



THE ADVISORY – FINANCE & MONEY MATTERS

August 2010

Cash Rate on Hold

Commentary & Opinion of Ben Kingsley

The cash rate remains on hold this month after good news on lower than expected 2nd quarter CPI (Inflation) data last week. The RBA believe the current cash rate setting is adequate for the time being.

There is still upward pressure on rates as our economy is in very good shape compared to the rest of the world. The upward pressure remains due to good employment data, with a decrease in the unemployment rate reported in July. Westpac's consumer sentiment survey reading for July was also positive.

On the downward pressure side, we are seeing consumer spending at lower than expected levels in retail sales, due to households feeling the pinch of higher interest rates.

If we see above growth rate GDP numbers, along with higher CPI numbers in the 3rd quarter and wage growth due to low unemployment and positive sentiment in the market continues then we might see one more rate rise late this year. However, I'm predicting rates to remain on hold until into 2011, at which point we will need to review the new sets of data both locally and also what's happening around the world.

What does this mean for Residential Property here in Melbourne?

If low unemployment continues, then I suspect a soft landing for values in areas where employment is available as the mortgage belt does what they can to struggle with meeting mortgage repayments.

Well located properties with manageable affordability readings could see values continue to climb, but at a slower rate of growth.

Affordability is making it tougher for new entrants into the market. Couple this with housing shortages means that greater pressure will come of rents. It wouldn't surprise me if rental rates grew by double digit numbers over the next 12 months in some locations, as they play catch up to actual values, given values simply won't grow at the rates they have in the past 12 months – that for sure.

So mid term outlook for property is one of a stable market, with some moderate pressure in the outer suburb mortgage belt where I see land values not holding up the high demand phase they have just been through. This could represent some buying opportunities over the next 6-12 months for those

buying for lifestyle. Middle and inner city suburbs will continue to rise under demand pressures for both purchase and rents, but I see purchasing pressures moderating and stock levels improving to capitalise on the top of the market view in this cycle. Buying opportunities are now materialising and buyers may now be in a position to negotiate harder than in the first half of this year. Long term investors and owner occupiers can now start looking at the market with more realistic expectations.

Empower Wealth Open NEW FINANCIAL PLANNING Division

I am delighted to announce the launch of our Financial Planning division, lead by Michael Savy - Certified Financial Planner (CFP). Michael brings to the business a pedigree of experience that has allowed him to develop strong investment philosophies which have helped them navigate investments markets to the benefit of his clients. His measured, no-hype and long term returns approach in dealing with his clients is the reason we secured his services within our organisation.

Empower Wealth is thrilled to welcome Michael into the team and even more thrilled to offer our clients new professional services in the following areas:

- **Superannuation**
- **Self Managed Superannuation**
- **Personal & Business Insurance Protection**
- **Wealth Creation & Retirement Planning**
- **Estate Planning**
- **Investment Advisory Services**

To celebrate the opening of our Financial Planning business, we are offering a complimentary Financial Review until 30 September. All you need to do to take advantage of this offer is to contact Michael at msavy@empowerwealth.com.au or call the office to speak to Michael about this special offer.

Furthermore, keep an eye out for additional correspondence outlining our professional financial planning advisory services in more detail.

Private Circle Wealth Forum – THIS THURSDAY NIGHT!

The response to our 2nd Wealth Forum has been terrific, with over 100 attendees already having booked their seats. The good news is that we have booked a larger venue for this event so more people can come along.

Our first speaker, Tim Crawford, is well worth the effort to make it. Its worth pointing out that these types of speakers usually only present to business and industry, so it's the very first time I can recall such a speaker being made available for a public audience. Take a look at this bio below to get an idea of his experience and knowledge. Tim's topic content on the night is relevant to anyone looking to buy a property.

Tim has fifteen years experience as an economist in the finance industry both in Australia and overseas. He is currently Senior Analyst at Bankwest and produces the Bankwest Financial Indicators Series, which examines topical issues in the economy and personal finance such as housing affordability, employment trends and household wealth. Prior to working at Bankwest, Tim was Group Economist for HBOS plc in London for four years and was part of a team which produced the Halifax house Price Index, the UK's longest running house price index. Before this Tim was Senior Economist at St George Bank in Sydney. He has also worked as an economist at EquitiLink Investment Management.

These quarterly wealth forums are NOT product pitches, they are purely educational events designed to give you enhanced property and investment knowledge so you make more informed decisions with your money. If you haven't already booked your seat or that of your colleagues, friends or family members, then we suggest you [click here](#) to confirm your seats now (subject to availability).

Directors Comment – A 35% or \$124,000 Capital Gain

Over the next few months I'm going to start sharing success stories of some of our clients and how they have benefited from our advisory services. The first story involves Belinda and Cameron, a young couple who were referred to me by existing clients. They were thinking about buying their first home, but had no real idea where to start.

With limited knowledge my first recommendation was for them to attend one of our First Home Buyers Information nights to get a better idea of the whole process involved. They attended and got some solid fundamental information they used in their both their financing and property purchase.

Following this session they wanted to get a better understanding of where to buy. They wanted to remain close to family and friends, but they also wanted to better understand whether it was better to buy in a new estate or buy in an established area, because the area they were looking had new estates some 5 – 10 km away and a lot of established housing. They wanted this property to be something they could comfortably live in now, but also grow in value to allow them choices with the increased equity for tomorrow. Plus, with Cameron being in a trade, could potentially add value to the property with his professional skills

They took the next step in their education process and attended our eSearch Superior Performing Property workshop – An educational workshop designed to help buyers better understand the drivers of property values and how to determine these drivers by certain location and then identify the property most likely to perform well within these locations.

Belinda and Cam spoke to one of our Professional Mortgage Strategist to understand the finance side of the equation. In their case their employment was a mixture of some PAYG income and some Self Employed income. A real 'mixed bag' at the time and one that most lenders would decline, but given that we have over 30 lenders at our disposal, we were able to represent their case to one lender who agreed they were viable candidates for their loan product.

Armed with superior property knowledge and the knowledge that they had a lender that was willing to lend to them, they set off to secure a property in the best location they could afford on their budget. The property was going to be an existing house and an established location worth no more than \$360,000.

With the ongoing support of the team at Empower Wealth providing them with property data and commentary on properties they identified as meeting their needs, they proceeded to take on the market. As with most people's experiences, they were the under bidder on a couple of properties on their journey, until they secured a nice, neat property in a middle ring suburb of Melbourne. They paid \$356,000 and the property settled in early 2009.

Recently they made contact with us to investigate the possibility of buying a car, as they had learnt the cheapest interest of any loan type is interest against your home, as opposed to a car loan or personal loan whereby the interest rates are higher, therefore costing more of one's hard earned income to pay it off.

In the process of getting them a new top up home loan to secure their car purchase, the property was valued at \$480,000. That's a gain of almost 35% or \$124,000 over this short period, which is far more than they earned working for a living.

So what are some of the lessons in Belinda and Cam's story? Sure they have had an excellent outcome to date, but why did this happen? We I believe it came down to these three important points:

1. They chose to put time into their education before such a big financial decision was made
2. They chose to seek advice from experienced professionals who had no vested interest in selling them property rather than take advice from family or friends with limited knowledge

3. They persisted, even after missing out of a couple of properties

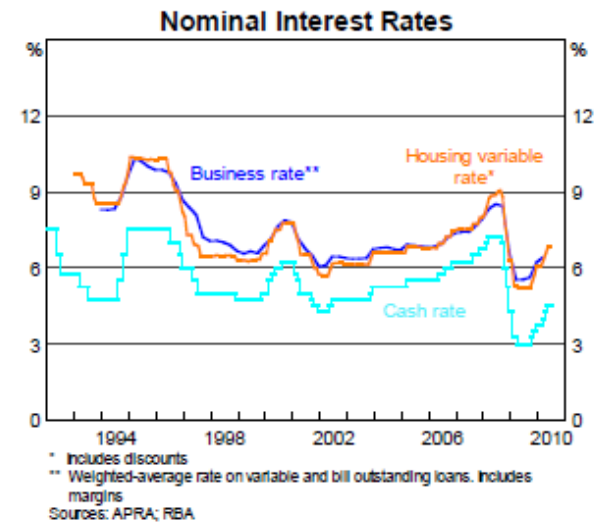
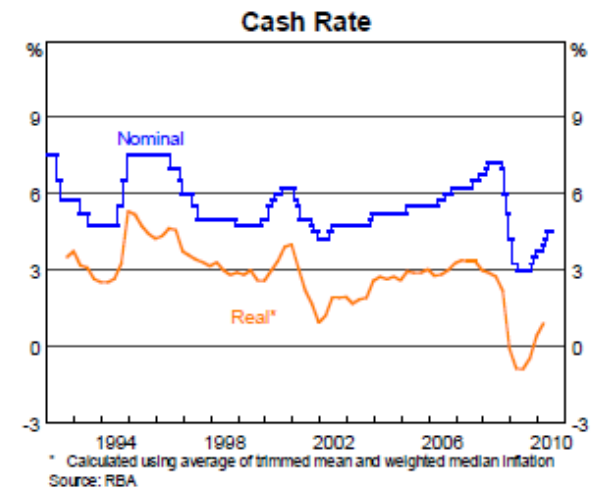
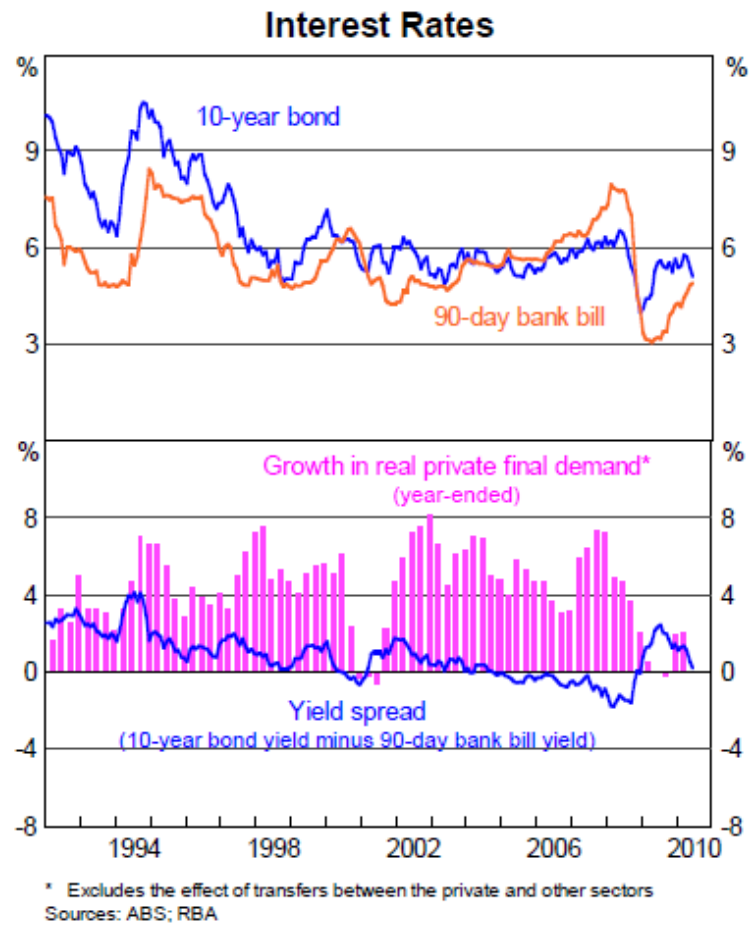
Their reward has been; increased wealth, which should continue; equity to now secure a car and any future plans; and a home that one day will be a place they look to start a family together.

I look forward to sharing further stories in upcoming newsletters

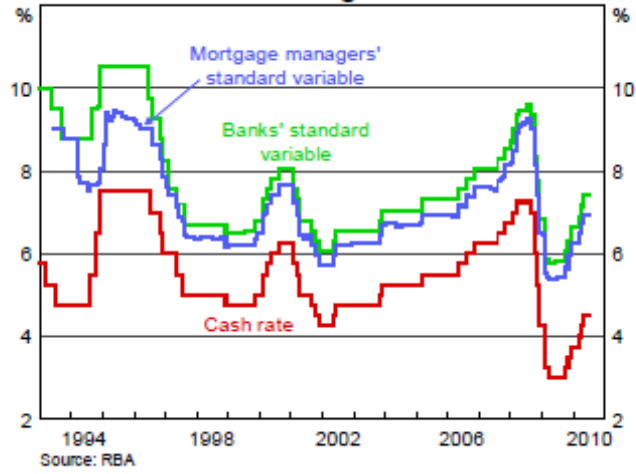
Remember, knowledge is empowering.....

Ben Kingsley

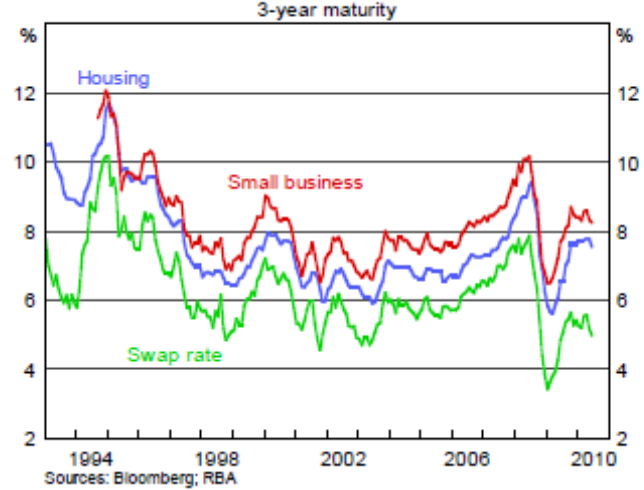
RBA Data Charts – Source RBA Website



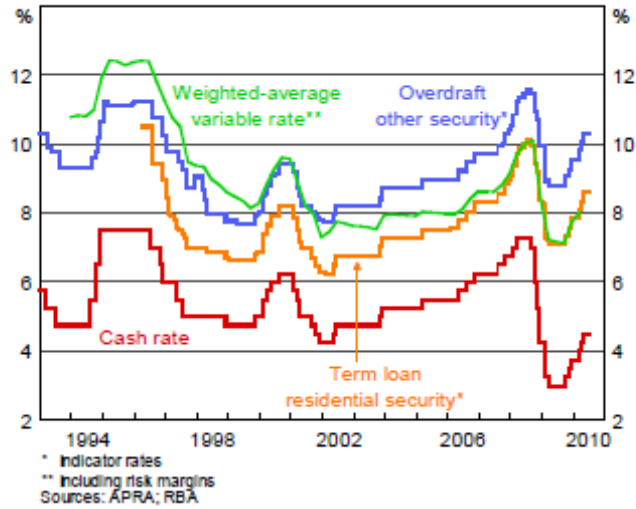
Australian Housing Interest Rates



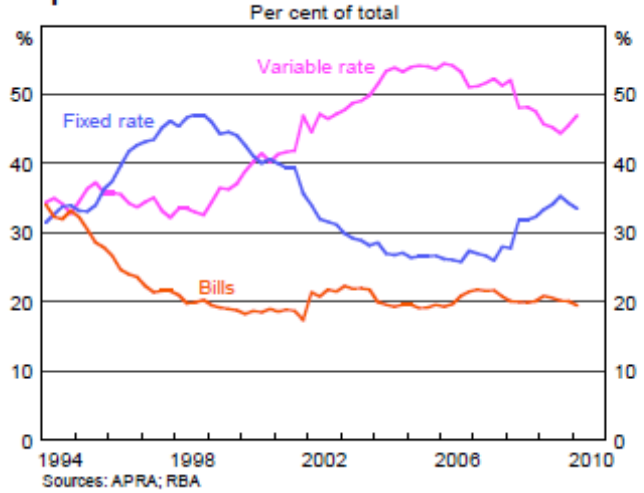
Australian Fixed Interest Rates

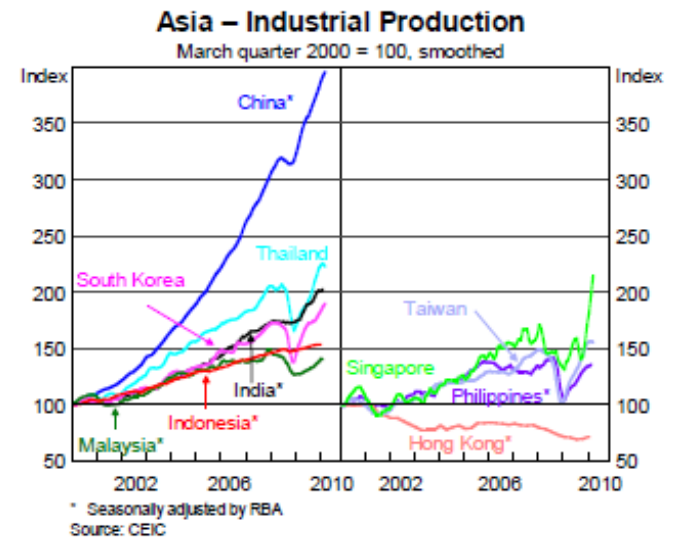
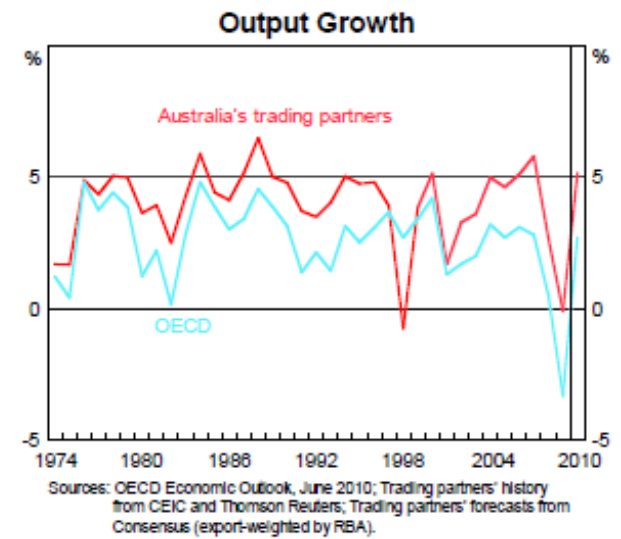
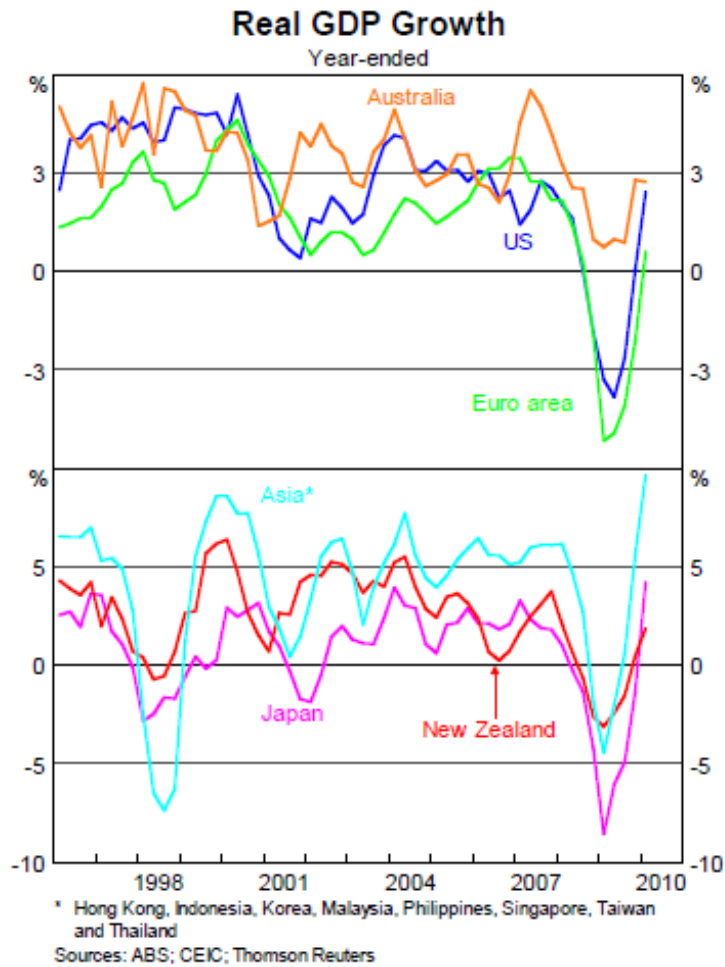


Australian Small Business Interest Rates



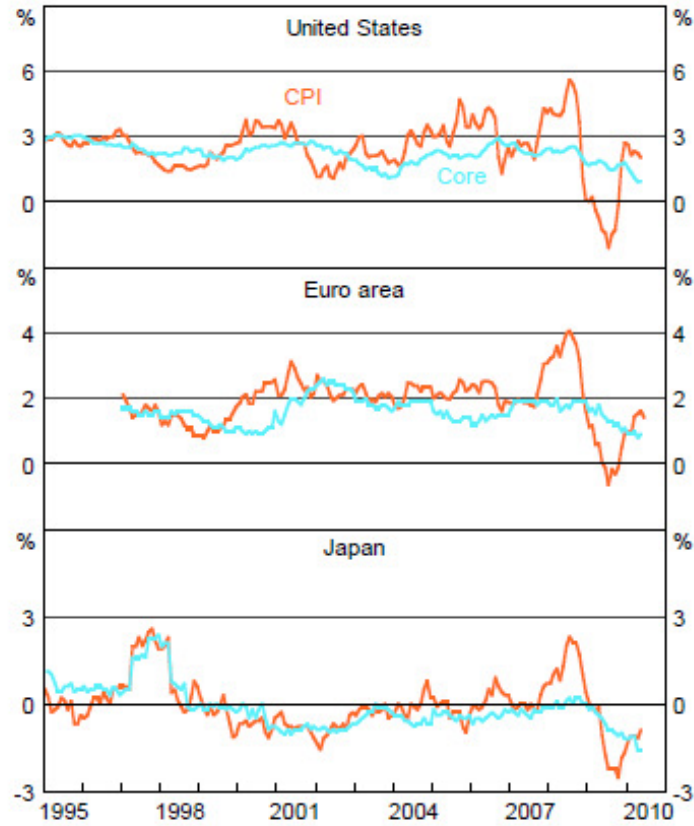
Composition of Australian Small Business Loans





Consumer Price Inflation

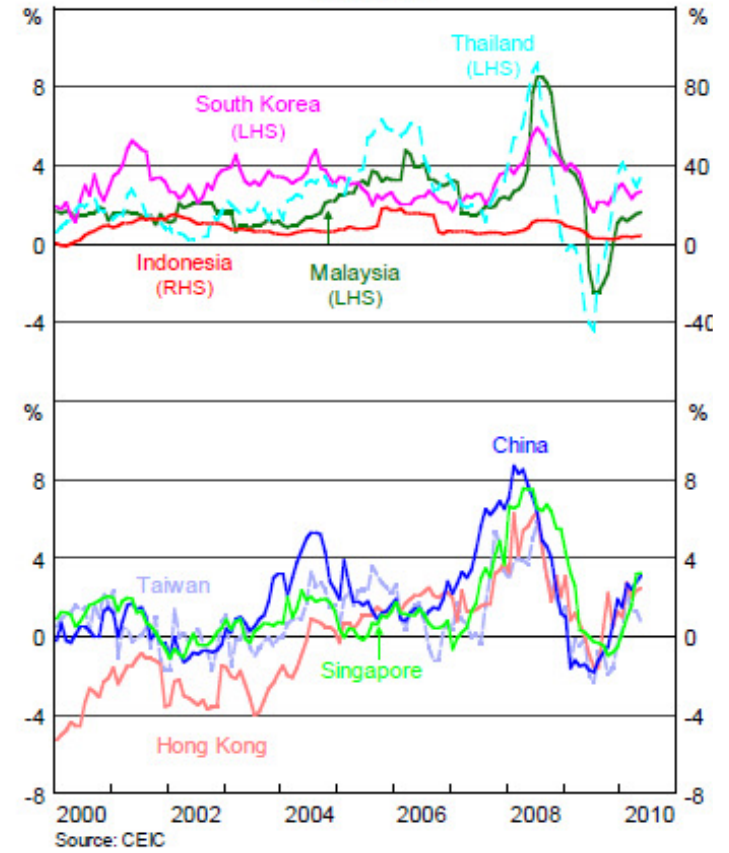
Year-ended



Source: Thomson Reuters

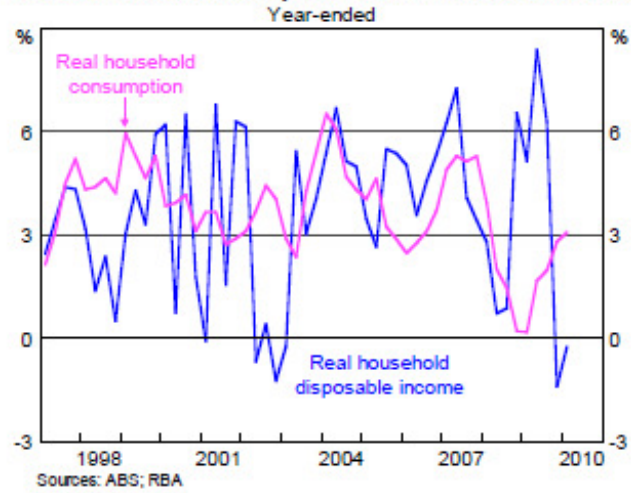
Asia – Consumer Price Inflation

Year-ended

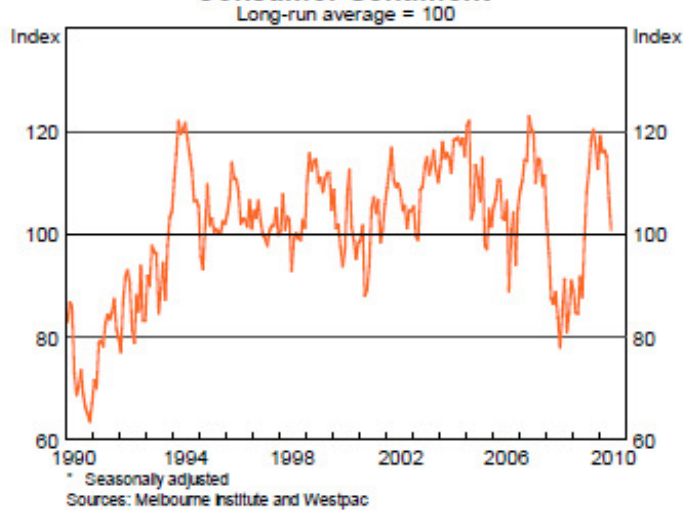


Source: CEIC

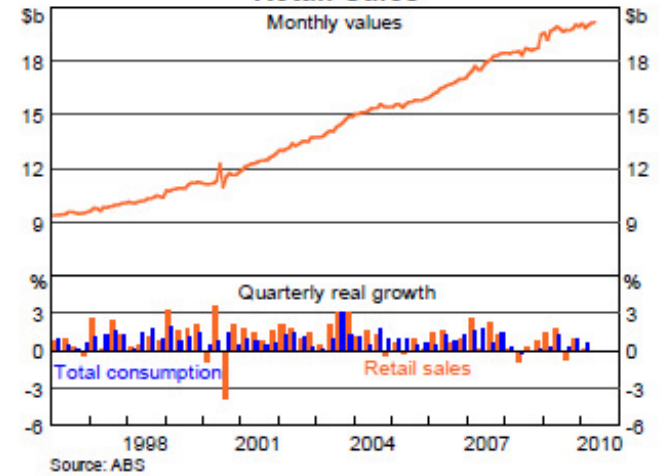
Household Consumption and Income Growth



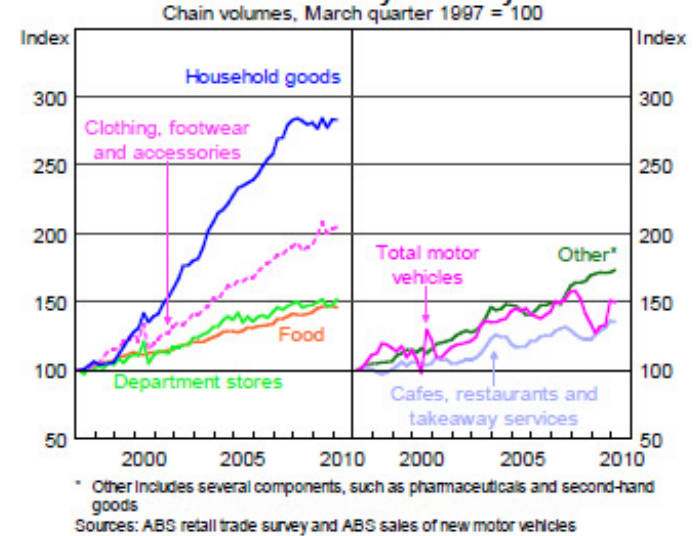
Consumer Sentiment*

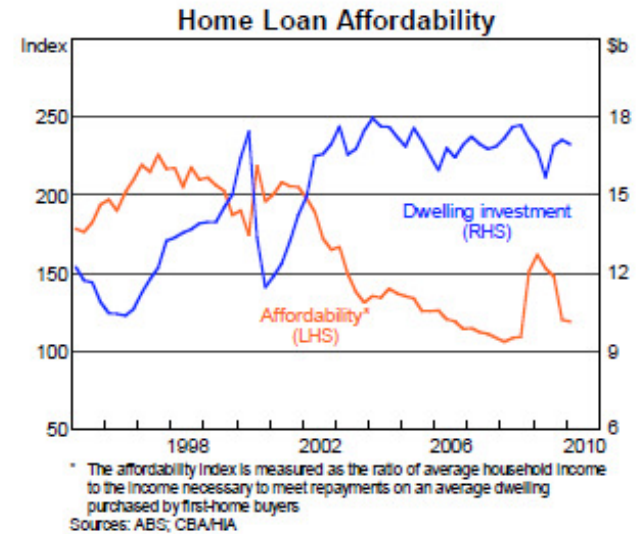
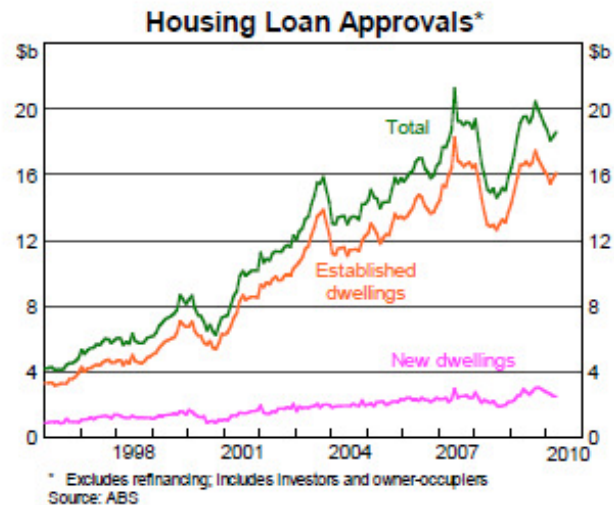
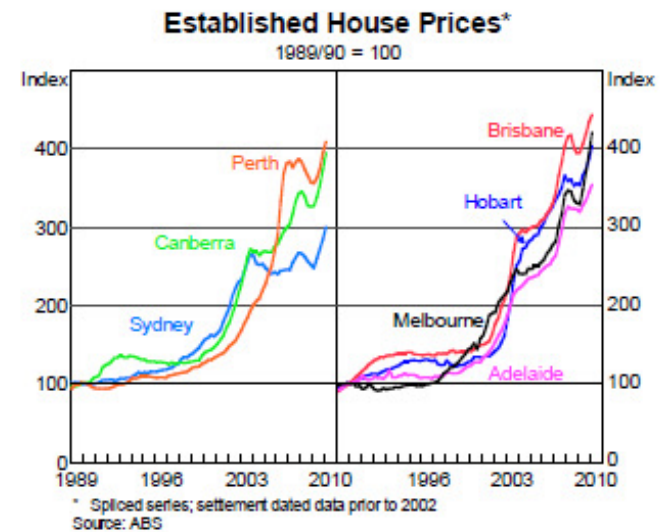
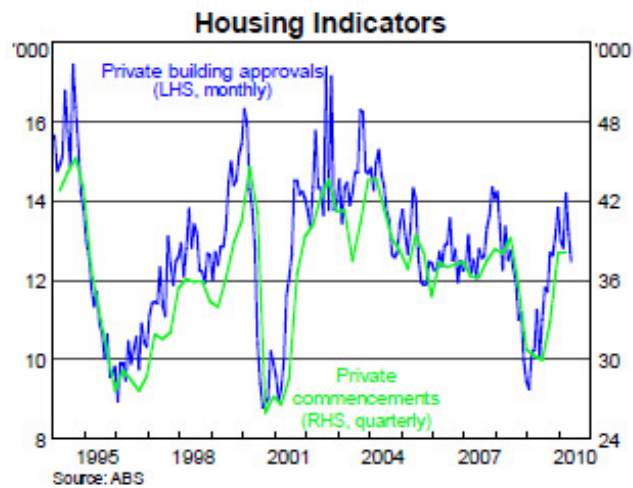


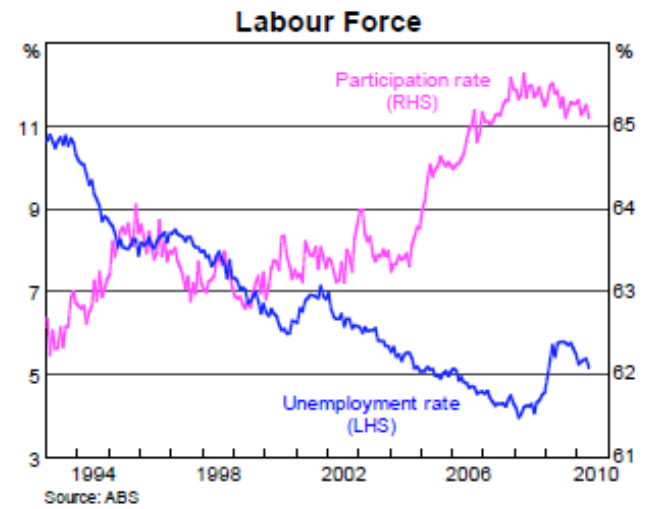
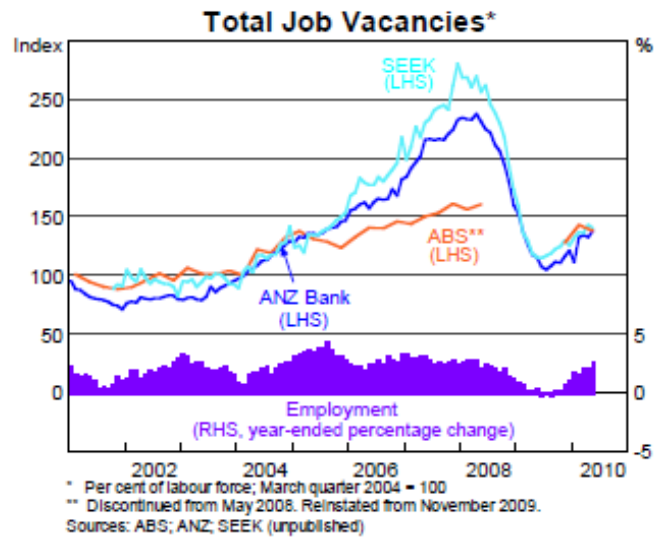
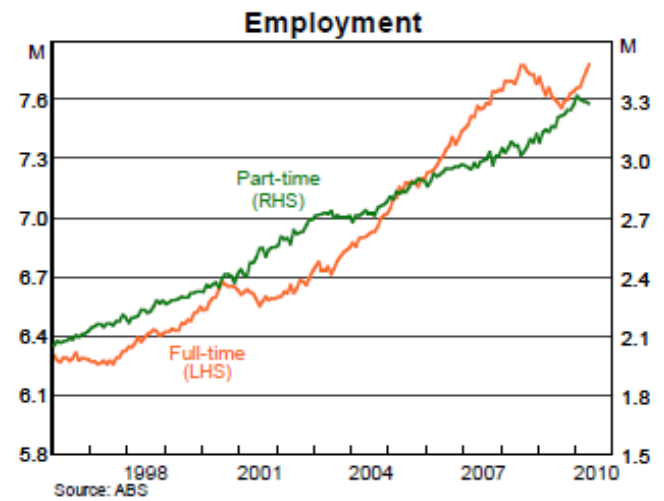
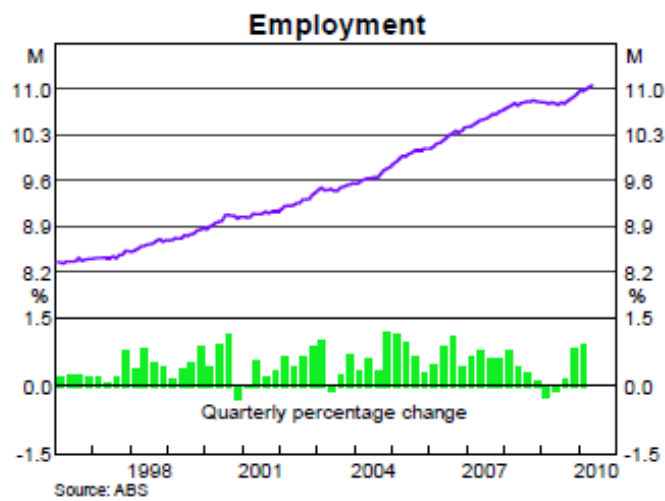
Retail Sales



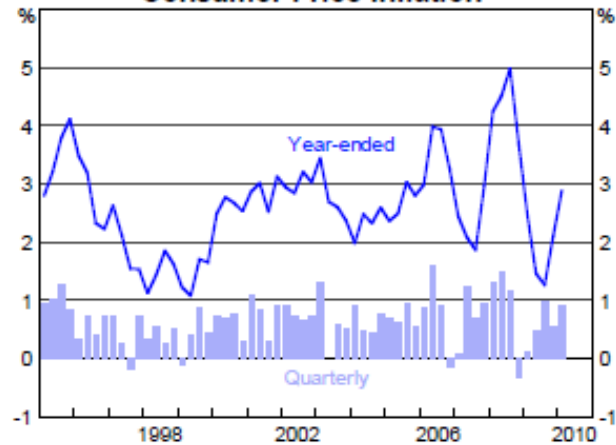
Retail Sales by Industry





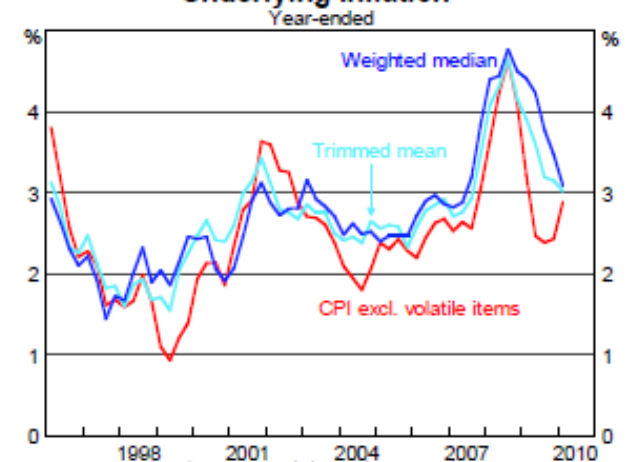


Consumer Price Inflation*



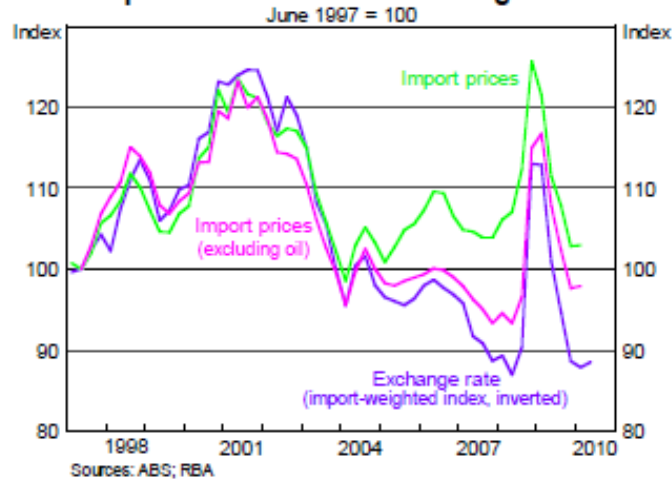
* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999-2000
Sources: ABS; RBA

Underlying Inflation*



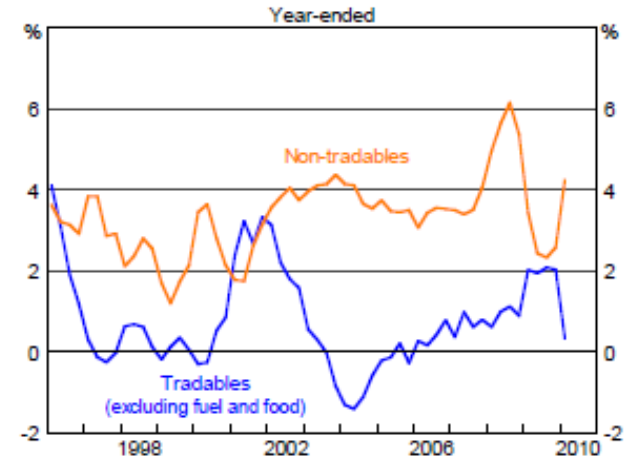
* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999-2000
Sources: ABS; RBA

Import Prices and the Exchange Rate

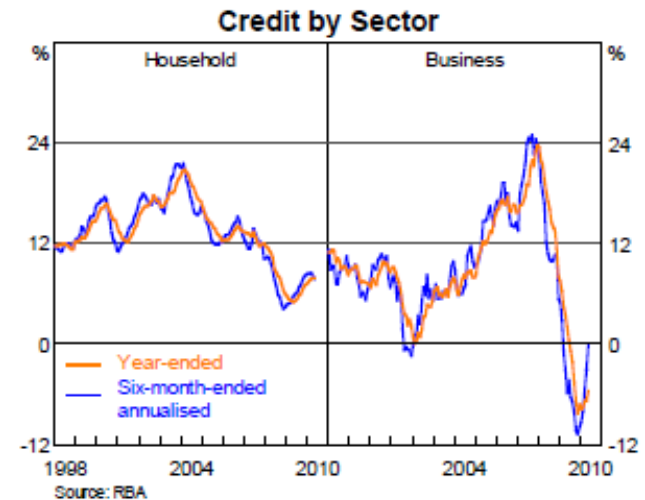
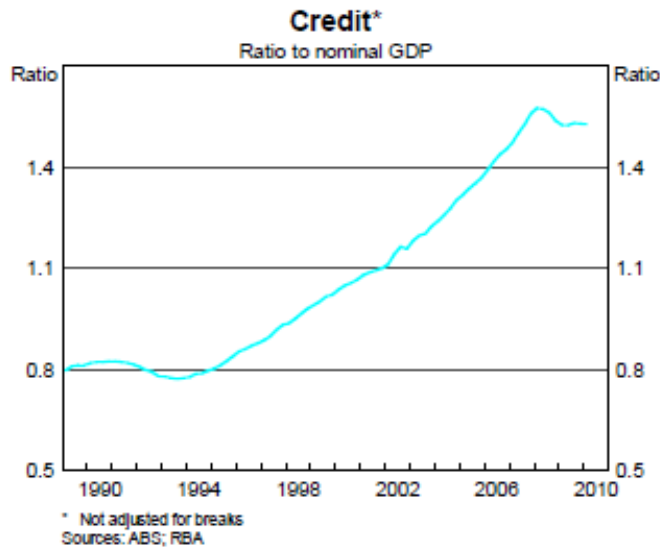
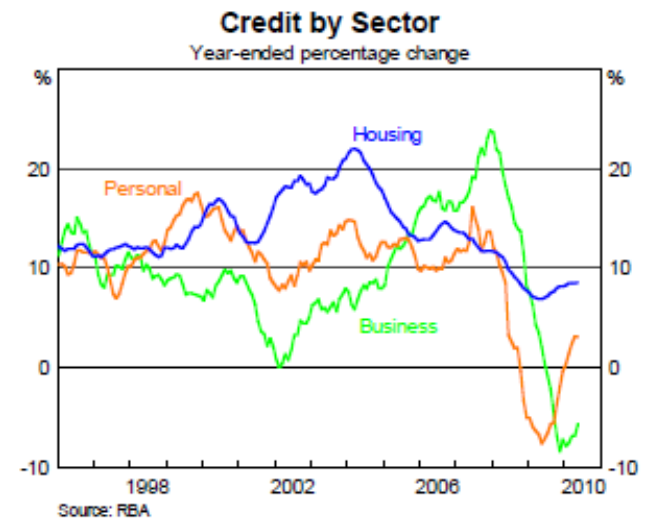
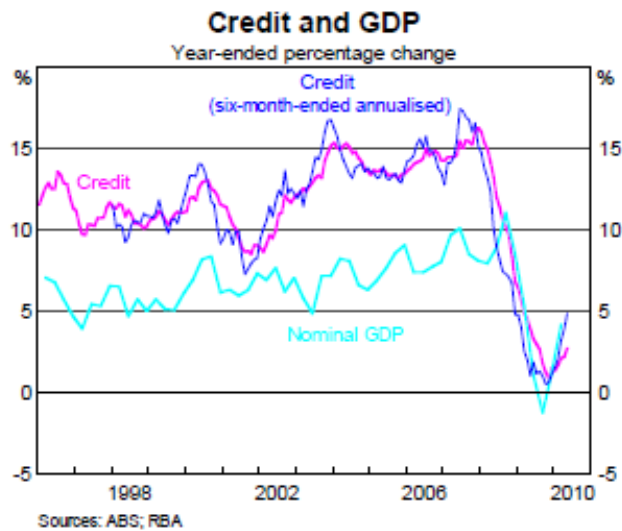


Sources: ABS; RBA

Tradables and Non-tradables Inflation*



* Excluding interest charges prior to September quarter 1998 and adjusted for the tax changes of 1999-2000
Sources: ABS; RBA



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