

THE GREATEST ALUMNI GROUP

LINCOLN UNIVERSITY

1961, 1962 AND 1963

DIPLOMA AND VFM

CANBERRA, 28 MARCH 2019

WHAT HAVE I LEARNED THAT MAY BE OF INTEREST TO YOU?

1. At least 25% of New Zealand people are poor with money - earning it, managing it, and spending it well - the implications of this are enormous and are ongoing.
2. The two key women that Mr Trump paid approximately US\$130,000 each to keep silent from affairs with him deserve to be paid more - they were underpaid, if only for the media value.
3. If you have quite a bit of money slopping around you, I can almost guarantee you will be sloppy in investing it and in spending it.
4. What is the real hub for our children learning about money management? Across the family kitchen table every day of the week.
5. Something I have learned the hard way is how you and I package "no" - anyone can say "yes" because it does not need a package, but "no" often needs a package to help lead into the next "no" decision.
6. The better politicians know the answer and they know the cost of the answer - but what they really struggle with is how to finance the cost and still get re-elected again - the key for 95% of politicians is getting re-elected.
7. In our VFM year, Terry Naish and I were the bus drivers on the field trips and Harry Garrett, Monty Cook or Bruce Ridge sat in the front with the driver - I can still remember near the end of the year, Harry Garrett saying to me that I should make sure I was involved in "lateral thinking" later in my career. Harry was not a loose talker, as you may remember, but I didn't know what he was talking about - Harry was right though, a "lateral thinking" has cropped up many times since for me.
8. After leaving Lincoln I worked for the Rural Bank, lending money to farmers - the maximum loan in 1964 was £32,500 (\$65,000) for a farm purchase. My salary was £918, a District Appraiser was on £1,456. I had decided to do a Bachelor of Commerce degree part time, which was a big mistake as it took eight years - I should have gone full time. I have trained 21 other Chartered Accountants since and always encouraged them to go full time, which they all did - in their holidays I paid them well and they worked 50 - 60 hour weeks.
9. Going part time meant I had to leave the Rural Bank after two years and then worked for Pyne Gould Guinness Limited Trust Department for six years, and was the accountant in charge in the final two years - great experience.
10. After going out on my own as a specialised farm accountant in 1972 I spent three years on farm financial trouble shooting for banks, stock firms, insurance companies and for a few individuals - again, great experience, but hard, stressful work. My late wife, Maureen (married in 1968) who died some eight years ago after 43 years of marriage, said I was going to be a cynical old man if I keep going with this trouble shooting role and, as always, she would have been right.

11. One of the key issues with the trouble shooting role was that I was a 30 year old dealing with 60 year olds or older, and you immediately had a credibility problem - time and time again I would go up a farming couple's drive and he would say, "What are you here for, boy?" I found having a cut lunch and suggesting (strongly) that they cut a lunch also and we all take the utility out to the back of the farm and all walk home (he to walk back and get the ute the next day). Always in that three hour walk back to the house I developed credibility with him - later I ran a few courses for the Rural Bank on this very issue.
12. I like tennis, cash, engineering and mathematics, and in about that order. I was very slow with girls - when I was 24 years old living at home my mother was getting concerned about my gender.
13. My mother (died 1972) was the glue in our family - Dad was practical, but poor with money - at 24 years I was lending money to Dad (died 1978). I was a very poor school student - never did any homework, got the cane every second week, but Mum and Mr Leggat, the Christchurch Boys' High School Headmaster, both kept telling me that I was a late developer - the real answer was that I was playing tennis and table tennis every day of my school life.
14. Two children: Paul, a Chartered Accountant (48), and Jane, a clinical psychologist (44). I have been a widower for some eight years now, but have a partner, Nicky, whose husband, John, died some six years ago. They were sheep and beef farmers at Kaikoura. She seems to cope with me - as we have travelled 72,000 km together in the USA and Canada in three trips and are going right around Australia on this trip from 28 March 2019 - approximately 4 - 5 weeks.
15. Yes, I am a workaholic and am still working seven days a week - there is nothing I would rather do - I have been tremendously lucky with my children, my wife, my partner, my work colleagues and farming clients. I am still playing tennis, but can lose with dignity. I spend a month overseas each year talking to farming people - I have addressed 103 seminars and conferences in Australia, and some 528 in New Zealand, all over the last 48 years. So really, I am a hopeless case, but until my work colleagues and son or daughter demand that I stop work, I don't want to stop work. I stopped playing table tennis completely in 1963 and gave tennis away for 15 years - my family had no capital so I had to get motivated and get moving.
16. Some of you will have seen the New Orleans coastline on the Bay of Mexico where to get a building consent and to get insurance you must have about a 10 - 12 foot pile - when you drive down the coastline you see these rebuilt buildings all with these 10 - 12 foot piles - there may well be thousands of these houses around the world's coastlines where these piles, perhaps more like 3 feet high, become the norm. What is the point here? The point is that local councils and insurance companies are going to have an enormous amount of power/control over this issue - nothing can be built today with insurance cover.
17. There is a Plan A and there is a Plan B. Usually a lot of time is spent on Plan A, but much, much less time on Plan B. Often, though, when you get down to it, Plan B can become very important - over my lifetime I have often found that the decision making ability for Plan B is often the more important issue.
18. When somebody leases out a vehicle of significant farm plant item for a reasonable period, you often find the rent/lease cost is quickly based on 10% of the current market value of the item - that, on the face of it, may seem sensible but in economic terms though the sensible rent/lease cost is:

The depreciation cost (almost certainly 10% -15%) (say)	12.5%
Reasonable return on the investment (say)	10.0%
Sensible/reasonable charge out (probably a minimum in many cases)	22.5%
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Certainly with low value items over the short term and often with friends or family the rent/lease figure is not significant but when the item is worth, say, \$20,000 or more, the "gift" or "subsidy" you are making is surprising.

19. You have worked your tail off to save \$1,000,000 for your retirement and you don't like the share market or fixing the drain on rental properties, but trust your bank and you bank manager:

So you invest the funds for three years at 4%, earning gross interest per year of		\$40,000
You allow for an average Income Tax cost at (say) 22.5% on the \$40,000 of	\$9,000	
You allow for an inflation loss of (say) at least 1.4% on the \$1,000,000	\$14,000	
	_____	\$23,000
Leaving a real terms net return of 1.7% on the \$1,000,000 each year		\$17,000
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What's the point here? The point is you won't make money lending it to your bank - there is a much better chance of making money by borrowing from your bank, as long as you are in that top 75% group who are capable with money management.

20. In these uncertain times, you and I need a financial buffer. How much? Probably no less than 20% as a minimum of your household gross income. A hip operation is now close to \$20,000 - within 10 years most streets in the USA will have a household that will have a dialysis machine.
21. Facts are crucial.
Facts are interesting.
Facts are part of decision making.
Facts solve arguments.
Facts are unarguable.
Facts are history.
Facts stand the test of time.

Yes, all absolutely correct, but people actually vote on anything based on their emotions on the day.

22. In today's economy you can't wait for opportunities to come across your bow - you need to swim out.
23. In my three full-time trouble shooting years I learned that following the noise of the farmers, their banker, their stock agent, and their solicitor was interesting and certainly helped, but I learned to follow the money because that was invariably where the problem really was - again, almost invariably lack of it.
24. Your and my integrity is not for sale at any price - a hand shake today still works if you are old enough, but everything else bar nothing today needs to be clearly down on paper and signed off, dated and witnessed.
25. I learned early on that there were some people I knew well enough to borrow from, but not well enough to lend to.
26. I hated school - if it was not for my mother, tennis, and table tennis, I would never have lasted beyond 15 years of age - I did, though, understand the power of compound interest at a very young age – probably when I was about 12 years old, I think. Compound interest is the eighth wonder of the world.
27. A well-constructed contract or agreement I found very often was in the bottom drawer of both parties, and then never saw the light of day.
28. I learned early on to lose tennis and table tennis games with dignity - this point, though, very much applies out in the real world. Don't throw mud when you lose – but don't forget either.
29. I have always felt that New Zealand employers are, to a significant extent, unsung heroes - time and time again I have struck a situation where I think "why do they bother?" - they are often unappreciated in our society. On the other hand, I also learned very early on that you cannot do all the work yourself.
30. Some people spend much of their life working in the business and our apprenticeships are essential regarding this point - but you won't make any real business progress until you are spending much of your time working on the business - some people are just busy, busy, busy, but a much smaller percentage are constantly looking at the business from a helicopter view. Governments and politicians should do the same, but many don't like the height and don't like the view and many could never actually run a business.
31. There is a tendency to underpay the top performers in the business and overpay the lesser performers in the business - if you don't think like this, then think about the margin between them - in your business is a margin of 10% enough? Recently I analysed a big New Zealand company and the margin the Director told me was around 12% - 15%, but they admitted it was far too low.
32. The New Zealand financial planning industry suggests that when you retire at, say, 65 years of age, that you need to have a retirement income of 70% of what you were earning up until that point - certainly the New Zealand Universal Superannuation Scheme will provide a couple with NZ\$35,000 (before tax and it is not asset tested or means tested) which helps enormously, but many New Zealand people are going to have to work well beyond 65 year of age.

33. Fresh water is looking like the "new oil". The world is, though, awash with salt - a split up of the world's fresh water:

Lakes and river storage	0.3%	(20% of this is in the great lakes in the USA)
Groundwater	30.8%	
Glaciers and permanent snow cover	68.9%	
Total	<u>100.0%</u>	
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The average New Zealand rainfall is around 78 inches, with the world average being around 31 inches. New Zealand is water rich - around one-third of the world is presently water stressed. It is estimated that this figure will be two-thirds by 2030 - 2040.

There will be wars over water, probably in India, Africa, and Asia. Worldwide, agriculture uses around 70% of the available fresh water - 22% is used in industry, and 8% is used in households.

There are around 15,500 desalination plants around the world, but at present the electricity cost to extract the salt is very expensive - which country knows most about water management? Israel.

Worldwide, water tables are declining steadily - I have had a good look at fresh water management in New Zealand, the United Kingdom, Australia and the United States of America.

The long term trend towards cheaper food worldwide will be reversed when resource constraints kick in regarding:

- Shortages of arable land.
- Shortages of fresh water.
- Shortages of fossil fuels.
- Shortages of phosphate supplies.

New Zealand, though, is probably as well off for fresh water as any country in the world.

34. Some things get away on governments - the New Zealand total student debt is now around NZ\$15,300,000,000 (NZ\$15.3 billion). The USA total student debt is US\$1,560,000,000,000 (US\$1.56 trillion).

The average present USA student debt per student is US\$34,660, which would represent around \$48,500 in New Zealand dollars. The average present New Zealand Student Loan is around \$21,000. The USA student debt is 102 times bigger than the New Zealand student debt (in New Zealand dollars). The USA population is around 68 times higher than the New Zealand population - their education costs are higher. This student debt situation is going to come to a head - both countries.

35. As parents with children we get past early education costs, and then we get past tertiary education costs, and then we have to get past housing assistance costs, and in some cases education costs with grandchildren - many rural families now need two incomes, as does the USA. On top of that, the longevity figures are heading for men getting to around 87 years of age, and women around 93 years of age - keep breathing. Work on one of you getting to 93 years of age - if you get beyond 93 some of those loans to children may become interest bearing.

36. In New Zealand the growth in health care costs is outstripping our ability to pay. Health costs have been the highest average cost increase in our accounting practice over the last ten years - the average increase has been between 10%-14% a year - higher than any other particular cost. General insurance has also increased steadily. The rule of "72" will tell us that anything that increased by, say, 12% a year compound will involve a doubling of the total cost every six years - the rule of "72" should be on the blackboard/whiteboard in every business office.

37. Are you benefitting from inflation gains? Around 62% of New Zealand people own their own home - the average New Zealand house has a current value of \$560,000 - in Auckland it is nearer \$862,000. The 'powers that be' are still coming to terms with the concept of all New Zealanders owning their own home - it is a good idea, but it is not going to happen, there will always be a group of probably 30% - 35% that will be long-term renters. Many New Zealanders don't like this thought, but we need to face reality and deal with it by encouraging the government and investors to provide a rental stock and also provide some long-term security and conditions for renters.

38. Don't lose your sense of humour - it is a crucial part of you. People with a poor sense of humour are much harder to live with and do business with - in my trouble shooting years these people were a real pain.

39. If you are not getting job satisfaction then it will be your fault - don't hope for a figure higher than 90% - people will always wreck the other 10%.
40. Quite a number of New Zealand men, not only farmers, have what I call 'iron' disease - a love for cars, boats, big equipment, motors, lots of wheels and horsepower. Over a man's lifetime, this is a big money cost - but maybe it is no worse than an avid lifetime fisherman who on the same basis should probably have brought a fish shop early on. Women don't get iron disease but they get house renovation disease, landscaping disease and overseas travel disease - enough said - sometimes the video for overseas travel can delay the trip itself for a useful time.
41. Winston Churchill said if you are going through hell then keep going - what a marvellous saying, and so true. At a low part of your business or personal cycle, you certainly must bounce back - no dead cat bounces.
42. I feel life's key priorities are:
- Breathing
 - Profitability
 - Family
 - Cashflow
 - Thinking
- } Some of you will want to alter the sequence here.
43. Never be embarrassed with your high business net profit - but tell nobody - pillow talk is deep enough.
44. There is no halfway house with top advice - don't even consider any other approach - it often seems that to be a good marriage counsellor you need to be on your second marriage - ignore this remark.
45. Sometimes bold moves are required and you need to seize the moment - you think about those key moves you made, maybe it was getting married - maybe it was avoiding it.
46. Some people never really understand about "free cash" because they have never had it for long. Every year you need to think about and plan for it - in today's uncertain and volatile world, each of us needs a financial emergency buffer of at least 20% of the household income at any point in time. I read recently where it is estimated that some 40% of American people (total population 325 million) would have a major problem in finding \$1,000 for something important that came out of the woodwork at them which is payable that week.
47. Face the hard decisions early - delegate significant problem areas to the person with the most skin in the game, which will be you - losses manage themselves very well, whereas profits never do.
48. Production is vanity and profit is sanity - don't gloss over this, because 50% of businessmen do - the bottom 50%.
49. Thinking is hard work, which is why so few people do it - the ability to follow through on things, plans, ideas, agreement is a real attribute - you think of the people you have dealt with who just never follow through - don't get so busy, busy, busy that you don't follow through. When you make promises, follow through, but push the timing of the promise well forward at the outset.
50. Having "grit" is a must - whether dealing with farming, business, family, people and friends you and I need "grit" and a little bit of "mean" as well.

I am sorry if I have bored you with some of this, but I haven't seen most of you for some 50 years - in any event, once you have skimmed through it, put a copy under each of your grandchildren's pillows with an unsigned \$50 cheque only signed once they have read the notes.



Pita Alexander is an accountancy and agribusiness director at Alexanders.
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PS: Never forget that your best long term employee will probably be inflation.