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

This Month's Topics:

- **Cash Rates Decision: Cash Rate Remains on Hold for Now**
- **Finance Talk: New Team Member**
- **Money & Wealth Talk: How Do You Get Started?**
- **Property Talk: New Incentives for First Home Buyers (VIC)**
- **Education: Free Webinar – How to Avoid the 7 'Wealth Destroying' Property Buying Mistakes**
- **Director's Comment: Please keep talking up this 'Property Bubble'!**
- **RBA Data Pack**

Cash Rate Remains on Hold for Now

Commentary & Opinion of Ben Kingsley - founder of Empower Wealth

The RBA held off increasing the cash rate / interest rates once again this month, as it digests the March Quarter GDP data. The numbers for the quarter weren't good, driven by the natural disaster events in Queensland. These events caused significant disruption to the mining industry, due to major infrastructure damage from these events.
The poor GDP numbers clearly highlight the level of impact the mining sector has on our overall economy. We heard most commentators start quoting the "Two Speed Economy". The reference relates to the Mining Sector – High Speed, which given demand and record high commodity prices, is a sector of the economy that is providing significant input to our terms of trade and this flows through to the GDP numbers. The Slow Speed economy is pretty much the rest of the economy that makes up the remainder of the GDP numbers.

So when you have events like the natural disasters in Queensland, we clearly see the impact to GDP figures (down 1.2% for the quarter), and importantly it highlights that during this period the other sectors that make up our overall Gross Domestic Production have somewhat struggled to add growth to our economy. It's clear that consumers are not in the mood to spend money, and all the noise about property values in the media is also affecting sentiment and creating uncertainty in the economy. *(You can read more about property values in my director's comment later in this newsletter.)*

Most economists and commentators do believe this is simply a 'blip' and once the mines come back online in Queensland, that GDP will head towards 3-4%, which is the area that will see the RBA looking closer at interest rates in the second half of this year, with a likely rate rise of 0.25% before the end of the year.

Below is a snippet from a St George's Morning Report, which was worth a read so I have added it to this month's newsletter

Source: St George Morning Report – 6th May 2011

Australia: *Yesterday's retail spending data makes it clear that consumers are continuing to wrap themselves up in cotton wool. Consumers are saving more and spending less. The value of retail sales unexpectedly fell 0.5% in March, raising worries that the caution among consumers is deepening. The impact of the natural disasters is still washing through the data and a late Easter also likely played havoc with the seasonal adjustment process. But even in trend terms (which smooths the data), retail spending growth was soft, albeit steady, growing 0.1% in March and by 2% in the year to March.*

Retail sales volumes were flat in the March quarter, suggesting downside risk to the March quarter GDP numbers when they are released in early June.

The consumer remains the swing variable for the domestic economic outlook this year. The RBA has previously welcomed the caution exhibited by consumers because it has helped the RBA do its job in fighting inflation. But if consumers dig a deeper burrow in coming months, the growth outlook for the domestic economy will be tempered. It then brings the risk that the RBA will have less tightening to do.

In other data released yesterday, building approvals jumped 9.1% in March, after consecutive falls of 5.3% and 10.7% in January and February, respectively. Over the year to March, approvals were down 18.1%, the weakest since February 2009. Behind the March increase was a 26.1% jump in the more volatile other dwellings series. Meanwhile, approvals in private sector housing remain weak; this category declined by 0.8%. Despite the bounce in March, growth in approvals remains quite weak and in trend terms is still contracting. Ongoing weakness in dwelling approvals indicates that Australia's chronic housing shortage looks set to continue.

FREE WEBINAR – How to Avoid the 7 'WEALTH DESTROYING' Property Buying Mistakes

This FREE webinar will outline the 7 'wealth destroying' mistakes made by new and sometimes by experienced property investors and owner occupier buyers alike.

Join your presenter Cate Bakos for this educational event that is sure to help you better understand what NOT to do when it comes to buying property.

Date: Wednesday 29th June 2011
Time: 7.30 until 8.30pm

LEARN MORE & REGISTER NOW - CLICK HERE

Your Presenter: Cate Bakos
18 Properties of her own and going strong!

Finance Talk: New Team Member – Cristina Rodriguez

We are delighted to introduce our newest team member Cristina Rodriguez who is our new Loan Processing Officer. Our business submits millions of dollars in lending each month for our clients and it's Cristina's role to liaise with our clients to provide them with status updates regarding their loan applications. Cristina is the conduit between the lender, the Finance Advisor and the client, ensuring a smooth transition from application to settlement, by wrestling the bank to ensure our applications get priority treatment and our clients meet their settlement deadlines.

Cristina comes to us after extensive experience within the banking and finance sector in London. It won't take long before she is on top of the Australian banking & property systems and running the show here. When you drop in to say hi or call us, you may be greeted by her lovely Spanish accent.

Money & Wealth Talk: Money & Wealth Planning – How Do You Get Started?

In the previous Newsletter (available from http://www.empowerwealth.com.au/latestnews), we looked at the first step in Money Planning - knowing where you are now - and outlined the sort of information that you would need to collect to be able to prepare a picture of your current financial position.

But that's only the beginning - your financial position will be constantly changing over time, and an understanding of your likely future financial position will require thinking about how your cashflows will change from year to year. For example, how do you expect that your income will change over the years between now and retirement; how will the amount you need to spend on bills change; how will your spending on living and lifestyle change? We also need to be conscious of the fact that Mortgage Interest Rates will change from year to year, that the value of any properties or other assets you own will change over time, and that there will be costs and spending in the future that will need to be accommodated, such as school fees, a new car, etc. And to complete the picture, you will need to think about when you would like to retire and what sort of income will be required in retirement to support your desired lifestyle.

Combining a clear picture of your current Income, Expenditure, Assets and Liabilities together with a series of assumptions about how these things are expected to change in the future will allow preparation of a projection of future cashflows and accumulated wealth through the remainder of your working life and beyond into retirement.

Once you have put this information together and completed the mathematical projections, you will be in a position to answer a very important question - "Is my current level of wealth building, whether through savings, superannuation or investments, going to provide a large enough wealth base by the time I retire to provide a passive income stream sufficient to pay for my desired lifestyle?" Based on all the statistics and research that we have examined, it seems that there is a high probability that the answer to this question will be a resounding "No".

For most Australians, building wealth for Retirement consists solely on relying on the Superannuation Guarantee, whereby your employer is required to contribute an amount equal to 9% of your Salary into a Superannuation Fund. While this is designed to ensure that you will have some wealth for your Retirement, the type of projections that we are talking about will quickly show that it will not be adequate for even a modest lifestyle, let alone a comfortable one, in Retirement.

These projections can very quickly show you whether you are currently building enough wealth for your retirement or not, and, if not, they can also be used to evaluate the impact of alternative investment scenarios that may be able to improve your financial outlook.

We recently conducted a series of Webinars entitled "How to build a Multi Million Dollar Property Portfolio" during which we demonstrated some of the tools that we use at Empower Wealth to assist our clients to gain an understanding of their financial potential. You can watch a recording of one of these webinars 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.

Michael Pope – Money & Wealth Analyst.

Property Talk: New First Home Buyer Incentives – VIC (Stamp Duty Cuts)

The new Liberal State Government has honoured its election pledge by announcing in the state budget that it will reduce stamp duty for First Home Buyers by 20% this financial year and more into the future......

If you are interested in learning more about buying your first home, then you cannot afford to miss **our FREE information night on Thursday 23rd June** – Click here for all the details and to register to attend.

Below is a table that outlines the current First Home Buyer Incentives from both the State and Federal Governments:

First Home Owner Assistance - Summary

Contract Date 1 July 2011 - 30 June 2012				
Conditions	**First Home Owner Grant (FHOG)**	**First Home Bonus**	**First Home Owner Regional Bonus**	**Total**
Established homes only	$7,000#	N/A	N/A	**$7,000**
Newly constructed homes in Metropolitan Victoria only	$7,000#	$13,000*	N/A	**$20,000**
Newly constructed homes in Regional Victoria only	$7,000#	$13,000*	$6,500*	**$26,500**

#For contracts entered into on or after 1 July 2011, to qualify for the Grant, the price of the property or construction of the home must not exceed $750,000.
***For contracts entered into on or after 1 July 2009 to 30 June 2012. Note: To qualify for the Bonus, the value of the property must not exceed $600,000.**

Stamp Duty Reduction Schedule for First Home Buyers				
CUT	**-20%**	**-10% (30% in Total)**	**-10% (40% in Total)**	**-10% (50% in Total)**
Timing	**1 July 2011**	**1 Jan 2013**	**1 Jan 2014**	**1 Sept 2014**

Source: Department of Treasury and Finance

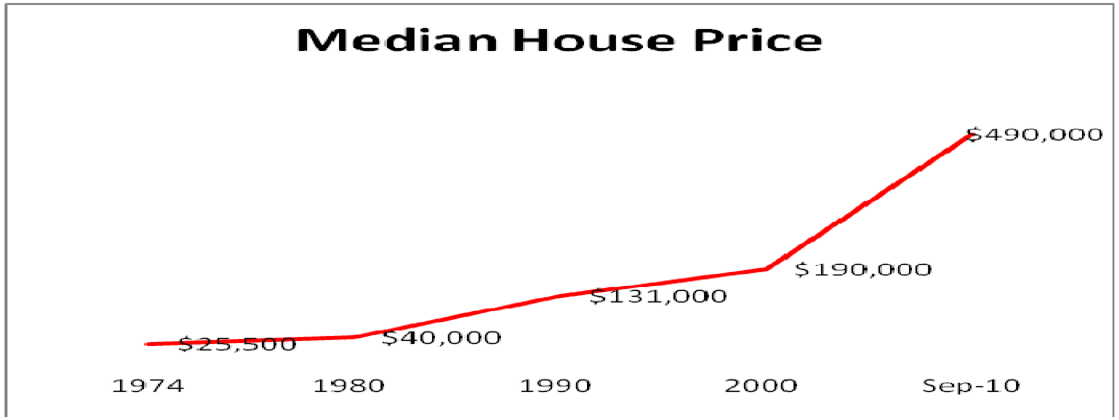
Founding Director's Comment – Please Keep Talking Up this 'Property Bubble'!

This month's comment is not going to focus too much on the hype surrounding property values and what they are worth today or the next 3 months, you can read my previous comments from other newsletters about how I have been predicting 10% or more correction in values in new housing areas where the majority of the market has mortgages, and also in the top end of the market.

In this comment I'm communicating with all those interested in making money and creating superior wealth outcomes over the longer term from residential property. Now those of you who are long term readers of my comments will recall I am an advocate for 'time in the market' as it's this strategy that will make you the greatest amount of wealth over the stretch, as opposed to' timing the market', whereby you think you can make it rich quickly.

Please allow me to justify my position if I may, before I highlight why I'm personally back in the market to buy another investment property in the next few months, maybe even two!

Take a look at the graph below. This is Melbourne median house price from 1974 until March 2011. Now the data that makes up this chart are 1974, 1980, 1990, 2000 and Sept-2010. The graph tells the simplest of stories that property has had significant long term growth, during both the good times and the bad times, including wars, floating of the Aussie Dollar, recessions, introduction of GST, stock market crashes, the Global Financial Crisis, yet the long term returns have been very good.



Source: Valuer General Victoria

These values in the graph show Melbourne's median house prices have grown by 8.5% p.a in value over this 36 year period. Now some of this data represents the total Melbourne market, therefore some properties have had fantastic returns of more than 12-15% p.a, when you also factor in their rental income, and some have been complete duds, returning around 3-5% (which is just covering inflation – so you still have to know where to buy and what to buy – there is a science to this).

Now historical records are no guarantee for future returns, which is what stops most people from taking an educated risk to enter the market, because they just can't believe values can keep growing at this rate, the same view our parents had when they bought their properties back in the early 1970's when properties were so expensive at $25,500 to buy (Median Price 1974).

But historical evidence is one of the best ways we can measure future performance, if the majority of the variables that make up the marketplace are similar to what they were in the past. I take the view they are; we still live in accommodation, not caves, we still work to earn income, incomes continue to increase, our population continues to grow, our marketplace is an open market, so we have choices to live where we wish creating the demand drivers, we continue to be time poor, so we are choosing to live closer to employment centres, etc., etc.

That's why I'm not worried about the current market hype around a property bubble, but rather I am incredibly excited about it, you see this 'noise' in the market scares off most of the following buyers: First Home Buyers, uneducated and uncertain investors, up-graders, and downsizers. All in all, less competition puts me and other smart investors in the driver's seat to buy well.

So in recapping my point, although it's 'time in the market' that's going to make me and my clients wealthier, it's times like what we are going to experience over the next 3, 6 (and maybe even 12 months), that are going to make us even more money, as we are going to get bargains. And by bargains, I don't mean the wrong properties in the wrong location going cheap, I mean quality properties that outperform in the hot market times and don't fall much as all in the soft markets, yet they can be picked up below what I would consider their fair value in soft market times like what's in front of us in the next short term period. That's why we are talking to all our investor clients right now and preparing them to re-enter the market, as these windows of opportunity don't come around too often when competition is low, great buying opportunities emerge – you just need to know where to look and what to buy...........and that's what we do full time here at Empower Wealth!

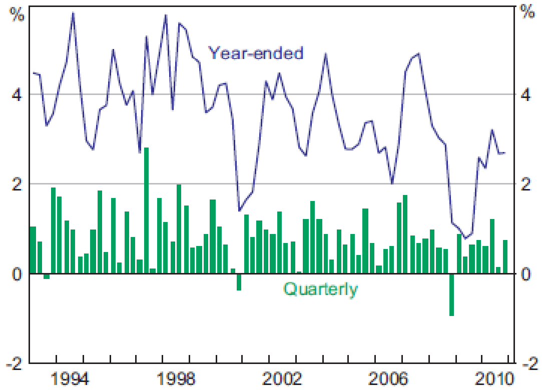
Remember, knowledge is empowering - *if you act on it!*

Ben Kingsley
Founder – Empower Wealth

RBA Data Pack

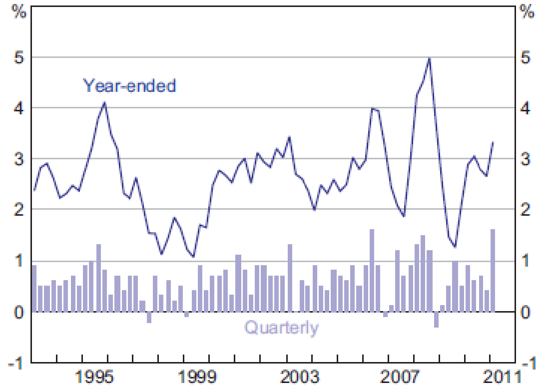
Australian GDP Growth and Inflation

GDP Growth



Source: ABS

Consumer Price Inflation*

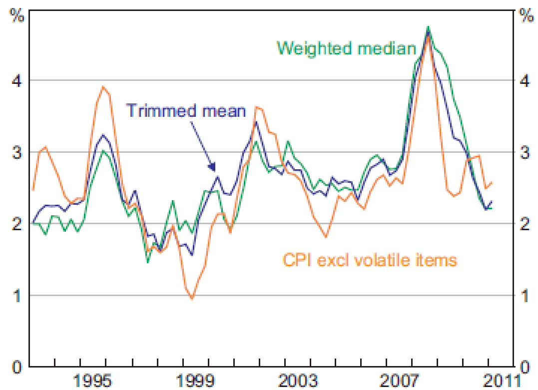


* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA

Underlying Inflation*

Year-ended

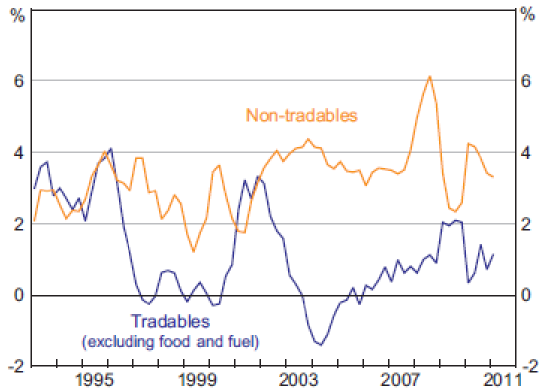


* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA

Tradables and Non-tradables Inflation*

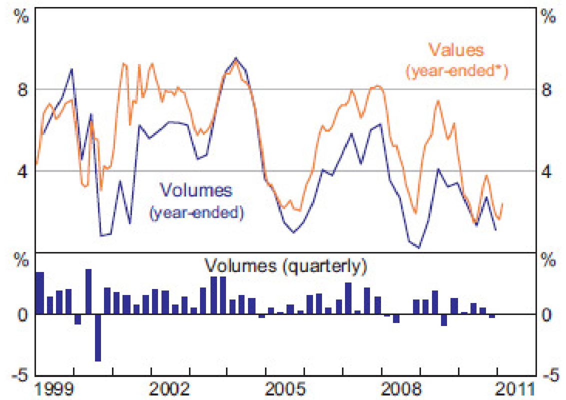
Year-ended



* Excluding interest charges prior to the September quarter 1998 and adjusted for the tax changes of 1999–2000

Sources: ABS; RBA

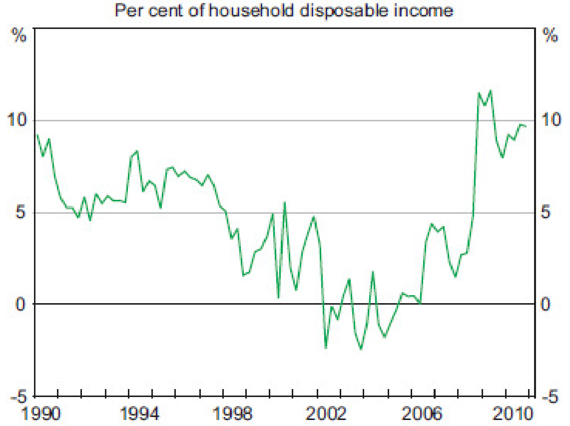
Retail Sales Growth



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

Household Saving Ratio*

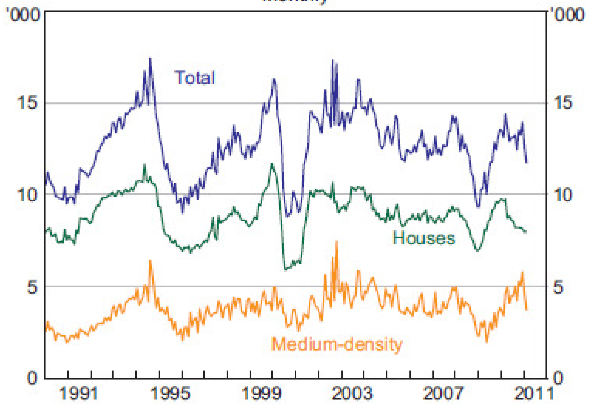
Per cent of household disposable income



* Net of depreciation
Source: ABS

Private Building Approvals

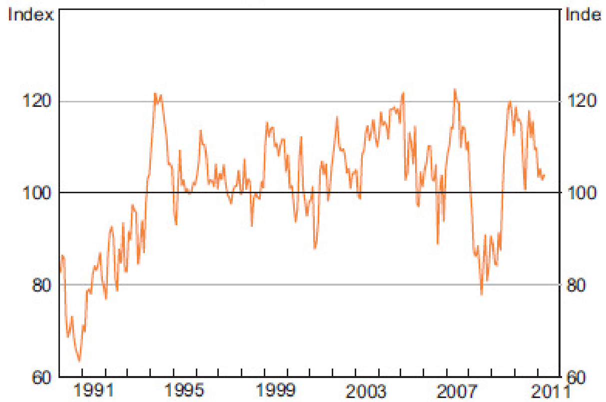
Monthly



Source: ABS

Consumer Sentiment

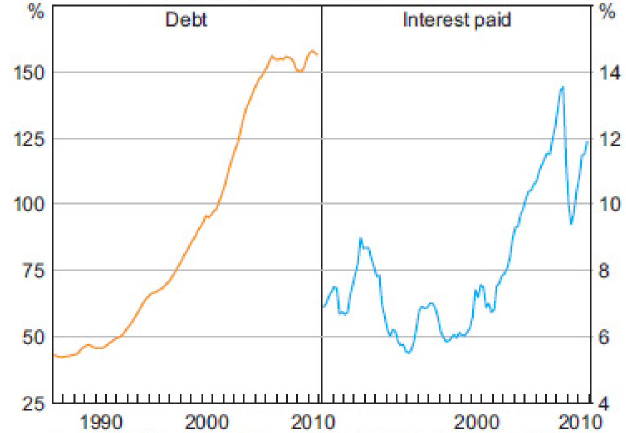
Average since 1980 = 100



Source: Melbourne Institute and Westpac

Household Finances*

Per cent of household disposable income

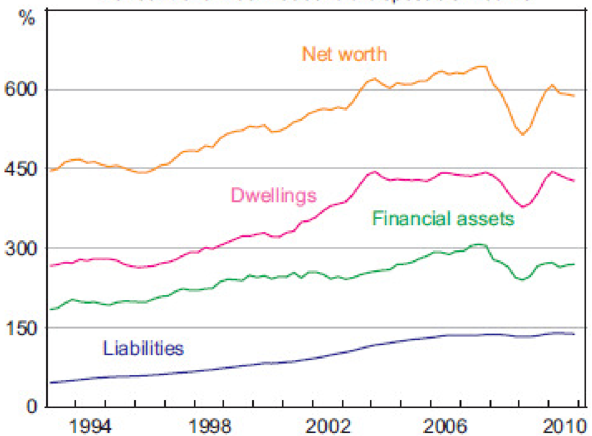


* Household sector excludes unincorporated enterprises. Disposable income is after tax and before the deduction of interest payments.

Sources: ABS; RBA

Household Wealth and Liabilities*

Per cent of annual household disposable income

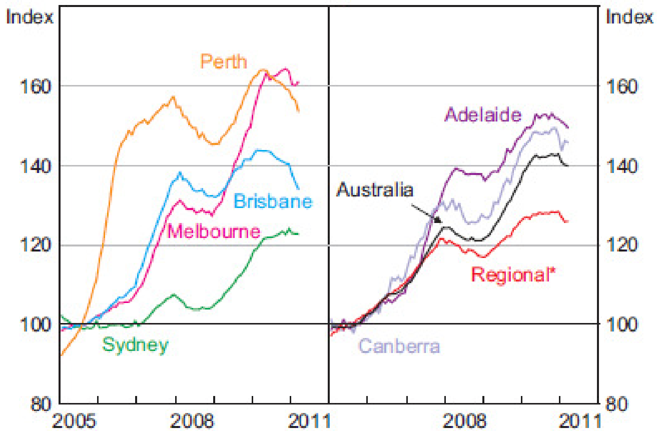


* Household sector includes unincorporated enterprises. Disposable income is after tax and before the deduction of interest payments.

Sources: ABS; APM; RBA

Dwelling Prices

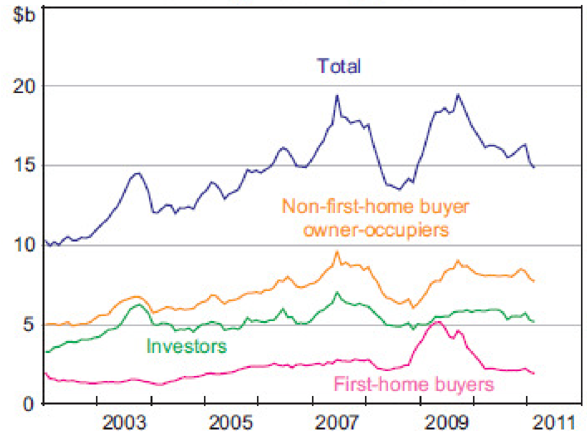
2005 average = 100



* Excluding apartments; measured as areas outside of capital cities in NSW, Qld, SA, Vic and WA

Sources: RBA; RP Data-Rismark

Housing Loan Approvals*

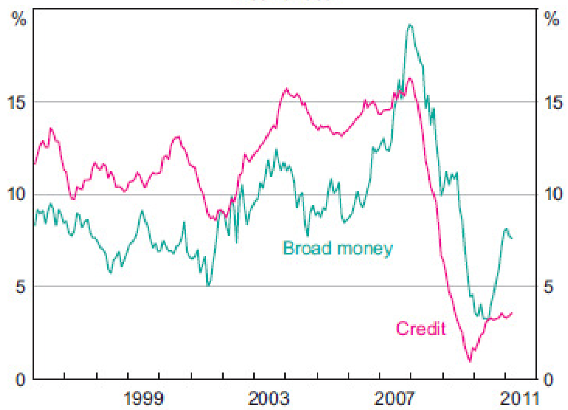


* Excludes owner-occupier refinancing, alterations & additions and investor approvals for new construction and by 'others'

Sources: ABS; RBA

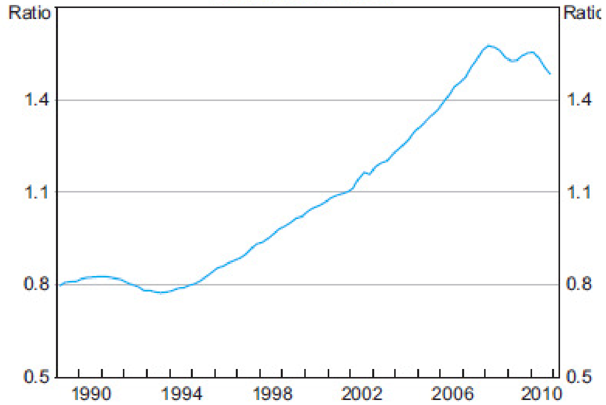
Credit and Money

Credit and Broad Money Growth
Year-ended



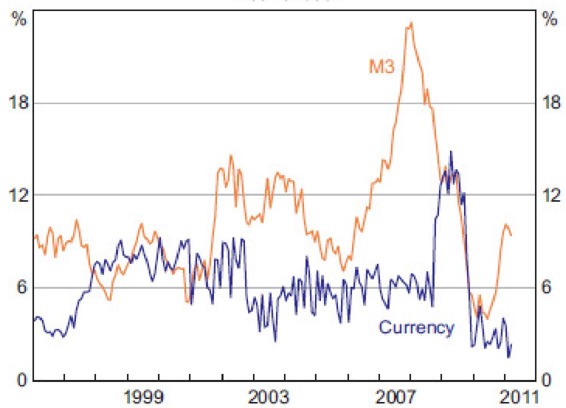
Source: RBA

Credit*
Ratio to nominal GDP



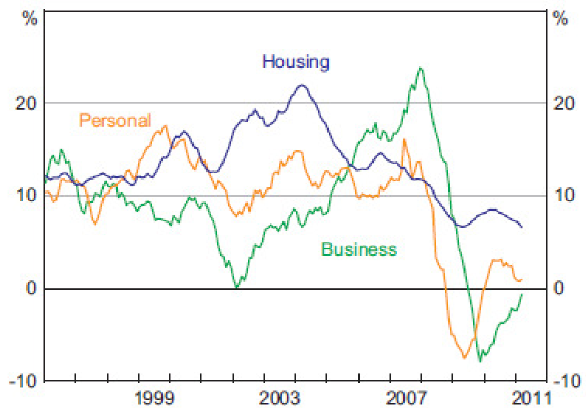
* Not adjusted for breaks
Sources: ABS; RBA

Monetary Aggregates Growth
Year-ended



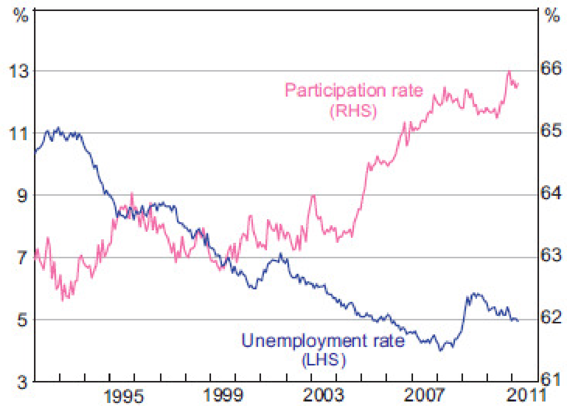
Source: RBA

Credit Growth by Sector
Year-ended



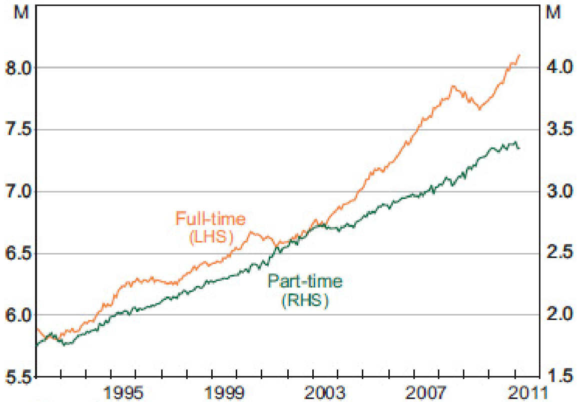
Source: RBA

Labour Force



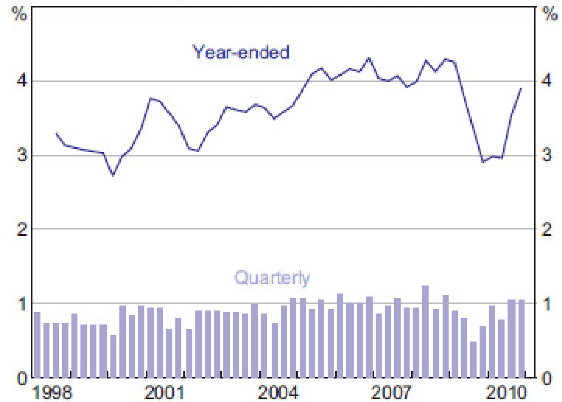
Source: ABS

Employment



Source: ABS

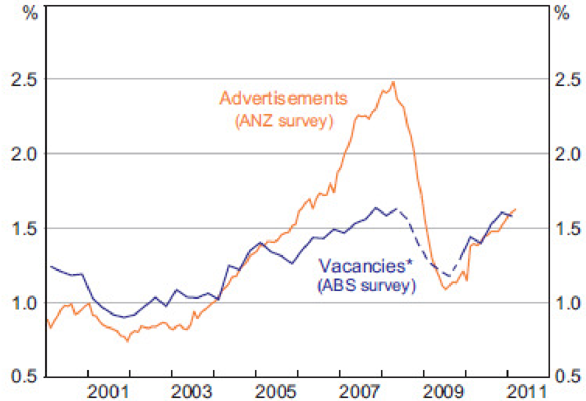
Wage Price Index Growth



Source: ABS

Job Vacancies and Advertisements

Per cent of labour force

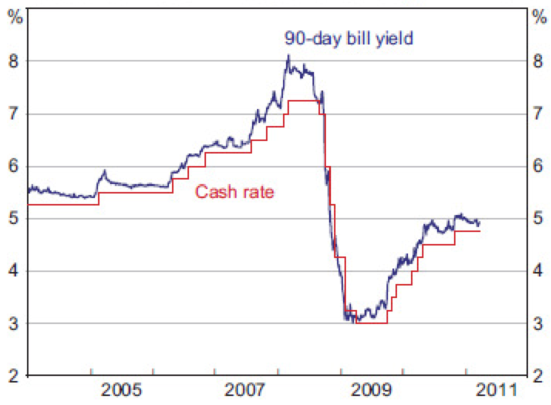


* Dashed line represents estimates for August 2008 to August 2009

Sources: ABS; ANZ

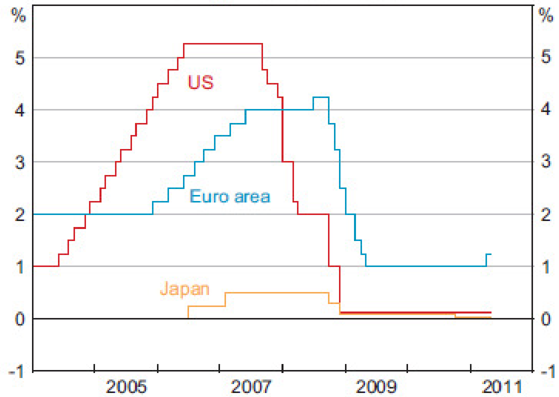
Interest Rates

Australian Cash Rate and 90-day Bill Yield



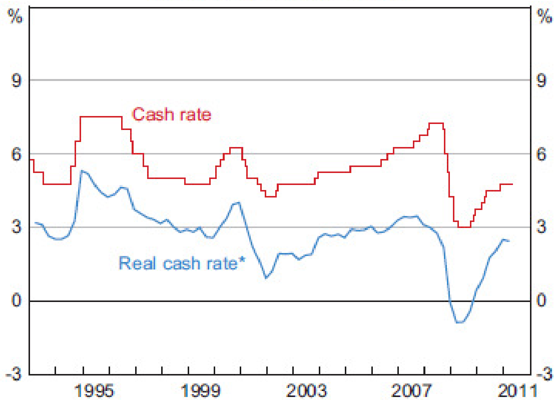
Sources: AFMAData; RBA

Policy Interest Rates



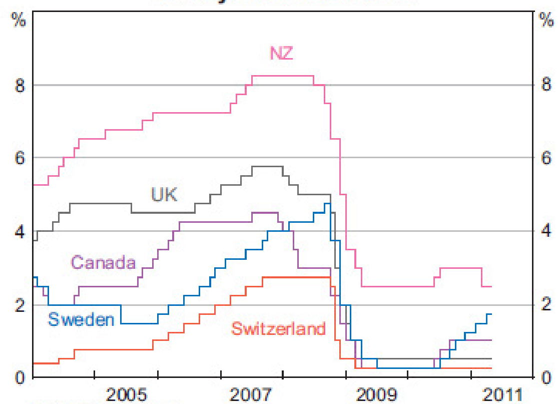
Source: central banks

Australian Cash Rate



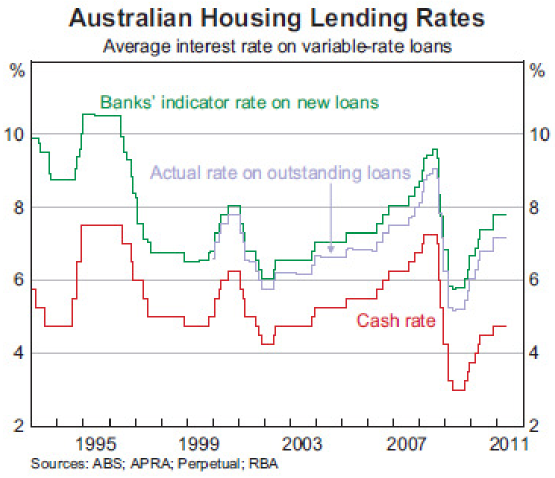
* Calculated using average of weighted median and trimmed mean inflation
Sources: ABS; RBA

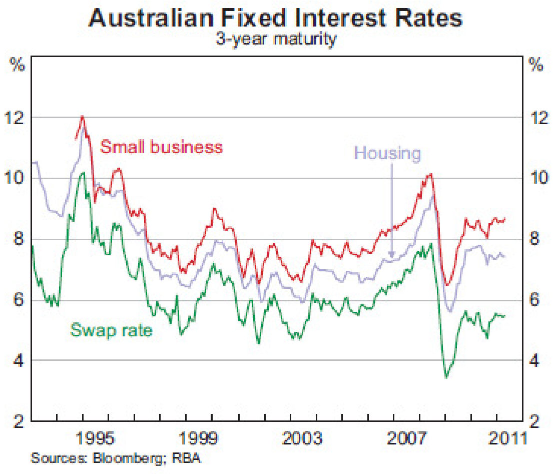
Policy Interest Rates

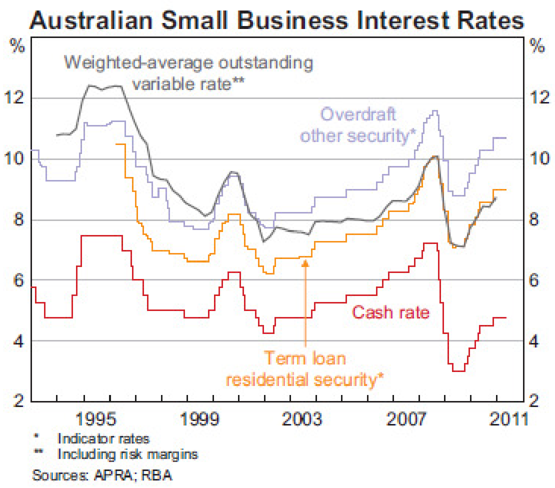


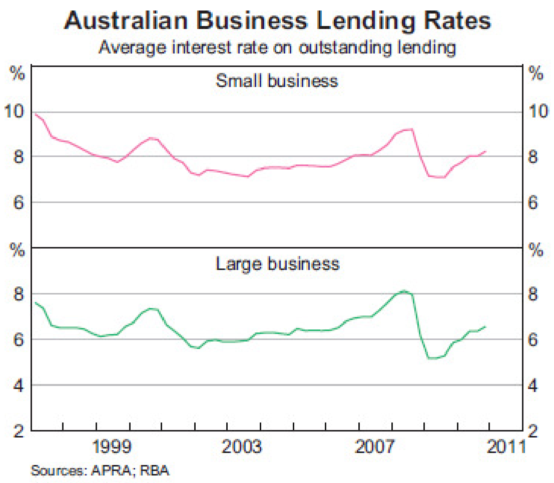
Source: central banks

Interest Rates









Important:

The information contained in this newsletter is provided for Australian residents only. The information may not comply with the laws of another jurisdiction. The newsletter information is general in nature and often opinion based and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and it should not been used as an invitation to take up any investments or investment services. No investment decision or activity should be undertaken on the basis of this information without first seeking qualified and professional financial advice. Empower Wealth nor its employees or contractors do not represent or guarantee that the information is accurate or free from errors or omissions and therefore provide no warrantees or guarantees. Empower Wealth disclaims any and all duty of care in relation to the information and liability for any reliance on investment decisions, claiming the use or guidance of this newsletter or information contained within it. The newsletters information is subject to regular change and market forces.