



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

This Month's Topics:

- **Cash Rate Decision: Cash Rate – Is a rate move Down Possible?**
 - **Finance Talk: Financing for Cashflow**
- **Money & Wealth Talk: A Great Time to Start - NOW**
 - **Education: Wealth Forum # 5 – 1st September**
 - **Director's Comment: Money Choices**
 - **Bank Forecast on Interest Rates**

Is a Rate move DOWN possible?

Commentary & Opinion of Ben Kingsley - founder of Empower Wealth

Hmmmmm, just how well is the little Aussie Economy going?

As expected the RBA remained in a holding pattern on the cash rate, pushing out their well versed message of “rates remain appropriate”, well for now anyway. Their people still remain hawkish on further interest rate rises as theirs and Treasuries GDP calculations have the economy growing this financial year around the 4% mark.

However recent economic data makes this forecast look a little light on as jobs growth, finance lending, and general sentiment in the market isn't quite supporting this position. Maybe the RBA know more about what this so called mining boom is going to reap for us, as it's fair to say without it, we'd be in the same sort of mess that most of the world is struggling to recover from.

Speaking of other countries, Greece is certainly not the flavour of the month and as much as its people rebel against further austerity measures, they are going to sink further into the mire and it's still unknown just how many other countries will be dragged down with them and what impact this will have on the global growth story.

This brings me to my main question of this opinion piece....Is a rate move down more likely than up? Well looking at the markets that trade on rate movements, now is the closest the markets have looked to potentially pricing in a rate movement down. However, even though it's trended that way in more recent times, it's still showing us that a rate rise is more likely than a fall at this moment in time.

Personally, my position hasn't changed, I was of the belief of another rate rise occurring next, but that would be it for quite a while and it most likely would be the end of this cycle's upward movement on rates. When am I guessing this would happen? If not in November then it would be unlikely until Feb or

March.

Time will reveal if I am right or wrong.....

(Those people reading this should be reminded this is an opinion comment, and should not be 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. 1st September

The next Private Circle Wealth Forum will be held on Thursday 1st September at the State Library of Victoria.

Time: 6.00pm until 8.30pm Session

We will be announcing the final line up shortly, so block this date and time in your diary now.

Here's just a taste of what we have planned for you:

- An insider's Guide to Real Estate by a Real Estate Agent: Ever wanted to know the process in 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
 - Our Expert Panel will be back by popular demand for our Q&A session with the audience
- Success Story – Another client on their way to a multi-million dollar property portfolio and very successful retirement

Finance Talk: Financing for Cashflow

Cashflow is at the heart of any household or business and in almost all cases the lack of cashflows is their downfall, because they technically become insolvent.

There are several ways in which structuring your financials/debt can help from a cashflow position for households. Here are a couple of examples that will assist in building your knowledge of debt management.

1. The most logical way in which you can release more cashflow into the household is to revert your loan to an interest only position for a period of time.

Example: A household with a mortgage of \$350,000 have seen interest rates and the cost of their utilities rise significantly over the past 18mths to a point that their household budget is very tight from month to month. Currently they pay a Principal and Interest repayment of \$2,401 but if they switch their loan to interest only their monthly repayment will be only: \$2,070 per month – a cashflow saving each month of \$331. This money will go a long way in the short term to keep the household afloat and ensure they don't fail to pay any outstanding commitment, as this will affect their credit file if they don't meet their commitment. When they get into a better financial position they can still keep the loan interest only, but opt to pay a greater amount on their loan or into their offset account.

2. Resetting your loan term is another way of reducing your commitment and free up additional cashflow, this can be a very good strategy to increase any surplus cashflow which may then assist in helping that household secure an investment property to assist in building their wealth sooner.

Example: A household have a mortgage of \$140,000 with 13 years remaining on the term. Their current repayment is \$1,317. If they were to refinance this loan back to a 30 year loan term their repayments will be reduced to \$940 per month (even less if they went interest only instead of P&I). Once again this releases an additional monthly surplus of \$377.

IMPORTANT MESSAGE: As illustrated in the examples noted above, before you take either of these two options up, you must understand that paying no or less principal on your loan, means you are going to pay a greater amount of interest over the life of that loan, so the benefit of doing so must be greater than the additional costs of this money/debt.

Debt management can be a great way to improve cashflow, which can help with the greater good for your household. Any one of our licensed Finance

Advisors can help explore your situation to see how restructuring your finances can help you. Learn more about our FREE Finance and Wealth Review – [Click Here](#)

Cameron Morgan – Finance Advisor

Money & Wealth Talk: A Great Time to Start - NOW

As we begin the new Financial Year, most people can expect to receive some key information regarding their financial situation - employees will be receiving their PAYG Payment Summaries (Group Certificates) for the year and most people will also be receiving statements from their Superannuation Fund(s) which will give an insight into the wealth base they are building for their Retirement.

Many people's reaction when they receive their Payment Summary will be along the lines of "*Where did all that money go?*", while most people's reaction to their Superannuation Statement will be either to ignore it, file it away for the future, or, if they are approaching Retirement, start to realise that there won't be enough money there to provide for the lifestyle they had been hoping for in Retirement. (The word "hoping" is used deliberately here, as the numbers show that far more people "hope" for a good standard of living in Retirement than actually plan for it.)

These two questions go to the heart of the subject that we call Money Planning - understanding your current cashflows, and understanding what level of wealth you are likely to accumulate over your working life to fund your lifestyle in Retirement.

Developing an understanding of current household cashflows is the critical first step in the development of a Money Plan (as outlined in an [earlier article](#)) and a PAYG Payment Summary provides important information about the Income part of the picture. However, it is only by considering Income and Expenditure together that you can gain an understanding of what surplus cashflow might be available to put towards improving your wealth position.

But what about the wealth base you are already accumulating in your Superannuation? The Statement that I receive from my Superannuation Fund includes a chart which shows how my balance is going, and whether it is on track to provide for my retirement. But, of course, this chart is not about "my" retirement at all, as the Superannuation Fund has no idea when I wish to retire, or what sort of lifestyle I'm aiming for. The Statement is simply depicting what level of wealth will be required for a "modest" or a "comfortable" retirement¹, and so it is actually quite misleading. The only way to understand whether you are actually building enough wealth for the future is to look at these numbers in a lot more detail than your Superannuation Fund can.

This is where the second phase of Money Planning is required - taking the current information about cashflows and wealth position and projecting them forward in time based on a mathematical model (and a series of assumptions) to form a picture of where you can expect to be by the time you would like to retire. Only then can you make a decision as to whether you are on track to reach the level of wealth you will need to fund your desired lifestyle by the time you would like to be financially independent, i.e. no longer have to work for your income.

At Empower Wealth, we have developed a series of tools to assist with capturing the information needed to give you a picture of your current financial position and to gain an understanding of your financial potential. These tools were demonstrated in a recent Webinar entitled "How to build a Multi Million Dollar Property Portfolio". You can watch a recording of this webinar now by going to <http://www.empowerwealth.com.au/webinar> and registering at the bottom of the page.

If you would be 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 <http://www.empowerwealth.com.au/review> or just give us a call. Armed with the latest information on your financial position, there is no better time to get started.

P.S. If you find that you are receiving Statements from multiple Superannuation Funds, it's likely that you are paying more in fees than you need to, and may benefit from "consolidating" your Superannuation into a smaller number of accounts, usually just one. However, there are a number of factors to consider when choosing which one - not just the fees charged and the returns achieved, but other benefits that you may be entitled to such as lower-cost insurance cover. Our Financial Planning business is fully accredited and licensed to assist you with your choice of Superannuation Fund, and you can find out more about other services at <http://www.empowerwealth.com.au/planning>.

Michael Pope – Money & Wealth Analyst.

¹ "ASFA Retirement Standard" - <http://www.superannuation.asn.au/RS/default.aspx>

Founding Director's Comment – Money Choices

In this month's comment I'm putting my focus on discretionary and lifestyle spending decision with a goal of just making people contemplate a little harder before making such decisions or continuing with the decisions they currently make...

Smoking: Based on research conducted by Galaxy for Pfizer in 2009, the average smoker spends \$2,500 a year on smoking, which equates to \$208 per month. If this is the average then over a 25 year period of smoking the average person would spend \$62,500. Who knows how much more in future medical bills that hobby is going to cost them? How much if both people in the household smoked?

Gambling: CommSec, using the ABS data records believes the average Australian household spent \$2292 on gambling based on 2008 data.

For the record - Probability of winning:

- Powerball is 1 in 27+ million
- Major jackpot on a poker machine is 1 in 10 Million
- Oz Lotto is 1 in 8+ million
- Tattslotto is 2+ million
- Being killed by Lightning is 1.6+ million (just thought I'd bring it all into perspective)

Car Purchase: Buying an asset like a car is a significant purchase and must factor in essentials elements like safety, running costs and size to do the job it needs to do, but above all this lives the discretionary decisions like price, attraction, personal ego and the way in which it is going to be paid for. If debt is involved you are technically going to pay significantly more for the privilege of using that asset, even if there is a tax benefit. My message on the car front is too often people get sold on the initial dream of what the car will do for them, when in reality it gets them and their stuff from A to B. And what you commit out of your household income for that privilege, it has an 'opportunity cost' of what that money could do for you elsewhere.

Holidays: They are another high value discretionary purchasing decision. Once again the choices in the amount of money you spend each year affects your savings and future ability to build wealth and retire sooner so you can take permanent holidays. Now I'm not for minute suggesting a blanket ban on holiday

spending – I strongly believe in taking your 4 weeks a year and re-charging and enjoying some quality time with people who are important in your lives, it's just a matter of what level of spending will be involved.

Although so far I am sounding very much like the sergeant of the 'fun police' this comment is a reminder that households need to get an understanding of where all their money goes and what portion goes on Discretionary & lifestyle spending. It's clear that as household income increases, so does their discretionary and lifestyle element. Take for example if I said to you – “you can go on that expensive holiday, buy that brand new car, the designer clothing, keep smoking and gambling, and enjoying the standard of living enjoyed by households that generate income of 100,000 plus a year now, but just be ready for the fact that you most likely will still be working in your late 60's and if you continue to keep spending and either not saving some of your money or paying your debts off or investing some of this money, then get ready for enjoying a significantly altered lifestyle and income for your twilight years” – how does about half of that sound to you? Will you enjoy yourselves on \$50,000 a year or less?

Opportunity Cost – Some alternatives for your household spending choices:

Let me give you some 'very basic numbers' to highlight to you the potential lost wealth and Income for later in life – Say you have 20 years until you wish to retire

Say based on a review of your current household spending you were able to cut back and save \$8,000 a year.

Option 1: Save this money $\$8,000 \times 20 = \$160,000$ in savings and that is not including the interest you would earn on this money

Option 2: Pay off Debt: Say you have a mortgage of \$250,000 over 30 years at 7.1% and you could pay an extra \$666 per month (\$8,000 p.a) of the mortgage. Without the extra payments your interest over a 30 year period would be \$354,828. With your extra monthly repayment of \$666 p/m you would have saved \$111,984 in early repayments and therefore saved \$145,928 in interest.

Option 3: Buying an investment property to the value of \$300,000 growing at 7% in value per year and yielding a 5% rent. In 20 years the value of the property would be \$1,160,000 and the gross rental income would be \$46,400 p.a (if increasing at 5% p.a). This income would be sufficient to pay the debt down over time and you would have a very valuable asset providing a wonderful passive income for you in later life - Just think what would happen if you bought two or three?

As I have illustrated, we are talking about hundreds of thousands of dollars in lost opportunity if you live more for today and less for tomorrow.

When we conduct one of our [FREE Finance and Wealth Reviews](#) for people who have a consultation with us, the responses can be 'mixed'. Fortunately the majority have either had a realisation that they have a real opportunity to create greater wealth (that's why they come and see us in the first place) or by meeting with us and we showing them their potential, they have a light bulb go off in their heads that they need to do something and we are going to help them achieve this potential.

On the other hand, there are some people we meet both professionally and socially who are in denial about what they spend, some get frustrated given they work so hard to earn their money, and some simply don't care and live completely for today. That's fine it's their lives, but they need to know what the end result is.....and it's never anything they are going to be happy about.

Our job at Empower Wealth is to take those who do actually want to do more with their money and improve the current choices they are making, so their future wealth will ensure they can retire earlier and have wealth and money to be spoilt for choices.....

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

Ben Kingsley
Founder – Empower Wealth

Interest Rate Forecasts

Westpac Forecast – Feb 2011

	Latest (Feb 25)	Mar 11	Jun 11	Sep 11	Dec 11	Mar 12
Cash	4.75	4.75	4.75	5.00	5.00	5.25
90 Day Bill	4.96	4.95	5.00	5.25	5.25	5.50
3 Year Swap	5.43	5.60	5.45	5.35	5.50	5.55
10 Year Bond	5.55	5.70	5.50	5.20	5.40	5.50
10 Year Spread to US (bps)	211	210	220	210	210	210

Source: westpac.com.au

Westpac Forecast – 29 April 2011

	Latest (Apr 29)	Jun 11	Sep 11	Dec 11	Mar 11	Jun 12
Cash	4.75	4.75	5.00	5.00	5.00	5.25
90 Day Bill	4.92	5.00	5.25	5.25	5.25	5.40
3 Year Swap	5.46	5.60	5.65	5.70	5.70	5.80
10 Year Bond	5.43	5.50	5.20	5.40	5.50	5.60
10 Year Spread to US (bps)	212	175	210	220	210	180

Westpac Forecast – 24 June 2011

	Latest (Jun 24)	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12
Cash	4.75	4.75	5.00	5.00	5.00	5.25
90 Day Bill	5.01	5.00	5.25	5.25	5.25	5.50
3 Year Swap	5.03	5.20	5.50	5.60	5.75	5.80
10 Year Bond	5.09	5.20	5.40	5.50	5.60	5.70
10 Year Spread to US (bps)	215	210	220	210	210	210

Source: westpac.com.au

ANZ Forecast – 17th September 2010

AUSTRALIAN INTEREST RATES	CURRENT	DEC.10	MAR.11	JUN.11	SEP.11	DEC.11
RBA cash rate	4.50	5.00	5.25	5.50	5.75	6.00
90 day bill	4.78	5.30	5.60	6.00	6.00	6.2
3 year bond	4.76	5.10	5.50	5.70	6.00	6.00
10 year bond	5.12	5.50	5.70	5.80	6.00	5.90
3s10s yield curve	0.37	0.40	0.20	0.10	0.00	-0.10
3 year swap	5.16	5.50	5.90	6.10	6.40	6.40
10 year swap	5.59	6.05	6.25	6.35	6.55	6.45

ANZ Forecast – 5th November 2010

AUSTRALIAN INTEREST RATES	CURRENT	DEC 10F	MAR 11F	JUN 11F	SEP 11F	DEC 11F
RBA cash rate	4.75	4.75	4.75	5.00	5.25	5.50
90 day bill	4.99	5.00	5.05	5.20	5.45	5.70
3 year bond	5.02	5.00	5.20	5.60	5.90	5.90
10 year bond	5.24	5.20	5.30	5.60	5.80	5.70
3s10s yield curve	0.22	0.20	0.10	0.00	-0.10	-0.20
3 year swap	5.42	5.40	5.60	6.00	6.30	6.30
10 year swap	5.78	5.75	5.85	6.15	6.35	6.25

Source: anz.com.au

ANZ has not update their forecast since Nov 5, 2010

St George Forecast as at 30 Sept '10

End Period:	2010				2011			
	Q4	Q1	Q2	Q3	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
RBA Cash Rate, %	3.00	3.75	4.50	4.50	4.50	4.75	5.00	5.25
90 Day BBSW, %	4.35	4.14	4.87	4.89	4.80	5.10	5.30	5.55
3 Year Bond, %	5.00	4.65	4.99	4.78	4.90	5.10	5.35	5.65
3 Year BBSW, %	5.70	5.42	4.97	5.25	5.35	5.60	5.95	6.30
10 Year Bond, %	6.00	5.56	5.09	5.00	5.25	5.50	6.00	6.20

St George Forecast as at 10th December 2010

	2010				2011			
End Period:	Q1	Q2	Q3	Q4	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
RBA Cash Rate, %	3.75	4.50	4.50	4.75	4.75	5.00	5.25	5.25
90 Day BBSW, %	4.14	4.87	4.80	4.98	5.00	5.25	5.50	5.75
3 Year Bond, %	4.65	4.99	4.90	5.27	5.20	5.60	5.90	5.90
10 Year Bond, %	5.56	5.09	5.00	5.55	5.50	5.60	5.70	5.80

St George Forecast as at 13th April 2011

	2010			2011			2012	
End Period:	Q2	Q3	Q4	Q1	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)
RBA Cash Rate, %	4.50	4.50	4.75	4.75	4.75	5.00	5.25	5.50
90 Day BBSW, %	4.87	4.80	4.98	4.93	5.00	5.25	5.50	5.75
3 Year Bond, %	4.99	4.90	5.27	5.04	5.60	5.90	5.90	5.90
10 Year Bond, %	5.09	5.00	5.55	5.49	5.70	5.80	5.90	6.00

Source: MONTHLY ECONOMIC OUTLOOK April 2011

Note: St George have not updated their forecast table above for this month, although in a separate release (daily Update) they have advised they only believe the RBA will have one rate rise of 0.25% in the second half of 2011, most likely October or November

NAB - Forecasts April 2011

	Calendar Year		
	2011 - F	2012- F	2013-F
RBA Cash Rate	5.25	5.25	5.25

NAB - Forecasts June 2011

	Calendar Year		
	2011 - F	2012- F	2013-F
RBA Cash Rate	5.25	5.25	5.25

Source: NAB Global & Australian Forecasts – www.nab.com.au

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