



## Stay Away

*New Zealanders' increasing tendency to travel overseas is a wonderful development. We enjoy it, we learn tolerance and we pick up ideas – ranging from what to eat to how to make a living.*

*The trend has made us all more aware of the changing value of the Kiwi dollar. When it rises, we perhaps take a longer or more expensive trip. But when it falls, we don't all stay home. Some of us modify our travel plans; others carry on regardless, maybe spending less on other items.*

Over the years, too, we've become more likely to own international shares – directly or by investing in a world share fund or a managed fund that includes international shares.

The government has recently proposed changes that in many cases would increase taxes on share investments beyond Australia.

Many New Zealanders have responded by saying they will withdraw from international shares. Some plan to switch to Australian listed shares, which will be taxed much the same as NZ shares (but without dividend imputation). Others say they will bring their money home, investing in local shares, property or elsewhere.

But bringing your investments back to Australasia may not be a good idea, for two reasons:

### ALL OVER THE PLACE

*The relative volatility of New Zealand's share market becomes clear when you compare its performance with the markets in Australia, Canada, France, Germany, Italy, Japan, the UK and the US, since 1974.*

- *New Zealand is the only country to switch in one year from best performer, in 1986 (111%), to worst, in 1987 (minus 44%). The crash hit us hardest.*
- *New Zealand is one of only four countries to switch from worst to best in a single year. In our case, the switch was from 2000 (minus 21%) to 2001 (16%).*
- *Our highest two returns – 129% in 1983 and 111% in 1986 – were the second and third highest of any country in the period. (Top was the UK's 151% in 1975.)*
- *Our 1987 return was the lowest of any country in the period.*

- There has been huge opposition to the proposed changes. At least wait to see if they are modified before the tax bill becomes law, probably later this year.
- Even if the bill is passed unchanged, providers are likely to set up vehicles through which you can continue to invest in international shares reasonably tax efficiently.

There are some strong reasons for keeping some of your long-term savings offshore – or, indeed, to make such investments if you don't already have them. They are:



### Broader spread

One attraction of investing in international shares is diversification. If you invest in many different economies, when some are performing badly there's a good chance others will be growing.

You also broaden your exposure to different industries. Compared to world shares, the NZ share market is extremely top heavy in telecommunications and utilities, and grossly under-represented in information technology and energy.

Australia, meanwhile, is extremely top heavy in materials and very heavy in financials, and is grossly under-represented in information technology, and low in health care.

Putting half your share money in Australia and half in New Zealand will, of course, broaden your industry base. But you would still be over-weight in materials and telecommunications, and under-weight in energy and health care. And you would remain extremely underweight in information technology.

(CONTINUED PAGE 2)