

August 2007 Newsletter

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Nike said it best!

The single biggest thing that costs people literally thousands of dollars (possibly millions) is procrastination. The Webster dictionary defines procrastination as "the deferment or putting-off of an action which requires immediate attention, usually by focusing on some other distraction". This article is really only aimed at the people who have decided that they want to start investing but haven't got around to it. My aim is not to convince you that you should invest (hopefully that's a given), but to encourage the people who have thought about it to take action... today! Not doing so could be costing a minimum of \$570 per week.

I think the two main issues preventing people from taking the plunge is fear and time.

Nothing is more certain than uncertainty. Live with it!



Some people always feel that they should do just a little more research before they start investing. They don't feel entirely certain about the investment they are contemplating, so they think that undertaking some more research will alleviate their concerns. It is very unlikely that you will ever feel 100% certain about an investment. Most investments carry some level of risk. You should prudently research all investments you make. You need to understand what you are investing in and what risks you are signing up for. However, never think you are going to eliminate all uncertainty. Uncertainty is normally generated by emotion. It's the little (or sometimes big) voice in our head asking the question "what if it all goes wrong?" These feelings are always going to be there and frankly, it's good that you think this way. However, you need to learn when to listen, and when to ignore these concerns you have. Embrace your fears and work through them. The hardest investment you make is your first one. It gets easier as you get more confident.

There are always reasons not to

start

investing today. The kids will be starting school, interest rates may be going up, the stock market is particularly volatile at the moment, etc. Whenever I have invested, there have always been a lot of good reasons why I shouldn't have done so. But, do you know what? In hindsight, I have never regretted investing. Funny thing that! In fact, I often wished I had invested more. Of course, you need to consider your financial standing to make sure that you can afford to invest, particularly if it involves borrowing. However, please recognise that there are always reasons why not to do something. The reasons will change over the years, but there will always be something.

We all have a lot to do

Perhaps the worst excuse for why someone hasn't started investing is; "I don't have the time". Honestly, that is the most pathetic excuse. Do you think Rupert Murdoch holds investments other than News Corp stock? You bet he does! He is probably one of the busiest people going around, but he still finds time to invest. The reality is that it does not really take a lot of time, because you can engage people you trust to do it for you. I understand that finding someone you trust and who is professional and knowledgeable isn't always easy, but they are out there. Just ask around and meet a few people. That is the only time consuming thing you need to do. Once you have located the right investing team, you are on your road to riches.

The cost of time or timing

Markets are not always rising. The world stock markets have proven that over the past few weeks! However, good quality assets always appreciate in value over the long term. The problem is that people don't always understand how much procrastination is costing them. I can demonstrate this by looking at an actual example.

I picked a street in Prahran, Victoria (Donald St) and looked for a property that has sold a few times over the years. I set out below the past sales for the property in Donald Street, Prahran.

- ◆ 20/09/96 — sold for \$160,500
- ◆ 16/02/02 — sold for \$535,000
- ◆ 02/12/06 — sold for \$723,000
- ◆ Today the property is worth over \$800,000

Over the past 11 years, this property has increased from \$160k to \$800k which equates to an annual

compounding growth rate of over 15.5%. This is not a stand out property — just an average single fronted, 2 bedroom home. Procrastinating for say 5 years could have cost an investor \$265,000 in capital growth — over \$1,000 per week!!!

If you are investing in property, waiting an extra year could cost you a minimum of \$30,000 in capital growth (assuming you invest in a good quality asset). That's over \$570 per week!

Similarly, it's not about timing the market. In a slow moving or stagnant market, people may not want to buy, because they fear (or hope) prices might fall. In a faster moving market, people have trouble keeping up with the price movements and can't get their head around having to pay \$50,000 more for the same property that sold 6 months ago. Forget about what the markets doing. It's not important if you have a long term approach. Just focus on selecting the best quality asset possible, which you'll probably have to pay fair market value for. You won't get it for a bargain.

There are solutions

Not unlike any other problem, there is always a solution. If you find yourself procrastinating, you just need to make a decision to take action. There are many resources you can draw on. If you don't know what to invest in, see a financial planner. If you know which asset class you want (e.g. property or shares are the two most common), but not sure which asset to buy, then see a stock broker, financial planner or investment property advisor. If you don't know if you can afford to finance the investment, speak to us (of course). If it's some tax advice you are after, speak to an accountant. We have built up an excellent network of very knowledgeable and ethical professionals, so if you are in need of a referral, just email us and we'll try to help. Professional advice and assistance might cost you money, but not getting that assistance will probably cost you a lot more!

Just do it!

As the Nike commercials pontificate, just do it! Don't over-think investing. Of course, you need to diligently understand exactly what you are investing in, but to some extent, at least doing something is better than doing nothing. Whether it's shares, property or whatever (just not the US sub-prime mortgage market at the moment!) — it doesn't matter — just start investing in a good quality asset and hold it for the long term. Make a plan to start today. Not tomorrow. Today!!!

Falling cost of mortgage insurance

When taking out a new loan, most people consider the relative interest rates and fees of each lender. However, if they are borrowing more than 80%, they rarely compare mortgage insurance costs (which is something we would definitely do for our clients). There has been a bit of pricing pressure on mortgage insurers lately and consequently, a few lenders have cut their mortgage insurance premiums. Therefore, it is very important to compare mortgage insurance costs.

For example, I prepared an analysis for a client who wants to purchase an investment property for \$400,000 and borrow 95%. I compared Adelaide Bank which offers an ongoing interest rate of 7.55% and St George which offers an interest rate of 7.62%. However, when it comes to the cost of mortgage insurance St George is a whopping \$4,055 cheaper than Adelaide Bank with a mortgage insurance premium of \$6,980 (Adelaide Bank's premium is \$11,035).

Whilst the cost of mortgage insurance is normally not negotiable, it is very important to make the comparison between lenders. Even the way loans are structured can alter the cost of mortgage insurance. Some lenders will actually lend more than others without mortgage insurance. For example, ING and Westpac will lend up to 85% without mortgage insurance. In my opinion, this will be an area where lenders will compete in the future. I think more lenders will join the ranks of ING and Westpac. There are some lenders now that will unofficially consider waiving mortgage insurance on a case-by-case basis.

Our Best Interest Rates

Basic variable	7.49%
Offset	7.55% (0.77% ongoing disc.)
Offset (> \$500k)	7.52% (0.80% ongoing disc.)
Offset (> \$1 million)	7.42% (0.90% ongoing disc.)
1 year fixed	6.99%
2 years fixed	7.50%
3 years fixed	7.54%
4 years fixed	7.59%
5 years fixed	7.64%
10 years fixed	7.89%

Above rates are current as at 13/8/07 and are subject to change without notice. Variable rates include the recent RBA rate hike announced on 08/08/07. Standard lenders terms and conditions apply. Comparison rates are available upon request.