

May 2009 Newsletter

Interest Rates – Reserve Bank Cash Rate Decision

The Reserve Bank decided to keep it powder dry this month and left the cash rate on hold at 3.00%. They are taking this neutral position in light of seeing what effect the rate cuts made earlier this year are having on the economy. The overall consensus of the market is that the cash rate is still forecast to drop to between 2.50% and 2.00% later this year.

The 'NOISE' is back – Property Prices Falling

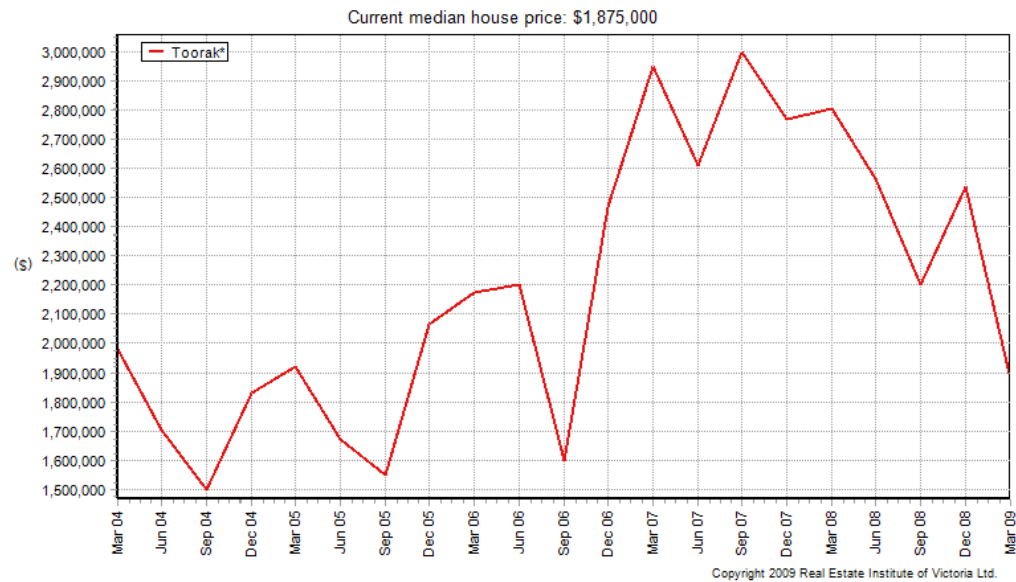
The latest REIV median house prices for Victoria were released on Saturday and the media responded with all the noise we have come to expect. Toorak down by over 20%, Albert Park down over 10% for the quarter etc, etc. However, as usual the 'details' were somewhat overshadowed by the sensationalist headlines and 30 seconds new briefs.

What 'Detail' - The critical element for me is the lack of sales and stock on offer in the first quarter of this year. It's a fair argument to debate that the amount of stock offered during this time is almost half compared to the same time last year as owner occupier vendors hold off in selling as they cannot find anything worth upsizing or downsizing too, and for investors who might have been forced to offload an investment because of the down turn, well one could argue that if they held several properties, the one to go first would most likely be their 'ugly duckling' or worse located property.

So I'm putting my head out and arguing the quantity and quality of stock is down in most of these premier locations and this has been a contributing factor along with the economic slowdown and stating once again that one quarter doesn't show a true reflection of a long term trend. As an investor I'm interested in the long term – 10 to 30+ years, as that ensures historical references through so called "boom and bust cycles".

So ATTENTION ALL INVESTORS, let's hope the noise continues, as less competition ensures we get to buy more stock in these so called 'bubble' times, because one thing that backs up my position is long (and in the example below) short term performance of great investment locations.

TOORAK – I thought it was important to look at the top of the market, as this is where we are hearing about the dramatic price falls.

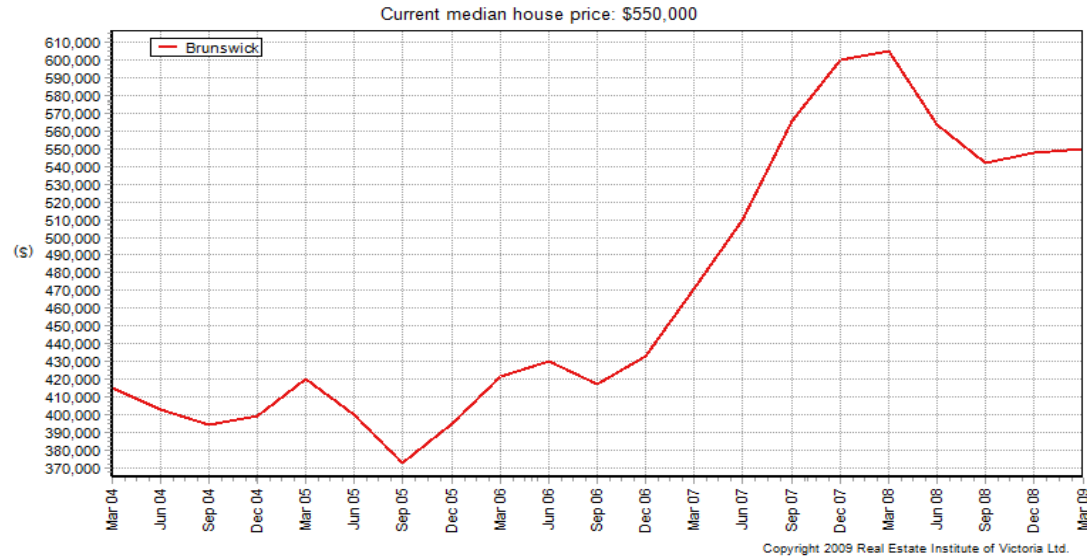


* Areas marked with an asterisk recorded less than 30 sales in the most recent quarter. Median prices based on smaller samples show greater volatility from quarter-to-quarter.

SOURCE: www.reiv.com.au

Less than 30 sales recorded, and as evident within the 5 year trend during a Sept 06 quarter, prices went up by almost \$900,000 in 3 months, just proving that the longer term average rather than one quarter tells a far more informed story. And for the record since 1974 until March 2009 the median value in Toorak has grown from \$120,000 to \$1,900,000 or 1483%. Furthermore, based on what I am seeing here, if you had the money Toorak would be a terrific place to buy at current median levels. If that graph doesn't show a great buying time, then I don't know what does, as sure, incomes may have come off for some, but there are still thousands of buyers of household incomes greater than \$250,000 a year and if you had a mortgage of \$1.5 million, then it's all relative and this would very much meet affordability levels.

BRUNSWICK – Here's an inner city location and a lot more affordable to many more Melbournians than Toorak, and at the higher price end of the most First Home Buyers, but achievable if correctly planned for.



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SOURCE: www.reiv.com.au

Interesting Brunswick was only one of a few inner city suburbs that recorded greater than 30 sales for the quarter and also interesting the median value was up slightly for the quarter and the long term trend is very positive indeed, as people see a transformation of this area continuing into a very 'liveable' inner city location. Certainly increased demand for first home buyers would have contributed to its slight increase in median value.

I'm sure the argument is the same for all interstate and overseas quality locations close to large employment centres (CBD's).

So for those of us as who are investor's this market noise is terrific, as its going to buy us some more time to look for quality properties with less competition. I just hope the stock improves a little bit. To find the right property, in a quality location, make sure you come along to eSearch Superior Property workshop – For more information and to book into our next class click on this link www.empowerwealth.com.au/workshops

As for first home buyers, save, save and then save some more, as lenders have reintroduced genuine savings measures and lower loan to value ratios to try and ensure they lower their lending risk levels. My best advice to beat this is to come along to our next First Home Buyer Information night – registration details can be found on our website at www.empowerwealth.com.au/firsthome

Introducing our Preferred Business Partners

Empower Wealth business to date has been built on professional service and an unwavering belief in ethical business practises. One of our core business morals is that we do not receive kicks backs, soft dollar commission, spotter's fees etc. So you know when you ask us to refer you to other professional service organisation, that our referral will be based on business offering quality services, based on professionalism and industry experience and their ethical business practises also.

In this month's newsletter, we are please to introduce you to our two 'preferred' business partners.

Simone Bullen Real Estate – Dedicated Property Management Services. Simone and her team are specialists in the property management field. They do not sell properties; they offer full time professional property management services from suburbs from Carlton in the inner north through to suburbs in the inner west down to Williamstown.

In you are looking for a new property manager or considering reviewing your current arrangements then I recommend you take a look at their website www.simonebullen.com.au or give Simone and her team a call on 9370 0246

Infolio – Buyers Advocates & Property Management Services. Cameron Deal and his team are specialists in helping buyers navigate the inner Melbourne property markets. With many years of experience and a very strong professional reputation, Cameron and his team are boutique operators, whose personalised service is very highly regarded. As specialist buyer agents, Cameron has a proven record of getting property deals that never hit the market and his negotiation skills ensure give you the very best chance of buying better than the market.

To learn more about Infolio's services, click on their website www.infolio.com.au or you can call them in their Sth Melbourne offices on 03 9690 0888

My Comment - To Fix or Not to Fix – 'The question on everyone's mind.....'

Depending on long term funding costs and increased demand for fixed loans, fixed mortgages can actually go up when the cash rate / variable mortgages are going down, as we have seen just recently. Fixed interest rates don't automatically move in the same fashion as variable mortgage rates do.

So in my attempt to make an informed comment on this question we need to understand two influencing factors about fixed rates, and their role in affecting the pricing of fixed rates.

1. Sales demand for fixed rates
2. How lenders attempt to fund fixed rate mortgages

Sales Demand – First thing to remember – most lenders and especially 'the banks' are all about making profits, and their role is to sell as many mortgages as they can to help increase their profits.

The banks are anticipating a future ground swell of clients looking to lock in fixed rates, as we reach record low variable interest rates.

So if the banks are now showing early signs of increased demand for clients looking to switch to fixed mortgage, as consumers heed the call of the mass media 'its time to fix', then its logical to think that banks will see this as a opportune time to increase their fixed rate and profit from the experience.

Funding Fixed Mortgages - Lenders tend to outsource funding on money markets, via other banks/lenders – swap rates, through government bonds or via fixed savings deposits of similar duration which they collect from their own retail deposits, locking in their spread or profit margin for similar timeframes, as they plan to lend out this money. Bill Evan's – Westpac Chief Economist noted in his April 20th comment in Westpac weekly economic report called Australian Weekly "Around 40% of banks' funding costs are affected by the bank bill rate but the remainder are determined by retail deposit rates (40%) while around 20% of funding costs are independent of market rates (capital; non interest bearing deposits)."

Given its near impossible to find out what percentage of funding comes from where, I'd be happy as to have a guess that fixed rates are more reliant on bonds and bank bill rates and longer fixed term deposit funding, than cash rates and short term "at call" retail deposits. If I am right, then why when I look at the following forecast graph from the same report, are fixed rates actually going up, when long term funding costs are forecast to come down, further?

Westpac's Economic & financial forecasts – as at week beginning 20th April

Interest rate forecasts						
Latest	(Apr 17)	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
Cash	3.00	3.00	2.50	2.00	2.00	2.00
90 Day Bill	3.06	2.85	2.40	2.30	2.30	2.30
3 Year Swap	4.04	4.00	3.80	3.45	3.70	3.95
10 Year Bond	4.52	4.10	3.65	3.95	4.20	4.40
10 Year Spread to US (bps)	168	160	140	120	120	120
International						
Fed Funds	0.25	0.25	0.25	0.25	0.25	0.25
US 10 Year Bond	2.84	2.50	2.25	2.75	3.00	3.20
ECB Repo Rate	1.25	1.00	0.75	0.75	0.75	0.75

Hmmm.....maybe there is enough demand out there for the bank to charge what they are charging now?

Here is a table showing the Principal and Interest repayments for a \$300,000 mortgage over 25 years based on the average 3, 5 and 10 year fixed rates of the big 4 banks, compared to the average interest rates they are charging for their 'professional package' products

Product	%	P&I Repayments p/m
Avg. Variable 'Pro Pack' Rate	5.125%	\$1775.69
Avg. 3 Year Fixed Rate	5.75%	\$1887.68
Avg. 5 Year Fixed	6.48%	\$2021.87
Avg. 10 Year Fixed	7.465%	\$2210.15

Rates shown are the average retail interest rates of CBA, ANZ, Westpac and NAB

It is very clear from the table above that you would want to be very confident based on this pricing shown, that interest rates are going to move higher and very quickly before locking in. And that would most likely have to reflect a very quick worldwide economic recovery and /or as we move out of this recessionary phase inflation would have to still be above 4-5% which may force the Reserve

Bank's hand to lift variable rates quickly and aggressively, back to longer term averages.

My thought is this – you need to look at your very own circumstance, as they affect you and no-one else. What for some might appear the wrong time to fix, might be the best time to fix for others. For example - Fixing rates for long term investors, could be a really smart idea, as it locks in surety and peace of mind, plus surplus investment funds may then be able to be use to build further wealth or the same could be said for those looking to start a family, the same surety for budgeting purpose could make life a lot less stressful when a new baby arrives. The mass debate and media commentary will continue and only time will be the judge of whether now was in fact the optimum time to fix or not, so it best you focus on wants most important for your financial circumstances by getting some specific advice about your options and that that of a mass commentator, who needs to fill a space in the finance pages of his or her paper.

The one thing I am advocating you do is to get in contact with us, so we can inform you of your own options going forward. We have hundreds of fixed and variable rate options, so you can make your own informed decision based on your situation and requirements on what's best for you.

Knowledge is empowerment.....

Ben Kingsley
Founding Director

Upcoming Workshop Dates

Wednesday 13th May - First Home Buyers Information Night
Tuesday 26th May - eSearch Superior Property
Wednesday 10th June - Money, Investing & Finance
Monday 15th June - Introduction to Property Investing

For more information visit www.empowerwealth.com.au

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