MORE SOLID UPTURN SIGNS *Independent Economist, Tony Alexander*
P.6

HOW CAN I PAY MY MORTGAGE OFF FASTER?
P.12

COULD YOU BE $100,000'S BETTER OFF...
P.15

Newsletter

Issue 07 **August 2023** **www.adviceknight.co.nz**

Advice Knight
MORE THAN MORTGAGES

Welcome

Welcome to the winter issue for 2023.

We're not sure about you but we feel as though we blinked and much of 2023 rapidly raced past us! Suddenly we're at the end of August and in two weeks it's Spring. Hold onto your hats dear readers the slippery slope towards Christmas is certainly on the horizon...

It's been a very interesting first half of the year indeed. What began with very slow activity in the housing market, and with most forecasting it to remain suppressed for the short term at least, we feel has fairly quickly turned and we can report there has certainly been recent heat injected over the past couple of months. Much of the current commentary has been is predicting the bottom of the market has been reached and we have to say, we agree. Activity seems to be resuming, we're seeing more first home buyers re-entering the market and more interest from homeowners to make a move too while investors are starting to circle, looking for pre-election bargains.

A lot of the near term impact as to what happens in the housing market next will come down to the election result in October. We are seeing many clients, in particular investors, taking a "wait and see approach" as to their next step pending this outcome. If there is a changing of the guard, we're expecting house prices to rise fairly quickly as investors are given some much-needed certainty around the feasibility of their assets and the much needed return of interest deductibility on rental property. If not, then there could be some challenging times ahead unless red can somehow work out how to steer the country back to the black. We wait.

Have interest rates peaked? The Reserve Bank announcement yesterday stuck to script, leaving the Official Cash Rate unchanged at 5.5%. This was widely anticipated by economists and the RBNZ Committee 'agreed that the OCR needs to stay at restrictive levels for the foreseeable future to ensure annual consumer price inflation returns to 1 to 3% target' .

Interest rates may remain higher for the long haul. The issue is that haul just keeps growing longer... Economists remain divided as to the requirement for further rate rises to follow with two of the main banks expecting further tightening ahead. While Inflation is showing signs of slowing and there are still plenty of mortgages yet to reprice from historic lows (around 40% of mortgages fixed on or below 4%) the RBNZ deduces that holding the current rate is contractionary enough. This remains to be seen and your editors faith in the RBNZ's skillset is eroding about as quickly as his Pacific Peso's buying power at the local New World.

If you're in the 'soon to reprice boat' and feeling unsure about what higher interest rates could mean for you, do get in touch. We can work with you to ensure you get the most competitive rates available and more importantly help structure your loan to hedge your risk and benefit from rates as and when they begin to come down again.

We hope you enjoy perusing this issue of the Advice Knight newsletter at leisure. As always, do get in touch if we can assist you in any way. It's our pleasure to help.

Advice Knight
MORE THAN MORTGAGES

In this issue


ADVICE KNIGHT
MORTGAGES + INSURANCE + INVESTMENT
Courage
brave // fearless

Welcome to the team

Lauren Young

We are thrilled to announce a key new member of our team; Financial Adviser, Lauren Young. Lauren joins us from her own established financial services company, More than Mortgages.

Lauren brings her lovely clients along with her as she merges with Advice Knight to continue delivering top class service and support for both her existing set and new customers alike.

Coming with a strong foundation of experience in banking where she worked for over a decade, including a range of credit and relationships roles in both Business and Private Banking at ANZ. Lauren left Banking to become a Financial adviser back in 2014. Lauren is highly experienced in residential mortgages, commercial and construction loans, investment purchases, refinancing and interest rate structuring.

We know those of you lucky enough to have already had previous dealings with Lauren will attest to her genuine interest, care, competency and professionalism that she puts into all aspects of her role.

Welcome to the team. We are privileged to have you join us and very much look forward to continuing to deliver market leading service at Advice Knight together in the years ahead.

Lauren Young
lauren@adviceknight.co.nz

Advice Knight
MORE THAN MORTGAGES

More solid upturn signs

by Tony Alexander

The list of indicators showing improvement in the residential real estate market around the country on average has continued to grow over the past four weeks since my previous column. From the REINZ we have data in hand showing that after adjusting for seasonal factors sales rose almost 20% in the June quarter while prices in the month of June improved by 0.7% after sitting flat over the previous two months.

From my latest survey of residential real estate agents we can see that for the first time since the very end of 2021 there is a greater proportion of agents saying that buyers are worried about missing out than say they are worried about over-paying for a property.

This is not to say that buyer jitters have really set in and that the market is about to soar. Interest rates remain at levels designed by the Reserve Bank to restrain the pace of growth in the economy, incomes, and employment and we can truly only guess as to when they fall.

The first monetary policy easing may come before the middle of 2024, but before we get there, we need to see considerably more easing of inflation measures than we have seen to date. For instance, the headline rate of inflation has just fallen from 6.7% to 6.0%. But underlying inflation remains stuck near 6.5% and in fact for the June quarter was more than the Reserve Bank expected.

So, not only is no easing of monetary policy imminent, but the Reserve Bank are also unlikely to signal high comfort with the track for inflation for a considerable time – probably not ahead of the general election on October 14.

Speaking of which, while I can cite literally a dozen indicators from my real estate agent survey showing the market improving, I cannot see any evidence that other than investors paying with cash are showing increased market presence.

There is still a net 12% of agents saying that they are seeing fewer investors in the market. If the election produces a win for the National Party, then we can expect restoration of the ability of people running rental property businesses to deduct all their expenses including interest costs, while the brightline test will be taken from ten years back to two years.

At this stage I am not detecting many investors willing to take a punt on the election outcome and purchase now. But if National win then it seems reasonable to expect the return of many investors and an acceleration in the pace of house price rises.

A net 59% of agents say that they are seeing more first home buyers in the market. This is the highest reading since October 2020 and there are a variety of factors explaining why young people have been re-entering the market in large numbers since February this year.

House prices on average are down 18% from their late-2021 peaks. Banks are making credit more readily available. Wages growth has outpaced the increase in the cost of living, deposits saved up have grown, and job security is high.

I cannot as yet detect much of an increase in the number of owner-occupiers buying then selling or selling then buying. But such activity will pick up perhaps when there is slightly more confidence that interest rates are going to fall.

A key thing which potential property buyers need to keep in mind however is that the quantity of stock available to choose is shrinking. Nationwide the number of properties available for purchase was 14% lower at the end of June than the end of December last year. But it is when we look at the change at the regional level, we start to get interesting insights perhaps supporting my view that the cities will lead the cycle this time around.

In Christchurch listings peaked in March and have so far fallen by 10%. But in Auckland they peaked in August last year and are now down by 18%. In Wellington they also peaked in August 2022, but the fall to date has been about 44%. Stock is drying up in the capital and 2021 taught us an important lesson. Stock levels matter a lot when it comes to price movements.

Back then we saw prices rise 11% in a five month period from July to November in spite of negative migration flows, rising mortgage rates, the return of LVRs in February, strengthening for investors in May, and tax changes dissuading investors from buying late in March. Why did prices jump despite these negative factors?

Probably because the stock of properties for sale fell to a record low near 13,500 in July that year. People could not find a property to purchase, and FOMO rose.

Now, there seems to be so far only mild awareness that stock levels are falling. This is likely to change. History tells us that when dwelling sales rise there are more vendors which step forward. But the new flow of buyers is larger and stock levels decline.

Come the first half of next year stock levels are likely to be back below 20,000 and this will be one of many factors likely to produce an average nationwide gain in house prices through 2024 of perhaps 10%. Other factors will include falling interest rates, strong net migration inflows, and falling new house construction.

For the moment, regarding interest rates – banks have recently increased fixed lending rates because their wholesale borrowing costs have been pushed up by rate rises in the United States. The chances are that now, finally, surely this time, rates have hit their peaks. But declines seem unlikely until very late this year.

If I were borrowing at the moment, I might loom quite favourably at the 18-month term, or at least explicitly recognise the many uncertain factors in play by spreading my risk over one and two years.

Go to www.tonyalexander.nz to subscribe to my free weekly “Tony’s View” for easy-to-understand discussion of wider developments in the NZ economy, plus more on housing markets.

Tony Alexander is an independent economist with additional commentary available at
www.tonyalexander.nz.


ADVICE KNIGHT
MORTGAGES + INSURANCE + INVESTMENT
honour
a high standard of moral conduct

Sage Advice

Should I invest or save?

by Anthony Sage

One positive of higher interest rates is higher savings rates, as banks now pay healthy rates to savers with balances in things like savings accounts or term deposits. A good chunk of the banks' mortgage funding comes from these types of accounts, which have been steadily rising over the past few years.

This brings a very good question – should I be saving, paying off debt or investing in things like ETF's, shares or managed funds? I look at this below, which obviously has a lot to do with your unique situation and cashflow.

Cash is certainly king when it comes to personal finance, particularly in a recession like we are currently experiencing. The first step to any healthy financial stability is to have a strong emergency fund which can be used as a buffer if needed. I would always recommend a minimum of 6-12 months of expenses on hand, which should be your priority. This serves as an insurance policy if you were to lose income or face a medical emergency for example.

If you have debt such as credit cards or a mortgage, these should be paid off as fast as possible, but sometimes keeping savings on hand provides more flexibility and peace of mind then eliminating interest paid completely. Most banks now offer offset of revolving credit facilities, which are the best of both worlds – they allow you to build an emergency fund while also reducing the interest you pay on your home loan. The best part – you still have access to the funds when needed.

Credit card, personal loan or asset finance debt can also be rolled into your mortgage, to consolidate the repayments and likely achieve a lower interest rate with more manageable terms.

Once your emergency fund is built, either in an offset/revolving credit facility or a high yield savings account (the former is slightly better as you do not pay tax on interest earned, but offset mortgage rates which are even higher than savings rates) you should consider investing spare cashflow where possible. Extra repayments on your mortgage can shave off years of interest and free up cashflow sooner, allowing more free cash flow for investments and lifestyle.

Dripping small amounts of cash into the stock market over time is known as 'Dollar Cost Averaging' and can be a powerful wealth builder long term. Many stocks also pay dividends, which can be reinvested into the market to buy more units or shares, creating a snowball effect.

Most of us have seen the power of compounding interest through KiwiSaver or index funds tracking the stock market or similar. The S&P 500 index in the United States has achieved an 11.88% compounded return from 1957 to 2021 - truly the eighth wonder of the world according to famed investor Warren Buffett.

We are beginning to see some great options for purchasing shares, indexes and similar popping up in New Zealand – this is exciting as it provides much needed competition to benefit the consumer. Managed funds are a good option as well if you prefer active management and want to achieve a specific outcome.

Artificial Intelligence tools like Bard or ChatGPT can also help educate you on different investment options and compare their metrics in a simplified way as well.

Anthony Sage is an Advice Knight Adviser; you can reach him by email anthony@adviceknight.co.nz or phone 022 651 7802.

ADVICE KNIGHT
MORTGAGES + INSURANCE + INVESTMENT

courtesy

respectful // considerate of others

Advice Knight
MORE THAN MORTGAGES

How can I pay my mortgage off faster?

As interest rates rise and the cost of living increases, you aren't alone in looking for ways to save money. Being smart in how your loan is structured can help you save costs and pay your mortgage off faster. In this issue, we focus on one such product our advisers often recommend, Revolving Credit.

Revolving Credit is often the least understood and sometimes most under rated homeloan product on the market. It's the most flexible of home loan products and operates like a big overdraft, but at floating housing rates.

How does it work?

A credit limit is elected at the outset, and you can draw up to this limit at any time. There are no regular required payments to the account, but you can at any stage tip funds in without penalty and these funds are available for you to access at any time. The real major difference between a revolving credit homeloan and a standard floating homeloan is that revolving credit can have an EFTPOS or Debit card linked, meaning any money you apply to the account can be readily accessed as and when required.

As soon as any funds are transferred into the account, your owing balance reduces. As such you are charged less interest on your mortgage as the balance drawn on your revolving credit is less. Effectively any funds you do apply to the account automatically offset your interest cost. For example, if you started with a $25,000 revolving credit limit and on day one you tipped $10,000 cash into this account, the Bank would charge you monthly interest on the $15,000 owing balance only. The $10,000 cash tipped in is freely available (for any expenses that arise but does its bit by offsetting $10,000 worth of mortgage interest cost in the meantime).

How is interest calculated?

The banks calculate interest daily and charge it monthly to these accounts and as such, as soon as any new funds are added to the account, they immediately offset your monthly interest bill. This is why we typically recommend having your salary credited directly to the account – each pay day you will see your owing balance reduce and save on interest.

Tips to get the most out of your revolving credit

- Use your credit card to take advantage of the interest free period attached to it. Consider putting all your everyday expenses such as groceries, fuel, power etc directly on to your credit card. Here you collect reward points on your expenditure and your card will have an interest free period attached. Ensure that your card is linked to directly debit and clears itself monthly from your revolving credit account and this will mean you'll pay zero interest on your credit card, you'll collect rewards points and all of your household bill costs will have spent the month offsetting your mortgage interest bill.
- Consider running your revolving credit account as a joint savings and transactional account. If you look at the low rates of interest Banks pay on savings accounts – currently somewhere close to 4-5% which then gets taxed, meaning you might end up with a net return close to 3%. If you save directly into your mortgage, you'll instead receive a net mortgage rate of return on your savings which currently sits close to 6.50%.

Example

Purchase Price	$800,000
Deposit	$175,000
Required Mortgage	$625,000

Here you might take $25,000 as a revolving account and $600,000 locked as fixed rate loans - perhaps splitting $300,000 for 12m and $300,000 for 36m to provide interest rate hedging as follows:

- LOAN 1: $25,000 Revolving Credit (interest charged on drawn balance only) This forming the funding account for the two fixed loans, ie the interest payments for loans 2 and 3 below are paid out of this account.
- LOAN 2: $300,000 Fixed 12m
- LOAN 3: $300,000 Fixed 36m

On settlement, the bank would pay a cash contribution (currently around 1% of the loan) so in this example, $6,250 would tip into the Revolving Credit account providing an immediate buffer and offsetting interest cost.

We recommend repayments for the fixed loans are paid from the Revolving Credit account, and salary is credited to the same (Revolving Credit) account.

A Revolving Credit account gives you the flexibility to pay your mortgage off faster; the goal in this example would be to pay the revolving credit balance off in full before the 12 month fixed loan rolls and then take a further 25,000 from that loan to top up the revolving credit account and repeat the same process.

Helping our clients secure smart loan options is important to us, if you would like to learn more about Revolving Credit or review your plan to pay your mortgage off faster, get in touch with the team. We are here to help.

$50,000 at 0%?!

If you've been thinking about upgrading your car to a hybrid / electric option, or enhancing your home to be warmer, drier, more sustainable and energy efficient then now could be a good time.

Most of the main banks are now offering low (or nil) interest rates over a short, fixed term, with benefits which include the flexibility to make lump sum payments to pay the loan off earlier without additional costs, and no establishment fees.

Loans are available for owner-occupied homes and also to landlords for any combination of most energy improvement upgrades; for example insulation, heat pumps, double glazing, ventilation, solar power systems, rainwater tanks, electric and hybrid vehicles and chargers etc.

Terms and conditions apply but do get in touch with the team to find out if one of these loans could be right for you; we think it's a deal worth considering.

Advice Knight
MORE THAN MORTGAGES

KiwiSaver

Could you be hundreds of thousands of dollars better off...

Are you one of the many thousands of New Zealanders in the wrong fund? Do you know which one you are in? Are you confident your provider is amongst the top performing available?

So regularly we see clients who are not getting the most out of their hard-earned savings because they are simply unaware, or have never been given, advice about the different funds and providers available.

It may surprise you how some easy to make changes could result in hundreds of thousands of dollars difference come retirement. That's why it's so important to get expert advice (there's no charge by way), to help ensure you maximise your returns and realise the long term benefits the impacts could be for you, and your family, when it's time to withdraw your funds.

If you've never received advice or would like to review your options, we can help.

A new partnership

Trees that count.

We are proud to announce a new partnership with Trees That Count, a national non-profit organisation that helps Kiwis plant more native trees across New Zealand.

We all know how important it is to look after the environment, but it can be hard to know where to start. By supporting native tree planting our goal is that, together, we can play an important role in reducing net CO_2 emissions, strengthen New Zealand's biodiversity and help native wildlife thrive.

Advice Knight is committed to donating one native tree for every $150,000 new lending; for example, if you purchase a new home / investment property and require $900,000 mortgage, we will donate 6 native trees. These trees will then be matched to specific restoration groups across New Zealand to be planted and cared for.

We're really excited about this new initiative and working with you to play our part in giving back and helping to restore our unique New Zealand environment.


protective
ADVICE KNIGHT
MORTGAGES + INSURANCE
+ INVESTMENT

In the media

Since our last update, we've had the pleasure of being interviewed for the following articles.

Will removing GST off fruit and vegetables actually help?

NewstalkZB: The Weekend Collective

Is the banking Commerce Commission inquiry a waste of time?

NewstalkZB: The Weekend Collective

Bank profits, healthy competition, changing banks and inflation

NewstalkZB: The Weekend Collective

NZA Top Adviser Award

We are proud to announce that for the second year running, Malcolm Knight has been awarded in the top New Zealand mortgage advisers for 2023. This award showcases the country's most outstanding advisers for their achievements, best practice and leadership over the past 12 months.

We would like to extend a huge thank you to all our wonderful clients for trusting us to look after your financial needs and hence making this award a possibility for us.


service
ADVICE KNIGHT
MORTGAGES + INSURANCE + INVESTMENT

8 things we're teaching our children about money

Money is a powerful tool that can be used to create a better life for ourselves and our families. But we think it's important to teach our children about money in a way that helps them develop a healthy relationship with it. Here are 8 things we're teaching our children about money and investing:

The impact of financial planning

How to set financial goals and create a plan to achieve them.

Financial literacy

How does money work? The freedom to make informed financial decisions throughout their lives.

The importance of saving

A safety net in case of unexpected expenses and the ability to reach our long-term financial goals.

The basics of investing

Investing is a way to grow our money over time; giving them opportunities to research and choose investments and see the outcomes.

The value of money

Money is a tool that can be used to buy things we need and want; let them earn and spend it wisely.

Good debt vs bad debt

Debt is not always bad. Good debt can be a helpful tool for building wealth and achieving financial goals.

The importance of giving

Giving to others is a great way to teach our children compassion and generosity.

The power of budgeting

A plan for how we will spend our money. It helps us track our spending and ensure we're not overspending.

Meet the team

Malcolm Knight
Director, Financial Adviser
021 024 28000
malcolm@adviceknight.co.nz

Anthony Sage
Financial Adviser
022 651 7802
anthony@adviceknight.co.nz

Lauren Young
Financial Adviser
022 092 8185
lauren@adviceknight.co.nz

Katy Dilks
Lending Support Manager
katy@adviceknight.co.nz

Rebecca Lash
Lending Manager
rebecca@adviceknight.co.nz

Cristy Williamson
Adviser Support
cristy@adviceknight.co.nz

Lisette Knight
Marketing / Operations
lisette@adviceknight.co.nz

Disclosure

Please **click here** to download our disclosure information; key information you need to know to help you understand what type of advice we are able to give you, so that you can make an informed and confident choice when engaging Advice Knight.

Final word

In 1849, Charles Dicken's wrote on the relationship between money and happiness:

> "Annual income twenty pounds, annual expenditure nineteen six, result happiness.
>
> Annual income twenty pounds, annual expenditure twenty pound ought and six, result misery."

With costs from mortgage payments/rents, groceries, insurance, fuel, (you name it, and it costs more than last year) rising faster than Winstone Peter's to an election, it's really important to take stock of our personal budgets.

Are there subscriptions we don't use, expensive habits that can be adjusted (e.g. repeat supermarket orders buying out of season produce or worse – golden kumara at $11.99 per kilo…, loans that can be restructured onto lower rates or better products? If we watch our pennies, the pounds look after themselves (reminder your editor he needs to get back on that treadmill and lose a few winter pounds!)

Malcolm Knight
Director, Financial Advisor

/adviceknight   @advice_knight

Advice Knight

THAN MORTGAGES

www.adviceknight.co.nz

021 024 28000