



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

This Month's Topics:

- **Cash Rate Decision: RBA Steady on Rates**
- **Finance Talk: FREE Home Loan Review**
- **Money & Wealth Management Talk: From Plan to Strategy**
- **Director's Comment: Advisor vs. Salesperson**

RBA Steady on Rates

Commentary & Opinion of Ben Kingsley - founder of Empower Wealth

The RBA have again left interest rates on hold, after much speculation mid last month around the cash rate being reduced to stimulate the wider economy as it's believed to be slowing over the past few months.

In a recent speech, the Deputy Governor, Mr Ric Battellino, gave his indication that recent global economic uncertainty and the subsequent volatility within the equity markets around the world hadn't flowed through into the data the RBA uses to interpret the current situation here in Australia and as such it was too early to call a rate cut just yet.

Most commentators are now unsure whether the next rate movement is up or down, so the common consensus is that rates will remain on hold until the events offshore play themselves out. If Europe falters under its big debt burden, then the flow on effect will be global and Australia will also be caught up in the mess.

If Europe and America can manage their way through this difficult period and get their economies moving forward then a rate cut here is less likely, but it is fair to say that our economy is going through an adjustment period as our high dollar makes us less competitive within our manufacturing sector.

So for the record, what should you be keeping an eye on that will play out the next interest rate call:

- Inflation (CPI)
- Consumer Sentiment
- Consumer Spending
- Employment Data
- European Debt Crisis
- American Debt Crisis

- Aussie Dollar
- Gross Domestic Product (GDP)

As you can see, there are lots of ‘moving parts’ the RBA needs to consider in deciding their next move on rates. Put simply, in my view, if our economy falters, we are going to see rates reduce, if we ride out this current uncertain wave, and maintain our forward moving economy, then rates are going to head higher. But as I’ve maintained since the start of this year, rates will not go further than another 50% basis points if they go up at all, in the next 2 years, based on just how much impact higher rates have on the mortgage belt.

(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 finance advisors regarding any decision around your personal finances, before taking any action.)

Finance Talk: FREE Home Loan Review

The stability of interest rates coupled with the slowing of the property market is not great news for lenders because as public companies they are expected to deliver strong profits each year to their shareholders, so with a slowing market, they have to revert to winning market share off each other. This is good news for borrowers as it means that lenders are keen to win business with very competitive offerings.

This unique opportunity doesn’t come around very often and best of all given we are accredited representatives of over 30 lenders, including all the majors, we are able to shop around to offer you the very best deal of the day to best suit your circumstances today and for the future.

Furthermore our detailed assessment of your situation could uncover a lot more ‘value’ for allowing us to do all the work for you. Our assessment will show you just how much money, interest you could save and how quickly you will be able to pay off your mortgage.

A consultation with one of our qualified finance advisors will also highlight to you how well you are placed for your future retirement and maybe it will even allow the advisor to show you how an investment property may improve your overall future wealth and income position for your household.

So what do you need to do for us to go to work for you and undertake a full review and start saving you money? Simply [click here](#) and provide your details and one of our experienced team will give you a call to outline what’s involved.

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

Money & Wealth Management Talk: From Plan to Strategy

In previous newsletters, we have discussed the first two stages in Money Planning - knowing where you are now and deciding where you want to be (and when). The next step in the process is to develop some ideas about different strategies you may adopt to get from your current situation to your desired future state and the pros and cons of each possible approach, in order to make an informed decision about your preferred strategy.

To use our earlier example, if you were planning a holiday, you may have the option of travelling by car, train, bus or plane, and each alternative differs in terms of the cost, the amount of time taken, how much flexibility you have and how it matches your personal preferences. So you would be able to evaluate the alternatives based on these factors, and of course, the amount of money you have available, in order to decide on the “best” form of transport, i.e. the most suitable for you given your current circumstances and objectives.

From a Money Planning perspective, there are many options available which offer long term wealth creation, and they also differ in their characteristics, including :

- their upfront and ongoing cost in terms of both time and money,
- the extent to which they can be funded with borrowed money (or “leverage”),
- their anticipated return in terms of their growth in value and any income they may provide, as well as the variability of the return over time (referred to as “volatility”),
- any Income Tax or Capital Gains Tax implications,
- the level of risk of losing your investment, and
- the amount of knowledge or skill required.

Evaluating and weighing up these factors is essential to be able to decide on a preferred wealth creation strategy, and again it is all about selecting which approach is most suitable for you given your current circumstances and objectives. The role of Money Planning in this decision making process is crucial - it will help to determine :

- your current financial circumstances, and available surplus cashflow,
- whether future cashflows are sufficient to continue to fund the desired approach (after allowing for all the committed and desired spending along the way),
- the impact of leverage on the projected outcome, and
- most importantly, whether the anticipated returns are sufficient to achieve the desired outcome, i.e. creating the desired level of passive income in the desired timeframe.

This is where a sophisticated Wealth Projection modelling tool can really assist to see the potential outcome of a number of different wealth creation strategies, modelling the potential level of wealth generated, together with the underlying cashflows, and helping you to determine which approach is going to suit you best.

You can watch a recording of a recent webinar featuring Empower Wealth’s Wealth Projection modelling tool in action by going to <http://www.empowerwealth.com.au/webinar> and registering at the bottom of the page. To get more of an understanding of the power of this modelling in action, we have recently released a DVD of one of our Wealth Forums held earlier this year. If you would like to receive a copy of the DVD, please just send an email to enquiries@empowerwealth.com.au with “DVD Request” as the subject.

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 <http://www.empowerwealth.com.au/review> or just give us a call.

Founding Director’s Comment – Advisor vs. Salesperson

I’m in the process of finalising the plans for a major renovation of our home, and there are a lot of people involved in the process and a lot of decisions we need to make – BIG Decisions that carry a lot of costs.

Through this process it has once again been highlighted to me the wish I have always had regarding making BIG financial decisions, that wish is that people would be honest, truthful in providing me with the best advice about what we should do, more so than trying to sell me their particular product or service.

Now I realise my dream of having independent, unbiased advice in this process and with any product or service being offered for sale in a capitalist society is an impossible dream. Let me use an example, I’m in a Bathroom centre that stocks about 5 brand names. In talking to one of their sales agents I know that the advice I’m going to receive is going to be geared towards him/her making a sale for the products they sell. It’s their job, as that’s how they get paid and

how they keep their job – I understand. And let's be realistic about this, it's impossible for every bathroom centre, as it is with any business to stock absolutely every company's products within their industry, so that's just the reality of the situation, but it's nice to dream and as long as I'm aware of this I factor it into my decision making process.

So if it is the case, where I know there is a bias to what I'm being told, I make my purchasing decision based on my assessment of the salesperson's honesty, knowledge and their idea of how they are going to provide a solution for me, whether it's a design idea for a bathroom or a new LED TV, because it's going to come down to how much I trust this person and how they are planning to help me.

On the occasions I am able to find professional advisers, I am extremely happy to pay for their professional advice, such as our Architect and our builder, because their vested interest is in providing me with a solution to my problem or helping me create the dream that I want for my family and I. In choosing these professionals I look for experience, track record, their responses to my difficult questions, their ability to assist in problem solving my issues or ideas etc, etc.

Furthermore I am also very happy to take their advice regarding a referral to other professionals who they have worked with and experienced their work. I want to build the very best team of professionals within their disciplines as I can. They know far more about what they do than I do, that's why I'm paying them a service fee for their time and skills, but I will ask one simple question before I do talk to the referral business – Are you going to get paid a kick back or referral fee etc, from the party you are referring me to?

If the answer is yes, then two things happen, I don't ring the referred company and secondly, I usually don't take up the services of the company making the referral. You see I have a real issue with both businesses in this situation, it says to me that they need this referral arrangement because they aren't so great at their own business disciplines and secondly the referral is more about them making more money for themselves than it is about looking after me.

Let me relate this back to our business. On Friday I got an email in my in box that read – Make \$500 for referring anyone who needs a home loan. I laughed firstly because the stupidity of the sender, sending a mortgage broking business an email like this. But most importantly it screams at me that this business has to resort to giving away money to attract new business. Why aren't their satisfied customers who received great service automatically telling others about their great service? Well maybe they're not getting great service at all – you're just a transaction for them and a way to making them wealthier instead of you!

Another alarming example where referral kickbacks are out of control is within the Property industry. There are some businesses offering referrers up to \$50,000 commission to businesses or individuals who refer them a lead to sell them a house and land package as a so called 'great' property or ever a 'great investment' property.

One guess who's paying for this kickback – THE PURCHASER of the property hidden in the overall price they pay for the property. Now the most frustrating part of this is that the purchaser will probably never get told that the business that made the referral is due this money because neither party will ever tell the client.

To me this is wrong on so many levels; firstly the company or person making the referral is doing so for their own financial gain, NOT their clients. Secondly the non disclosure of what is being paid is dishonest and says to me that they have poor morals in doing business with anyone. Now, in my travels I have spoken to people who make a killing out of these types of arrangements and in their eyes they are simply better salespeople and that's how they justify it to themselves.

I suppose that's the point I'm making here.....work out whether someone is trying to "sell" you something, as opposed to someone trying to help provide a solution to your situation/problem/opportunity. I'm betting your experience as a buyer will be profoundly better when you opt to work with a professional

who has your interests as their primary outcome.

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

Ben Kingsley
Founder – Empower Wealth

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