



THE ADVISORY – FINANCE & MONEY MATTERS

April 2011

This Month's Topics:

- Cash Rate remains on hold
- Finance Talk – Exit Fees Banned – It's official!
- Money & Wealth Talk – Money Planning (\$6,000 a month you could be missing out on!)
 - SMSF Seminar – TONIGHT IN MELB CBD
 - Director's Comment: Property Bubble?

No Move on Cash Rate

Commentary & Opinion of Ben Kingsley - founder of Empower Wealth

For the **X** month in a row the cash rate has remained on hold as the RBA looks for further indications that the economy is continuing to grow following the recent major flood and cyclone disasters that hit our shores earlier this year.

If the economy rebounds quickly and the insurance works provide inflationary pressures on materials and labour, plus we combine what's happening in Libya on oil prices and the flow on costs at the bowlers then the reality will be that the RBA will need to take a further look at tightening up cash in the economy by lifting rates higher. In my personal view we might see a rise around the 0.25 to 0.5% range over the next 6 to 12 months.

However, if we continue to see softening lending approvals, combined with flat housing prices and most importantly softer consumer spending then I think our growth numbers in GDP terms will be a little subdued to what most might be forecasting. The other variable that I see being a real player, given its forecasted cost increase on the average household is 'household energy bills', which is some quarters is being tipped to increase by some 60% over the next few years.....ouch. These types of increases have real impacts on disposable incomes which then flow into lower consumer spending, which is good news from an interest rates perspective.

Right now there is no clear direction in my eyes as to which argument is going to win the day. Yet if I was a betting man I'm still one who believes we are in a tightening cycle for now, but I don't subscribe to the rhetoric that it's got a long way to go up from here. Time will be the judge.

Finance Talk – Exit Fee Passed as Legislation

The legislation to ban Exit Fees has been passed into law on 23rd March, by the Federal Government. These new laws will see Exit Fees, including

Deferred Establishment Fees banned from 1 July. The new regulations are:

Regulation 79A

The new Regulation 79A provides that a credit fee or charge is prohibited if:

- *it is provided for in a credit contract entered into on or after 1 July 2011; and*
- *it is to be paid on or in relation to the termination of the credit contract; and*
- *any of the amount of credit provided under the credit contract is secured over residential property.*

The definition of 'home loan' means that the regulation will apply to residential investment loans, not just traditional owner occupied loans.

The exit fee ban is not limited to deferred establishment fees but extends to any other type of fee payable on loan termination other than fixed rate break costs and discharge administration fees.

The ban does not apply to the exit fees listed below:

- *a break fee that relates to early repayment of a fixed rate component of the loan;*
- *a discharge fee which reimburses the credit provider for the reasonable administrative costs of terminating the credit contract;*
- *exit fees in a credit contract not secured by residential property;*
- *exit fees in a credit contract secured by residential property that is not regulated by the National Credit Code;*
- *exit fees such as deferred establishment fees, early repayment fees, and LMI recoupment fees contained in credit contracts entered into prior to 1 July 2011.*

Source: www.mullinslaw.com.au

So is this a good thing? Time will tell us if this will help the average borrower, but we are a little more pessimistic in our view as we believe these types of fees helped give some of the smaller lenders, like Credit Union's and Building Societies the ability to re-coup some costs if a borrower left them after only a short period of time. It's well documented that these second tier and third tier lenders (securitised lenders) cannot compete on funding costs that the big banks are able to source, so they work on lower margins, and losing customers to more competitive lending from the big guys was offset by recouping some of their costs if a borrower didn't stick around.

You'll also notice that discharge fees remain, so expect all lenders discharge fees to increase as a means of lenders claiming they are redeeming ever increasing costs. So will it be the case that all lenders will find other means to work these lost fees into their offerings?

One thing is for sure, competition continues to heat up in the mortgage space and lower numbers of new loans are currently being written and this coupled with improving (cheaper) cost of funding flowing through to lenders, will see very competitive offerings on the table. Once again the very best way to shop these offerings is to use a Mortgage Broker, who spends their entire day hunting down great offers for their clients, and all at no cost to you. Better yet, our existing customers are also big winners here as we conduct annual reviews, so they know they are getting us to do all the legwork for them every year as we work for our customers not the lenders.

If you would like us to compare your lending options either against your current loan or if you are just starting out and want to find out what options are available to you, simply call our office and request a FREE one hour appointment with one of our Finance Advisor's. All you stand to lose is one hour of your time, however the upside could be much greater if we can help you get a better deal. Call today on 03 9326 8900 or email enquiries@empowerwealth.com.au and request a free home loan and wealth assessment check today.

Money & Wealth Talk – Money Planning – When should you start?

One of the decisions that will typically flow from undertaking Money Planning is a decision to get your money and your equity working for you, generally through some form of investment. One of the most important factors in the returns to be achieved from investing is time. No matter what investment you choose, the longer you can hold it, the more it can grow in value. Logically then, the earlier you start investing, the better the outcome that can be achieved by a given date.

At Empower Wealth, we have long emphasised the need to start investing as early as possible, as every day you delay means one day less that your investments have to grow in value. One day might not sound like much, but consider this :

If you were to purchase a \$500,000 investment which was growing in value at 7.2% per year compounding, then after ten years that investment would be worth \$1,002,000. If, however, you had been able to buy that investment one year earlier, it would have eleven years to grow in value, and it would be worth \$1,074,000 at the end of that time. That's a total difference of \$72,000, which represents an extra \$200 for each day earlier that the investment was started. Another way of looking at it is that delaying an investment could be costing \$200 a day, \$1,400 a week, or \$6,000 a month.

I would certainly be very pleased if someone offered me an extra \$6,000 a month for doing something I was planning to do anyway, but for doing it now instead of waiting until I had run out of excuses to delay.

It is clear from this example that if you delay investing by one year, you will miss out on one year's growth in the value of the asset. But the important thing to realise is that is not the first year's growth that you'll miss out on; it is the last year's growth, which in this simple example is worth twice as much, because of the nature of compound growth.

So if Money Planning is so important (as we explained in our last Newsletter, which is still available at <http://www.empowerwealth.com.au/files/2056524/uploaded/Feb%2011%20Newsletter.pdf>), and if starting early is the key to achieving a better outcome, why isn't everyone doing it?

A study conducted late last year by AXA¹ revealed that "... most Australians waited until they hit 55 to start retirement planning; which in many cases is too late." (Although the article focused on Money Planning for Retirement, rather than the Empower Wealth approach of Money Planning for all your future plans, the observations are still very relevant.) The survey found that "... 73 per cent per cent of 55-60 year olds said they had started preparing for retirement but only 33 per cent of 31-36 year old Australians had started to prepare."

AXA's General Manager of Sales and Marketing; Adrian Emery said questions about retirement were a bit like the elephant in the room. Everyone knows it's there; they just want to pretend it doesn't exist. "It's a bit like going to a doctor for a health check. Some people would simply rather not know. The scale of retirement income is the great elephant in the room that no-one wants to talk about but which is going to make its presence known very quickly".

So if you're ready to acknowledge the presence of the elephant, and start thinking about how you are going to fund your lifestyle for the rest of your life, your need to get started with some Money Planning. We'll talk more about how to get started in future articles, but in the meantime, you are welcome to book a free one hour consultation with Empower Wealth, where we can demonstrate the range of tools we have developed to assist with this vital task. To find out more about the Money Planning services offered by Empower Wealth, please visit us at <http://www.empowerwealth.com.au/privateclient>.

P.S. As I think you will have worked out, the answer to the question posed in the title of this article is YESTERDAY! Ok so if not yesterday then why not today?

Michael Pope – Money & Wealth Analyst

¹“ Australians avoiding the retirement ‘elephant’ in the room” - AXA Media Centre

Self Managed Super Fund Seminar – **TONIGHT MELB CBD from 6pm til 8.30pm**

We all have Superannuation. It’s the Government’s way of trying to force us to save so they don’t have to support us in our retirement through the pension. Problem is the past few years have seen some pretty big impacts on the performance and returns to our funds. This is leading to more and more people looking at taking greater control of their own future retirement planning. Furthermore changes to legislation have made borrowing money to increase the amount of capital invested via Super a real possibility. This move has also led to more people looking to buy property in their own super funds. Tonight’s event explores this option in detail and how Empower Wealth are helping our clients potentially achieve better tax results and greater wealth outcomes.

If you would like to learn more about this event – as we still have plenty of seats available, then follow this link to our website and register to attend: www.empowerwealth.com.au/smsf

We hope to see you there as your super is very much a part of your future and the standard of living and quality of life you are going to have in retirement, yet if you don’t act soon enough, then you may miss out of achieving financial independence, so start learning now!



Telstra Corporate Centre – Venue for SMSF Event

UPCOMING APRIL WORKSHOPS

Tuesday 5th April - Self Managed Super Fund Seminar ([Click Here](#))
Wednesday 20th April - First Home Buyers Information Night ([Click Here](#))

Founding Director’s Comment – PROPERTY BUBBLE?REALLY.....PLEASE!

The property doomsayers ‘noise’ has settled a little since interest rates have stopped increasing for now. However, with price values stabilising or showing decreases in some markets in the early months of 2011, I’m expecting this media ‘noise’ to start getting louder as logic is not going to get in the way of a good story that sells papers or gets ratings or drives internet traffic and debate.

The question I ask you as readers is are you going to listen to this ‘noise’ or even believe it? This month I thought I would provide you with an article written by the Chief Economist at HSBC that was kindly forwarded to me by a client earlier this month. It’s in response to some of the hype that has been in the market to date and puts an argument forward for why he doesn’t believe we are in a bubble.

Before you start I want to remind you once again that YES, some properties have performed terribly over the past 10 years and some have performed amazingly well. The only difference in the past decade really is that the majority of property has done well, instead of the minority. If interest rates increase further I’m already on record to say that I suspect the majority of properties certainly in the mortgage belt areas will underperform, compared to other areas/locations and properties. So once again, this property investment game is not about just picking any old property. There is a real science to what is needed to select the right property. If you don’t understand, then I recommend you get advice. Not just any advice, get independent advice from someone who has no direct benefit in selling you that property. Tell me, is someone who is being paid by the builder/developer to sell you that

property – are they going to be impartial? No way!

Remember knowledge is empowering! - *If you do something with it! Ben Kingsley...enjoy this article*

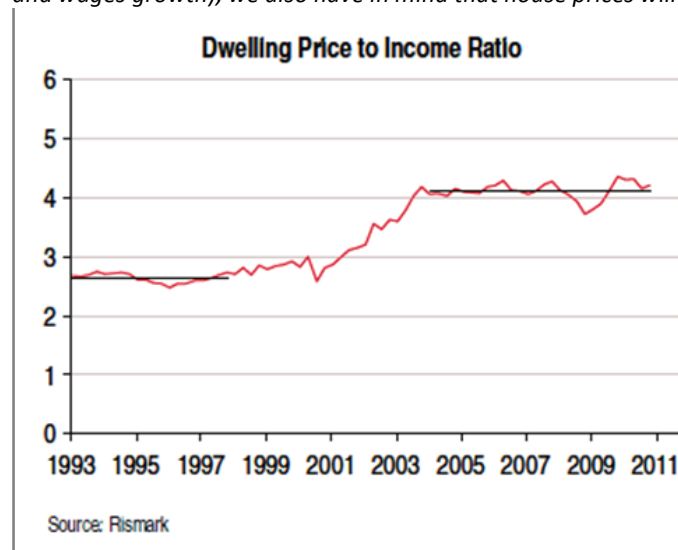
The Australian housing bubble furphy

Paul Bloxham

There has been much discussion over a number of years about whether Australia's house prices are too high, and indeed whether there is a house price 'bubble'. This notion is typified by the Economist magazine's regular update suggesting that Australia's house prices are up to 50 per cent overvalued against standard naive measures.

Our view is that these metrics are indeed too naive to be useful. Typically they take a measure of housing prices to income or to rents and compare the current level to a 15- or 20-year average. This ignores a large structural adjustment that occurred in the Australian housing market between 1997 and 2003. This transition involved lower interest rates, better-anchored inflation expectations, and increased availability of housing credit. Without some reversal of these structural changes – which is a virtual impossibility – we do not expect Australian housing prices to fall.

Indeed, we expect them to track sideways in the short term and then rise in line with household disposable incomes – consistent with recent history. Since late 2003 the dwelling price to income ratio has been broadly stable at between 3.5 and 4.5 and has averaged 4 (see chart). As we are forecasting growth in household disposable income per household of around 5 per cent per annum over the next couple of years (as a result of strong employment and wages growth), we also have in mind that house prices will grow at this pace over the next couple of years.



Supply features of the housing market support this assessment. Most forecasters, including official agencies, suggest that Australia has an undersupply of housing. This assessment is most simply made by comparing growth in the number of dwellings to population. As we pointed out above, since 2006, population growth has exceeded new supply of dwellings, which is the first time this has happened in the postwar era. This will put a floor under housing

prices and is a key reason why we have little concern about a sharp (or large) house price decline.

More fundamentally, we do agree that housing is fairly expensive in Australia, though we see good reasons for this.

First, the quality of the housing stock is high. Australia has the largest dwellings in the world, and they are of high quality. Estimates suggest that the average Australian dwelling is 214 square metres, and real expenditure on new dwellings is now 60 per cent higher than it was 15 years ago, reflecting the increase in both the size and quality of dwellings.

Second, well-located dwellings are in particularly limited supply. This reflects that most dwellings in Australia are on relatively large blocks of land, there are fewer apartments in Australia than in many other nations (particularly in the suburbs close to city centres), and there is little appetite from local government authorities for significant change in this regard.

Third, public transport from outer suburbs in most cities is generally of fairly low quality, limiting the distance which people can productively live from the city centres and further enhancing demand for property in the centre of the cities.

Lastly, there is a lack of affordable land at the fringes of major cities. This is due to state governments seeking to front-load infrastructure costs into the land release price and also some issues with land investors holding large swathes of land in anticipation of future capital gains – and not being prepared to sell this land in adequate quantities in the short run to meet demand.

Importantly, despite relatively high levels of household debt in Australia, the households that hold this debt can still service mortgages. Less than 1 per cent of mortgages are in arrears in Australia, which is internationally low. This of course reflects that the Australian economy had a relatively mild downturn, with housing prices falling only 3 per cent in 2008 before rising around 20 per cent over 2009 and early 2010 and levelling out subsequently. It also reflects that the unemployment rate has remained relatively low.

However, there are other reasons why levels of household debt should not be a large concern. The key one is that 75 per cent of all household debt in Australia is held by the top two-fifths of income earners. If we look even deeper, we find that only a small proportion of households are truly in a vulnerable state regarding their ability to continue to service their mortgages. Vulnerable households – in this case, ones that have a loan-to-valuation ratio of 90 per cent or above and also use more than 50 per cent of their disposable income to service their mortgages – constitute less than 2 per cent of all owner-occupied households with debt in Australia.

Slower housing credit growth in recent years, due partly to lower housing turnover, has also meant that the Australian mortgage book is ageing. This reduces the risk of repayment problems, as households with a longer history of repayment tend to be better risks. The credit foncier model of repayments suggests that these households are now repaying a greater amount of principal and less interest, so that households have built up equity in their homes and could run this down in a crisis.

The structure of the mortgage market and tax system in Australia is also such that most households are ahead of schedule in their mortgage repayments. This would provide a buffer in the case of a negative income shock to households, such as increased unemployment.

In the event of a large negative shock to the Australian economy, there are also a number of contingencies built into the system that would somewhat protect the housing market. These were vividly displayed during the GFC. The RBA would cut interest rates, the fiscal authorities would boost spending, and the exchange rate would depreciate. As we discussed above, with most of the mortgages at variable rates, the monetary transmission mechanism is very powerful, and very low net government debt – it is forecast to peak at 6 per cent of GDP in 2012/13 – means the government also has significant capacity to spend.

Overall, with strong prospects for the Australian economy, on the back of high commodity prices driving a mining investment boom and rising incomes, we expect that housing prices will continue to grow at a modest pace over the next few years. We view the risk of a sharp fall in housing prices as very low.

***Paul Bloxham** is HSBC's chief economist for Australia and New Zealand, and a former RBA economist. This is an edited extract from a recent research note, Australia's place in the world.*

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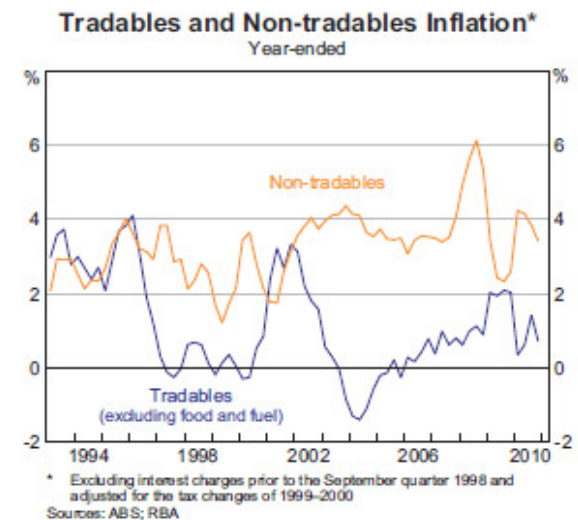
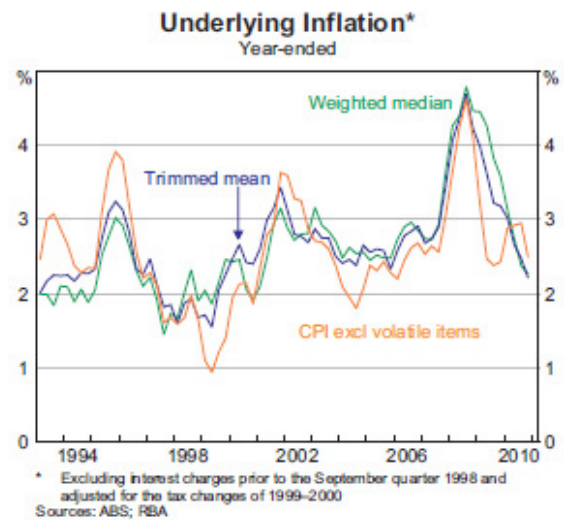
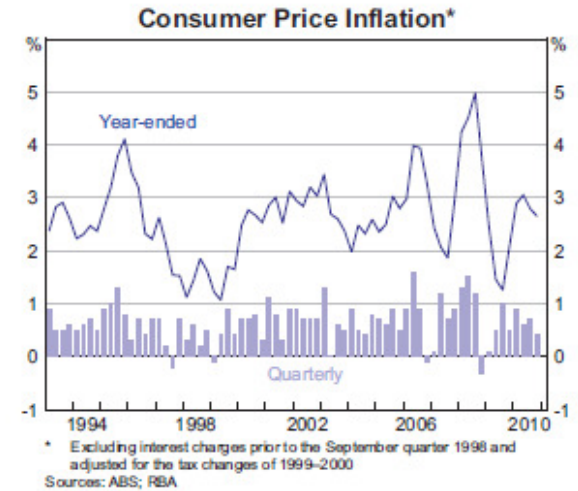
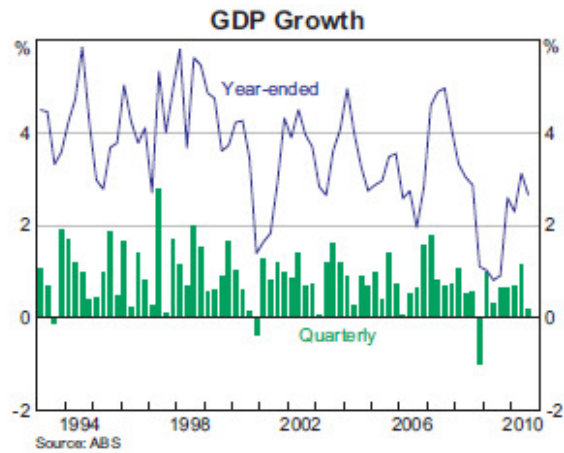
Published 6:42 AM, 18 Mar 2011 Business Spectator.

www.businessspectator.com.au/bs.nsf/Article/Australian-property-prices-housing-bubble-pd20110317-F24WP?OpenDocument&src=sph

I recommend you subscribe to this publication – there is some interest commentary and good mix of articles – Ben Kingsley

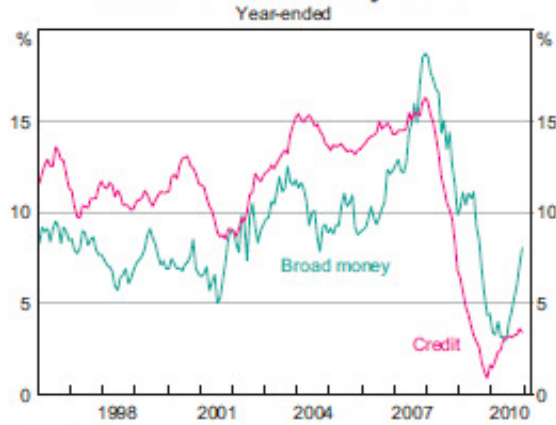
RBA Chart Pack – March 2011

Australian GDP Growth and Inflation



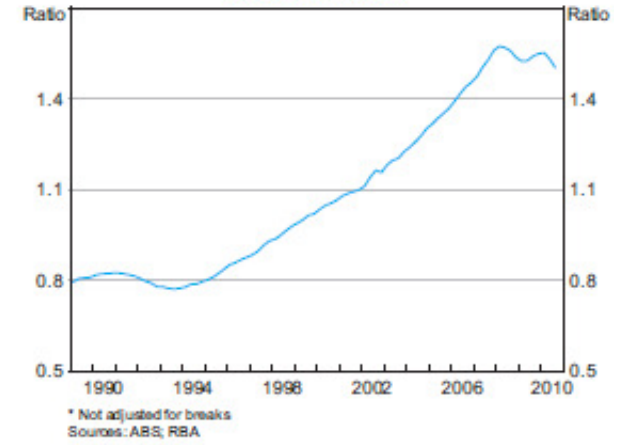
Credit and Money

Credit and Broad Money Growth

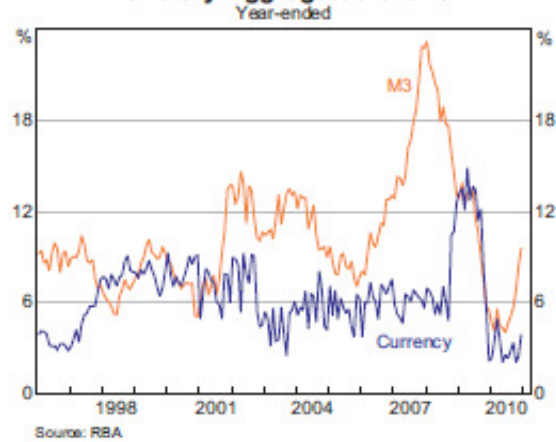


Credit*

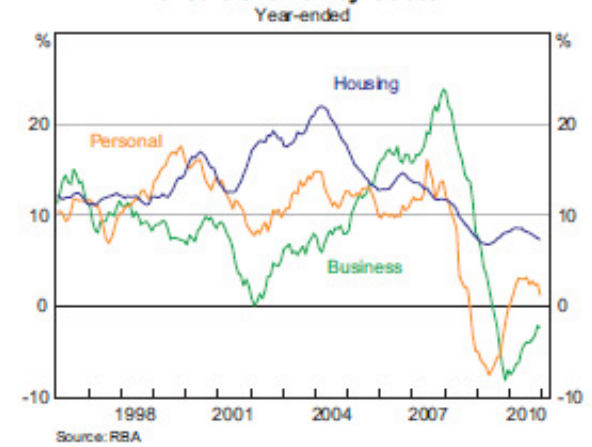
Ratio to nominal GDP



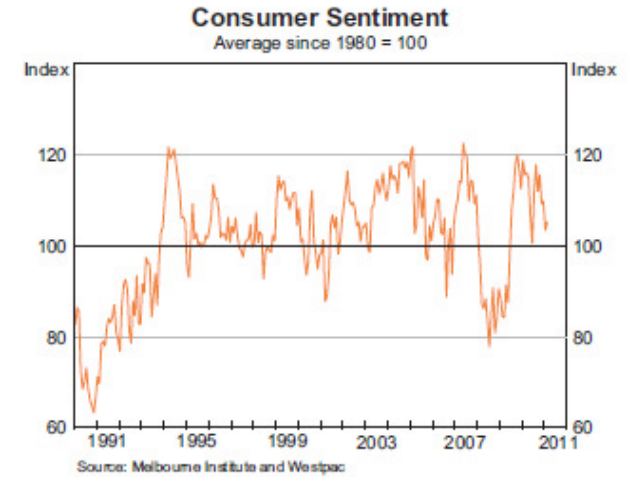
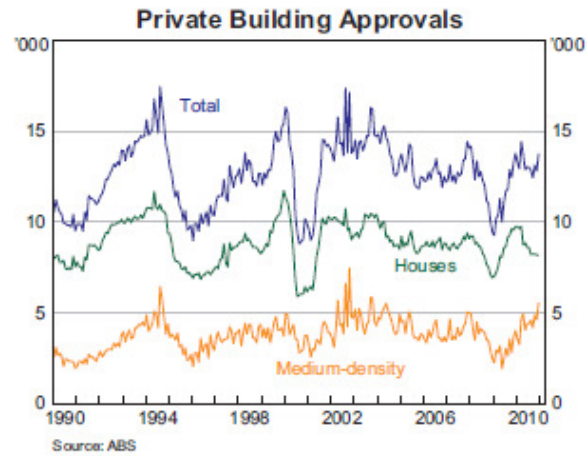
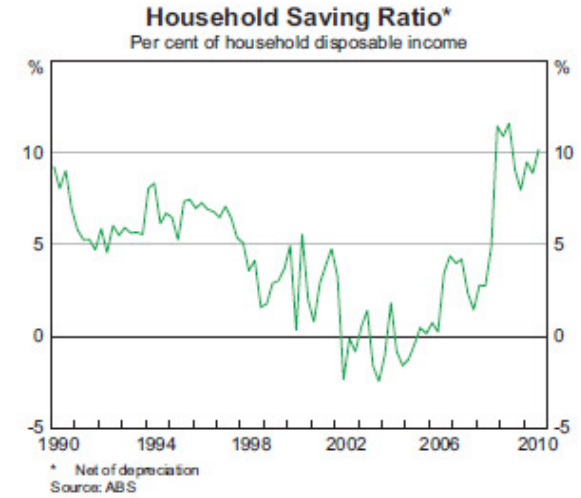
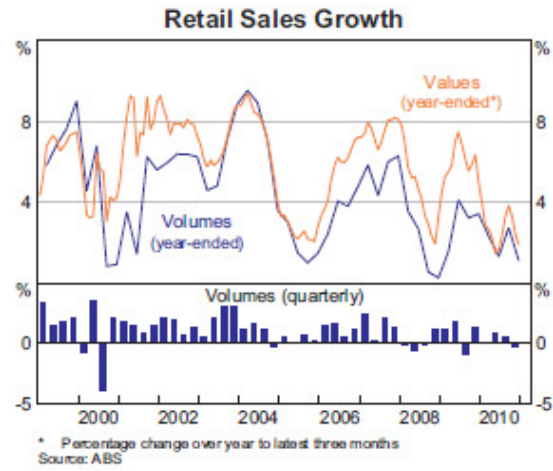
Monetary Aggregates Growth



Credit Growth by Sector

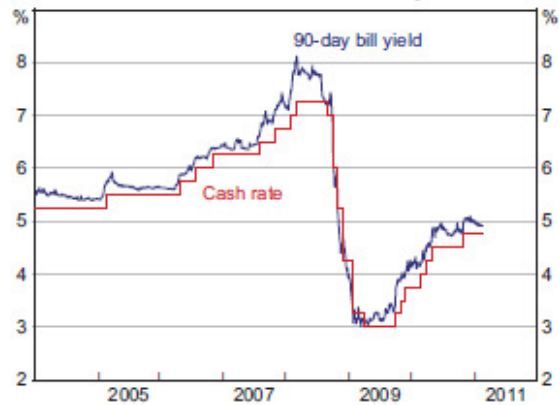


Household Sector



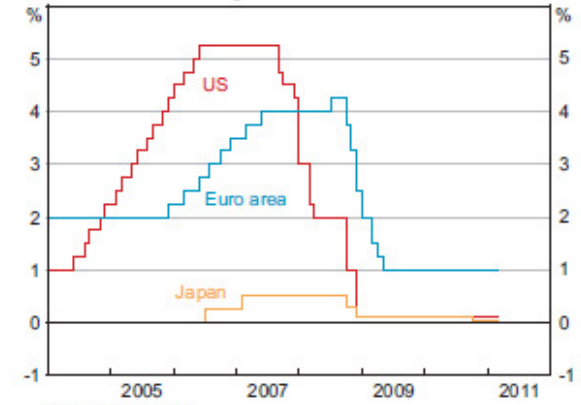
Interest Rates

Australian Cash Rate and 90-day Bill Yield



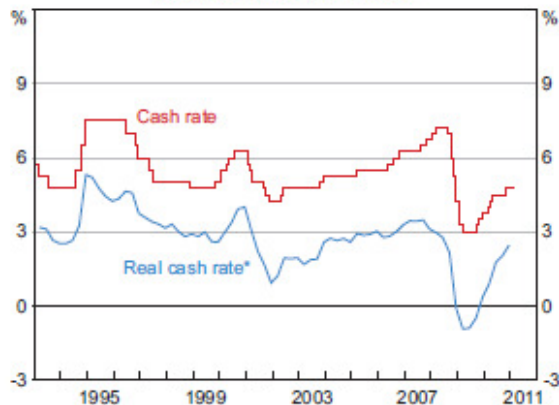
Sources: AFMAData; RBA

Policy Interest Rates



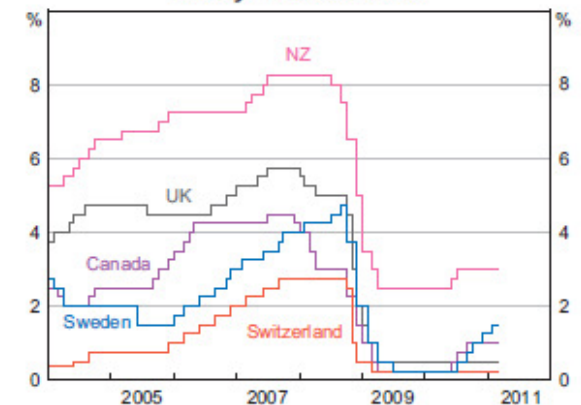
Source: central banks

Australian Cash Rate



* Calculated using average of weighted median and trimmed mean inflation
Sources: ABS; RBA

Policy Interest Rates

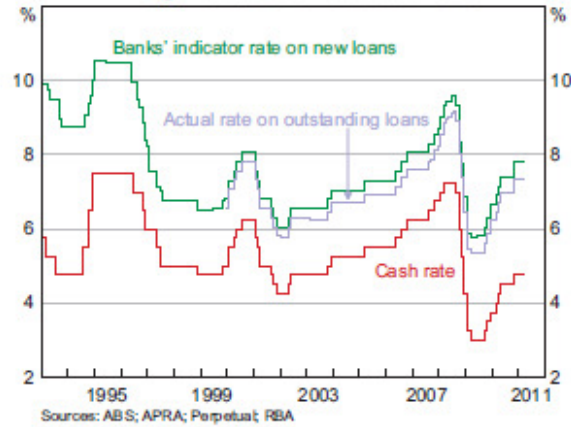


Source: central banks

Interest Rates

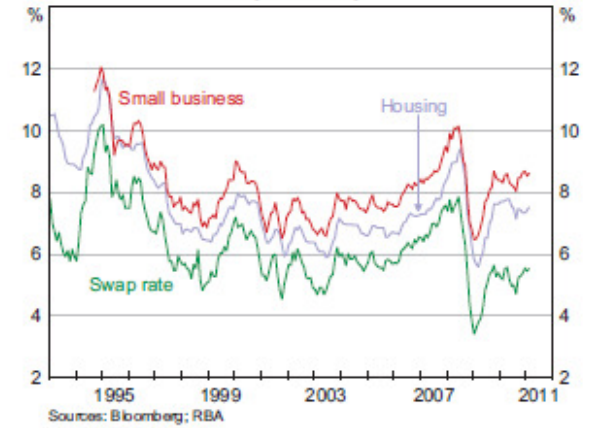
Australian Housing Lending Rates

Average interest rate on variable-rate loans

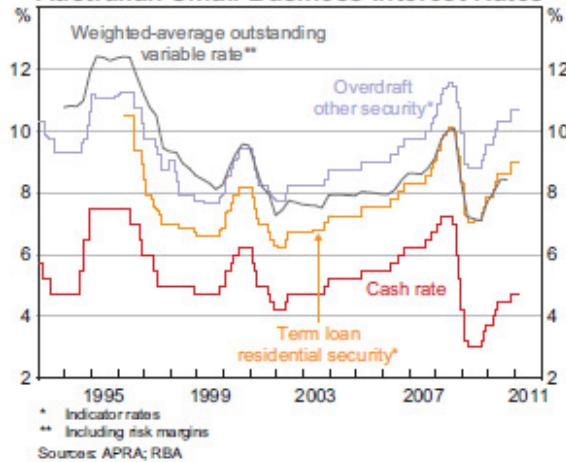


Australian Fixed Interest Rates

3-year maturity

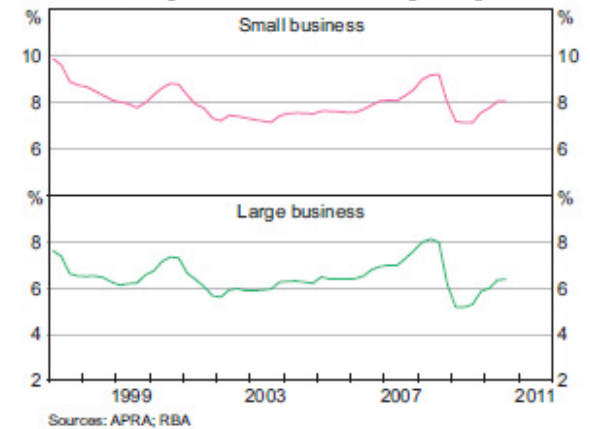


Australian Small Business Interest Rates

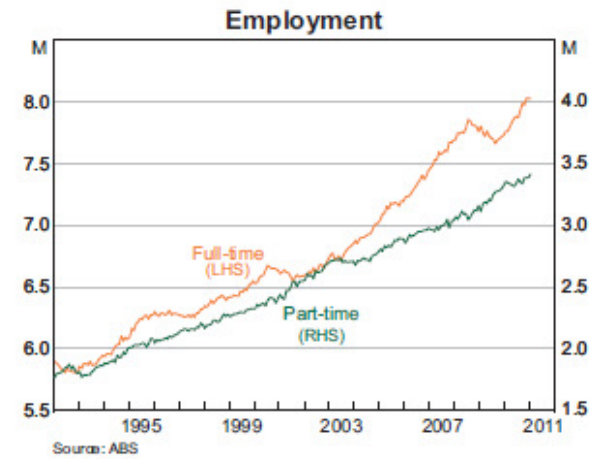
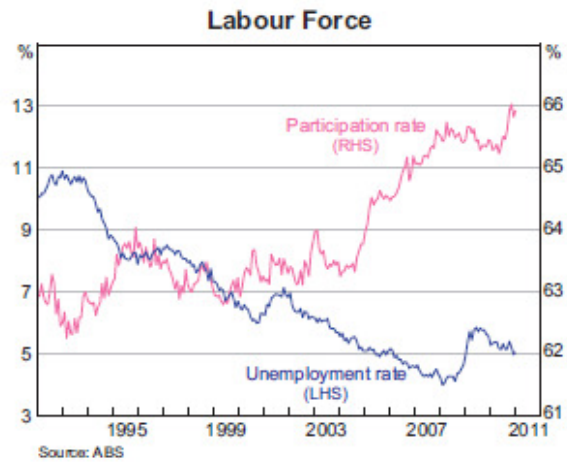


Australian Business Lending Rates

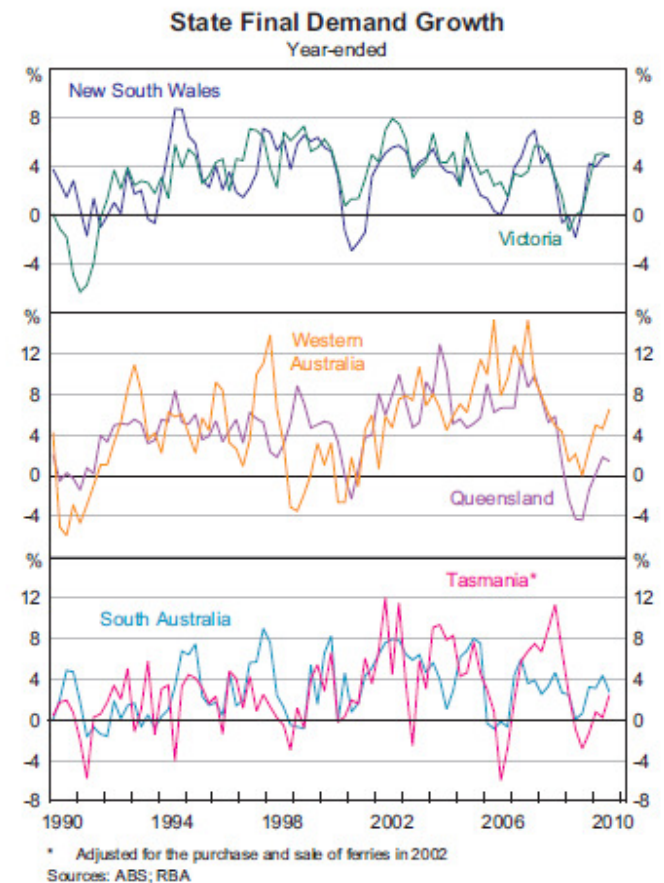
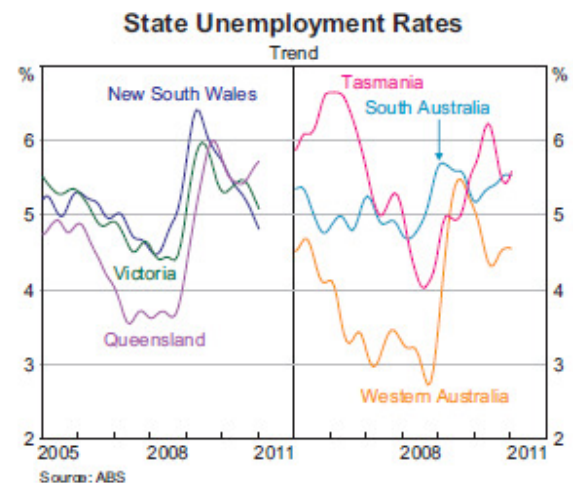
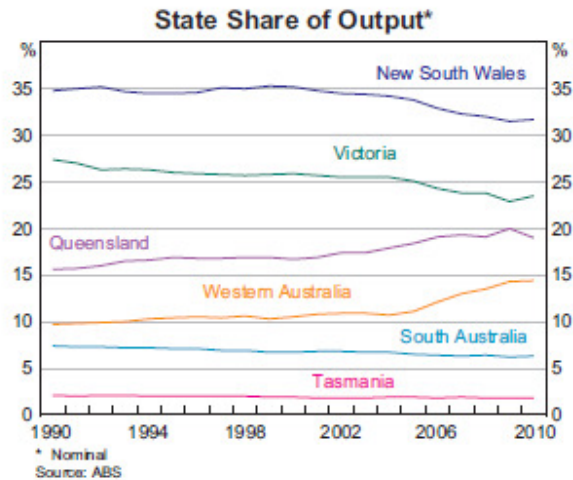
Average interest rate on outstanding lending



Factors of Production and Labour Market



Regional and Industry



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