



THE ADVISORY – FINANCE, MONEY & PROPERTY MATTERS - December 2011

This Month's Topics:

- **Cash Rate Decision: Rates Down – Further Christmas Bonus for Households**
 - **Finance Talk: Lenders Doing What They Do – Lending Money**
 - **Money & Wealth Management Talk: The Cost of Interest**
 - **Director's Comment: Someone Took a Calculated Risk**

RBA Moves Rates Down to 4.25% *Commentary & Opinion of Ben Kingsley - founder of Empower Wealth*

Although there were plenty tipping this rate cut including the money markets, the RBA's move to cut rates by a further 25 basis points came as a surprise to me given the minutes of the November meeting suggested it was a close call that we got a rate cut on Melbourne Cup Day. The messages from the RBA following the November cut, was that its November adjustment better aligned the cash rate to the changing of the economy to a more subdued outlook.

So this move concerns me a little about the overall confidence the RBA has in the Australian economy and our near term outlook. We can thank the basket case that is Europe for this rate cut, as the supporting notes issued by the RBA today make light of the flow on effect this is having in Asia.

Friday's meeting of the minds in Europe could signal a turning point in a positive direction for the Euro nations, which resulted in the mini share market rallies across the global markets last week. Solving the Euro crisis has very sharp upward market outcomes, provides a sense of confidence and positive sentiment shifts, in what have been some pretty gloomy months leading into years for the major developed nations globally.

What's our danger for our outlook in my view? Employment – not yet. Inflation – not presently, but with a devaluing dollar following this rate cut, fuel and imports may have an inflationary effect because dropping our cash rate puts downward pressure on our dollar – maybe this will be offset by the increased commodity sales, given our natural resources become cheaper to export with a soft dollar.

Was it consumer spending? - Sure it's been soft of late, but recent retail sales data for October surprised on the upside. No doubt the mortgage belt has 'been on the ropes' for the past 12 months, but the November cut and this cut will see some much desired surplus cash being saved on the interest front, so I'm not convinced that the consumer spending story is still as problematic as it has been.

One thing that is a fact has been the deterioration within the global inter-bank lending area – the same issue that was a critical factor that led to the GF. Maybe our RBA have been talking to other central bankers around the world as a move like this goes a long way to short circuit a repeat, as long as Europe

does some heavy lifting in the next month or two and reforms their own backyard.

All in all I note on balance I'm surprised by their move, but I'm not the RBA and they have wiser heads and far better data to make these decisions. They are obviously looking into the near term future and they see dark clouds forming. This rate cut is hopefully expected to generate the winds/activity to dispel those clouds looming.

One thing is for sure it's great news and Merry Christmas from the RBA to all us borrowers, as long as the Banks and other lending institutions do their bit and pass on the full quarter of one percent cut into our mortgages. Let's wait and see and that front.

(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 professionals before taking any action with your financial affairs.)

Christmas Business Hours

Our offices will be closed from 2pm Friday 23rd December and will reopen on Tuesday 3rd January 2012 at 9am.

If you have any urgent matters to be attended to through this period you can contact your advisor via his/her mobile. If any 'events' occur from our end, then we will also be in contact with you to keep you updated at all times on your financial affairs.

Emails during this period will be reviewed by all staff, however please don't expect prompt action from any emails your send. Better to contact your advisor on his/her mobile as noted above.

Merry Christmas and Happy New Year from the team at Empower Wealth

Finance Talk: Lenders doing what they do – Lending Money

With all the global economic uncertainty and the flow on effect to the cost of funds for lenders and the risk of possibly a softening Australian economy, one might be thinking the banks will be considering tightening up lending policy.

Our read of home loan lending policy is a little bit more macro, driven by the banks' need to continue to strive for profitable returns for shareholders. Given the well documented issues in the business and corporate areas at present, we are seeing residential lending policy is quite reasonable at the moment. The 0.25% reduction on rates in November has flowed through into the lenders' borrowing assessment calculators, meaning one's borrowing power is slightly enhanced with this change. (Still, you should only be spending what you can afford to repay – we don't want you ending up as another Greece!)

Therefore we see 2012 as being another competitive year and research suggests that brokers will move to control 50% of all new lending in the market. Interesting, isn't it?, banks have been around since the start of the nation over 200 years ago and brokers have been around about 16-17 years. It speaks volumes that consumers are seeking out specialists who have a full suite of lenders and loan options in one place and provide professional advice. So consumers can make the most informed decision given the broker is working in their best interest in helping them save money.

Cameron Morgan – Finance/Mortgage Advisor

In the Media & Educational Material

Over the past few months Empower Wealth has been featured on Sky Business, Melbourne Property TV and also in print in Your Investment Property Magazine and will soon feature in Your Money Magazine.

For your educational benefit we have uploaded a lot of this content, as well as previous Private Circle Wealth Forum content so you can continue to build your property investment knowledge. Here's the link to Empower Wealth's YOUTUBE CHANNEL – [CLICK HERE](#)

On the print front, we have set up a case study landing page on the website so you can read all about the property investment strategies & plans that have been featured in National Magazine Publications.

The latest of which is the 30 something couple for whom we were able to build a multi-million dollar property and wealth outcome – [CLICK HERE](#) to link to this page on our site.

Money & Wealth Management Talk: The Cost of Interest

What is the largest single amount of money you expect to part with in your life? For most families, a family home will probably be the largest single purchase they will make in their lives. But while the actual purchase price you pay for a house may be the biggest amount of money you spend in a single lump sum, there is likely to be another cost which, over time, will overshadow even that amount.

Consider someone who buys a \$500,000 home using \$50,000 of their savings and borrowing \$450,000 from a Bank to make up the difference. Repayments on a 30 year Principal and Interest Loan at an Interest Rate of 7.0% (ignoring any fees) would be around \$2994 per month, which would add up to a total of over \$1 million over the term of the Loan, including nearly \$630,000 in Interest - more than the original purchase price of the home. Consider further that if the purchaser was paying Income Tax at the marginal rate of 30 cents in the dollar, they would need to earn over \$1.5 million to pay the entire amount of the Loan, of which nearly \$900,000 is needed to pay the Interest.

We're certainly not saying that buying your family home is a bad idea because if the property grows in value by 7% p/a then in 30 years it will be worth \$3.8 million. However with such a large amount of money at stake, it makes sense to take whatever action you can to minimise the amount of Interest you have to pay, and there are some simple things that can be done to reduce the amount of Interest that you are charged on your borrowings.

The first of course is to borrow money at a low Interest Rate. This doesn't simply mean looking around for the lender offering the lowest Interest Rate, but looking for the best combination of features and benefits which meets your needs now and into the future and deciding which Loan represents the best value for money. When purchasing a new car, you look for a balance between features and benefits (where there are some things that are non-negotiable, some things that are nice to have and some things that don't matter) and cost (where hopefully you would be considering not just the purchase price, but the whole-of-life cost including running costs, maintenance, repair costs, etc.) Typically, you would then negotiate with the person selling the car to buy it for the lowest possible price. When "buying" a Loan, the same processes of comparing value-for-money and seeking to get the best price are just as valid.

By using the services of an experienced Mortgage Broker, you take advantage of their knowledge of the wide range of different Loan products that are available, meaning that they can advise you on the most suitable Loan or Package for your individual circumstances, and they can advise on and take into account features and benefits that you may not even realise are available, or that you might need in the future. Consider that, if the average person arranges

less than a dozen mortgages in their life, and a Mortgage Broker may arrange that many in a week, who is going to have the better knowledge of the products available, and their features, benefits and costs?

Further, because of the number and value of mortgages they arrange on behalf of their clients, a Mortgage Broker may have access to discounts not offered to the general public. To go back to our analogy of purchasing a car, someone purchasing dozens or hundreds of cars on behalf of a fleet is going to be able to use their purchasing power to get a better price than someone walking in off the street.

The second important way to save on the cost of Interest charged by a lender is to minimise the outstanding balance. Most lenders will charge Interest only on the amount you actually owe them (as opposed to the amount you borrowed), so by reducing the amount that you owe, you also reduce the amount of Interest you are charged. Most lenders will allow you to pay more than the specified minimum monthly repayment on a Mortgage, and I'm sure you've heard all the suggestions on the TV or in the newspaper - make extra payments, pay a bit extra each month, put that windfall into your Mortgage, pay weekly or fortnightly instead of monthly, etc. The problem with all these suggestions is that they involve giving your money to the Lender, and it can be difficult (and/or cost money) to get your money back if you need it in the future.

At Empower Wealth, our preferred approach is to use an Offset Account, available from most lenders, which is like a Savings Account, but instead of being paid Interest on your Savings, any balance in this Account offsets the balance outstanding on the associated Loan, and Interest is only charged on the net debt, or the difference between the balance outstanding on the Mortgage and the balance in the Offset Account. This reduces the amount of Interest payable on the Mortgage, but the money in the Offset Account is yours to do with as you wish, and you can deposit and withdraw money as required. So instead of earning Savings Account Interest, you are saving Interest on your Mortgage. Also, while any interest earned on a Savings Account is generally subject to Income Tax, the Interest saved on your Mortgage is not Income, and so is not taxable. This means that someone paying Income Tax at the marginal rate of 30 cents in the dollar with a Mortgage with an Interest rate of 7.0% would need to find a Savings Account paying 10% per year to get the same net benefit.

In a previous newsletter (available from [our website](#)), we identified that one of the key steps needed to put your Money Plan into action was to get your existing money working as hard as possible for you, and having every dollar earning an effective Interest Rate of 10% is a major step in the right direction. Empower Wealth's **Personal Wealth Management Program** includes recommended Account Structures and money management techniques to enable you to get the best possible return from your money and reduce the amount of Interest that you pay.

If you would be interested in seeing how these tools and techniques could be applied to your own personal financial situation, or would like to learn more about the benefits of having your Loan arranged by an experienced Mortgage Broker, please come and see us for a free one hour consultation by registering at <http://www.empowerwealth.com.au/review> or just give us a call.

Founding Director's Comment – Someone Took a Calculated Risk

Question: How many generations can you trace your family back to? 2, 3 or 4 maybe..... Now looking at your family's wealth base how many of you can easily see the millions of dollars within the family estates in property, cash, shares etc?

What.....your family doesn't have all those tens of millions in the family estate? (Don't worry I'm speaking to 99% of the reader base now – I'll talk to the 1% who are superiorly wealthy shortly).

How is that possible, all those generations, all those years of earning millions of dollars in income and paying off debt and yet the family estate is somewhat paltry- Maybe a home debt free and a caravan or holiday home, but still very little income being generated for a superior lifestyle in retirement.

Now you're thinking, surely my parents have been wise with their money right, because they are certainly happy to give me advice about money and debt?

Hmmmmm maybe now that you put it that way, maybe they along with my grandparents and my great grandparents weren't so great at managing their money at all.

LIGHT BULB MOMENT - SO WHY AM I LISTENING AND TAKING THEIR ADVICE ABOUT MY MONEY AND DEBT!

Sorry to make such an obvious point and it's not the first time I have written about it in my monthly comment, however it's a lifelong challenge of mine to change the money habits and ways of others, in taking advice about money from those that had a chance of becoming wealthier, but managed their money either 'poorly' or 'just ok'.

For the record, 'poorly' is not having enough to sustain you through your retirement years and just having a property to live in.

'Just ok' is having some income being generated (say \$50,000 a year or about \$1 million in investment assets) – yes that's just ok!

Now you get an understanding of the enormous task and responsibility I have on my shoulders to spread the word – DON'T EVER TAKE MONEY ADVICE FROM 'WELL MEANING' FAMILY & FRIENDS.

Now I want to talk to the other 1% - the Superiorly wealthy family members of large estates and wealth bases, because I have a message for you too – even if you have been born into money. The other 99% of you are also allowed to read on.....

For those born into money, I want you to ask your Mum and Dad, who in the family took the calculated risk? If they ask you what you are talking about reply with who was it that put the wealth foundation under us. The reply would go something like – Oh that was your great grandfather, he started a business.....he made some wise investments..... etc, etc. In short he took a calculated risk and was rewarded financially.

Loosely speaking, that's how I think the vast majority of those conversations would go, because I doubt any of your parents' replies would go like this.....he paid of his home loan because he was taught that debt/borrowing money was not a great idea. You seen in all great wealth stories, someone within the family unit need to take a risk, hopefully calculated and well researched and often they would have borrowed money, just as some of us do today to start our own families on a better wealth journey.

For the remaining 99% of you reading this – next time you get advice from well meaning family members or even friends for that matter – why are we/you better off financially? Interesting isn't it, given many generations of families have had the time, the opportunity to make a real financial difference to theirs and their future families' lives, but the vast majority of us fail as we follow the poor money and financial advice of those who come before us and never take that calculated risk to leap frog ourselves out of the pack.

So for those who want to leap frog and get ahead the only advice you want to seek out is that of the family member who took the risk – if they are not alive then seek out someone who can help you. I'd be delighted to be that person and I am more than happy to answer any questions you have - I'm on a lifelong challenge remember!

Knowledge is empowering - *if you act on it!*

Ben Kingsley
Founder – Empower Wealth

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