Currey Financial Services Ltd

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INVESTMENT • INSURANCE • SUPERANNUATION • EXECUTIVE BENEFITS • BUSINESS INSURANCE • MEDICAL INSURANCE

Greetings from the team at Currey Financial Services

With all the negative market sentiments, wet weather and now prime lending difficulties we thought that a knowledgeable assessment of the mortgage and property fund freezes would be beneficial. Therefore we have reproduced an abridged version of an article in the NZ Herald 6th Aug 08 written by Vance Arkinstall, CEO of the Investment Savings and Insurance Association.

"It's up to you now, Miller. The only thing that can save us is an accounting breakthrough."

Security of funds

The announcements by Guardian Trust, AMP, AXA and previously Tower to freeze or suspend repayments or redemptions from mortgage and property trusts have understandably raised many questions in the minds of investors.

The first point is that the fund managers have taken this action not because of any problems or concerns with the quality of assets or investments but purely as a defensive measure in response to extraordinary market conditions. There is no suggestion that any assets or investments are impaired.

Mortgage and property trusts are collective investment funds. Investors purchase units in these trusts and the investors' funds are used to provide mortgages to borrowers backed by quality property investments, or in the case of property trusts, to purchase property.

Income for the trust comes from interest on the mortgages, or in the case of property, the tenants pay rental. The interest and rent received by the fund is distributed to investors and provide a regular flow of earnings, normally by quarterly distributions.

To maximise earnings for the benefit of investors, a high percentage of the funds are invested in quality mortgages or quality properties with a relatively small portion held in cash to accommodate requests for repayments that are both expected and planned for. In the past, the cash buffer has been adequate to meet demand for repayment in normal market conditions.

The difficulty that has arisen for these funds is simply that the growing lack of investor confidence and uncertainty has resulted in a significant increase in requests for repayments as people react to market turbulence.

It is for this reason the managers

have announced suspensions or a freeze to provide time to allow the market to return to a more normal situation, as they cannot accommodate a dramatic increase in repayment requests.

The quality of the underlying assets and the regular payment of interest on mortgages and rent on the properties has not changed. The value of the investors' interest in the trusts is as secure today as it has always been, and the flow of interest payments via quarterly distributions is not affected.

‘Life Insurance’ to ‘Love Insurance’

What personal insurance do we need?

‘To have or not to have, love insurance, that is the question’. I have to admit the marketing person that changed the name of ‘Death’ insurance to ‘Life’ insurance certainly eased the task of many a financial adviser, after all who would want to talk about one’s death during work hours, let alone taking up your private time!

The next stage in the marketing evolution of course is the change of name to ‘Love insurance’, for whom on their death would not wish to leave their loved ones financially secure.

But do we need it? There is a fair amount of media and PR hype about life insurance and yes most of us do need to consider the negative aspect to life. Of course we all expect to see three score and ten years, though statistically in New Zealand men should reach 78 and woman 82. But is this the only type of personal insurance we need to have in place? What happens if one suffers the wrong type of heart attack, and we are left alive but without an income for an extended period of time; or the wrong stage of cancer that does not qualify for immediate treatment; or worst of all the wrong type of stroke that leaves us alive but permanently unable to work again.

These are the negative aspects of life and not to be dwelled upon, but at least once every three years, together we should analyse what insurance you have and whether it is sufficient or whether you still need it.

“Try as we might, sir, our team of management consultants has been unable to find a single fault in the manner in which you conduct your business. Everything is one hundred percent right. Keep it up! That will be eleven thousand dollars.”

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