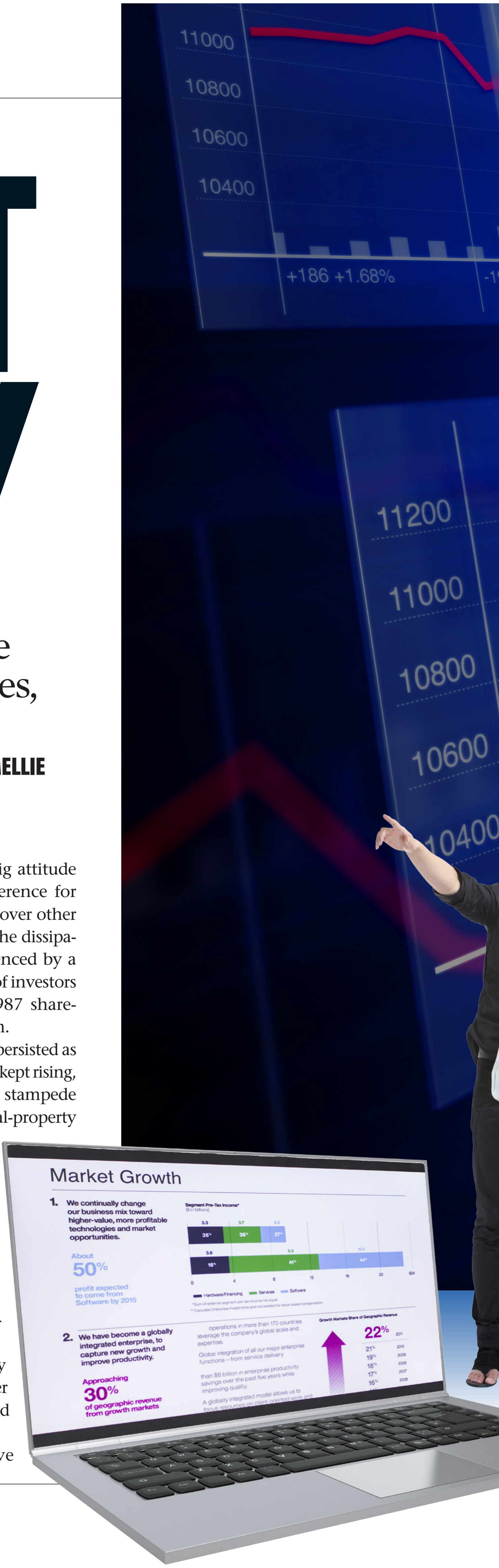
The SMART MONEY

As a stall in house-price rises turns the spotlight on other investment strategies, the investors of Generation Rent are wondering what's best to do. by PATTRICK SMELLIE



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In a darkened meeting room high above Auckland's Shortland St, a large group of students from St Peter's School in Cambridge is listening to one of the best-known names in the New Zealand investment industry, Brian Gaynor, on the subject of personal savings.

The advice is along the same lines he always adopts: start saving early; don't invest in just one thing; take more risk when you're younger, less when you're older; and if it seems too good to be true, it probably is.

At last, the fear experienced by a generation of investors after the 1987 sharemarket crash has dissipated.

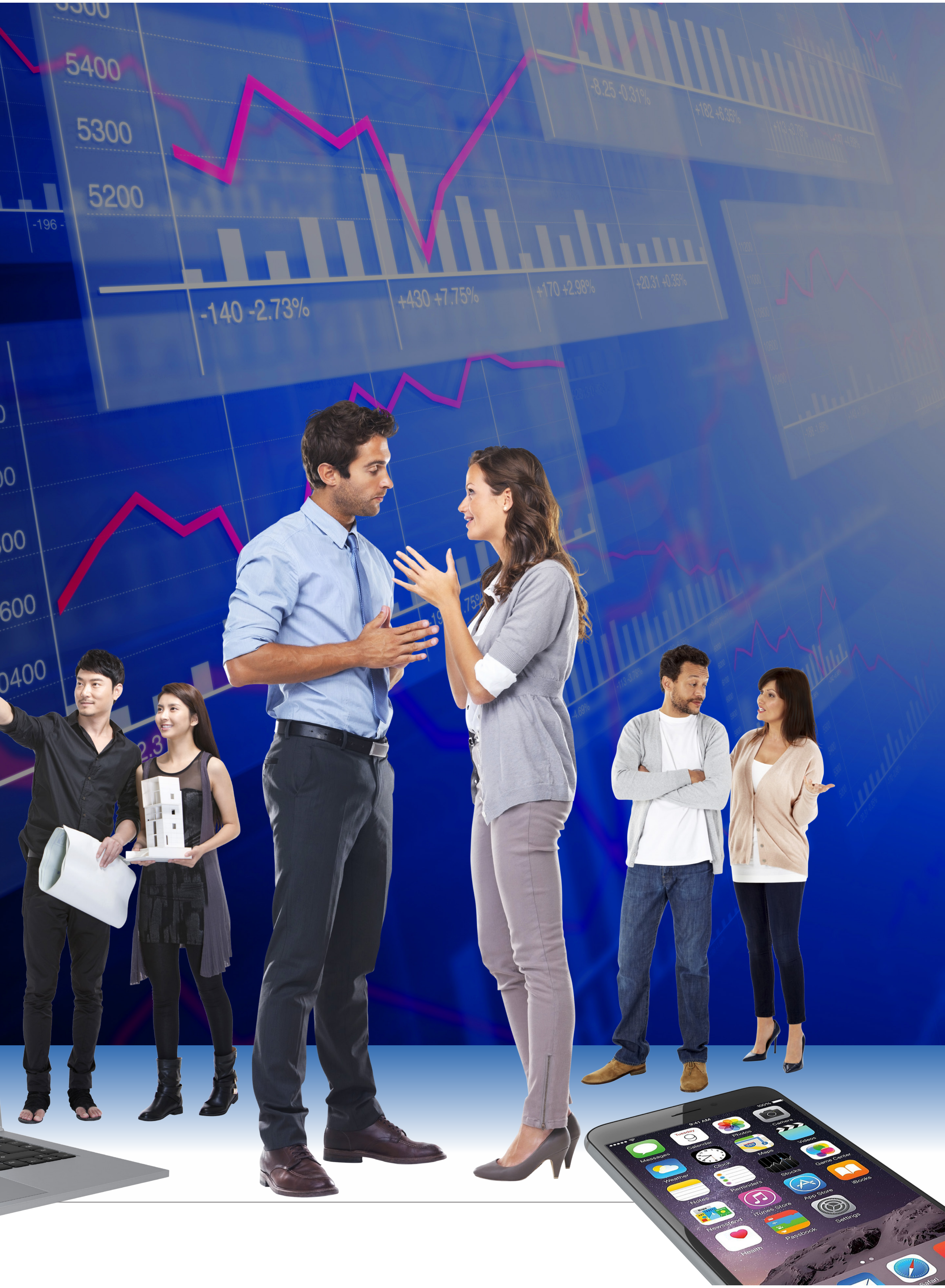
The messages may be old chestnuts, but Gaynor says the fact he is speaking to secondary-school kids at all signals a generational shift in New Zealanders' attitudes to savings and investment. "Obviously the teachers bring them along, but you'd never have got that a while ago."

The head of investment firm Milford Asset Management, Gaynor says the advent of the KiwiSaver retirement savings scheme a decade ago has driven two big attitude shifts: a challenge to the preference for residential property investment over other assets as house prices stall; and the dissipation, at last, of the fear experienced by a generation of investors after the 1987 sharemarket crash.

That fear persisted as house prices kept rising, fuelling the stampede to residential-property investment that bred an apathy towards other investments, especially after the collapse of finance companies in the late 2000s hammered confidence in that sector too.

Gaynor notes that it took nearly 30 years for Wall Street to recover from the 1929 crash that sparked the Great Depression.

"Sometimes, if you have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A DIY guide for would-be investors

If you are not of a mind to keep it all under the mattress, there are plenty of investment options other than property. by SOPHIE BOOT

If you believe the hype, shares are unfathomably risky and complicated. Think every movie or TV programme that shows a trader screaming "Buy! Buy! Buy!" into a phone. Even though the reality is somewhat less dramatic, the perception remains.

But a new class of online platforms is emerging, giving mum-and-dad investors, student investors or young professionals with a bit of spare cash more options than ever to invest their money themselves.

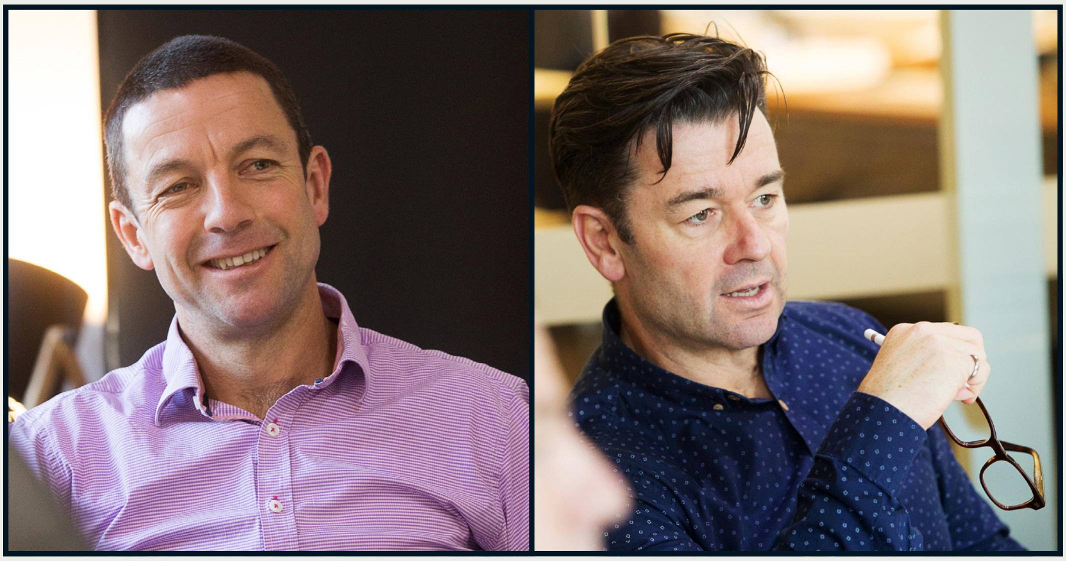
International research suggests millennials are more anxious and risk-averse when it comes to share portfolios, which is hardly surprising when many have given up the prospect of ever owning a house and are still battling with weighty student loans.

In June, a report from Macquarie Wealth Management in Australia found young people are attracted to digital-based tech solutions, especially where they can manage their own funds: there are lower minimum investments, smaller fees and user-friendly apps and language, which create a lower barrier to entry for sharemarket beginners.

"Tapping into their distrust of established financial institutions, nimble fintech startups are specifically … using technology to provide better choice, convenience and sustainable options all in a turnkey smartphone-app environment," the Macquarie report noted, adding that in Australia, young single people have seven times as much money in their bank accounts as in shares, and the richest demographic of couples, aged 55 to 64, had a ratio of less than 3:1.

Many Kiwi millennials have been enrolled in KiwiSaver since starting their first job, and young people are increasingly aware of the returns possible from shares. Some are content to stick with more hands-off options, such as term deposits, but increasing numbers are looking to get stuck in themselves.

Locally, savings and investment provider InvestNow, which launched in March, reports that it has over $75 million being managed by clients using its website. The platform offers products such as the Nikko Asset Management NZ Cash Fund and the AMP Capital NZ Cash Fund, which are typically open to retail clients investing at least $2000.



InvestNow's Anthony Edmonds and Mike Heath.

InvestNow founder Anthony Edmonds says the smaller minimum investment of $250 is popular with investors, and low annual management fees also appeal.

"We get lots of people who initially open an account just to look around InvestNow," Edmonds said. "They then invest $250 to see how InvestNow works, and after that they will ramp up their investment and start building their portfolio."

Investors using the platform can access funds run by global fund managers such as Vanguard, as well as a slew of major local fund managers – AMP Capital, Harbour Asset Management and Salt Funds Management, to name a few.

Sharesies, whose invitation-only beta platform launched in June, has even lower barriers: it costs $30 a year to join and users can invest from a minimum of $5 into index funds.

Less than two months after its launch, more than 3500 people have used the platform to invest more than $1 million into NZX shares, though it's still in development mode: there are plans to add more fund options and performance tracking over time and to move to open beta, where wannabe investors will be able to sign up straight from the website.

The company's founders say they want to encourage people to become more financially literate and give them the gratification of being able to invest the $20 they might have otherwise spent on brunch.

InvestNow general manager Mike Heath says it's not just young people using the platform: retired chief executives, grandparents wanting to save for their grandchildren's education and large family trusts are also getting involved.

Recently, he's noticed that investors who would normally put short-term investments into term deposits are taking an interest in cash funds instead; perhaps no surprise given the Reserve Bank's latest indications that inflationary pressures are lower than expected, and interest rate raising is some way off.

Crowdfunding is another place for investors looking for alternatives to the sharemarket. Three years after the first platforms were granted licences, the market has consolidated somewhat to see three major players: Snowball Effect, Equitise and PledgeMe. However, crowdfunding is more of a long-term investment with less ability

"They then invest $250 to see how InvestNow works, and after that they will ramp up their investment and start building their portfolio."

to withdraw money if circumstances change, and no platform is planning to offer a formal secondary market, on which investments could be traded.

Mark Peterson, chief executive of sharemarket operator NZX, says crowdfunding isn't a threat to conventional investing but rather "has a place in the total ecosystem".

"We've got to work out how we play with crowdfunders – all those commercial decisions," Peterson says. "People should be aware of the risks and make choices around that risk-return trade-off. I do see linkages between the life cycle of businesses and the raising of capital and potentially the secondary market."

Ultimately, investors looking for more risk and return than banks can give them face fewer barriers than ever. Houses remain the largest asset most Kiwis own, but the rise of low-barrier alternatives can only be a good thing for those who can't – or don't want to – sink their money into bricks and mortar.

something that's quite bad, you take up to a generation to change it. What happened [after 1987] was that a whole pile of that age group swung into residential property, which proved to be a very good investment, and because it's done so well and they're able to borrow and leverage off it, there's been huge interest in it.

"But now people are beginning to think, 'Housing has done very well; can it keep going? I need more liquid assets', because if you own a house, you can't sell a window, but if you own shares or are in a fund like we run, you can take 5% of the fund out at any given time. The apathy is still there, but it's not like it was."

A NEW COHORT

The change has been driven in part by a whole new cohort of savers that has begun to emerge as the effects of a decade's worth of KiwiSaver savings start to kick in. For most of this generation of savers, their only experience of non-bank investment has been through a KiwiSaver managed fund. Today, there are almost 150 schemes offered by at least 15 providers, managing more than $47.5 billion. And that total is expanding quickly. By 2030, total funds under management by KiwiSaver providers are forecast to be more than $200 billion.

As these savings accumulate, interest in investment performance is rising. "You don't change this environment from apathy to being really interested in a short period of time, but it's definitely changing," says Gaynor. "This is a 10- to 20-year process."

Increasing life expectancy is changing behaviour, he says. "I was telling these students today that the biggest thing that has changed, to me, in the past 10 or 15 years is that people now expect that they're going to live until they're 80 or 90 or 95 and that National Super isn't going to give them the lifestyle they want."

Another major force is the diminishing expectation among younger New Zealanders that they will own their own home one day.

Of course, many of the kids at St Peter's, where annual tuition fees range from $16,500 to $21,450, will probably achieve that goal: the children of financially secure households, they will be able to count on help from the bank of mum and dad for the deposit on an otherwise unaffordable house in Auckland, if and when the time comes.

But all over New Zealand and particularly in Auckland, the next generation is less likely than at any time in the past 66

People now expect to live until they're 80 or 90 and that National Super isn't going to give them the lifestyle they want.

years to end up as homeowners. About 63% of New Zealanders own their own homes and that is the lowest rate of home ownership since 1951, when 61.2% of homes were owner-occupied, according to official statistics.

Between then and now, which is getting on for three generations, the notion of home ownership became entrenched as part of the expected Kiwi way of life, before it started to become unattainable for many.

The home-ownership dream itself is alive and well. A small sample poll for Auckland real estate firm Barfoot & Thompson late last year found that nine out of 10 of the millennials surveyed wanted to own their own place. The vast majority also wanted a Kiwi-style standalone house rather than an apartment.

Gaynor sees plenty of young, salaried professionals giving up part of their

Milford Asset Management's Brian Gaynor: KiwiSaver has driven two big attitude shifts.

REBEKAH ROBINSON

Getting your share

The NZX is working hard to create value as the borders blur for investors and companies. by JONATHAN UNDERHILL

Anyone who bought A2 Milk shares at the start of this year has more than doubled their money, but if they bet on Sky Network Television, their investment is down about 30%.

NZX chief executive Mark Peterson says there's a "safer" way to get exposure to the sharemarket for new investors – managed funds and exchange-traded funds (ETFs). NZX's NZ Top 50 Fund, which invests in the 50 biggest securities on the NZX main board, has gained about 13% this year.

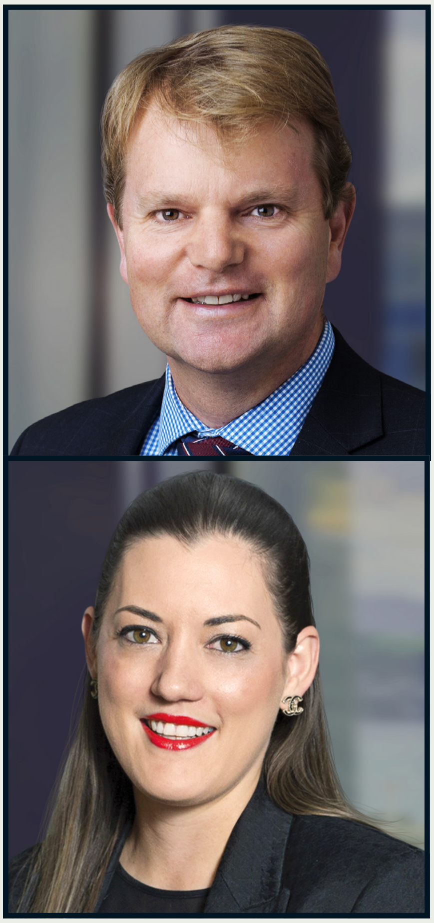
NZX has 23 such ETF funds under its Smart Shares brand, providing exposures ranging from major global benchmarks and emerging markets to property and bonds.

Altogether, 836 million units of these funds are on issue, and funds under management totalled $1.9 billion as at July 31. That's up from 173 million units and $300 million in July 2012.

Peterson says the NZX has just recorded five straight months of record growth in people signing up to Smart Shares. Millennials are one of the growth markets. Brokers say there's been a notable pick-up in interest in the sharemarket from under-forties, perhaps because their KiwiSaver accounts hold shares or because they see home ownership as out of reach.

That's a positive sign for a market operator that has sometimes struggled to grow. It currently has 163 listed companies and 116 listed debt securities, little changed from July 2012 when there were 169 and 102 respectively. So far this year, some $480 million of new company shares and $2.1 billion of debt capital have been raised via the NZX.

The NZX has worked hard to stay relevant. It launched two special low-cost markets: NZAX for companies with lower valuations (so-called small-caps) and NXT for start-ups. But lack of interest and of activity at this end of the market has prompted the company to reassess – it's likely to absorb the two back into its main NZSX board.



NZX's Mark Peterson and Chapman Tripp's Rachel Dunne.

It acquired and then sold the Clear Grain Exchange in Australia and has restructured its agricultural assets, selling agri magazines it had acquired to provide a full suite of services tied to the primary sector.

The value of shares listed on the NZX has increased 113% to $125.9 billion in the past five years. In that time, the median house price has gained 42%. But there's still a massive gap: on the Kiwi household balance sheet data the Reserve Bank publishes, housing and land were valued at $758 billion.

Across the Tasman is a much deeper pool of equity capital. The total value of shares listed on the ASX is about A$1.5 trillion. There are 53 New Zealand-based companies listed there, of which 38 have their primary listing on the NZX and a foreign-exempt listing on the ASX.

Others went straight to the ASX – 9 Spokes International, Adherium, Martin Aircraft Company, Neuren Pharmaceuticals, Powerhouse Ventures, Tomizone, Volpara Health Technologies and Wangle Technologies were all attracted to being listed in a bigger market.

The jury is still out on whether it was the right move. Last month, Chapman Tripp partner Rachel Dunne said they might be better off coming home. For a start, a New Zealand-based ASX-listed company has twice the paperwork complying with two regulatory environments. It could still get the benefit of the ASX's larger pool of capital with a primary listing on the NZX and an ASX foreign-exempt listing, she said.

Then there's the fact of being a small company in a big market rather than being small in a small market.

"Being a minnow in a large market like the ASX does present challenges for listed companies, and it is telling that all of the New Zealand companies that chose to list solely on the ASX have had poor share-price performance," Dunne said.

But small-caps have also struggled on the NZX. In June, G3 Group said it might quit the NXT market just two years after joining it in a compliance listing. Last month, shareholders of GeoOp approved a plan to relocate to the ASX from the NZAX and raise funds via an initial public offering. Future Mobility Solutions, the company formerly known as SeaLegs, said in June it plans to delist from the NZX as the market is too small.

Sheldon Slabbert, a sales trader at CMC Markets in Auckland, says part of the problem is that Kiwis are surrounded by global brands – Apple, Microsoft, Nike – but they aren't directly investable through the local exchange. He also says the NZX may still not be doing enough to market its wares.

"You look at any newspaper and there are pages and pages of property porn," he says. "There's very little alternative investment being touted."

CMC offers contracts for difference (CFDs) – bets on the movements in underlying securities including coffee futures, currency pairs, gasoline or pork bellies that the investors don't actually buy or sell.

They're complex products, but Slabbert says his clients have a better sense of risk than some leveraged property investors. "There's an opportunity cost in this concentration of risk in property. It is preventing people from potentially creating real wealth."

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He also notes that property "is a long-only trade. It doesn't give you the opportunity to go short. When property prices fall, you're just going to have to grin and bear it."

Going short – betting that a security or index is going to fall – may be tempting for some equity investors now. The benchmark NZX 50 Index is currently at a record high and analysts are still crunching their numbers on whether the current earnings season will provide justification for shares to be trading at such high multiples.

In ASB Bank's latest survey of investor confidence, 78% cited a bank savings account as their main investment, compared with 15% of people who had shares as their main or other investment. Some 58% cited KiwiSaver as their main investment, ahead of the 54% of people who cited their own home.

Term deposits were almost twice as popular as shares, at 27%. Managed funds stood at 15%.

Financial Markets Authority's Ainsley McLaren and Commission for Financial Literacy's David Boyle.

potential annual bonus in return for a smaller sum that bumps up the income they can report to the bank, allowing them to borrow more.

But in 2017, the Generation Rent concept popularised by economists Shamubeel and Selena Eaqub – who recently took the plunge and bought a house – is shaping new debates about the next generation's home-ownership expectations.

"They're all sort of desperate to be in the game," says Gaynor, "but it's actually quite difficult. But they're not depressed over it. Human beings are remarkable. They get used to whatever the conditions are."

TOPPING OUT

Exacerbating the challenge posed by the unaffordability of house prices is the prospect that the housing market may be topping out, eroding the potential for capital gains, at least in the short term. Prices in Auckland fell 2.5% over the three months to the end of July, according to the Real Estate Institute of New Zealand, prompting Prime Minister Bill English to urge the Reserve Bank to forget about imposing further lending restrictions.

The conditions may spur new interest in home buying, as increasingly debt-shy banks, local buyers without enough saved to make a deposit, and a slowdown in interest from foreign buyers all contribute to a slowing in house-price inflation.

From here, the upside in residential property is less clear, making it more likely that savers and investors will look for new places to find better returns than the 3% interest in a bank account. The catalysts for new conversations about investment are in place.

"There are lots of places in the world where you wouldn't expect to own a house," says Ainsley McLaren, an investment markets specialist and Financial Markets Authority board member who spoke to the *Listener* in a personal capacity as she prepared to take up a new role with Wellington-based funds manager Harbour Asset Management.

Prices in Auckland fell 2.5% over the three months to the end of July.

"There are some issues around tenancy in New Zealand, to help people get into long-term tenancies where they can actually feel some sense of stability in the place that they live so they can stamp their own mark on it. Short-term tenancy agreements get in the way of people favouring renting."

But the mood to fix that is growing. Most opposition political parties are promising full-scale tenancy-law reform to remove barriers to long-term renting and make it fairer for tenants. If that starts happening and with house prices likely still to be many times more than the average household income, investing what would have

A special message for first-home buyers

The time's right for those wanting their first house to take advantage of property investors' troubles, says BNZ chief economist TONY ALEXANDER.

The market is moving in your favour. A lot of investors have over-extended themselves in the past three years and their hopes of new investors taking property off their hands at a tidy profit have been dashed. The next layer of the investor pyramid has been stripped away by the need to raise a 40% deposit and by banks steadily tightening debt-servicing criteria.

Tony Alexander: don't let the agent work you.

In fact, when an existing investor with a few properties goes to their bank these days seeking finance for a new purchase, even if they have a 40% deposit, banks are saying they need 40% coverage also for their existing portfolio. In many cases, that means either the planned purchase by the established investor does not happen or they achieve it by selling some of their existing stock.

Auckland is interesting in that there is now an oversupply of properties which can be intensified. The finance is not there to allow construction and neither are the builders. So lots of investors are now sitting on potentially highly geared properties they cannot get anyone to buy and develop.

They, like you, are reading things like this. They are hearing the lobbying from real-estate agents for loan-to-value-ratio (LVR) restrictions to be removed. Some may be facing settlement soon on an apartment they signed up for a couple of years back.

They are nervous and getting worried that any profit on paper they may have achieved in the past year or two could be disappearing fast. They are starting to get stressed.

The FOMO – fear of missing out – that drove them to gear up and buy any old piece of property last year and earlier is now working in the opposite way. As a mass, they are vulnerable to something, to some trigger – maybe it'll be newspapers catching up with the way power is shifting in the Auckland market and running stories of outright losses, dragging out the usual head-on-a-stick suspects to predict, yet again, a collapse in prices.

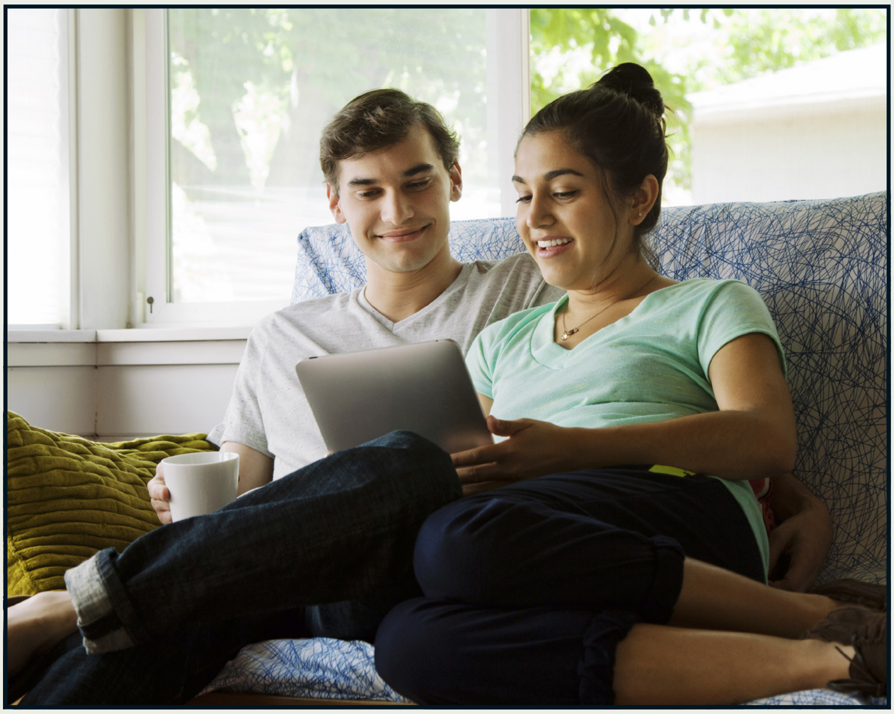
The time is ripe for you, first-home buyer, to start taking advantage of property investors' pain.

- Relax. Take a few breaths. Take your time.
- Look at a number of properties.
- Start throwing in low-ball offers in case you catch a truly panicked fish.
- Alternatively, simply make an offer for what you think a place is really worth – and stick with it. Don't let the agent work you. They know that at this point in the housing cycle, the effort they need to put in is on the vendor – which means convincing them that the days of stupid prices have ended.
- Stick with your price and walk away if they won't budge. If they spray, walk away!

Now, go back and read that little list again. Think about it, and then ask yourself this: as someone with no previous experience of home ownership, essentially no experience of housing cycles, little insight if any into the mind of someone selling, what would you do if your offer is rejected in an environment where LVR restrictions have been relaxed especially for you – as the real estate agents want?

You will borrow more money to pay a higher price, simply because the money is there, you are being told to do so and you have not felt the stress yet of worrying about debt and keeping your home when your income falls.

Now that the market is moving in your favour, the last thing you need is for extra demand to be thrown into the market by LVR reductions simply to bail out investors who have overcommitted themselves.



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been the house deposit somewhere else will become even more common.

"The minimum deposit required for a house now is really significant," says McLaren. "But with less money than that, you could get into a diversified portfolio that would generate pretty good returns through time with similar kinds of growth characteristics. I'm talking equities [shares] versus property investing, as an alternative."

Says David Boyle of the Commission for Financial Literacy (CFL), "KiwiSaver is part of Kiwiana for our next generation. It's there, it's working. They don't have to work it out or understand it, because their parents put them into it to get that $1000 kick-start. It's part of life and that's gold in itself."

COMPOUND GROWTH

The average KiwiSaver portfolio is about $12,000 today, but compound growth rates apply and those sums are rising fast: at Milford, the average is worth well over $40,000. And as those balances mount up, some people are using their KiwiSaver nest eggs to pursue home ownership.

In the year to June, 33,000 KiwiSaver scheme members withdrew about $600 million to help with the deposit on a home, 10 times more than those making withdrawals because of financial hardship (the only other reason, apart from death, that withdrawals are permitted prior to retirement).

But large numbers have also opted out. A survey last October by the online publication *Investment News* found that 1.1 million of KiwiSaver's 2.6 million members were classed as taking payment holidays, which can extend for as long as five years before a member is asked to resume payments.

The CFL wants a requirement for an annual decision about whether to continue opting out, given how significantly a five-year contributions gap reduces the most powerful element of any long-term savings scheme – compound earnings growth.

Furthermore, many KiwiSavers have never changed from the savings fund they were automatically allocated. Almost a fifth of the KiwiSaver funds under management are sitting in conservative default schemes, although many young savers should be considering investment profiles that target higher risk, but higher rewards over the long term.

"I reckon it would take a good meteor strike for you to lose all your KiwiSaver funds, because they are so diversified."

Default schemes are also under less pressure than others to make sure their fees are competitive, especially as many default scheme members are as unaware of the costs of their scheme as they are of its profile.

Meanwhile, roughly 600,000 people are eligible to join KiwiSaver but haven't done so. Some of them are suffering from misconceptions about the scheme, says the CFL's Boyle. Two of the most common are that you could lose all your KiwiSaver funds and that all funds will return to the Government if you die before retiring. Neither is true, he says. "I reckon it would take a good meteor strike for [losing all your funds] to happen; the funds are so diversified."

Likewise, you can't lose the loot to the Government, although he knows plenty of people with KiwiSaver accounts haven't realised they need a will. "If they don't have a will, getting that money out is very expensive," he says.

McLaren says one thing people with spare cash to invest rather than plough into a mortgage need to learn is the value of paying for professional advice.

"People seem a little reluctant to go into managed funds and to be a little reluctant to pay for investment advice, and yet you would not hesitate to pay for legal advice if you were buying a house," she says. "There are a lot of transaction costs involved in buying a house, but people don't apply the same discipline."

The trend towards investment through managed funds, whether in a KiwiSaver or some other scheme, has implications too for business-news media, Gaynor suggests.

"I'm actually finding that the fund-management business and how companies are performing are more interesting than what's happening in the stock market, because there's a proliferation of new funds, new fund managers, different fees, different characteristics, different returns.

"It is a more interesting area at the moment than the listed companies, because people are going to have to make a decision. Just like 'do we invest in Fletcher Building and Meridian Energy or Contact Energy?', they're going to have make a decision, 'are we going to go into a growth fund or an ANZ Conservative Fund?'"

For McLaren, the biggest challenge for the providers of investment products to a newly curious generation of investors lies in making sure people know what they're getting.

"It's really important that markets are transparent and well behaved, so that people can be confident they're getting something that's a good thing rather than a scary thing or a bad thing." ▮