ALLIOTT NZ

Winter 2021 Newsletter

Alliott NZ Chartered Accountants & Business Advisors

Message from Greg and Vanessa

Another Budget has come and gone. With the majority of business measures announced prior to the Budget, there was very little tax to report on 20 May. The key announcements were:

- $57.3bn investment in infrastructure over the next 5 years
- $4.7bn health spending, including more funding for PHARMAC
- $3.8bn investment in the Housing Acceleration Fund
- $3.3bn welfare spending
- $739m funding package for Māori and Pasifika communities, and
- $1.3bn funding initiative for Future of Rail

If you would like to review any pre-Budget business initiatives, please visit our blog or call our team on 09 520 9200.

In this newsletter:

- Cloud business bookkeeping
- Google pulling the plug on Cookies
- Xero pricing changes
- Bitcoin crash wakeup call
- The weak points of indexing

Please contact the Alliotts team in Auckland or email enquiries@alliott.co.nz to discuss these and any other topics with us.

Greg Millar & Vanessa Williams

Wake up to cloud bookkeeping

Need to be better organised with your bookkeeping in FY22? Our cloud specialists work with businesses across a diverse range of industries to provide professional and cost-effective bookkeeping. Offering a full-service admin function so you don't have to have your own bookkeepers on the ground, to cover periods of absence or more regularly, contact us to find out more.

Google pulling the plug on Cookies

Why is it so important?

Cookies have been central to good digital marketing strategy.

It has been a source for reaching target audiences, engaging them and then converting to business goals.

Now Google is pulling the plug on Cookies

Let's start with a definition:

> *An HTTP **cookie** (also called web **cookie**, Internet **cookie**, browser **cookie**, or simply **cookie**) is a small piece of data stored on the user's computer by the web browser while browsing a website.*

Businesses will need to understand how they have a relationship with their current and potential customers in the future. Where there was a reliance on tech platforms to provide this, it will now be removed and businesses will need to look at developing first-party data.

Currently, marketers have cookies at the core of their digital plans. Things like personalisation, audience targeting and re-targeting, tracking and measurement rely on third-party cookies. The third-party Cookie's greatest benefit is its ability to remember information and create non-relevant personalised experiences for consumers. The loss of this could render a brand to become increasingly absent from its targeted audience.

Moving forward data ownership, transparent use of data and consent management will become the foundation of any marketing strategy.

Why should we care?

As third-party Cookies deprecate, the obvious changes that an unprepared business will see in its bottom line and risk exposure will be reflected directly in areas that fall under the responsibility of marketing.

Business needs to care about this current Cookie conversation largely to ensure they are on top of measurement and attribution, in order to maintain or create a competitive advantage and to continue to effectively be able to deliver against their businesses' expectations – revenue, growth and efficiency of spend.

The changes to the Cookie environment will also significantly impact marketing spend. It is better to understand how these changes can help reduce marketing spend wastage. The excuse that there has been an 'algorithm change' no longer flies.

Being able to anticipate the changes will let businesses take control in managing the impact. Cookies have been a tried and tested tool for many years, whereby the new models (Floc, Fledge, iOs14 etc) are not yet. Businesses need to be across these new options and develop an understanding to ensure agility in order to move when things change. The best way to do that is to be educated in the environment, issues and options. The environments (data, loyalty, privacy, targeted marketing, etc) at their core won't change, but the way in which marketers achieve their goals within the environment will.

Consumers are also becoming savvier regarding this environment. Customers are asking more questions about how their data is being used, where they are being targeted and how different legislation will affect the collection of their personal information. The more questions being asked, the more the regulators get involved and the more change businesses will face.

What should businesses do?

Look internally at your own digital marketing strategies, your path forward, being confident that as your reliance models change, you remain compliant with regulatory changes. Have conversations with agencies and partners now.

Also, look outside your business; so much of what is happening in the regulatory space impacts the way we do things. Don't be left behind. Understand the various inquiry findings, lean into industry conversations and understand the implications of changes to government regulation that are going to impact our privacy policies.

Most of all educate yourself and your team. If you're not on top of all of this, your business will be impacted.

Finally...

Third-party cookies have been such a crutch. Now that they're going away, businesses that need the push will be forced to understand the value of their first-party data, and structure their data in more usable ways.

Without Cookies, ad space should cost less. Bonus! Of course, there will be costs associated with a new Cookie-free approach that combines your data with data matching services, third-party data sets and targeting methods to accomplish what Cookies used to achieve. Ensure you've got the technology in place to interrogate and analyse the data, and that you're working with people who know the right questions to ask to draw insights from it.

It's imperative to get on the front foot now. Learn how to provide appropriate transparency into your practices and pivot your business to be prepared for regulatory changes as soon as they come.

Xero pricing changes in NZ

From 23 September 2021, the monthly retail price of Xero Business Edition plans in NZ is changing.

- Starter plans increase by $1.50
- Standard plans increase by $2
- Premium plans increase by $3

- Non-GST Cashbook plans increase by $1
- GST Cashbook plans increase by $2

If you have a current Xero discount or promo code, it will continue to be applied to the new pricing, until the discount or code expires. All pricing is in NZD and excludes GST.

Got a question about making the most of technology in your business? Get in touch with our Xero specialists who will be able to assist you with all your cloud accounting queries on 09 520 9200.

Alliott NZ Chartered Accountants & Business Advisors are Platinum Xero Partners in Auckland.

Bitcoin crash wakeup call

Cryptocurrency including Bitcoin has "tanked" over the past few weeks after Elon Musk voiced his concerns. This has resulted in a wake-up call for risk-loving Kiwi investors according to an article on stuff.co.nz.

Crypto has become part of the mainstream investment conversation and NZ regulators, including the Reserve Bank, are warning "buyer beware" as regulation is limited.

The Financial Markets Authority, while regulating businesses operating in that sector does not have any oversight of trading, so caution is urged.

There can also be tax consequences for holding or trading crypto assets and currencies, like Bitcoin, which you should be aware of. If you are unsure of what these are then please feel free to contact us at Alliott NZ Chartered Accountants in Auckland.

- *Read our Chinese version of this article »*
- *Read more about how Alliott NZ Chartered Accountants assists Chinese business owners »*

Tesla's Rise Reveals Weak Points of Indexing

Index additions and deletions are typically a routine affair. But the recent announcement by S&P that Tesla would be added to the widely tracked S&P 500 Index stirred up quite a lot of attention.

No surprise, given that Tesla is the largest company to ever join the index and, at the time of its addition on December 18, 2020, became the sixth-largest company in the S&P 500. On news of the announcement on November 16, Tesla's stock price jumped 8.2% from $408.09 to $441.61. Tesla then continued to post strong returns, closing December 18 up 70.3% since the announcement. That made the 2.3% return to the S&P 500 Index[1] over that period look meagre by comparison.

While Tesla's stock price wowed investors ahead of the company's addition to the S&P 500, the pattern quickly reversed: the stock climbed 13.9% over the five days ending with its index addition on December 18 yet slumped 4.8% over the subsequent week.[2]

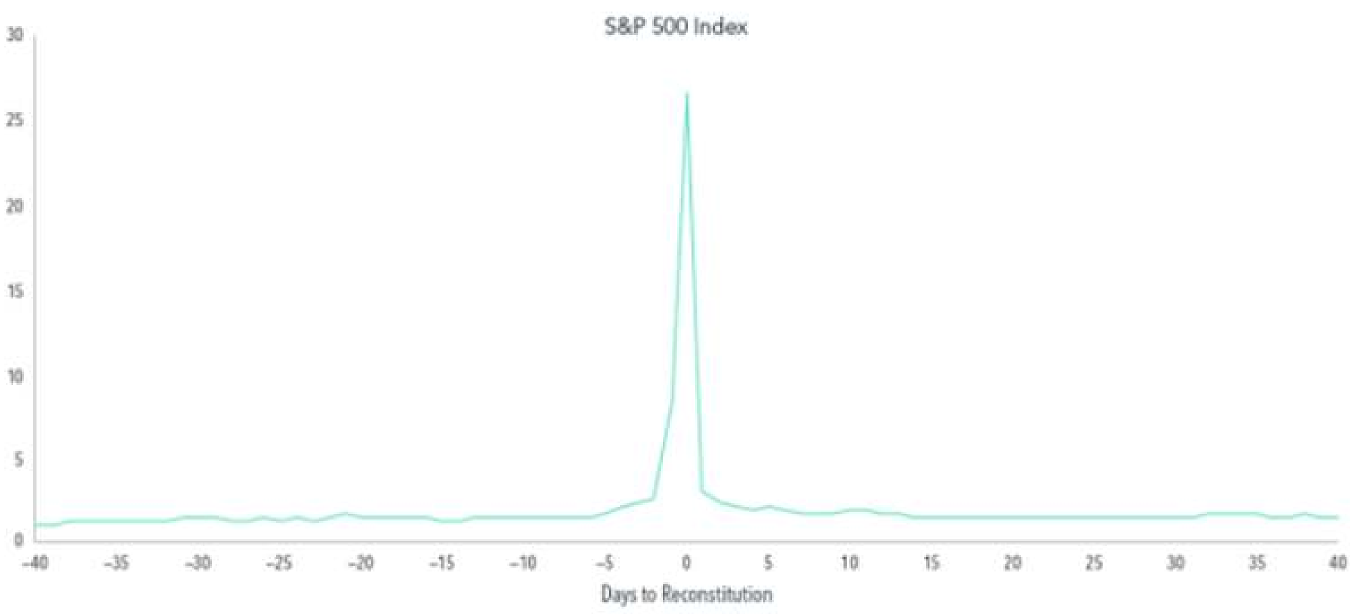
Indices generally undergo regular reconstitution events during which securities are added or deleted. Index funds, constrained by the objective of maintaining low tracking error versus the index, generally have to mirror these changes by purchasing and selling securities based on the revised index weights. With over $4.6 trillion in assets tracking the S&P 500 as of year-end 2019, that implies many index funds sought to buy Tesla stock on the day it was officially added to the index.[3]

Index funds are often promoted as a good way to get passive exposure to the stock market as a whole. However, we suggest that being completely passive is not necessarily a good thing.

For passively managed index funds, their lack of flexibility can come at a cost.

One way to assess this potential cost is to examine the extent to which index reconstitution events are associated with unusually high trading volume. Abnormally high trading volume is an indication that demanding immediacy to trade in such stocks in the same direction may be costly. Dimensional Fund Advisers recently researched this topic and they illustrate such abnormal trading volume in Exhibit 1, which compares trading volume in stocks added to or deleted from the S&P 500 on reconstitution day with trading volume in the same stock on days before and after the reconstitution day. Dimensional find that trading volume for rebalanced stocks spikes more than 25 times relative to volume over the prior 40 days.

Exhibit 1



Demanding such unusually large trade volume can result in price pressure and invariably leads to index funds buying stocks at inflated prices.

The reconstitution effect is one example showing the lack of flexibility of an index approach, which can leave returns on the table.

Whilst a passive investment approach that aims to hold the market portfolio can be a good, diversified way for retail investors to get exposure to shares, it's always important to understand the detail and when digging a bit deeper we conclude that an index fund may not necessarily be the most efficient way of achieving this objective.

We believe a better approach is using a passive fund that aims to buy all stocks available, not just those in an index, and has flexibility at the point of trade execution across stocks and quantity. Such an approach allows investors to incorporate information about liquidity and trading costs as well as avoid the cost of demanding immediacy from the market. A daily investment process also allows for the incorporation of short-term information about expected returns that is relevant over days or months, such as momentum and information from securities lending fees. Such short-term information cannot be incorporated efficiently if rebalancing happens only once or twice per year. In addition, daily portfolio management can further enhance investment outcomes by maintaining a consistent and accurate focus on the desired long-term drivers of expected returns and continuously balancing trade-offs between premiums, costs, and diversification.

Michael Beech CFA is an experienced investment specialist and is responsible for providing investment advice as well as managing the investment portfolios for many Alliotts clients. Click here to read more or call Alliotts in Auckland on 09 520 9200.

REFERENCES

1. *S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.*
2. *Stock return over the week prior to index addition is from Friday, December 14, 2020, to Friday, December 18, 2020. Stock return over the following week is from Friday, December 18, to Thursday, December 24. Data are from Bloomberg LP, compiled by Dimensional.*
3. *Total assets indexed to S&P indices is from Annual Survey of Assets published by S&P Dow Jones Indices, as of December 31, 2019.*

Alliott Global Alliance expands to 80 countries

Alliott Global Alliance ('AGA') has reached another milestone in its development by increasing the international coverage it can offer to clients and member firms to 80 countries.

This announcement comes on the heels of law firm Peña Mancero Abogados' recent admission to the alliance in Bogota, Colombia.

Established in 1979, AGA employs a different business model to the larger accounting and law firms and international networks- its 195 member firms in 235 cities remain completely autonomous but collaborate to provide the depth of compliance and advisory expertise and geographic reach needed by organizations and high net worth individuals with multi-jurisdictional business interests. Accounting and law members work together across the world to deliver to these clients the specialist, multidisciplinary solutions which often intersect across the tax and legal challenges inherent in the typical business lifecycle.

Giles Brake, COO of Alliott Global Alliance, comments: "Achieving coverage in 80 countries is key to ensuring clients have convenient access to niche technical and industry-specific professional services expertise in as many jurisdictions as possible. Clients value the efficient, hands-on approach provided by AGA member firms. Growing client demand is fuelling our expansion into more locations across the world.

"Our expansion to 16 new countries since the start of 2020 also demonstrates that AGA is viewed by independent, entrepreneurial-led professional firms as a solution that increases their capacity to deliver the increasingly specialist services needed by clients. Firms value the new opportunities to win business and develop their practices internationally through access to the global resource base we offer."

AGA has expanded rapidly during the pandemic, adding 11 new member firms to its alliance in 2021 in all world regions. AGA remains on track to meet its target of expansion to 250 member firms by 2025.

Colin Farmer, Worldwide Chair of AGA, adds: "We are seeing entrepreneurial, medium-sized clients continuing to seek investment opportunities in new geographic markets. This type of client wants to work with equally entrepreneurial, locally based professional advisors, but need access to deeper expertise within a region or globally. We are developing the scale and resources to bridge the gap for both parties. Our focus will therefore remain on developing a truly global solution for such clients and the professional services firms who advise them."

About Alliott NZ

Alliott Group NZ Ltd are Chartered Accountants and business advisers in Auckland. The firm is recognised as one of New Zealand's Top 30 accounting firms at the forefront of the accounting industry in a variety of areas including pro bono work, gender diversity and innovation.

About Alliott Global

Founded in 1979, and with some 193 member firms in 80 countries, Alliott Global Alliance is an award-winning international alliance of independent accounting and law firms that provide access to a larger resource base on an international basis to develop reputation, visibility and new business. Alliott Global Alliance provides services to help its member firms position themselves as the 'go-to' firms in their local markets for businesses and private individuals with multi-market business interests.

To find out more about how Alliott NZ in Auckland can provide professional advisory support to clients doing business in different markets around the world,
please contact us on +64 9 520 9200 or visit alliott.co.nz.

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Alliott NZ is a member of the Alliott Global Alliance

We work hard to achieve the goals of our clients, but we're still a small business that's very receptive to your ideas and feedback.

We'd love to know your views on what it's like to work with Alliott NZ: facebook.com/alliottnz or Google Review.

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