# NEGOTIATOR eNEWS
## February 2008
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**"To be a star, you must shine your own light, follow your own path and don't worry about the darkness for that is when stars shine the brightest" - Unknown**

Welcome to the February issue of Negotiator eNews – the free newsletter with Tips, Strategies, Articles and News related to Wealth Creation.

## Interest Rate News
As you may well have already heard the Reserve Bank met and decided to lift interest rates by a quarter of one percent (.25%). While this was expected it still is never pleasant. General consensus between most reputable economic forecasters and Journalists seems to be that we will have one more rate rise this year. Are they guessing? Who knows, but we can only listen to the experts for our guidance.

Always keep things in perspective and remember, bad news sells more papers than good news, so if a negative twist can be put on anything they often will.

The Western Australian economy continues to boom. After massive house price growth over 2005 to 2006, prices are now consolidating. Economic conditions are expected to remain favourable.

## Feature Articles
Property Ownership and Investing

Australians are realising that not only is it important to own your own home, but to have a portfolio of investment properties as well, to build your wealth over a lifetime.

There are a number of things to be taken into consideration - here are some tips:

- Use your increasing equity to keep investing as often as possible.
- Sit down with 'the Negotiator' for a financial health check and establish your borrowing capacity.
- Use interest only loans on investment properties.
- Don't lock into a long-term, fixed-interest loan if you will be actively investing and require flexibility.
- Cash flow is a priority, so look for properties with a good rental return.
- Make sure you claim all available depreciation and tax deductions, as this improves your serviceability of your loan.
- Rather than getting one big tax return at the end of the financial year, consider applying for a Tax Variation so that you have less tax taken out of each pay

packet throughout the year. With negatively geared properties this will significantly improve cash flow.

- Don't be afraid to purchase when the market is either up or down. Think about the long-term gains, and ignore any hype about market fluctuations. Buy and hold for the long term. Selling is the last option.
- With residential rents rising in many locations around Australia, owners of investment properties need to ensure that they are keeping up with inflation and interest rate rises. Investors should regularly review rents to ensure that their property remains in line with similar properties and does not drop below market value.

Now is definitely the time to become more educated about property investing, and to realise that now, more than ever, the potential benefits from investing in property are probably as good, if not better than ever before as it is always a long term investment – more than 10 years.

Property vs Shares

People's opinions differ when it comes to investing in property or the share market and the answer usually depends on your experience and education. As a property investor myself but also trained as a technical analyst and have traded shares, this has been my experience on it.

Although the share market is hugely diverse and you can convert shares to cash within hours, returns from some companies are franked meaning tax advantages and an income stream and it is possible to invest from as little as $1,000, I would invest in property over shares for the following reasons:

Risk is a major consideration. Property is very stable and less volatile, making it less risky. This is because house values won't dramatically increase one day, then fall the next day, so getting in and/or out at the wrong time is less risky. Share prices fluctuate much more than real estate prices.

Property also offers greater leverage than shares. You can have a relatively small amount of cash and still enjoy the benefits of owning an expensive asset. What bank will lend you up to 100% of the valuation of your shares? None! Property allows you to borrow more of the value of the asset, so you do not need as much of your own cash to secure the full value of the asset. Some prime blue chip stocks will see banks lend up to 66% however margin calls apply if the volume sinks to a certain value and this is only for a very limited number of stocks overall.

You can manage, renovate, improve and value add to your investment and the fact that no two houses are identical means you have more control in the negotiation process, unlike with shares, as they are all identical units, you can only compete for buyers by reducing the sale price.

It's impossible to have your property worth zero, unlike shares where you can make substantial losses and a company can expire worthless. You can almost guarantee that the value will increase in property in the long term.

Everyone needs a roof over his or her head and land is becoming a shortage so as it becomes a scarce resource, so values are only going to increase.

When comparing these two asset classes, you must really compare the same values. Let's say you are able to purchase $100,000 worth of shares by borrowing $50,000 and using your own cash of $50,000 or using your house as security. By purchasing a property with your $50,000 cash you may be able to purchase a property worth $350,000. At any given rate of capital growth, your property will provide you with a better financial result. You are making say, 10%pa compounded on $350,000 or $35,000pa and you have investment partners which is the tenant and the taxman and your contribution for a $350,000 property could be $6000 a year. This is almost a 600% return on your outlay of capital and not 10% of $100,000, or just $10,000. As you can see, this is a huge difference.

I would say that shares are definitely a more speculative investment, not to say that some people have made good money with shares but I believe that property investment outweighs the returns achievable through shares.

## Ask The Negotiator

This month we have 2 questions from Dave B of Perth. Thanks for those Dave.

**Q1: People say that the good times for property investment are over...simply because they say that the Perth market is so overpriced that you no longer get any leverage ... Do you agree with that?**

A1: It's not as easy to get positively geared properties as it used to be, but there are still good buys out there if you take the time to research. As I keep all my properties and never sell, I'll be able to look back in 10 years and see the growth. Trying to buy and time the market is not important to me as time in the market. The other point is the tax advantages with depreciation and of course, your other investment partner, your tenant. The key is to build your wealth over a lifetime.

**Q2: Having just got back from the USA and France, I am wondering what your thoughts are on buying property outside of Australia, as property seems undervalued compared to the Perth property?**

A1: To answer this question, is a personal choice. For me personally, buying outside Australia could be a logistical nightmare. I would still prefer to buy in my own backyard as I can oversee the property management, inspect my properties and keep them in pristine condition to maintain their value and to maximise my rental return. Of course, there are the tax advantages when purchasing in Australia.

Email gregg@negotiator.com.au to ask a question relating to investing/wealth building and I'll publish the answers in future newsletters.

## Helpful Product/Tip

Credit Card Tips

Here are some tips on using your credit card wisely.

- **Pay your credit card bills on time.** This is the single most important thing you can do to preserve and enhance your credit rating.
- **Keep your credit card to a limit.** Preferably one credit card, as a high limit affects your borrowing capacity when wanting to borrow from the banks to invest.
- **If possible, pay off your balance in full each month**. If this is not possible, then make as large a payment as you can comfortably afford. Paying off or paying down your balance is a sound financial move—one that will save you money on interest charges.
- **If you can't pay off your balance in full, then slow down on your credit card use.** Take time to step back and have a careful look at how much you earn and how much you spend each month. A little budgeting can save you big money down the road.
- **Check your statement carefully each month.** Review your statement carefully. Do all the charges look correct? Have any required credits been applied? Are there any unusual or unexpected charges? Your credit card company will correct legitimate errors, but only if you bring them to their attention in a timely manner before you pay your bill.

**If you struggle to pay your credit card on time, perhaps you need to reassess if you really need a credit card. Credit cards can be good tools but you need to use them wisely.**

<u>What Are You Worth?</u>
Not just for millionaires anymore, **net worth** measures the difference between what you own and what you owe. If your assets are more than your debts, you have a positive net worth.
Your goal – from one year to the next, is to make that positive difference grow. Among other things, knowing your net worth helps you see if debts are in line with assets, if investments are growing, and even if you need more disability or life insurance to shield your assets.
Use this calculator to measure your financial well-being.
http://cgi.money.cnn.com/tools/networth/networth.html

## Joke Of The Month

Before going to Europe on business, a man drives his Rolls-Royce to a downtown New York City bank and asks for an immediate loan of $5,000. The loan officer, taken aback, requests collateral. "Well then, here are the keys to my Rolls-Royce," the man says. The loan officer promptly has the car driven into the bank's underground parking for safekeeping and gives the man the $5,000. Two weeks later, the man walks through the bank's doors and asks to settle up his loan and get his car back. "That will be $5,000 in principal, and $15.40 in interest," the loan officer says. The man writes out a check and starts to walk away. "Wait, sir," the loan officer says. "You are a millionaire. Why in the world would you need to borrow $5,000?" The man smiles, "Where else could I find a safer place to park my Rolls-Royce in Manhattan for two weeks and pay only $15.40?"
http://www.ajokeaday.com/

The moral of this story is "to think outside the box"

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