



THE ADVISORY – FINANCE & MONEY MATTERS

January 2011 – Happy New Year!!



CASH RATE & PROPERTY OUTLOOK FOR 2011

Commentary & Opinion of Ben Kingsley - founder of Empower Wealth

For those not in the know, the RBA board does not meet in January, so the first cash rate decision will be at 2.30pm on Tuesday 1st February, 2011.

In terms of the cash rate forecasts, there is a real mixed bag out there in terms of predictions of where the cash rate might be between now and the end of 2011. There is very little, if any support for a reduction in the cash rate. It's fair to say only a sizable Global correction/downturn would see rates decline given the overall strength of the current economy. That being said, it will be interesting to see what effect the very devastating flooding events up in Queensland will have on the overall economy. It's sure to impact on food prices which will affect inflation and certainly is going to affect mining outputs and the overall Queensland economy as all land transportation is affected for now.

The majority of forecasters are predicting rates to rise, from 0.25% to 1%. As I have noted in my previous commentary pieces, a further rise of 1% will really start to bite households with high debt. I am already on record saying that if they rise by 1% then I would expect a correction in values in new estate areas as stock levels rise and demand drops due to affordability constraints. Expect these locations to lose upward of 10% in value if rates rise this high.

Short term property 'Hot Spots' will appear, namely in cities and regional towns where investment and economic prosperity is driving up wages, housing stocks are in short supply and affordability remains under 25% of gross wages. Their runs will be short lived in property time, about 12 – 24 months, before they lose steam and momentum, as greater supply comes online or economic conditions settle and stabilise. Given you usually only have one shot at it - the challenge is going to be firstly picking the right city or town, the right suburb and then the right type of property. Short term returns will be very healthy if you get it right, and this is vital for this type of strategy as long term performance will then focus on yield growth as capital growth in these locations will rise and fall based on the economic cycle of the times. It can be a very long time between drinks for capital growth increases in these locations, so selection and timing is everything here.

In terms of cities - established older style accommodation close to major employment centres, infrastructure, and transport will continue to steam ahead, benefiting from demand drivers such as strong desirability to live in the location, strong employment and rising incomes meaning affordability is still within scope. On the supply side of the equation shortage of land and accommodation stock will play their role, and this year the pricing of the new stock coming online will have a drag up effect on the values of older accommodation. A minor face lift to the kitchen and bathroom may also reap inflated returns.

New accommodation coming online in city rim locations need to be well researched if you are looking to achieve a outperform result. Some developments will stack up, but the majority may not. Buying opportunities may present themselves at very attractive prices, which may be worth further investigation, but ensure you are not only aware of upfront costs but the ongoing costs, including building maintenance and upkeep, as they will eat into your profits.

In final summation – great opportunities present themselves in every type of market – whether it be a buyers or sellers market. Although it is always easier to secure properties, when ‘sheep are not flocking’, meaning that it’s easier to buy when demand is less and it certainly helps getting in early if you have a long term hold view because when the next upswing materialises you get all the value growth benefit. As for the other flocking sheep, once they get a sniff it’s a good idea to act, they will have missed feeding on the better stock and also half the upside in value growth.

Remember the very best time ever to invest to build wealth is yesterday, so given that’s impossible today is always the very next best day.

New Finance Licensing Laws

In an effort to better regulate lending in this country the Federal Government introduced new legislation known as the National Consumer Credit Protection Amendment Act 2010. This new legislation is designed to make borrowing money safer for consumers, through the implementation of new safeguards for borrowers. Prior to this new legislation, each state operated under different acts of law, so this national legislation has been a welcome outcome for professionals within the industry.

Empower Wealth is pleased to advise that we have met the new ASIC requirement to secure our licence prior to the 1 January 2011 deadline date set in July of last year.

Under the new laws, lenders or their agents (Brokers) are required to make sufficient enquiries regarding the borrower’s ability and capacity to repay the loan. This basically means that much higher scrutiny will now take place in terms of better understanding our clients’ financial position.

Empower Wealth has implemented a new and detailed fact find worksheet to better assess the ability of our clients to meet their lending obligations, ensuring the loan is suitable. These increased compliance measures are going to mean that securing credit will be much more time consuming for the borrower to make an application for credit.

Such a decision by the government will mean that it will be much harder for those that want to conduct their business directly with a lender, such as a bank or credit union, not to mention the time it will take. Imagine spending a few hours with each lender you want to compare products on as they go through their own extensive compliance checklists to ensure you are even eligible to borrow money with them. A potentially huge waste of time compared to working with a Professional Qualified and Licensed Credit Planner like Empower Wealth, who’s going to be able to use the information we have collected from you just once to shop for hundreds of loan options.

With time being such a limited resource, being able to source a vast choice of loan and lender products from a broker, should see even more borrowers understanding the benefit of dealing with brokers over a lender directly. Remembering brokers only care about their clients and not the lenders’ big profits.

Credit Card & Refinancing Debt

Ok, so the festive season has passed and the credit card and bank statements are starting to hit the inbox or the letter box for us old timers. A good festive season was had by all on the plastic, but now’s the time to find the cash flow to pay it off to ensure the interest we pay remains the lowest possible.

Other than a short term fix of switching to a new card with a lower introductory interest rate, the fact remains that at some point that debt needs to be repaid or consolidated.

Consolidating this debt can make a lot of sense, especially if you are able to consolidate it into the other lowest form of interest rate debt, your mortgage. By using the equity in your home you can payout your personal debts (including higher interest debt such as credit cards, car loans, personal loans etc). This will ensure you minimise the interest you pay and if you remain committed to using the savings made from refinancing, you will have this debt paid off even quicker!

Furthermore, whilst you're reviewing the household's debts, you should also be taking a look at your current home loan to see if you are getting the best savings from your current mortgage.

Currently we have a lender that's offering a 6.89% variable interest rate (conditions apply), but considering the likes of CBA and the other majors have rates as high as 7.91% that can make for savings in interest of \$2,550 per year on a \$250,000 loan. Now that type of money is far better in your pocket than in the shareholders of the banks – right?

Imaging having an extra \$2,550 to spend this year, by getting a better deal on your current mortgage. (If you don't have a mortgage then tell someone who does). This market leading deal is not from the Big Banks, but offers plenty of features and benefits that make a great loan product.

We welcome the opportunity to have your situation analysed to see if we can help you save money on your current situation. Our initial appointment is obligation free and some of our additional value add services, such as our Budget and Savings Report or our Cash Flow and Wealth Projection Report, could be the catalyst for starting to dramatically improve your wealth position.

We take care of all the application and compliance paperwork and showcase a way forward to getting you on track to achieving your desired outcomes.

INVESTOR WEALTH FORUM EVENT – Put it in your Diaries NOW!

**We are delighted to inform you that our next Private Circle Wealth Forum Event will be held on
Wednesday 16th February
6:15pm til 8.30pm**

Topics:

My Success Story: Catherine Bakos – 18 properties and still going strong!!

What I've done right & wrong on our journey to a multi-million dollar property portfolio

LIVE Demo of Advanced Cash Flow Strategies to build Wealth through Property -

Watch and participate in a live demonstration of how we are able to help assess and construct a Wealth and Retirement Plan using Property Investment

Risk Management Strategies –

Hear from our Financial Advisor on the areas in which risk can be minimised through personal insurances, when engaging in an investment strategy that incorporates debt (leverage)

[Click Here](#) to confirm your booking

UPCOMING PROPERTY & INVESTMENT WORKSHOPS

Thursday 3 rd Feb	-	First Home Buyers Information Night (Click Here)
Wednesday 16 th Feb	-	Wealth Forum (Click Here)
Tuesday 22 nd Feb	-	Hot Property Research Workshop (<i>formerly eSearch</i>)(Click Here)
Wednesday 2nd March	-	How to Build a Property Portfolio (Click Here)
Tuesday 15 th March	-	Money, Investing & Finance + Intro. Property Investing (Click Here)

Director's New Year Comment – Did You Make Any Headway To Retirement Last Year?

A new year has arrived and it's usually this time of the year that one reflects on the past year and reviews the good, the bad and the ugly. A lot of great things happened for me, my family and business in 2010 and very little bad news came our way. For most of you the ugly might have been Collingwood winning the flag, but for me that event was only beaten by the arrival of my first son Jack back in August, which was by far the scariest but also the biggest event in mine and Jane's life to date.

Jack's now just coming up to being 5 months old and doesn't having a baby change your perspective on the world? Now more than ever time has become the most precious commodity in my life and spending time with our son is very important to me as he grows up. I have always planned to play an active role in his endeavours, namely I'm a bit of a sporty person, with a basketball and football background, so I always thought I'd be the coach of one of these activities and I really enjoy music, travel and fishing, so if he's going to have an interest in these things, then I'm the man for the job.

Planning to be in a position to have more time for when I was older, required a bit of thought and understanding around the important things in our life, and money in isolation is not relevant at all, it's what enables us to do and what it can provide us. Being the wealthiest person in Australia or the world may have been a dream, many years back when I first started investing, but a wise person told me many years ago, a person with the most money in the world still can't buy time, if they have an illness that is terminal. Sure the upside is they can get the world's best health treatments to prolong their time alive, but that's about it.

For Jane and I, we do aspire to have a very high quality of life and very high standard of living – we certainly enjoy the finer things that money can afford us, but our written plans and goals are more to do with our values of the important things in our lives and the new experiences we plan to enjoy as Jack grows up.

Theoretically, even now in our 30's (OK - Jane's a fair bit younger than me, and technically I turn 40 in August) we do have enough of a wealth base to enjoy a lifestyle that currently 75% of the population can't, because we have built up a wealth base that could comfortably sustain us for the rest of our lives. However, comfortable is not what we are seeking. We have worked hard and want more for our retirement than just comfortable.

Our documented Money and Wealth Plan, and I say documented for a reason, as I heard a business advisor once say that research shows that 95% of written down plans succeed and I wholeheartedly agree. You don't run a successful business unless you have a business plan, budget and cash flow forecasts, marketing plans etc. so why should your household money be any different?

Anyway our documented plan has us working until I am 50, at which point, we have worked out that we will be in an exceptionally strong financial position to pretty much enjoy what we want when we want it. Now I love my work - making others wealthier and giving them the chance to retire earlier or provide more for their families is what I go to work every day to achieve. However it's very re-assuring to know that in as little as 10 years from now we will have climbed that mountain we set to climb and have hopefully the next 30 to 50 years to enjoy the view, plus the journey to get

there has been a hell of a lot of fun too!

As you reflect on your year just gone, ask yourself, did any of my money generating effort in 2010 find their way to making me and my family wealthier and was that money best utilised in making me one step closer to financial independence?

When you work with Empower Wealth, you know our core objective is to make you wealthier for whatever your reasons to use that money are.

Remember knowledge is empowering! - *If you do something with it!*

Regards

Ben Kingsley

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