



THE ADVISORY – FINANCE & MONEY MATTERS

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Cash Rate On Hold

Commentary & Opinion of Ben Kingsley, founder of Empower Wealth

Given Glenn Stevens' recent speech last month that he saw no reason for a further rate rise this year, it was no surprise that the cash rate remained on hold, following the RBA board meeting and cash rate announcement today.

The economists are mixed in their view of what the future holds regarding rate rises, some are predicting further rate rises in 2011 and others are of the view that this tightening cycle is coming to an end. This month I thought I'd share with you some extracts that I pulled out of St George's morning report, which makes for a great little snapshot of world economic and market data. It also highlights a subtle example of how economists can change their views as new data is announced.

Extract from St George Morning Report – 29/11/10:

AUSTRALIA: RBA Governor Glenn Stevens presented his semi-annual testimony on Friday. The key themes in his speech were similar to prior RBA rhetoric. The RBA Governor noted that while global growth has been better than expected this year, it is anticipated to moderate to somewhere closer to trend growth in the year ahead. This would reflect fiscal tightening measures in the EU region in response to the debt crisis, tightening policies in emerging economies to prevent overheating and the fact that the major countries are still battling with the aftermath of the financial crisis. In Australia, the key theme remains the 60-year high in the terms of trade, which will provide a key boost to business investment, incomes and spending. Accordingly, inflation is unlikely to decline further from here. While the high AUD is placing a lid on inflationary pressures, growth in labour costs is rising. Although inflation is expected to remain close to the 2-3% target in the year ahead, the risks are that inflation could be too high, rather than too low.

Interestingly, the RBA Governor highlighted that quite reasonable arguments could have been made to delay lifting rates on Melbourne Cup Day. This supports our view that rates will remain on hold for some time especially as lending rates in the broader economy are seen to now have a contractionary impact on growth. However, the very high level in the terms of trade will be a major economic stimulus in the year ahead. So the next move in rates is still likely to be up than down. We anticipate that the most likely timing for the next rate hike will be in the middle of 2011.

Extract from St George Morning Report – 2/12/10:

Growth in the September quarter was softer than expected, rising just 0.2%, versus consensus expectations of a 0.4% increase. Second quarter growth was also revised down to 1.1% (previously 1.2%). This saw the annual growth rate fall to 2.7%, from 3.1% previously. Detracting from growth was net exports, after making the largest contribution in the previous quarter. Keeping this quarter's number positive was strong growth in non-dwelling construction. Equipment expenditure fell. Household expenditure rose 0.6%. An upside surprise was a surge in agriculture output - without it GDP was negative 0.2%.

The wider consensus is that Australia's GDP will go at a solid rate in 2011. Although it's fair to say a two tier economy might develop whereby general consumer activity will be softer as higher costs of living take hold. On the other side of the coin, mining revenues and favourable terms of trade impact positively on GDP.

My view is that we are not too far off the top of the interest rate cycle. I definitely cannot see interest rates going higher than another 1% and if they do go this high, then I cannot see this happening very quickly - it might take around two years to get there, as Australian families will really struggle to pay the bills from that point forward, which can only mean consumer spending will die and this must have a flow on effect for employment, which will be the trigger for an easing of rates.

Note: I'm no expert and this is a personal view from my own research and reading of the economy. More importantly, it should not be taken as advice or be the reason you make any decision regarding your money and finances. Those decisions should be made through consultation with us, but they need to be made based on personal circumstances and objectives in mind and not just because of an opinion of mine using our money planning professional approach.

What is Money Planning? (MONEY)

Over the past few months, you may have noticed the phrase "Money Planning" appearing in communications from Empower Wealth and wondered what it means. Not to be confused with Financial Planning, we have invented the term Money Planning to describe a new range of services designed to assist our clients to get the most from their money.

Money Planning involves looking at the four key dimensions of Money - what you earn, what you spend, what you own and what you owe, or, in more technical terms, Income, Expenditure, Assets and Liabilities - and preparing a statement of where you are now in terms of your cash flow and wealth position and where you would like to be in the future, and then developing a plan to make it happen.

Every successful business in Australia prepares Profit and Loss Statements, Balance Sheets and Budget Forecasts and reviews them on a regular basis, recognising that good understanding and control of cashflows is essential to the financial success of their business. However, very few households give this important area the attention it deserves. Maybe it is seen as too difficult, or not important, or just plain boring, but we believe that sophisticated Money Planning is the key to understanding how the money you earn during your working life can be used to build wealth to provide the lifestyle you want for your entire lifetime, not just today and tomorrow.

The vast majority of successful businesses will happily pay for specialist advice to help manage their finances, and when you consider that, over the course of twenty or thirty years, most Australian households will have a turnover of many millions of dollars, it makes sense to think of your household as a business and give the management of household finances the attention it deserves.

If it is too difficult or too boring or there just aren't enough hours in the day, you might like to consider getting some advice and assistance. To find out more about the Money Planning services offered by Empower Wealth, please visit us at <http://www.empowerwealth.com.au/privateclient>.

Michael Pope – Our Money & Wealth Planner

How Do Lenders Assess Loans? (FINANCE)

Gone are the days when you can just go down to your local bank branch and get loan approval because of your longstanding relationship with the manager. These days lenders have become quite sophisticated in their method of assessing loans - it's now all about Risk Assessment.

For years, lenders have been compiling data about every one of their home loans and are now using this to help set policy for new applications. Every minute detail of a loan from the occupation type, length of employment, type of employment (Full Time, Part-Time, Casual, Self Employed, etc), property type, property location, borrower credit, borrower debt, borrower savings, etc. have all been analysed and are now being used to Risk Assess each and every loan application. This is known as Risk Scoring.

Each lender sets their own scoring parameters for which each application must pass.

The first step of loan assessment is through an electronic decisioning platform in which each lenders policy guidelines are configured and assessed for Risk. The typical lender has over 65 assessments it makes on each and every loan. And remember, each lender's policy is unique. Unfortunately, not every measurement is conveyed to us on the front-line. Our job is to know as much about each lender so that there are no unexpected surprises.

The data for the electronic decisioning is based upon the accuracy of the information that was input into the lender's loan application.

The following electronic decisioning results will occur:

1. **Conditional Approval** in which the loan then needs to be reviewed manually by the lender's staff for accuracy and any loan conditions need to be met. There is no need for further review by the lenders staff if the information sent was accurate and loan conditions, such as acceptable valuation, are met.
2. **Referred.** This means that the loan might still be approved but given either the complexity of the loan or it's marginal level of meeting or not meeting policy guidelines, the loan needs to be manually assessed.
3. **Declined.** This decision is typically only given when the loan does not come close to meeting policy guidelines. Typically this is the result of a poor credit report profile.

For some lenders, an electronic Decline will mean instant disqualification and they will not even entertain manually reviewing the file. For others, there is still hope for the file to be reviewed manually. Again, this is where the expertise of the Empower team can greatly benefit clients by turning declines into approvals.

Now most of us would think that the new methods of electronically assessing a loan would reduce the number of loan approvals - quite the contrary. Lender's own research has indicated that more loans get approved electronically than manually because manually assessed loans are subject to human error and interpretation. Additionally, statistics show that between 65-90% of loans initially given an electronic Decline but manually Approved, went into Default within 2 years! My guess is that lenders are going to start relying more on these electronic decisions in the future!

Steve Cruz – Professional Mortgage Strategist



Operating hours over Christmas & New Year

Our office will be closed from 12noon on Friday, 24th December 2010 and will reopen on Tuesday, 4th January 2011.

Directors Christmas Comment

In looking back on 2010, it has been another successful year of helping new and existing clients. Our business has evolved into a stronger wealth advisory practise with the introduction of our Financial Planning division, the expansion of service offerings within the Money Planning division and the increased growth within our mortgage broking arm and the focus of greater education for our clients via our investment and property workshop offerings.

What does that mean to our customer base?

- Helping First Home Buyers enter the property market through helping them source finance and education around what and where to buy
- Teaching people to better manage their money and maximise its power to create greater wealth
- Guiding our clients in securing their first investment properties
- Minimising our clients risk profiles through sensible personal insurance undertakings
- Wealth and Retirement planning for a brighter future with more opportunities
- Ensuring our clients Superannuation funds are providing them with good returns or investment – or moving their funds to gain them an advantage
- Helping get newcomers to wealth creation on the right track from savings and budget plans to superior property investment selection
- Advising our sophisticated investors into maximising their cash flow to building their property portfolio to a sustainable holding

The totally pleasing thing about the specialist professional advisory services approach in the work we do is that our clients are wealthier from their experience in working with us. That's pretty much how I respond to family and friends who ask me that simple question – How's Business? – As with every year in our business to date, I am able to reply – "Our business is great and growing, because our clients are either saving or making money".

Into 2011, we will continue to provide our customers with wealth creation opportunities and assist them in building and protection their money and wealth and allow them access to competitive financing options that deliver on our promise of building greater wealth.

From the team at Empower Wealth and me personally, we want to wish you and your family a happy and safe Christmas and a very prosperous 2011 that will deliver on your dreams and goals.

All the very best.....and don't forget, knowledge is empowering!

Regards

Ben Kingsley

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