



## THE ADVISORY – FINANCE, MONEY & PROPERTY MATTERS - October 2011

### This Month's Topics:

- **Cash Rate Decision: Rates on Hold**
- **Finance Talk: Brokers – Top of Class**
- **Money & Wealth Management Talk: Strategy to Action**
- **Director's Comment: Complicating Simple**

### **RBA Rates on Hold – World Events Overshadowing Us**

*Commentary & Opinion of Ben Kingsley - founder of Empower Wealth*

Anyone tired of hearing about the European debt crisis or the US economy yet?

Of course we all are, but as the saying goes 'Money makes the world go around', so these global events are unfortunately part of Australia and ultimately a part of our personal worlds. And a clear reminder of this is the equity markets and how they have been so volatile of late. This volatility effects us via pretty much most Australians' superannuation balances.

Whilst Australia has been doing a great job of swimming against the current since the GFC, the big players in the game have been just treading water and staying afloat. Why? Well in my own view it's because it has become political across all countries. You don't have to know what's happening in other countries for this point to be proven, but you see the Federal Liberal Party almost daily trying to score political advantage in discrediting the Labor Party on their ability to manage the economy, all in an effort to win power again.

It's no different in Greece, Italy, France, Germany, the US, so what you have are governments who really know what has to be done, but they don't want to do it because its unpopular with the people of their nations and it's potentially political suicide.

What's going to be interesting is how much more 'treading water' they can do and how big the problem of debt will become before they drown. Unfortunately tough decisions and action are going to have to be taken to resolve this mess. I.e. pay off or significantly pay down debt to more manageable levels, otherwise the problem will manifest itself into something that will take a long time to recover from and will have implications for us all, even if we are somewhat insulated here in Australia.

The RBA's decision to leave rates on hold again this month reflects their more focused view on the global situation than our own, but it currently reflects their position that we are still nicely placed in the overall scheme of things. There is less and less likelihood of a rate rise in the near term due to this global uncertainty and it is more likely that a rate cut would be the next move if world markets continue to ease. One thing is for sure; it's a bumpy ride for now and

we definitely need politicians across the world who put 'country' before their own political interests, as it was previous government spending in these countries that has led to this mess.

*(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.)*

## **FREE First Home Buyer Information Night – TOMORROW NIGHT**

**In you are interested in learning more about purchasing your very first property, then this FREE information night is a must attend given it focuses on both the loan aspect and also the property selection and negotiation aspects.**

**For all the details and to register to secure your seat click on this link: [www.empowerwealth.com.au/firsthome](http://www.empowerwealth.com.au/firsthome)**

**Note: Seating is very limited so we recommend you act promptly.**

## **Finance Talk: Brokers Top of Class**

The latest Core Data ACQUIRE index market research findings has brokers top of the class. Core Data conducted a mystery shop exercise, surveying home lenders and ranked brokers ahead of banks and credit unions on a range of seven different criteria.

On the most important criteria of 'Understanding – or the ability to understand customers needs' – brokers scored an 87.5% approval ranking. Out stripping Banks (78.5%) and credit Unions (78.1%).

Brokers won the rankings also in the 'Comprehensive Knowledge of loan products' stakes. Brokers 87.6%, Banks 85.3% and Credit Unions 84%.

Another important criteria measured was efficiency, meaning Brokers were more efficient in handling borrowers' application and approval processes, beating the lenders at their own game.

To me this is really a logical outcome, as great Mortgage Brokers are specialists within their profession. They don't have to handle other needs of a client so they should be more efficient, they should have superior product knowledge across a range of lending and product options, they should have a detailed understanding of customers' needs, as they can usually provide more time with a customer, than a bank or other lending person can.

All in all it is pleasing to see the research supporting what we have known and believed for a long time - the Broker proposition to anyone looking to secure a loan is superior because the customer always comes first, because we are working for them and not anyone else, well at least the professional and successful brokers are!

Cameron Morgan – Finance/Mortgage Advisor  
Head of Empower Wealth's Mortgage Broking Division.

### *Special News:*

*At AFG's recent awards dinner, Cameron Morgan was a finalist for best Mortgage Broker for VIC/TAS. Being recognised as one of the very top brokers in the state.*

*Empower Wealth's Mortgage Broking Division was also recognised as a finalist in the 'Top Businesses' Category*

## Money & Wealth Management Talk: From Strategy to Action

In previous newsletters, we have discussed the three stages in Money Planning :

- knowing where you are now - developing a picture of your current Financial Position,
- deciding where you want to be ( and when ) - thinking about how much passive income you will need to allow you to be financially independent, and
- deciding on the best way to get from here to there - selecting a strategy which fits with the amount of money and time you have to work with, and your personal preferences for the amount of risk you are comfortable with.

However, Planning is one thing - putting the Plan into action is another, and this is the point at which many people encounter problems. A strategy for building wealth usually involves knowledge, skills, or activities which are new to people, and requires them to get out of their “comfort zone”. It also generally requires a commitment of time and a level of discipline to make things happen.

This is where engaging and working with skilled professionals delivers a double benefit - chosen wisely, they will have the specialist knowledge and skills relevant to your chosen strategy, based on years of experience, to assist you with putting your plan into action, and they will also be there to monitor your progress in implementing your strategy and achieving your goals. Think of them as “personal trainers” for your financial well-being.

Regardless of your choice of wealth creation strategy, there are some basic first steps that need to be taken to get moving in the right direction. Two important first steps are to get your existing money working as hard as possible for you, and taking control of your spending.

Deciding how much you need to spend on Bills, Car Expenses, Loan Repayments, etc. and how much you want to allocate for Living and Lifestyle spending, will give you an idea of how you are currently managing your cashflows, and how much you may be able to set aside for the future. The information captured as part of the first stage - knowing where you are now - should provide a clear picture of this information ( as described in an [earlier article](#) ).

Empower Wealth’s **Personal Wealth Management Program** includes tools to assist with capturing and recording information about how you spend and save money, and also incorporates recommended Account Structures and money management techniques to assist with putting the plan into action, taking control of your cashflows and getting your savings working as hard for you as possible.

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 registering at [our website](#) or just give us a call.

## Founding Director’s Comment – Complicating Simple

Throughout the business world over the years there has been a lot of discussion about concepts and/or theories around best business practice, thought leadership theories etc, etc. Great sayings like “if it isn’t broke, don’t fix it” to the complete opposite of “if it isn’t broke, break it”.....

My observations from my time in a corporate environment and now in SME have led to my own lessons about business. For me it comes back to the basics around understanding your business and the numbers that make up your business, as your decisions around these numbers are going to mean the difference between success and failure.

Let’s look at a big business decision that a corporate enterprise might need to make. Say a mining company is looking to develop a new iron ore mine with an estimated investment of \$2 billion dollars before it even starts harvesting the ore. To even get to this stage of estimating the initial set up costs, this business has undergone a detailed assessment analysis of the project and will incur the expenses and costs of getting to this point. Interestingly this initial cost may

never be recouped if the numbers don't stack up enough to warrant proceeding with the mine.

If the initial assessment shows adequate potential from the modelling completed, the company may move into a more formalised and detailed analysis of the project and opportunity. They might have up to 50 employees, consultants, subcontractors, management team etc, working on putting the business case together. This analysis must factor in assumptions, variables, and modellings as to the possible outcomes.

The whole project viability is going to come down to the skills, experience and knowledge of the team involved to ensure these numbers that make up the overall figures are as robust and 'stress tested' as possible, so the likelihood of them materialising is seen as paramount in the decision making process. A right or wrong outcome on a project this size will have massive positive or negative implications on the overall business. Highlighting that the initial costs are justified either way, as it's better to spend (say) \$50 million in detailed due diligence now to find out the project doesn't have legs, instead of proceeding and potentially losing hundreds of millions of dollars. Or if the project does have legs it allows for management to make the most informed decisions possible based on very complex and comprehensive number crunching.

In summary, in business, no 'sound minded' manager would make a decision based on simple estimates or top line figures without knowing the detailed numbers behind them.

Now let's relate this back to one's own household financial affairs. You are the manager and controller of your money and potential wealth. You are the one that's going to be making small and on occasion very big decisions about how you allocate, manage, and invest your money. So surely you should follow the same principles of business theory, meaning you should make sure that you have as many of the available facts, figures, projections, assumptions, variables on the table to make these decisions right?

OF COURSE SO, yet why is it that people managing their own financial affairs use basic calculations to form a position or view, which then ultimately leads to more bad decisions and hence bad outcomes than good ones?

Now some people are going to argue that they don't have the skills or ability to make these decisions and guess what? – they are completely right! THEY DON'T, but let's refer back to the business above, do you think the CEO of that large organisation is going to have every skill in financial modelling to crunch the numbers on the new mine on his/her own?. Of course not!. So they outsource it to others to help. From my years of experience in helping people manage their money, less than 1% of households have what I term 'Elite' money management skills, the rest of us (yes that includes me, as I outsource my personal financial decisions) can only benefit from having other more skilful and qualified people help us make these important decisions. Let's face it; we are talking about your future wealth here.

So the point I'm making here is: simple input leads to simple assessments and therefore far more bad decisions than good ones. You need to understand that every decision you make with your money has flow on consequences.....big ones, so it's my view that you need to move beyond simple analysis and find the real answers and yes it might be complicated and difficult. That's why it should be outsourced so that you can make better decisions and I can almost guarantee (as long as you outsource it to the right people) that the value and ultimate return to you will always outweigh the cost of someone's help and advice.

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

**Ben Kingsley**  
**Founder – Empower Wealth**

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