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Inflation threat 'gorilla in the room'

ROMY UDANGA Last updated 05:00 26/04/2011

The expected rise in inflation in coming months should be a catalyst for the 1.7 million KiwiSaver members to review the type of funds they have invested in, say a couple of scheme providers.

Tower Investments CEO Sam Stubbs and New Zealand Funds Management principal Michael Lang say higher inflation is coming and they advocate KiwiSaver members seek the help of a professional financial adviser before it is too late.

Inflation is the "100-pound gorilla in the room", Stubbs says, that will impact the investment markets in the next 12 months.

And Lang says the nature of inflation is that "it sneaks up on you".

"By the time it has arrived it will have momentum, and at that point it will be even more difficult to cost-effectively protect against it."

In inflationary times a cash strategy will lead to short-term success, followed by long-term disaster, Lang says, with the vast majority of New Zealanders never enjoying the interest rate they see advertised in bank windows.

"The sign might say 4.5 per cent per annum but by the time the Government has finished taxing your gains, investors on a 30 per cent PIE tax rate have grown their capital by approximately 3 per cent.

"That is not enough to keep up with food price inflation. The higher the rate of inflation, the worse this equation gets," Lang says.

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