

Wealth Management Adviser



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Emerging markets exposure, still suitable for growth portfolios

For some time now, we've been talking to our clients about investing in emerging markets. There is no doubt that emerging market investments should form an integral part of a 'growth' portfolio.

Emerging markets are changing the way the world works by developing into global powerhouses.

Cause	Effect	Possible Ramifications	
Rapid Economic Growth	Higher Family Incomes	More Consumer Spending	Emerging Market Opportunity
High Savings Rates in Asia	Low Household Debt	Ready Supply of Domestic Capital	Emerging Market Opportunity
Urbanization	Infrastructure Buildout	Demand for Commodities	Emerging Market Opportunity
Desire for Social Stability	Policies for Peace & Prosperity	Focus on Creating Jobs	Emerging Market Opportunity
Natural Resources Wealth	Exploration, Development & Production	Revenue Stream for Governments	Emerging Market Opportunity
Corporate Transparency	Easier to Attract Overseas Investments	Market Liquidity	Emerging Market Opportunity

Rapid economic growth

Over the next 5 years growth in emerging economies is still expected to outpace the developed world. This growth is fueling increases in household incomes in places like China and India where nearly 60 million people are joining the ranks of the middle class each year.

High savings rates in Asia

Despite rising consumption, households in emerging Asia save 17 percent of all disposable income, that's roughly four times the savings rates of the US and much higher than the average for the developed world. High savings rates means less borrowing at all levels and strong support for investment in capital markets.

Urbanisation

The world's urban population is growing

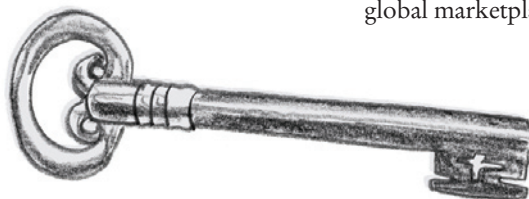
by more than 70 million people each year. China already has over 100 cities with 1 million people and is expected to have over 200 of them by 2025. This urban migration has overwhelmed existing infrastructure like roads, railways, sanitation and electrical services. The development of this critical infrastructure will require vast amounts of copper, steel, concrete and increase the demand for all commodities.

Desire for social stability

Governments need to provide opportunities for people to improve their quality of life. Many governments have found the key to social stability is focusing on job creation which establishes a path of upward mobility for citizens.

Natural resources wealth

Many of today's most promising emerging nations sit atop some of the largest oil, metal and other valuable resource deposits in the world. Many of these nations have teamed up with private and/or foreign enterprises to bring these resources to market. Revenue generated through taxation and direct ownership allows for these governments to build infrastructure, create jobs and pursue other economic opportunities.



Corporate transparency

A history of corruption and political turmoil has given way to higher standards of corporate governance in today's globalised world. Though still far from perfect, the improved transparency and oversight has made important information available to investors and reduced uncertainty. By aligning themselves with international business standards and requirements, emerging nations will attract more foreign capital and better integrate themselves into the global marketplace.

How much is enough?

How is your retirement planning going?

Take your current level of income and multiply it by 70%. That's what many people say they will need as a minimum to have a comfortable lifestyle in retirement. On top of that you will also need to allow for one-off items such as replacing the family car every 5 years or so, as well as the occasional offshore adventure.

Healthier lifestyle choices and continual improvements in our medical care mean we are living longer, so our retirement provisioning will have to last a little longer than maybe it did for your parents

So let's assume you currently earn a good income of \$200,000 pa. Apply the suggested 70% ratio, and a typical retirement income would be \$140,000, before tax. When we factor in the new tax rates effective from 1 October this year that will provide an after tax income of approximately \$102,880 pa based upon a single person, or if you can income split with your partner then that increases to \$119,960 pa net.

Of course under current rules you will get some help from the Government in the form of New Zealand Superannuation. Upon attaining 65 years of age you will receive a net figure of \$16,542 pa if you are single and living alone, or if you are married \$12,724 each pa reducing the amount you will need to fund yourself to somewhere between \$86,300 and \$86,500 pa.

Next you need to make some decisions about your retirement capital. Do you want to have built up sufficient capital so that under normal market conditions it will comfortably produce the \$86,300 - \$86,500 shortfall year-in year-out leaving the capital base intact for future generations? Or are you happy to consume a little of your capital base each year along the way? If you do that you will still have the "lifestyle" assets to leave to the children which usually consists of the family home and the beach property.

So how much "retirement capital" will you need by age of 65?

To do this calculation first we need to make some assumptions, such as typical earning rates, the period of retirement and as mentioned above whether that capital base can be used as you go or needs to stay intact.

By way of example:

\$140,000 less tax (married couple)	\$111,960
less NZ super entitlement (married couple)	\$ 25,449
Income to be provided from your own sources pa	\$ 86,511

Assumed earning rate after tax, inflation and any other expenses say 3.00%	
Duration in retirement (65 yrs to 90 yrs)	25 years
Amount required by age 65 years if capital to be consumed	\$1.5 million
Amount required by age 65 years if capital not to be consumed	\$2.8 million



A disclosure statement is available on request, free of charge. If you require further information on any of these topics please contact:

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