

The Peel



Finance Advisor



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Welcome



by Terry Boag

Christmas and the New Year are almost here and it's a great time to start relaxing with the family and reflect on the year that's been.

This has been an exciting year, the biggest boom year in real estate I've seen for a decade. You would have seen home prices rise dramatically over the past 2 years, rising even more quickly this year. Increased interest rates have steadied the market and more controlled growth is expected over the short to medium term.

We hope you have enjoyed our newsletters this year, that they may have provided insight into the economy and given useful up-to-date finance information news.

Terry Boag, Principal
Dip. Mgt. AMIAA CD

Christmas greetings!

The Peel Finance Brokers team would like to take this opportunity of sincerely thanking you for being our customer and to wish you the very best for Christmas and the New Year!



Interest rates - two sides to every argument

Interest rates seem set to dominate finance commentary in Australia into the foreseeable future, with competing economic interests vying for dominance.

The two dominant issues in the interest rate debate are the amount of debt now being racked up by Australians apparently taking advantage of low interest rates, and the buoyant Australian dollar continuing to appreciate because of high interest rates.

There is an obvious and fundamental irony in the fact that our interest rates are regarded as being too low for the good of the domestic economy and too high for the international economy at the same time. It can be hard to see how it can make sense.

RBA's "talk"

The Reserve Bank had been trying to influence domestic economic activity within Australia with "talk". It then actually changed the interest rates by which it seeks to control the Australian economy by slightly heavier "gentle persuasion".

Economists describe the RBA's role



With home ownership a prime pre-occupation of Australians interest rates, interest everyone.

as finding the "neutral" cash rate, that is, the interest rate which will apply the least pressure to the economy in the sense of maintaining a balance between the competing considerations of inflation and growth.

Since the Australian dollar climbed in value to over 70 American cents, economic commentators have been uttering dire warnings about the effects on Australian exports, and with exports regarded as our lifeblood, these warnings must be heeded.

The Reserve Bank, however, is apparently choosing to see the increasing strength of the Aussie Dollar as a sign of global economic recovery, with the implication being that it does not believe that a stronger dollar will significantly hurt exports.



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Making sense of interest rates

For many people, the cycle of rise and fall in interest rates is a baffle of economic jargon. Here is our attempt to explain the basics of the process.

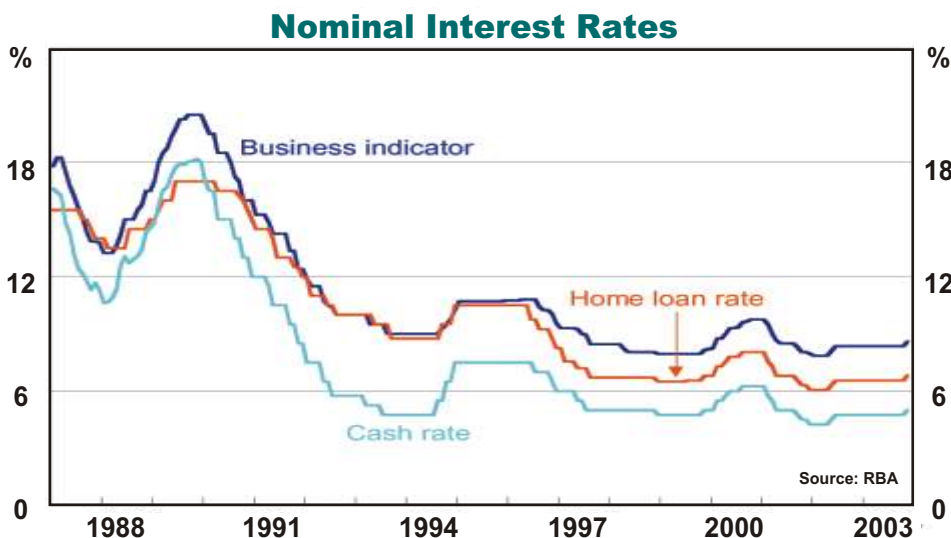
The cash rate "target" set by the RBA is the rate charged on overnight loans between financial intermediaries. It has a powerful influence on other interest rates and is the base on which the structure of interest rates in the economy is built.

Overnight funds

The cash rate is fixed in the money market by the interaction of demand and supply of overnight funds.

The Reserve Bank's ability to "target" the cash rate stems from its control over the supply of funds the banks use to settle transactions among them.

If the RBA supplies more funds than the banks want, the banks try to shed funds by lending more in the cash market, resulting in the cash rate tending to fall, and vice



versa, if it supplies less than banks want, they borrow more and bid up the cash rate.

Interest rates affect economic activity by a number of mechanisms. They can affect savings, investment and spending behaviours, supply of credit, asset prices and the exchange rate, all of which affect

the level of demand and inflation.

Inflation, the real target of RBA policy, is also influenced by the effect changes in interest rates have on imported goods prices, via the exchange rate. This action in turn influences expectations and therefore influences the economy.

Refinancing - how to rid yourself of high interest rate debts

While the pundits debate the significance of the Reserve Bank raising the cash rate to 5.25%, credit card interest rates have never been below double figures.

For whatever reasons, we are all prone to the credit trap. We want more than we can afford right now, we are sure we can pay for it in the long run, and besides - the more you use your credit card, the more the bank wants to lend you - right?

For many people this temptation can undermine all the good sense they might have applied to their other financial decisions. If you fit into that category, refinancing your loan or mortgage can

offer a new chance to rid yourself of high interest rate debts.

There are now a wide range of financial products available which will allow you to consolidate your miscellaneous debts and move them into a low interest rate loan or home finance package. This can really take the pressure off your weekly pay packet.

Choose the right credit card for your spending

Credit cards can be divided into two main groups: those offering interest free days and those that don't. Generally, those that offer interest-free days (remember few things in life are "free") tend to charge higher interest or an annual fee.

"No Interest Free Days" Cards

With these cards there are normally no annual fees to pay for having the card, but you don't receive any "free" days between your date of purchase and 'statement' or 'due by' date. Some of these cards don't offer all of the added benefits such as reward programs and travel insurance.

"Interest Free Days" Cards

You must pay off the outstanding balance in full by the due date to get your interest free days. Annual fees mean you need to ensure interest saved and/or rewards and any added benefits are enough to make the fees worthwhile. If your purchases are business related you may be able to claim the fee as a tax deduction.

Should I keep two cards?

One alternative if you are disciplined is to have two cards. Use the card which offers interest free days for all your purchases to take advantage of the various financial and lifestyle benefits offered, and pay in full on the due date by drawing a cash advance using a low interest, fee free card. This way, you get the best of both worlds - interest free days from one card and a low interest rate from the other. The cheapest way of all however is to pay everything by the due date every month, or don't use a card at all!



Could the next decade be just as good as the last 10 years have been?

Property owners who listen to the media must contend with conflicting reports on nearly every economic issue. Interest rates are now rising, but is there agreement on how high they will rise or for how long? Here are some opinions.

The first thing to remember when considering media statements is that most of the reports are from the Eastern States. The Western Australian economic cycle is, however, quite distinct in many respects to what we see playing out in the East.

To give readers the best predictions that we possibly can for 2004 we looked beyond our own "gut feelings" to assess what the major financial institutions are forecasting for Western Australia and what other industry experts are reckoning.

The ANZ Bank

The ANZ predicts Perth's home building industry will have a gentle slow-down from its state of "boom" but suggests high overseas migration is likely to continue and that W.A.'s negative net interstate migration over the last few years will turn-around.

The ANZ has stated that on its affordability measure, prices in Western Australia still have room to catch up on the larger state capitals.

The Macquarie Bank

The Macquarie suggests there are no indications for concern although it sees a decline in investor numbers for traditional investor style properties, the 60s, 70's or 80's style units.



Westpac Bank

Westpac makes the point that interest rate rises may have little affect on owner/occupiers because their well being relates to disposable income which appears quite sound at present. It believes that some investors could suffer because the key measure for them is the ratio of interest payments to rental income on their investment properties.

BIS Shrapnel

Market analyst, BIS Shrapnel expects price rises from 6% to 27% in Australian capital cities to continue to June 2005.

The gap between cities is also expected to widen so that by 2005 a median priced house in Perth will cost 44% of a median priced house in Sydney.

It predicts that from 2004 a booming economy will add more pressure to interest rates with housing interest rates rising to about 8.6% by June 2005.

Just to prove the experts are not infallible, BIS Shrapnel predicted the Perth market to suffer from oversupply that would limit growth during 2002/2003 before accelerating over the following two years to 2005.

Morgan Pacific

Property seminar operator, Morgan Pacific says that based on the Australian birth rate being at its peak in the 1960s the bulk of the Australian population will reach the point of having their highest spending power in the period 2003 to 2008. The consequence of this they say, will be a particularly strong economy and a buoyant property market.

REIWA

The Real Estate Institute of W.A. has reported a slow down from the frenzied buying earlier in the year but nevertheless predicts a continuing buoyant market. Public Affairs Director, Lino Iacomella believes there is a reduced likelihood of interest rates rising further and with more homes becoming available the market should settle from its shortage of stock to a continuing steady buoyancy.

The overall consensus of Real Estate industry opinion is that the level of growth in property values during the short to medium term will slow down compared with the growth rate of the past two years. Price rises are expected to average 5%-8% per year.

How accurate are median price figures?

Home-owners all over the country have been keenly watching median price lists to see the value of their properties

Warnings have recently been sounded that you need to be careful about how you interpret median prices, don't be too quick to think you are sitting on a goldmine. Then again, your property might be worth a lot more than a median price.

Median price figures are simply the middle price of sales that occurred during a survey period, so it's easy to get the impression that prices are soaring across the board without taking into

account a lot of factors which apply to each property. Economics advisor, BIS Shrapnel says the median price can be artificially inflated by several factors.

Firstly, a lot of land subdivision and new building activity or renovations in an area may make an impact. Conversely, if there have been a lot of sales at the lower end of the market, the median price may be compressed. BIS suggests that people look at individual sales of similar properties over a period of time.

Residex concurs and says people comparing median house price data should look first at the number of sales that have gone into producing the figures and median prices should be used just as starting points



when trying to gauge an area's growth, particularly if they're investing for capital growth.

Small business owners - buy a business property or lease it?

There are many decisions that have to be made when you are running a small business, and perhaps none is more difficult than deciding to buy or lease.

For most businesses, the premises from which you run your business will be the most fundamental element of the whole endeavour, your primary cost whether you choose to lease the property, as many do, or if you bite the bullet and decide to buy.

Buying commercial property is a sound investment anytime, so why not purchase your own business property? The benefits of buying a home for your business are the same as buying a home for your family, and where do you spend more time?

Pressures

The pressures on small business operator can be immense. Many people who run a small business think leasing a property will involve less stress than buying it outright. But buying a property as part of your business can be a mistake.

In many ways, buying a commercial investment property is a way of diversify-

ing your activity, which is always a good idea. If you keep the idea of paying for your investment distinct from paying rent on a leased property, you will see the point.

Moreover, you may be surprised to learn that in many instances, your loan repayments may not be much more than you are currently paying in rent. Certainly,

getting some detailed advice and figures for comparison is worthwhile.

Whether or not you are the one paying the rent on a commercial property investment, if you buy wisely you can be relatively confident someone else will rent the property even if you decide to sell up and retire. In the meantime, you capitalise.

A recipe for Christmas...

Traditional English Christmas Cake

<i>2 cups plain flour</i>	<i>4 tbsp. sherry</i>
<i>1 tsp. cinnamon</i>	<i>½ cup blanched almonds</i>
<i>1 tsp. mixed spice</i>	<i>1 lemon rind finely grated</i>
<i>½ tsp. salt</i>	<i>250gms butter</i>
<i>1 cup candied fruit</i>	<i>1 cup sugar</i>
<i>4 cups dried fruit</i>	<i>1 tbsp. Golden Syrup</i>
<i>4 eggs</i>	



Sieve together all the dry ingredients. Mix the dried and candied fruit, almonds and lemon rind. Whisk the eggs and sherry together. Cream the butter, sugar and Golden Syrup until soft. Add the flour and egg mixtures alternately to the butter. Stir in the fruit mixture. Put into an 8-9 inch tin, lined with greaseproof paper round the sides and at the bottom. Tie two layers of greaseproof paper round the outside of the rim, standing well up above the top of it. Put in the middle of a hot oven. Bake for ¾ - 3½ hours at 220° for the first 1½ hours, then decrease to 180° for the remainder.

The team wish you a merry Christmas and the best for 2004!



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Your enquiries are welcome: Should you require further information on any topic relating to business or commercial property finance, business equipment financing, residential property finance, hotel or tavern finance, personal loans or leasing - we're here to help you. Peel Finance Brokers are accredited with most major financial institutions from banks to credit societies and with most major leasing and hire purchase lenders. Our task is to find you the best rates and most appropriate financial solutions possible.

Important Note: The information contained within this newsletter is of an advisory nature only. Due to constant changes within the industry and our ability to often tailor packages specifically to suit client needs we would advise you to contact us before proceeding with formal financing decisions.

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