

# Investing - **Beyond the Farm**

An introduction guide for farmers who are considering investing beyond the farm

- Where to begin
- Considering your options
- Making the right decision
- What makes us different



## Where to begin?

### Review your situation

Whether you have acquired excess capital over the years, have recently come into money or simply looking to plan for your retirement, you might want to review your current situation and the points below before you make any investment decisions.

- You may find it beneficial to keep any excess capital aside from your usual income until you have decided on the best way to use this money
- You can put your money in a temporary and safe account – a term deposit or cash management account will provide a safe and relatively liquid place for your money
- You should consider your long-term objectives and how your investments can help you achieve these goals

### Develop, or update, your business plan

If you don't have a business plan already, it might be a good time to consider developing one. This will help you create a 'road-map' to help you achieve your goals. If you are not sure where to start, your accountant may be able to help you develop this.

As a general rule, every plan should address the following issues:

- Accurately identify the objectives for the farm, the business and each of the members of your family or business
- Ensure the farm has adequate cash reserves and a reliable line of credit
- Project likely farm income over the next two to three years and beyond and provide a rigorous assessment of its reliability
- Fully recognise any accumulated tax losses
- Determine viable on-farm investment projects
- Establish the amount of capital available for off-farm investment
- Ensure the plan is flexible enough to meet changing circumstances

While the overall business plan can be co-ordinated with the help of an accountant, the development of off-farm investment strategies should be considered with a professional Investment Advisor. An Investment Advisor can be an important part of your support team of professionals who help assist you with legal, tax, investment and other business related issues.

### Consider your family's future

Possibly the most important step of all is to consider the future for you and your family. Determining how you want to live in retirement could have a major bearing on how you decide to spend new money and save future income.

A succession plan for the farm can help provide clarity on the future and what you want to achieve. An Investment Advisor can help you determine what you might need at retirement, or if the farm is sold. Some important questions to consider are:

- Will the farm be sold or stay in the family?
- Will the children be looked after when I retire?
- Will I have enough to live on if I leave the farm, and how much will I need at retirement?
- How much debt will the farm have when I retire?

## Considering your options

### On-farm versus off-farm investment

When deciding to invest back into the farm, there are generally four main options:

- Repayment of Debt
- Farm Improvements
- Acquisition of More Land
- Off-farm Investment

On-farm investment must naturally be considered first and there are often sound financial reasons for directing profits back into the farm. It always makes good sense for people or businesses to invest in what they know best and there are often family and lifestyle reasons for improving the farm.

However investing some money beyond the farm could be a prudent long-term solution.

For example:

- A capital expenditure programme may potentially result in the over-capitalisation of the farm
- Over-expenditure on the farm could affect how much money you have left to live off in retirement
- Applying the basic 'spread of risk' rule, it makes sense to have your capital invested in more areas than just farming
- Changes in overseas markets, the New Zealand economy, exchange rates, government legislation or the weather could adversely affect specific agricultural industries and seriously undermine the value of your farm

### Preserving and growing your capital

As a farmer, you understand the need to manage your business for both income requirements and long-term capital growth; the negative effects of inflation over the long-term and the fluctuations inherent in currency and commodity markets.

To preserve and grow capital you can carry this understanding over to your investments.

Arguably the most important goal of investing is to maintain the real spending power of your savings. This is best achieved through risk management, not chasing returns. Risk cannot be entirely avoided or outsmarted through cleverly timed purchases and sales, but investments can be shaped to minimise risk and maximise potential returns. "Safe" low-risk cash investments, like cash management trusts for example, are excellent choices for preserving the nominal value of assets and ensuring a very high level of liquidity, if that is a requirement. However, over the long-term they generally cannot provide the capital growth, after taking inflation into account, to meet long-term investment goals.

The best way of both protecting capital and also providing potential for further growth is a balanced portfolio of investments.

A balanced portfolio is a portfolio that is diversified across fixed income, shares and property, and is further diversified within each of these three main sectors.

The mix between the various types of investments can be tailored to take into account the level of risk appropriate for your investment goals, time horizon and risk tolerance.

## Building a balanced portfolio

**Case Study:** Russell is a Dairy Farmer who wanted to preserve and grow his wealth to ensure he had enough money to live his ideal lifestyle in retirement...

### Investment Challenge

Russell is a Waikato Dairy Farmer who has managed to save \$300,000 over a 10 year period after repaying farm debt and seeing to necessary farm improvements. After talking to an Investment Advisor, Russell identified that he needed to secure his family's long-term financial security, and plan for his retirement without having to worry about the cyclical nature of the Dairy Industry.

By diversifying his assets beyond the farm Russell could decrease his financial risk of a 'bad year' on the farm and maintain a regular income from his investments. With the help of his Investment Advisor the following Balanced Portfolio was created for Russell based on his investment needs, appetite to risk and the income vs capital growth that he wanted to achieve.

### Russell's Balanced Portfolio

Russell's balanced investment portfolio was created with the aim of gaining exposure across a range of asset classes to:

- 1) Minimise the risk of any particular market falling by diversifying across a range of investment markets
- 2) Provide regular income
- 3) Achieve long-term capital growth of the portfolio

Fixed Interest provided a steady income stream while capital growth was targeted through the investment in listed equities (shares) across New Zealand, Australian and Global sharemarkets. This exposure to multiple markets around the world provides another layer of diversification to protect against market fluctuations. Exposure to the property market was also accounted for with the investment in local and global listed property funds. Within each of these asset classes between 7 and 14 securities were chosen to provide another layer of diversification to minimise the risk on the portfolio if any one share underperforms. The pie chart to the right shows the asset allocation breakdown of Russell's portfolio.

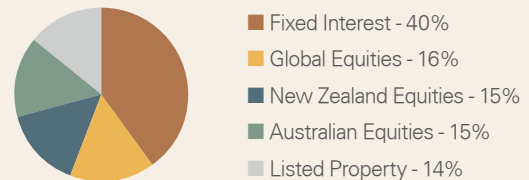
For the first 10 years of Russell's investment, his portfolio returned an average annual gross income of \$22,789, equating to an income yield of 5.00%pa. On top of this passive income, the capital (growth) value of his portfolio increased by an average 3.00%pa, a total return of 8.00%pa.

Russell decided to use the additional income each year to invest back into the farm and treat the family to an annual holiday. After spending the income gained, the value of Russell's portfolio (before tax and fees) after 10 years was \$403,175\*. If Russell had chosen to reinvest the annual income gained then the value of his portfolio would have been \$647,678\*\*.

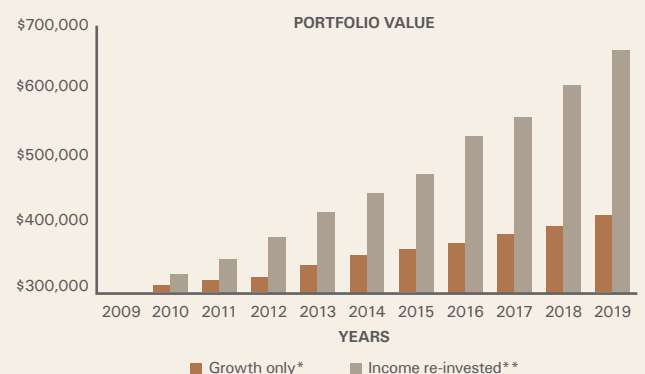
Building a balanced portfolio provided a means for Russell to build his wealth beyond the farm, and invest in a better financial future for him and his family.

With tailored advice from a professional Investment Advisor, backed by quality research and a prudent investment philosophy, investing beyond the farm does not have to be a high, or even moderate risk investment.

### Asset Allocation - Balanced Portfolio



### Russell's Portfolio Value



\* Based on the average growth return over these 10 years of 3.00%. Does not take into account tax, fees or inflation.

\*\* Based on total gross return from growth and income reinvested at an annual rate of 8.00% over the 10 year period.

Note: This case study is for illustration purposes only and does not represent any indication of future performance. It is not based on a real person or situation.

## Investing to a successful plan

**Case Study:** Bruce and June want to live a comfortable life when they retire from the farm, while also ensuring that the farm stays in the family and their children are treated equitably.

### Investment Challenge

Bruce and June Williams are Gisborne sheep and beef farmers both in their 50's, who own a 6000 stock unit farm with a valuation of \$3.6m. The farm carries debt of \$500,000 and in the current environment has a surplus of around \$100k pa after debt servicing. Like most sheep and beef farmers they are asset rich and cash poor.

Bruce and June have 2 children. Tim (23) would like to take over the farm while their daughter Georgina (21) is living and working in Auckland and has no interest in returning to the farm.

The farm has been in the family for three generations and Bruce and June would dearly love for it to remain in the family but are concerned that:

- The farm will not be able to support both them and the children when they retire.
- Tim would be burdened with too much debt should he decide to buy it.
- They need to be fair and equitable to Georgina should Tim take over the farm.

### The Williams' Growth Portfolio

After talking to an Investment Advisor the Williams' prepared a succession plan that identified both their own needs and the needs of their children.

As a family they identified the following key points:

- The ownership of the farm should remain in the family
- Tim should take over the farm but not be burdened with debt when his parents retire
- Georgina should receive her own financial kick-start
- Bruce and June will move off the farm at 65 and be financially independent of it

With the help of an Investment Advisor an investment portfolio was created to address these issues and achieve their financial goals. After assessing the Williams' long-term investment horizon and risk profile, an investment portfolio was created to maximise capital growth. This growth portfolio would hold predominantly equities with a small proportion of fixed interest and cash.

The family decided to invest 50% of the \$100,000 net surplus (\$50,000) into the Growth portfolio, and continued to put \$50,000pa into the portfolio over the next 10 years.

The value of the portfolio will be broken down when Bruce and June retire in 10 years as follows:

» 80% to Bruce and June » 20% to Georgina

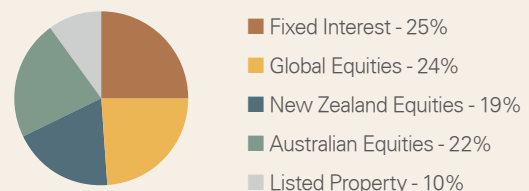
After 10 years the farm will be debt free and Tim buys a townhouse for Bruce and June to live in. Georgina can take her share from the portfolio to help pay off the mortgage of her own home and June and Bruce will retain their 80% share of the portfolio to live off the income stream in retirement.

» June and Bruce: \$683,843 » Georgina: \$170,961

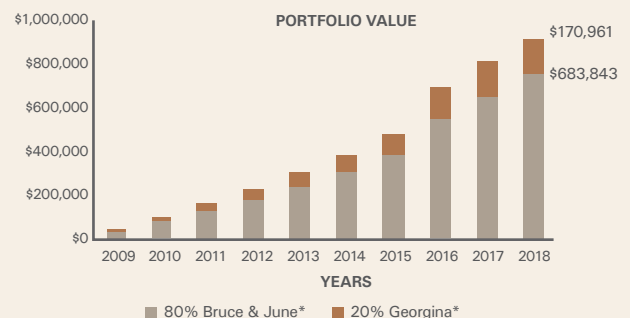
Given Tim will receive the more sizeable asset, he has agreed to continue paying his parents after they retire a substitute income for a further 10 years from the farm surplus. When they die, June and Bruce plan to leave the majority of their remaining portfolio to Georgina so that both children are treated equally.

When Bruce and June retire they will have successfully diversified their risk, provided a retirement fund for themselves and given their children a great financial kick-start.

### Asset Allocation - Growth Portfolio



### The Williams' Family Portfolio



\*Based on the average gross return over these 10 years of 8.5%. Does not take into account tax, fees or inflation.

Note: This case study is for illustration purposes only and does not represent any indication of future performance. It is not based on a real person or situation.

## Making the right decision

When you have taken stock of your situation, considered your options and decided that you should investigate your investment options beyond the farm, we can help.

### We can help

Craigs Investment Partners is one of New Zealand's leading investment firms, offering personalised investment solutions to private, corporate and institutional clients.

We are one of New Zealand's largest NZX participant investment advisory firms, with 17 branches throughout New Zealand, approximately 110 Investment Advisors and over \$5 billion in funds under management and administration. We are an accredited NZX Firm and operate under the rules of the New Zealand Exchange (NZX). All our Investment Advisors are accredited NZX Advisors or Associate Advisors.

### What do we do?

Our core business and expertise centres on investments. We are focused on helping clients meet their investment goals. Therefore we dedicate resource to market research, and have experienced and knowledgeable individuals who partner with clients in order to develop highly tailored investment solutions.

### Our services include:

- Investment Advice
- Portfolio Management
- Sharebroking and Fixed Interest
- Cash Management Accounts
- Superannuation Solutions including KiwiSaver
- **START**<sup>®</sup> - A unique investment plan
- UK Pension Transfers
- Investment Banking

### How do we do this?

Our commitment to sound and effective advice is based on two core beliefs:

- **A clear investment philosophy.**  
Our advice to clients is guided by our investment philosophy which combines the best elements of investment theory with the real-life needs and goals of our clients. Safety, quality, minimisation of costs and a buy and monitor approach to investing are some of the foundations of our philosophy
- **Advice supported by fact-based research.**  
Craigs Investment Partners research team is one of the largest in New Zealand providing extensive coverage on Australasian stocks. Complementing this we have access to global research and have extensive knowledge of the local and overseas markets. We take a disciplined, rigorous approach to research to help you build your investment strategy.

Together these factors form the basis of all our advice to you.

## What makes us different

We offer a personalised approach to creating, growing and sustaining your wealth. Clients experience the difference through:

### Personalised partnerships

We are focused on building personal relationships, not selling products.

Teamwork and 'advised investing' are central to our service philosophy. Our advisors will work with you to plan your financial future the way you want it by providing the right level of personalised advice, research and investment solutions to fit your financial and lifestyle goals.

Our personalised wealth solutions and commitment to understanding your needs enables us to tailor an investment solution that works best for you, and your specific circumstances.

### Our ownership structure

Our ownership structure and strategic alliance with the Deutsche Bank Group, means we offer our clients both international expertise combined with local market knowledge. You benefit from our personalised approach, and the resources and strength of our alliance.

We are 17 branches strong, each branch with an advisory team that live and work in their local community. Your success is our success, so we take the performance of your investments personally.

Above all, Craigs Investment Partners is about helping you to plan your financial future the way you want it to be.

### The benefits of investing with an NZX Participant firm

The New Zealand Stock Exchange (NZX) operates its market within a regulatory framework designed to maximise transparency and they continually monitor the activity of market participants (such as Craigs Investment Partners), to ensure strict compliance regulations are upheld. There are approximately 15 full trading and advising NZX Participant Firms in New Zealand, who operate within this framework.

As an NZX Participant, our business and our NZX Qualified Investment Advisors operate in accordance with the rules and regulations of the NZX. We also adhere to strict rules regarding the handling of client's assets (both funds and securities), which are held in a trustee capacity only, and therefore protects client assets.

### Your Next Step

If saving for a future beyond the farm is important to you, we can help answer your questions.

Contact your local Craigs Investment Partners branch (see overleaf), to arrange an obligation free consultation with one of our Investment Advisors. An Investment Advisor will get to know you and your needs and discuss the investment options available to help you achieve your financial goals.

**FREEPHONE:** 0800 272 442 **WEBSITE:** [www.craigsip.com](http://www.craigsip.com)

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