equally well-off. Hard work would benefit society as a whole, but not people individually. The problem, of course, with this system is that the incentive to work hard, take risks, and make good financial decisions disappears when your neighbour who stays home, drinks beer and plays computer games enjoys exactly the same standard of living as you. To a great extent, this is the juggling act that our Government faces every day when they set their economic policy. How do they reduce the growing divide between rich and poor without disincentivising hard work and enterprise?

What has changed my stance (a little) on CGT? I think I've mellowed with age, and I've become less selfish. My comment about those people "sitting around all day, without a job, bludging off the state" is flippant and probably quite unfair. Certainly there are people out there rorting our social welfare system, with no intention of contributing to society. However, they make up a small minority, and I'm sure most disadvantaged people in this country would rather not be in the position they are in. My comment that "I started with nothing" is also flippant. I had a stable upbringing, loving parents and an adequate education – more than many in New Zealand today. And if we flip my argument on its head and exaggerate it to the point where the State ignores its most vulnerable citizens in favour of capitalism, hard work and enterprise, what sort of society are we left with? I'm sure most people want to enjoy a good standard of living from their hard work, but who wants to live in a gated community, while others are destitute. Somewhere, there is a compromise between the extremes of Socialism and Capitalism, and a capital gains tax is one tool that could form part of that balancing act.

I also look at our housing market, and the speed at which a modest home has become unattainable for the average person in New Zealand. The chart below shows the multiple of house prices to income over the last fifteen years. Twenty years ago the average house price was around three times the average income – now it is closer to six times. There has clearly been a disproportionate amount of investment capital directed to residential property in New Zealand. Much of that capital was invested with the sole purpose of enjoying capital gains, as opposed to providing income.



You can also look to our share market for examples of significant, tax-free capital gains having been made in recent times. You could have bought Ryman Healthcare for $1.50 in 2006 – it now trades at $11.50. Is it fair that investors have enjoyed those gains tax-free?

I think the Government will introduce some form of Capital Gains Tax, and personally I wouldn’t be at all concerned if it included the family home. Firstly, they will need to be sure the cost of introducing and collecting the tax does not outweigh the expected benefits. Secondly, they need to be careful that the rate of tax imposed does not unduly discourage hard work, saving, and risk-taking. Moving wealth from one sector of society to provide for others is always going to be contentious, and I will follow with interest just how the Government pitches their new tax.

KiwiSaver

A number of changes to KiwiSaver have been enacted, with some coming into force from April 1st. The changes include:

- New contribution rates. Currently you can choose to contribute 3%, 4% or 8% of your gross pay if you are contributing to your KiwiSaver account through the PAYE system. Additional rates of 6% and 10% have now been added as options. These changes come into force on April 1st.

- The "contributions holiday" will be renamed a "savings suspension," presumably to make it sound less favourable for savers. The maximum length of time for a savings suspension will be reduced from five years to one year. These changes come into force on April 1st.

- People over 65 can now join KiwiSaver. This provides another option for those investors who prefer managed funds, as KiwiSaver funds usually have slightly lower fees. For those aged over 65, KiwiSaver funds will now not be locked in. These changes come into force on July 1st.

Heartland Bank

Heartland Bank Limited has announced that it is considering making an offer of unsecured, unsubordinated, medium term, fixed rate notes to institutional and New Zealand retail investors. The Notes are expected to have a maturity of 5 years. It is expected that full details of the offer will be released in the week beginning 1 April 2019, when the offer is anticipated to open. If the offer is made, the offer will be made in accordance with the Financial Markets Conduct Act 2013 as an offer of debt securities of the same class as quoted debt securities (being the Issuer's fixed rate notes which are quoted on the NZX Debt Market under ticker code HBL010). The Notes are expected to be quoted on the NZX Debt Market. No money is currently being sought and no Notes can be applied for or acquired until the intended offer opens and the investor receives a copy of the terms sheet in relation to the Notes.

PHONE THE OFFICE IF THIS OFFER IS OF INTEREST TO YOU

Portfolio Administration

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.