

## Welcome to our first newsletter for 2009

If we haven't spoken to you already this year, we trust you had a great holiday period. Our thoughts and best wishes go out to those who have suffered and lost in the recent terrible bush fires and floods in Australia. Tragedies like these highlight the importance of taking necessary steps to protect your most valuable assets. Now may be a good time to check your insurance cover on your personal effects, home or business is adequate. Take a look at our article on protecting and insuring your business during these uncertain times.

### Looking at renovating?

If you intend to undertake structural additions or alterations to your home, remember you should promptly notify us or your insurance company so that the appropriate temporary construction insurance can be put in place.

### Facing an dilemma over whether to refix or float your mortgage?

Read our article on 'summer -proofing your home and finances' – Although summer is gone sadly, the advice is still applicable. Remember, Steve, our in-house residential and commercial lending specialist, is always available for a chat.

### Finances in trouble after the Christmas/ New Year budget blow-out?

Have a read of our article on how to improve your cash flow this year.

### Still thinking about joining Kiwisaver?

Earlier this week investment research company Morningstar named AMP as its inaugural 2008 Kiwisaver Fund Manager of the Year. The award recognises the strength of AMP's Kiwisaver scheme based on the nature of the offer, fee levels, quality of regular investor updates, educational materials, website tools and content, transparency of disclosure, and performance. Feel free to call us for advice on getting started with KiwiSaver.

Kind Regards

The Team at Nexus



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## Summer-proofing your home and finances

Over the past nine months the financial landscape has changed and the housing market has cooled. It was barely a year ago when lenders were competing to attract borrowers with blemished credit histories, small deposits or unproven incomes. But the credit crunch has resulted in lenders tightening their lending criteria.

If you have an interest rate decision due anytime soon, you may wish to consider fixing for a shorter period (such as a 6 month term) or going on to a variable rate for a period so that you can take advantage of the lower interest rates that are anticipated to be offered in 2009

If your interest rate decision date falls on the near side of any OCR review date, you should consider holding off fixing until after the OCR review is made. That's because the trend in rates is down and lenders are likely to drop their interest rates after each review.

Interest rates are getting close to their 5-year averages. In a normal market homeowners would normally be looking to lock in rates for longer terms once those levels are reached. However, the current market and the deteriorating world economic situation may provide opportunities to fix your interest rate at a reasonable margin below those rates. You should talk to your mortgage adviser about how best to structure your home loan to meet your needs.

If your cash flow is looking a bit tight and you're struggling to keep on top of payments, now may be the time to approach your mortgage adviser. You may be able to negotiate reducing your payments, perhaps by increasing the term of your loan, converting your loan to interest-only for a period, or even taking a mortgage holiday (where you don't have to make any payments for up to 3 months). You'd also be wise to look at working with a financial adviser who can discuss your family budget and where you can save or put extra towards the mortgage. It's vital you don't allow insurances to lapse when finances are more stretched. It's more important than ever to have insurances in place to protect you and your family.

If you're in the position of being able to purchase a property, you should consider talking to your mortgage adviser about arranging a pre-approved mortgage. At the moment it's especially important to do this sooner rather than later as lenders are reviewing the terms on which they will lend because of the 'credit crunch'. If you have a pre-approval, the terms of that approval will last between 60 days and 180 days, depending on which lender you go to. After that, it can be a case of re-applying and the lender then has the opportunity to change the terms of their offer. If they have tightened up their criteria then the worst case is that they may not approve the loan again – regardless. If you have a pre-approval you should try to use it within the stated acceptance period, especially if it could be classed as a 'tight' application. Given the economic circumstances, now is not the time to be spending up large, especially if you are borrowing the money to do it, either via 'attractive' terms with retailers, credit/store cards, or as additional drawdowns under your mortgage – hold off!

# Protect your business during these uncertain times

These are fast becoming difficult times, and in difficult times it's important that you seek quality advice before making financial decisions. You may be tempted to cut back or go without certain items for your business, such as insurance. However, this may carry long-term consequences that can undermine the financial security of your business in the event of a claim.

## A range of business insurance covers

Business insurance can provide cover for a variety of needs. You should ensure you have cover in place to protect the assets in your business (like equipment, stock or vehicles) and protect yourself against professional or public liability claims, employee fraud and loss of income.

While having business insurance in place is essential, it's also imperative that you keep it up-to-date with annual reviews and building valuations.

## The importance of annual reviews

Consent and resource issues are now affecting recovery time and costs more than ever so it's vital we take a closer look at policies untouched for more than one year to ensure sums insured and indemnity periods are accurate, relevant and up-to-date.

Your circumstances may have changed since first taking out your policy e.g. acquiring new plant, machinery or staff and it's crucial your details are updated so that your business is fully covered in the event of the unexpected.

## Building valuations for your business

Ensuring your building is covered for its full value is key to minimising business loss.

### The difference between a market valuation and an insurance valuation

While the market value of a property supposedly includes both the land and all improvements, it's influenced by a number of supply and demand factors and does not necessarily reflect the cost to replace the improvements.

On the other hand, an insurance valuation calculates the sum that would be required to replace the improvements in modern equivalent materials to provide a similar quality of occupation to that currently utilised. It also takes into account:

- council and building consent costs
- building cost inflation and the rebuilding period
- demolition and site clearance of the old improvements.

Put simply, the market value is the price you would expect to get for your property when putting it up for sale, which is usually significantly different from the insurance value. It's important that you obtain an insurance valuation and these should be conducted at least every two years.

## An example of underinsurance

Bob owns a building that he operates out of and it's insured at a replacement value of \$100,000. The contents such as machinery and fittings of the shop were insured at a replacement value of \$120,000. The tools were insured for \$8,000 and the profits for \$200,000. The total sum insured was \$428,000.

When his building suffered a fire loss, Bob lodged a claim only to find the actual cost to rebuild the building was now \$425,000 (Bob hadn't obtained an insurance valuation in four years and didn't realise that he should have increased the sum insured). Likewise, the cost to replace the plant had increased to \$250,000 and the tools were now valued at \$28,000. Bob also hadn't updated his profits sum insured in line with the current \$550,000 profit of his business, so his total loss was actually \$1,253,000.

Unfortunately, Bob was underinsured by \$825,000 and was unable to continue his business.

The above example is based on an 'actual claim' but the names have been removed for privacy purposes

If you already have business insurance in place, ask yourself – is your existing cover in line with your current situation?

## CHECKLIST

- Do you have an annual review of your business insurance?
- Do you have any new machinery or motor vehicles?
- Have you had an increase in the amount of stock or materials in your business?
- Have you had your building valued for insurance purposes in the last 2 years?
- Have you checked that the sums insured on the wages, salaries and payroll are adequate?

## A tailored approach for your business

Whether your business is small, medium or large, your local AMP Adviser can work with you to gain an understanding of the specific requirements and challenges your business faces. We can then tailor the insurance to meet your priorities and unique business needs.

Note: Always refer to your Insurance Adviser or policy document for full details of cover.

Tim Wilson, our specialist Business Insurance specialist is always available to call for advice.

## Words from your personal financial trainer

### Annual check-up. An exercise programme for your cash.

Just as weight loss depends on a good daily diet and plenty of regular exercise, so too, your financial objectives can be greatly enhanced through a regular fitness programme. As your personal (financial) trainer I suggest you try our Debt-Buster programme designed to remove overdraft flab, trim your consumption and add muscle-tone to your wallet.

### Fitness check

Check your credit card balance. How much did you owe? \$1500 perhaps? Or \$2000? This is your overdraft flab – and your goal is to eliminate this by next Christmas so that a year from now you have zero debt.

### Savings exercise programme

Take that figure for credit card debt and add \$500. Let's suppose this adds up to \$2,400. Now divide by 12 (\$200) and this is the amount you should be saving each month. Set up an automatic payment to divert this money out of your main account and into an untouchable savings account.

### Reduce consumption

Now that monthly amount is being saved you may have to trim your consumption. If this is \$200 per month you'll easily do this. Skip a few take-out coffees. Use the car less often to save gas. Make your lunch and go out a little less. It isn't hard.

### Avoid fatty debt

During the year avoid credit card debts and pay these off as quickly as possible. Set up your accounts so that credit cards are paid on-time, automatically.

### Next Christmas go easy

Next December you'll have the funds you need to handle the holiday season – but don't go crazy. Avoid binge spending. Because you'll have avoided a big card blow-out (and have the funds to cover your spending) that lie-down on the beach should be doubly relaxing.

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