



NEGOTIATOR eNEWS

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What's right isn't always popular, and what's popular isn't always right - Unknown

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

Interest Rate News

The Reserve Bank of Australia has decided to leave interest rates on hold this month giving homeowners some relief on mortgage payments, although lenders have been raising rates outside the official RBA moves and this I think is where the risk will remain for the immediate future.

After eight interest rate rises in three years, the central bank is hoping that slowing economic growth will cool inflation.

Feature Articles

Renovation Story – Property Makeover

My wife and I found our first investment property after looking through the Real Estate section in the newspaper one Saturday morning. We focused on finding a good buy with a great location even if it meant doing a major renovation on the property. The biggest psychological obstacle was getting our heads around borrowing large amounts of money and looking at it as a debt for life, instead of looking what it costs to service the debt after expenses and tax deductions, which was minimal.

The location was great. It was close to the city and opposite the Swan River in Perth with river views, but the inside was a different story. The whole unit was green – green paint, green carpet, green mould, green everything! Kermit the Frog would have been in heaven. It was run down and neglected. Quite a few people went through the inspection on the first Saturday it was opened, and many left holding their noses and pulling faces (as the place reeked of pets, urine and mould) but we saw beyond that.

It was a one bedroom, one bathroom unit, all with original fittings from the 70s. Despite all its faults, we could see potential and we bought it. We spent \$15,000 and a couple of months to totally renovate the place – new modern kitchen, new bathroom, sanded jarrah floorboards, electrical rewiring and replumbing. We furnished and fully equipped the whole unit and it came out a treat. We rent it out fully furnished and equipped and needless to say, the rent has tripled since the renovation

The first investment property is always the hardest to purchase because there's a psychological process that every person goes through, but since then, we have learnt from our experiences and refined our skills to purchase even better properties to grow our substantial portfolio.

If you undertake renovating properties, it can be time consuming but rewarding, and purchasing new properties is also an excellent investment strategy for those that don't have the time to renovate. We have used both of these strategies successfully.



Before



After



Before



After

Positive, Neutral And Negative Gearing

Positive gearing is when investment income is greater than the borrowing costs incurred.

Neutral gearing is when investment income is the same as the borrowing costs incurred.

Negative gearing is when borrowing costs exceed the income generated by the investment.

Two main advantages of gearing include:

- increasing the potential profits of your investments (capital growth)
- tax benefits

The Australian Securities and Investments Commission (ASIC) suggests that gearing is best suited to those:

- with enough income from your salary and other sources to cover any interest rate rises, changes in personal circumstances etc.
- in the highest tax bracket so as to maximise tax benefits.

The cost of holding an investment rental property are tax deductible. You get a tax deduction for:

- the interest on your property investment loan;
- real estate management fees;
- insurance on your investment property;
- repairs and maintenance on your investment property; and
- depreciation on your investment property.

An example of negative gearing is, if you are on the top marginal tax rate (45%) and it costs you \$10,000 to hold your rental property, your tax bill will be cut by \$4,500. That means your weekly cost of holding the investment property could be as low as \$52 per week. (The actual cost will depend on your individual tax bracket). Negative gearing simply means that the cost of holding your investment property is more than the income you receive, meaning, your investment property generates a loss each year. That's not all bad news because you can get a tax deduction on the loss, as explained above, plus you get the capital growth on the properties over the long term.

Neutral gearing is a great strategy. The key is to control as many properties as you can with the rent and the tax deductions paying for the entire property without taking a dollar out of your own pocket and not sacrificing your lifestyle. You must get a good balance. All work and no play is not good for the soul.

Financial Checkup

It's a good idea to review your financial situation at least every 6 –12 months and make sure that you are on track with your budget and your ability to possibly increase your property portfolio. Ring the **Negotiator** for a free financial checkup.

Ask The Negotiator

Email gregg@negotiator.com.au if you have any topics you would like to see in future newsletters.

Helpful Product/Tips

Understanding Equity

Equity is the difference between a bank valuation of your home and the existing borrowings you have on your home. For example, the value of your home is \$500,000, your mortgage is \$100,000 - we have \$400,000 equity in this property. Equity provides an effective mechanism for investors to refinance and generate more wealth. Equity builds up over time with the capital growth of the property, and history has shown that properties double every 7 – 10 years.

Understanding Debt

There are two kinds of debt – personal debt which you foot the bill for 100% and good debt which is investment debt where you have investment partners like the tenant that pays the rent, the tax man that gives you tax deductions and your contribution which is usually minimal in comparison.

Your Spending Habits

If you don't know where your money seems to disappear to, keep a budget of exactly what you spend your money on each week. The majority of people are not aware or conscious of where their money gets spent. The reason why we should keep a weekly budget is so things don't blow out and you can catch bad spending habits straight away. The budget should be balanced and also include entertainment and holiday allowance. One of the keys to building your wealth is spending your money on assets that will increase in value over time, not liabilities which decrease in value.

Joke Of The Month

Something Really Cheap

After being away on a lengthy business trip, Rob thought it would be nice to bring his wife a little gift.

"How about some perfume?" he asked the clerk at the cosmetics counter. The clerk showed him a bottle with a price tag of \$85.00.

"That's a bit much," Rob said, so the clerk showed him a bottle that cost only \$50.

"That's a bit much, too," said Rob, so the clerk returned with an even smaller bottle for \$30.

"That's still quite a bit," groaned Rob. Growing annoyed, the clerk pulled out a tiny \$15 bottle.

Still not satisfied, Rob said, "What I mean is, I'd like to see something really cheap" Without hesitation, the clerk handed him a mirror.

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