

In The Know.....

January 2010 Newsletter

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Economy

2010 Economic Outlook

Australia has defied the rest of the developed world and is looking at its 19th consecutive year of positive economic growth.

Most economists are predicting that the economy will continue to grow this year and will fair much better than other economies.

Gross Domestic Production (GDP) will be boosted by the planned Government infrastructure spending and continued export demand for our raw materials from the likes of China and the other major growth partner; India. Plus, the housing stimulus issued for first home buyers should also assist in improving the GDP numbers, both on the construction front and also the follow on effect of

spending on household consumables.

Consumer sentiment is still holding up despite the last three rate rises (and the higher increases by some lenders above the RBA cash rate increase).

Sentiment is an important measure of consumer's planned forward behaviour so it needs to be watched closely (as it is by the RBA) to ensure we don't overdo the tightening cash cycle and stop the current momentum.

The strong Aussie Dollar will keep the price of our 'consumer' imports lower, enticing more consumer spending on items, that they don't really need, but just want!

On the negative side of the overall outlook is the impact that major economies have on us and the overall global growth picture. The European economies are still very much lost in the woods and the US is looking to almost having emerge from them, but unless they have further directions, they might still struggle to find their way home in 2010.

On the property front; commentators are expecting continued growth in values as demand is outstripping supply, but growth as strong as what we have seen in '09 is unsustainable, so steady growth is more desirable, but opportunities for outperforming results are still very achievable— Ben Kingsley

Tax

Purpose of Funds

When it comes to property investing and releasing equity from a property, the ATO does not care as to what asset secured the loan funds, if the funds are going to be used exclusively for the purchase of an investment property. The funds will be tax deductible. An example of this is if you release equity from your existing home, say \$200,000 and those funds

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from the loan you got from the bank are going to be used for the purchase of an investment property, the ATO is happy for these funds to be tax deductible, as it is clear to the ATO that the loan's purpose was clearly that of being used to

purchase an investment property. The loan will remain completely 100% tax deductible as long as the funds remain exclusively aligned the property investment. So the purpose of the loan funds are what the ATO is interested in, in terms of whether they are deductible or not. *Seek advice for a registered Tax Agent for further assistance.*

Market

Measures:

Capital Growth Jan—Nov 09

Sydney— \$475,000
Overall: Up 11.6%
Houses: Up 11.88%
Units: Up 11.00%

Melb.— \$450,000
Overall: Up 17.0%
Houses: Up 16.50%
Units: Up 18.51%

Bris.—\$426,750
Overall: Up 6.9%
Houses: Up 6.31%
Units: Up 10.02%

Canberra—\$461,500
Overall: Up 10.9%
Houses: Up 11.14%
Units: Up 9.97%

Perth— \$460,000
Overall: Up 6.5%
Houses: Up 5.94%
Units: Up 8.55%

(Source RPdata.com)

Time to add to the Portfolio?

2009 certainly was a better year for property than 2008, with some cities such as Melbourne recording high teen's in capital growth for the year. Sure this is something every property investor gets excited about and you should, as your wealth base should have grown from your property investment over this period.

Given this has been the case and the fact that more research houses (who exclusively research property as their core business) are commenting that they see property values continuing to grow into 2010, is it time to jump on board and add to you portfolio?

A decision of this financial magnitude should not be undertaken on a whim or because others are jumping in again so why don't we?

I've always been an advocate for buying your next investment property when you can afford it, and not just because everyone else is getting on-board.

Buying investment properties to build wealth is very much a long term venture. Some say over 7 years is their idea of long term, my idea of long term is 20 to 30 years or indefinitely, as the rental income is going to be just as important in retirement as the growing value, as it replaces the

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income you currently earn through work commitments.

Now is certainly the time to assess the value of your existing property, plus the value of your home to establish the level of equity you have available to access and use to assist in securing your next investment property.

In addition to this you will need to understand the level of income and outgoings you currently have to establish what surplus level of income you have (including the rental income of the new purchase).

This will enable you to understand the borrowing power you have available to you so you can determine the purchasing power you hold.

Remembering that you must also ensure you have allocated some income for provisioning for items that will require access to some of your cash savings during the period that you are holding your investment. Examples of this may include, school fees, new car, holidays. They are items that usually have a big impact on your cash flows. The equity you have in property, may

also be able to be used to assist in managing your cash flow needs and future provisioning, as your go about building further wealth.

Once you have established you are in a position to move forward, it's best to have someone review these numbers, who has experience in this area, such as your accountant and finance broker. They will be able to double check your numbers and advise you on things such as lenders interest rates and taxation matters in regards to the best loan structuring required and in which vehicle you should purchase the property in (i.e. Personal names, trust etc).

There is no doubt there are going to be great investment opportunities in the market place in 2010, but you need to act wisely and get professional assistance to ensure you maximise your return on your investments over the long term.

Professional advice will most likely be the difference between an 'OK' outcome versus an 'Outperform' outcome. And over the long term, that could amount to hundreds of thousands of dollars in net wealth—gained or lost!

Ben Kingsley Founder
Empower Wealth

Upcoming Educational Workshops:

eSearch Superior Property
Wednesday 27th January

A B C of Property Investing
Tuesday 2nd February

Introduction to Property Investing
Wednesday 10th February

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"A dollar spent is a dollar lost, a dollar invested in another dollar gained over time—thanks to the power of compound"

Ben Kingsley

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