



## THE ADVISORY – FINANCE, MONEY & PROPERTY MATTERS - August 2011

### This Month's Topics:

- **Cash Rate Decision: Steady as She Goes Captain RBA**
  - **Education: Property Wealth Forum**
- **Finance Talk: Lending Laws Now Consistent Across the Board**
- **Money & Wealth Management Talk: The Key to a Better Wealth Outcome**
  - **Director's Comment: If You Can Measure It, You Can Manage It**
    - **RBA Economic Charts**

### Steady as She Goes Captain RBA

*Commentary & Opinion of Ben Kingsley - founder of Empower Wealth*

For the first time in a while the RBA decision on interest rates was something worth watching. Only two weeks before the inflation data was released last week, there was Bill Evans – Westpac's chief Economist - on Sunday night TV talking about rates coming down. Then stepping up to the plate is the Inflation Genie, which really put a spanner in the works or more to the point squashed any immediate talk of an interest rate cut. So what is the Reserve Bank to do?

Well Captain RBA, Glenn Stevens – he's no fool. His decision today to keep rates on hold was the right one for now. Yes, inflation is at the high end of the 2-3% range the RBA likes to keep underlying inflation within, and at 2.7%, well that's starting to turn heads and create chattering about increased rates. But, Glenn understands, for now at least, that there is a two tier economy at play here – Mining and Construction booming, and wage growth evident but overall manufacturing and retail spending quite subdued.

The RBA board and Glenn Stevens have one advantage on their side and that's time, so it's "steady as she goes captain" and keep sailing your current course as it is about right for the times.....

Looking ahead to the horizon:

The next couple of months will give them further evidence on which way the lever is eventually going to be pulled – and right now even the best of these experts are not quite sure which way that is. I'm no clearer right now either, but I'm sticking to my call early in the year and that is that I believe the next rate movement will be up. As business spending increases into 2012 along with wage and inflation pressure, I can't see rates coming down before they go up. However I can't see them ever going up more than half of one percent in this current cycle (50 basis points) – as there are still too many people with too high consumer debt to see rates go any higher than another one or two increases.

The only risks to my bet are global events like the US 'debt ceiling debacle' or major problems with Euro zone debt blowouts, which will affect the entire planet – and the only good news in this is rates will definitely come down from where they are now. This could see the return of growing property prices, as affordability improves.

*(Those people reading this should be reminded this is an opinion comment by Ben Kingsley, and should not be used when making decision about financial matters without seeking further clarification and understanding of your own personal circumstances. This article is not advice you should rely upon. I recommend you speak to one of our licensed finance advisors regarding any decision around your personal finances, before taking any action.)*

## **Investment Education: Next Private Circle Wealth Forum Thur. 1<sup>st</sup> September A MUST ATTEND EVENT – If Interested in Investing or Buying Property**

**The next Private Circle Wealth Forum will be held on Thursday 1<sup>st</sup> September at the State Library of Victoria.  
Time: 6.00pm until 8.30pm Session**

### **Educational Forum Content:**

- **An Insider's Guide to Real Estate by a Real Estate Agent:**  
Ever wanted to know the process by which a real estate agent goes about their business of selling property? – Our presenter has over 25 years in the game so this promises to be a fascinating talk
- **Myth Busting: What Drives Property Values Higher:** Presented by Cate Bakos and Ben Kingsley – both Property Multi-millionaires and each having over 15 years experience in Property Performance Analysis
- **Panel of Experts Q&A Session:** Back by popular demand and almost certain to be a regular feature of these forums. Panelists will be Finance, Property Law and Real Estate Professionals. They will all be ready to answer any question you have for them

For all the information about this event and to confirm a seat for you and anyone you want to bring along.

LEARN MORE / BOOK NOW [CLICK HERE](#).

**Over 60 people have already confirmed their seats!**

## **Finance Talk: Lending Laws Now Consistent Across the Board**

The start of the 2011-12 financial year saw the new National Consumer Credit Protection (NCCP) laws take effect for banks and other lending institutions along with brokers. The laws for brokers came into effect 1<sup>st</sup> January 2011. This now provides consumers with greater protection from unscrupulous lending practices that may have occurred in the past. Anyone who now gives advice on loans, must either be a licensee or be an authorised representative operating under a license.

What consumers must now prepare themselves for is a lot more paper work during the application stage and a lot more scrutiny and investigation around their ability to afford the loan they are seeking. It's certainly made the whole process for the average person a lot more complicated and this further highlights why so many people now prefer to work with a broker, as they have more time to spend with a client compared to a busy bank or credit union staff member working in a busy branch or call centre. And a broker who specialises in investment lending will put more focus into the appropriate loan

structuring, taking today's and tomorrow's assets into account.

Cameron Morgan – Finance/Mortgage Advisor  
Head of Empower Wealth's Mortgage Broking Division.

Want help in finding the right finance / Home loan. Lets us help – book a FREE Finance and Wealth Review – [Click Here](#)

## Money & Wealth Management Talk: The Key to a Better Wealth & Income Outcome

In previous newsletters, we have outlined the first essential stage of Money Planning - putting together a picture of where you are now, and then projecting where you might be in the future based on some assumptions about how things will change over time - and described the sorts of information you will need to be able to get started. This gives us a baseline from which to start and an understanding of the likely outcome if there is no plan of action to get a better result ( answering the question “Where am I now?” ).

The second stage of the process involves thinking about what outcome you actually want - when would you like to be financially independent ( i.e. not have to work for a living ), what sort of lifestyle you would like, and what that lifestyle is going to cost. From a Money Planning perspective, this answers the question “Where do I want to be?”. For most people, this is a difficult question to answer as very few of us have any idea of what is actually possible.

Stepping back from the day-to-day business of earning a living and paying the bills to take a look at the bigger picture isn't always easy, and most people get quite a surprise when our Wealth Projection modelling tool shows that their household can be expected to generate many millions of dollars in income over their working lives. But looking at the bigger picture is critical in setting yourself a target for income in retirement.

The other factor that makes this sort of question difficult is the impact that inflation can be expected to have on the cost of living by the time you are ready to start enjoying your retirement. At an average inflation rate of 3%, the cost of your desired lifestyle will have doubled in around 24 years time, meaning that the wealth base that you will need in order to generate the income to fund your retirement lifestyle must also double.

Once you've decided what level of passive income is going to be required to give you the freedom of no longer having to work for a living, and therefore the wealth base that will be required to provide that level of income. This can be compared with the likely outcome of your current approach to wealth creation, to give an idea of how big a gap there may be between your 'likely' and your 'desired' wealth creation outcome.

The size of the gap, and the amount of time you have to work on closing that gap ( from now until your target date for financial independence ), are going to be key factors in the third stage of the process - deciding on the best way to achieve a better outcome.

This is where a sophisticated Wealth Projection modelling tool can really assist to see the potential outcome of a number of different wealth creation strategies, modelling the potential level of wealth generated, together with the underlying cashflows, and helping you determine which approach is going to suit you best.

You can watch a recording of a recent webinar featuring our Wealth Projection modelling tool in action by going to [www.empowerwealth.com.au/webinar](http://www.empowerwealth.com.au/webinar) and registering at the bottom of the page. To get more of an understanding of the power of this modelling in action, we have released a DVD recording of one of our Wealth Forums held earlier this year. If you would like to receive a copy of the DVD, please just send an email to [enquiries@empowerwealth.com.au](mailto:enquiries@empowerwealth.com.au) with “DVD Request” as the subject.

If you are interested in seeing how these tools and techniques could be applied to your own personal financial situation, please come and see us for a free one hour consultation by going to [www.empowerwealth.com.au/review](http://www.empowerwealth.com.au/review) or just give us a call.

## Founding Director's Comment – If You Can Measure It, You Can Manage It

You have heard me talk about treating your household as a business. Those of you who are new to our newsletter, let me revisit this point.

Your household, which could be you, you and your partner etc, generates income for the work you and potentially other members of your household do, just like a business generates income. In fact if a household does generated \$100,000 in income a year over 25 years your household/business will generate \$2,500,000 (And that doesn't include wages or inflation increases either!) – Not a bad little business, right.

So your household is a great little business 'potentially', as long as you are prepared to dedicate about a 1/3 of your adult time in life working, to make it happen. And just like in business about 4 out of 5 businesses don't realise their true potential – why? Because they don't plan and measure their performance and manage to their target or business plan. Without a plan they haven't got anything to measure against, then what are they really managing?

Households are no different, only around 10% will become wealthy, because they plan long term and measure everything and with great management they achieve their real potential.

I realise there will be some households that do measure some things like their spending and do make some savings, just like there are plenty of average businesses that do the basics well, like profit and loss and balance sheet measurements. But the real science for great businesses, just like wealthier households, is that they measure in detail key performance indicators and they are forever trying to measure and improve these indicators to better manage outcomes. Let's face it, in business, Profit or Loss is the result of actions and improved performance, which are a direct result of measuring and managing an outcome you have planned for.

There's another saying I like to use also – "your outputs are only as good as your inputs". Basic inputs = basic results. This rings true for households too. Households managing money just to cover the outgoings are in business terms 'solvent' (keeping their heads above water) and unfortunately nothing great is going to eventuate from that – you'll be in the 90% of households that don't build any wealth and have to work to the grave or live off government handouts.

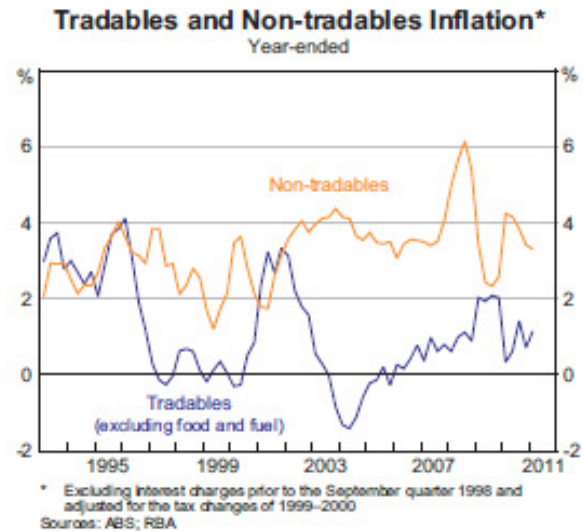
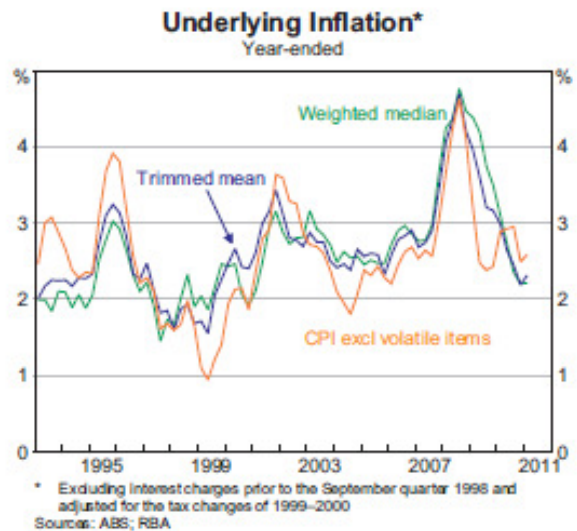
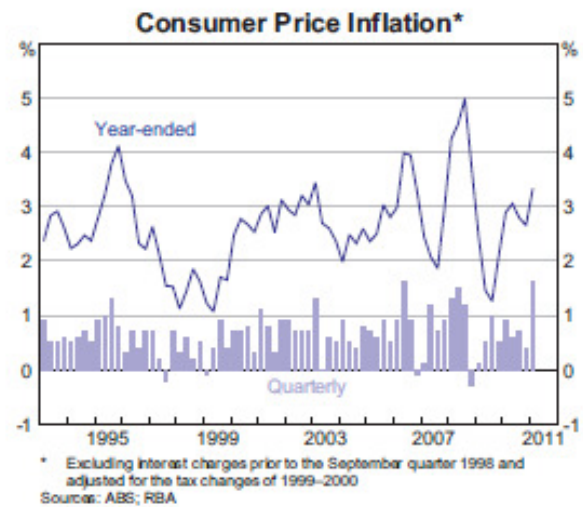
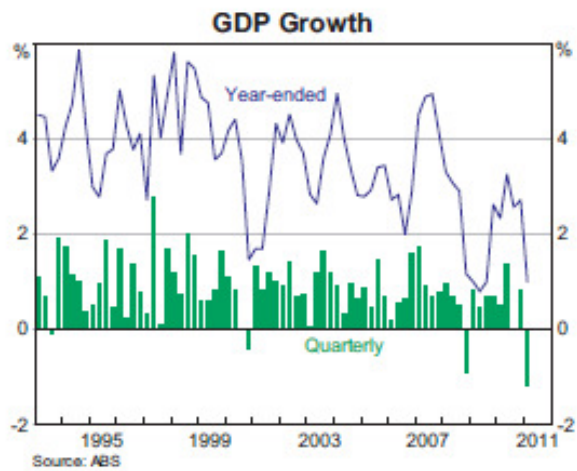
Wealth that will actually result in being in a position to stop working when you planned to, is a result of the household measuring, identifying opportunities, setting a plan and managing it to achieve 'real' wealth, and you can't ask for more than that.

The final thing I want you to think about in this month's comment is – does every truly successful business take advice from consultants, professional advisors, i.e. people who help them work out what and how to measure things and how to better manage things? – Of course they do, because every good to great business knows they need help. And it's those households that also realise they too could do with some help to get them to where they want to be – they just have to be brave or in my view, smart enough to ask for advice.

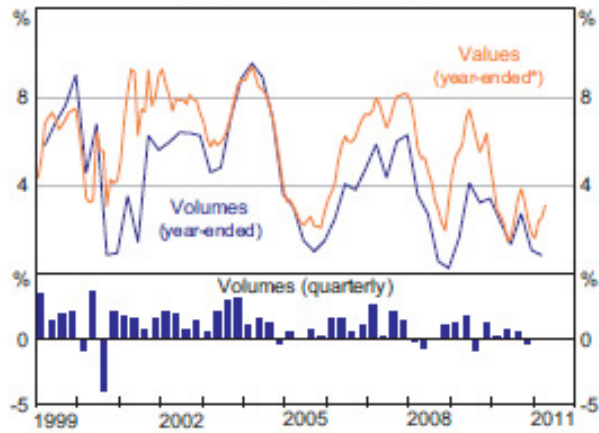
Remember, knowledge is empowering - *if you act on it!*

**Ben Kingsley**  
Founder – Empower Wealth

**RBA Data Charts – July 2011 Data**



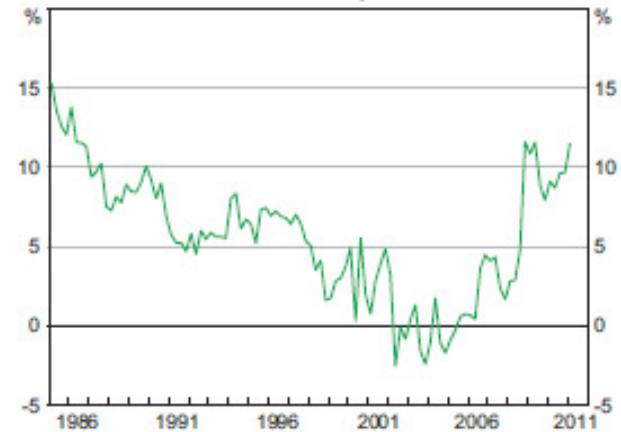
### Retail Sales Growth



\* Percentage change over year to latest three months  
Source: ABS

### Household Saving Ratio\*

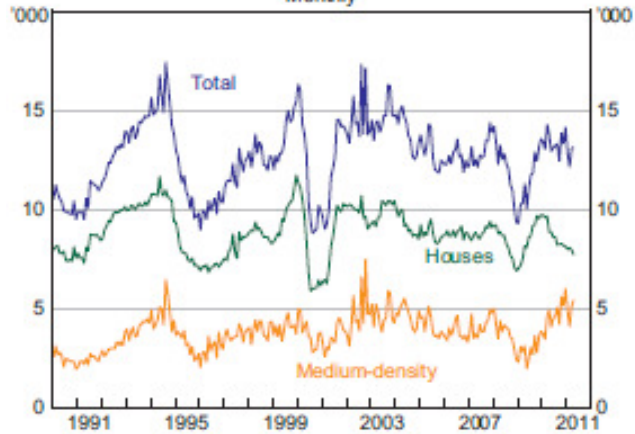
Per cent of household disposable income



\* Net of depreciation  
Source: ABS

### Private Building Approvals

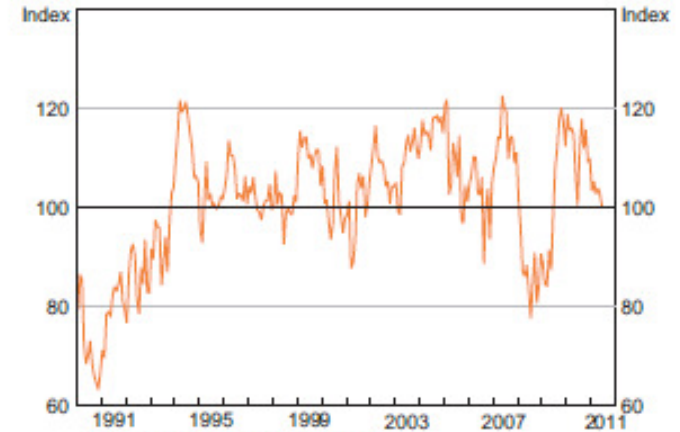
Monthly



Source: ABS

### Consumer Sentiment

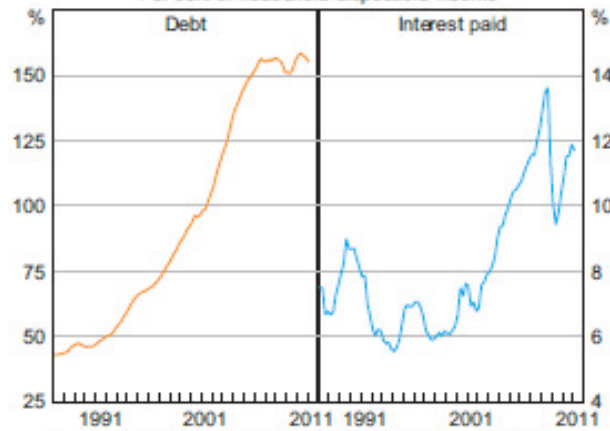
Average since 1980 = 100



Source: Melbourne Institute and Westpac

### Household Finances\*

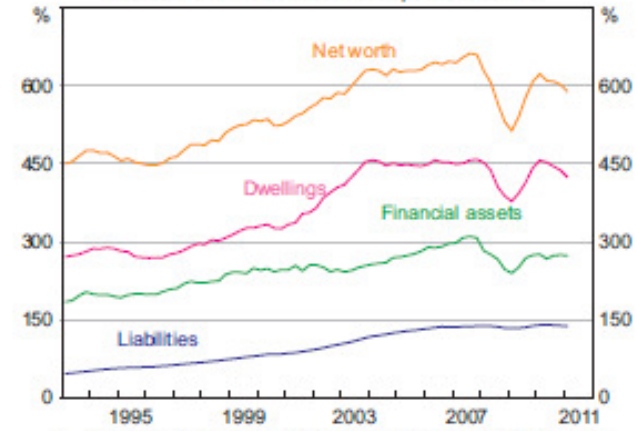
Per cent of household disposable income



\* Household sector excludes unincorporated enterprises; disposable income is after tax and before the deduction of interest payments  
Sources: ABS; RBA

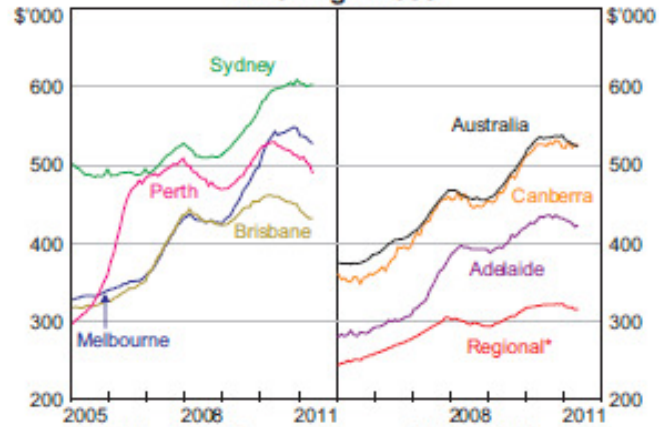
### Household Wealth and Liabilities\*

Per cent of annual household disposable income



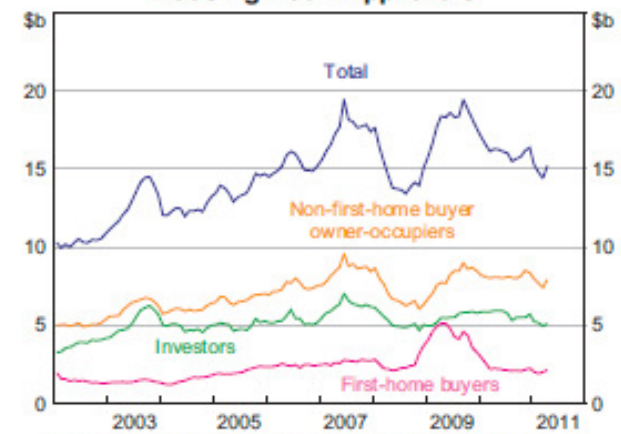
\* Household sector includes unincorporated enterprises; disposable income is after tax and before the deduction of interest payments  
Sources: ABS; APM; RBA

### Dwelling Prices



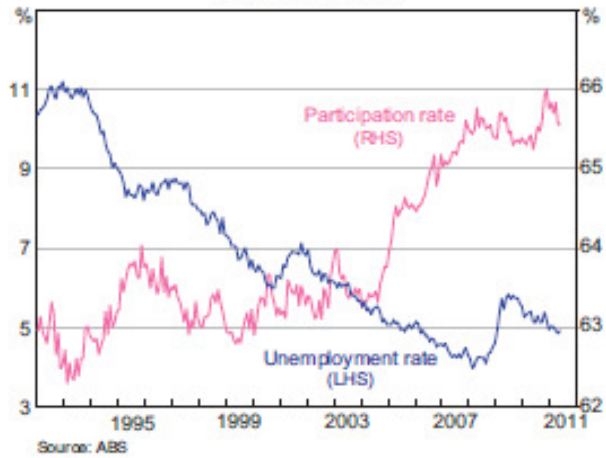
\* Excluding apartments; measured as areas outside of capital cities in New South Wales, Queensland, South Australia, Victoria and Western Australia  
Sources: RBA; RP Data-Risemark

### Housing Loan Approvals\*

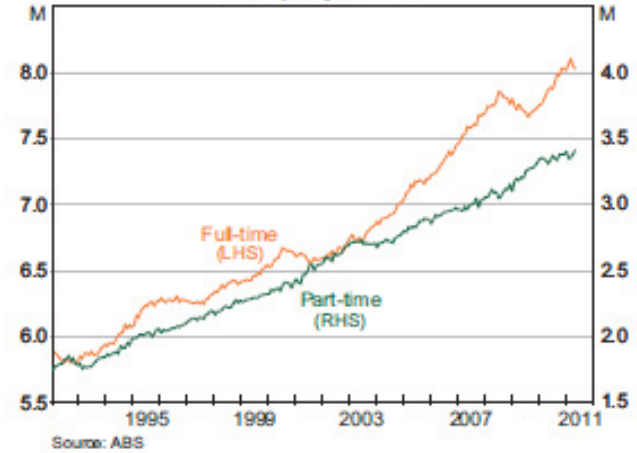


\* Excludes owner-occupier refinancing, alterations & additions and investor approvals for new construction and by 'others'  
Sources: ABS; RBA

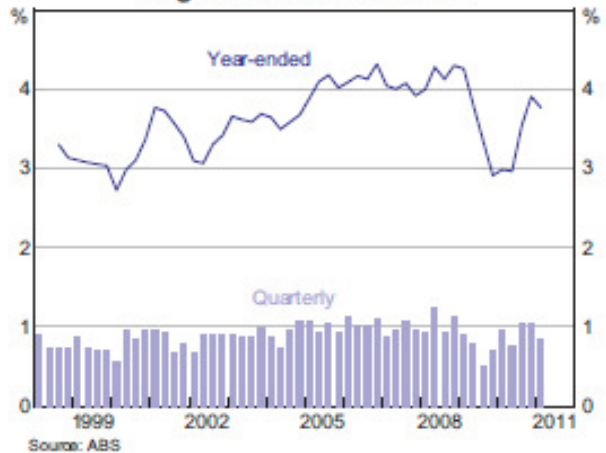
### Labour Force



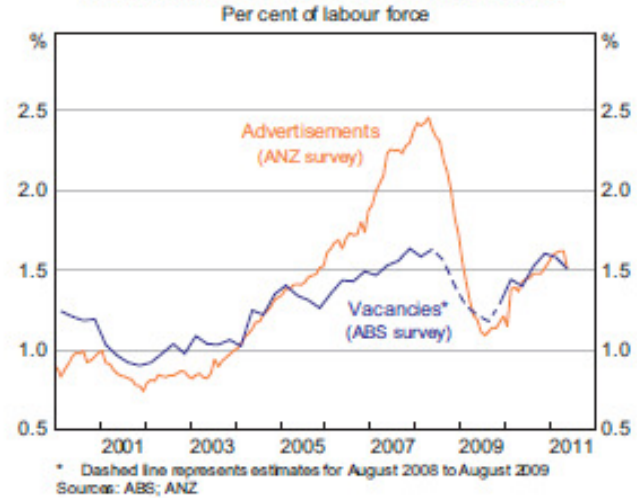
### Employment



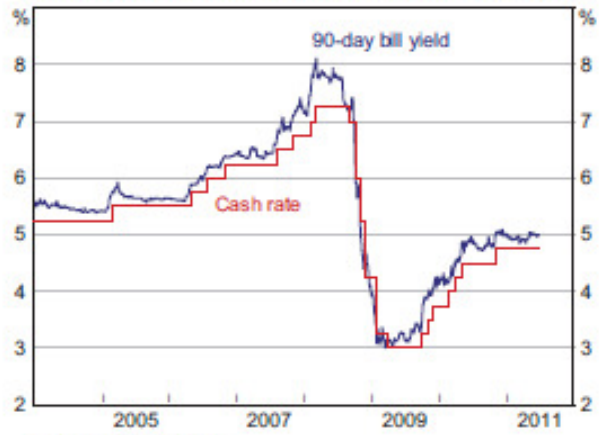
### Wage Price Index Growth



### Job Vacancies and Advertisements

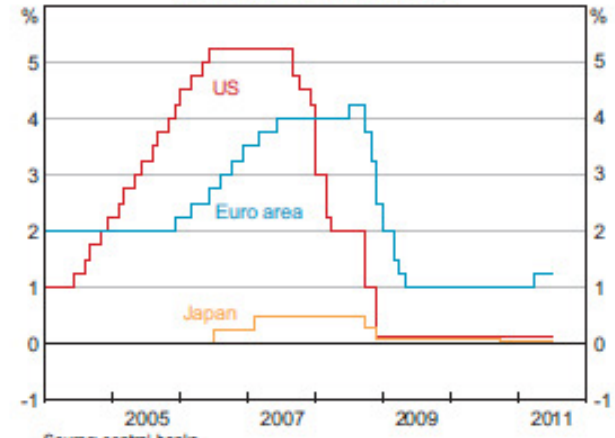


**Australian Cash Rate and 90-day Bill Yield**



Sources: AFMADData; RBA

**Policy Interest Rates**



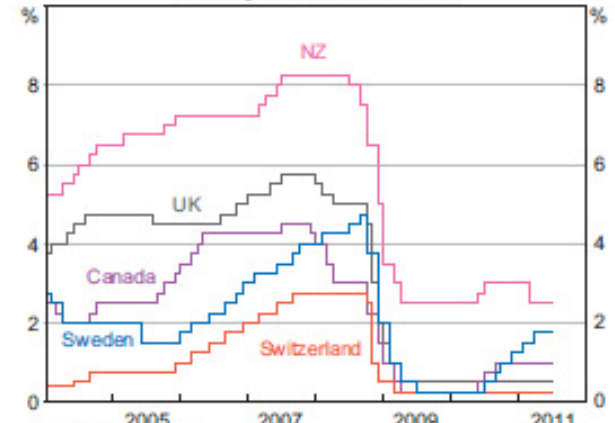
Source: central banks

**Australian Cash Rate**



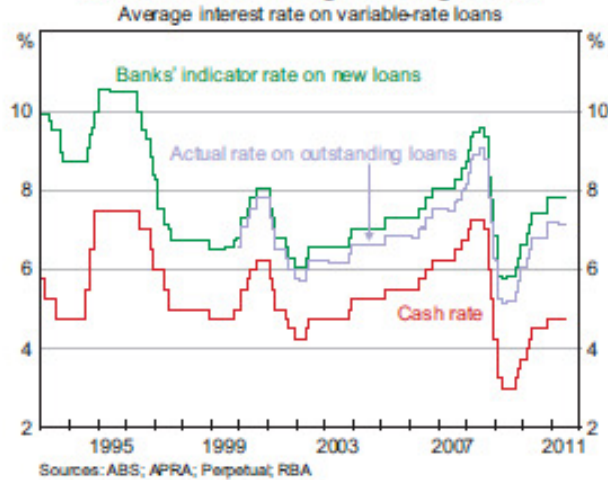
\* Calculated using average of weighted median and trimmed mean inflation  
Sources: ABS; RBA

**Policy Interest Rates**

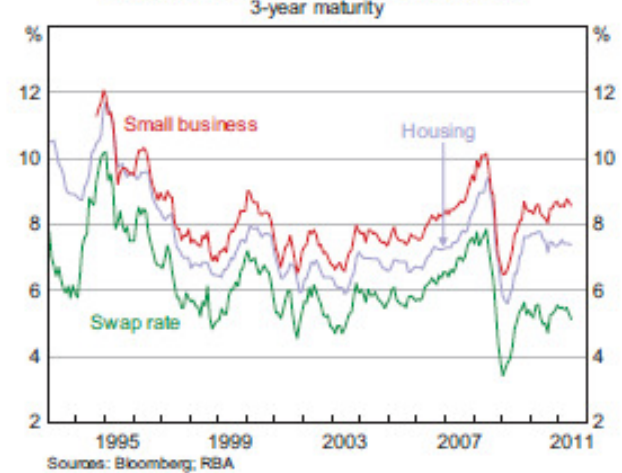


Source: central banks

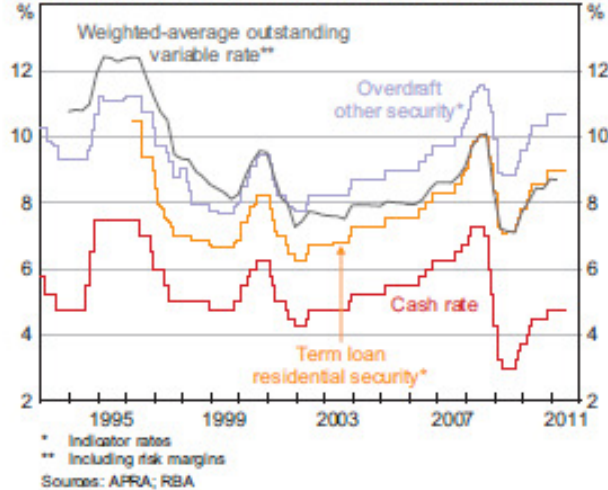
### Australian Housing Lending Rates



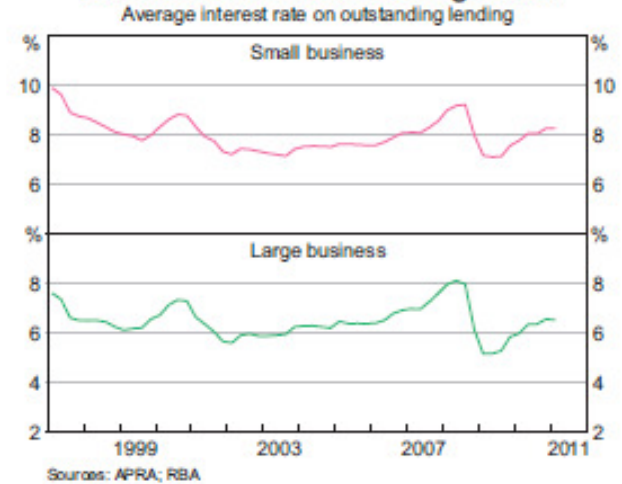
### Australian Fixed Interest Rates



### Australian Small Business Interest Rates



### Australian Business Lending Rates



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