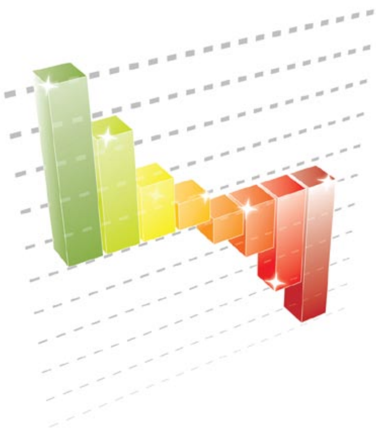
NEWSLETTER

FORT KNOX
home loans

ROBERT KNOX

A mild recession

WINTER 2009



Prime Minister Kevin Rudd and Reserve Bank Governor Glenn Stevens pulled the R-word out of hiding in April, saying it would be very difficult for Australia to avoid a recession considering the state the rest of the globe is in.

Rudd and Treasurer Wayne Swan have done a great job stimulating the economy, but have been saying the global economy looks like it's getting worse and this will affect Australia.

This may be true, but Stevens outlined six great reasons why we should be confident that it won't be, in my words, a really rough recession. Here they are:

- *First, political stability remains assured – something becoming a bit less common.*
- *Second, the Government does not own, and has not had to give direct financial support to, the banking system. Australia will be free of the difficult governance and exit strategy issues that such support is raising in a number of countries.*
- *Third, public finances remain in very sound shape, with modest debt levels and a medium term path for the budget back towards balance. Without the massive obligations arising from bank rescues that will inevitably narrow the options available to governments in other countries, Australia should be able to articulate such a path more effectively than most.*
- *Fourth, sensible policy frameworks – both macroeconomic and microeconomic – remain in place; the financial regulatory system is strong and tested.*
- *Fifth, we remain open for trade and investment, and have a capacity to deploy both our own and other people's capital carefully and profitably.*
- *Finally, there is an exposure to, and an engagement with, an Asian region that still has the most dynamic growth potential in the world, where hundreds of millions of people will for decades to come be seeking rising living standards.*

Earlier in the month Craig James of CommSec posed the question: "Does this look like a recession?" We had an 8.9 per cent spike in consumer confidence, and that would have to be some of the best recession-busting news in a while.

Over in the US, some economists tipped there is still a good chance we will see a second half of 2009 recovery.

Many US companies posted "better-than-expected" profits and this is a great sign for the American economy. For example, market analysts tipped that the shares of chipmaker, Intel, would be as low as three cents a share when it reported for the March quarter. This quarter was terrible for the US, but Intel actually came out with a profit per share of 11 cents! Apple also reported better than expected which is a great sign for the US economy.

This month, I looked at the all-important topic of properly managing your superannuation in light of the fact that super returns were hit hard in the second half of 2008. Some super fund members are probably thinking they can manage their super better themselves, and would be looking at DIY super, or a self managed super fund. SMSFs can be a great option for some people, but a disaster for others.

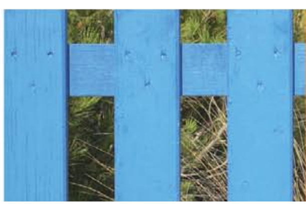
Doing your homework, asking questions, speaking to experts (and I'm talking about trusted financial advisers, not your local grocer), and establishing goals can really prove to be beneficial when it comes time to retire. Financial advisers can also show you strategies to build your wealth.

Interest rates in Australia were left at three per cent after the May meeting, and we shouldn't forget that this is the lowest it has been in half a century! But the banks have been copping it a bit this month, refusing to pass on the full cut.

I have always been more positive for the Oz economy because I believed China would do better than the doomsday merchants predicted. Recently, China's manufacturing reading got out of negative territory and in March it saw a record for car sales.

The stimulus package is working and the economy is on the comeback trail. That's great for us, and it's why I and the Commonwealth Bank, as well as CommSec, think we're in for a mild recession.

*Story by **Peter Switzer**, founder of Switzer Financial Services.*



Tips for borrowing if you're self employed

The economic crisis has hit hard for many businesses and there's no doubt the banks and other lending institutions are getting more selective about who they lend to.

If you're self employed you may be finding it harder than ever to borrow but don't get disheartened.

There are some simple steps you can take to improve your borrowing credentials so that lenders look more favourably at your applications for finance.

Our top tips for self-employed borrowers are:

1. Have your financials up-to-date. Banks want your final financials for 2008 plus some interim accounts from 1 July to now.
2. Make sure your existing loans, bills and outgoings are paid on time. One forgetful month can really affect your ability to borrow.
3. Maintain good credit. Ensure you have no defaults, including on credit cards, even for one month as the penalty or interest you pay for being behind doesn't look good.
4. Be prepared with more than one form of identification. Banks are identifying prospective borrowers more thoroughly and asking for more than one form of ID.
5. Allow extra time for the loan approval process. Before you could expect a loan approval in 24 hours, however, now it can take up to five days for equipment finance.
6. Use a broker. The advantage of a broker is that we can shop around for you and see what five or six different banks have to offer.
7. Try not to buy equipment that's too old. A good rule of thumb is not to buy goods that will be older than 10 years old at the end of the term of your finance. For example if you buy a five-year-old car and borrow money for five years.

One of the biggest challenges for small business owners is that they don't look as good on paper as they really are.

While your accountant identifies expenses and other claims that will reduce the tax you need to pay, it is our job as your broker to pull out these expenses and provide a clearer picture of your business credentials when you apply for finance.

Deposits essential for first home buyers

Gone are the days of 100% or 104% home loans.

Once again home buyers need to save for a good old fashion deposit before banks will lend them money.

Saving for a deposit is a rite of passage, particularly for first home buyers. It also gives borrowers a real sense of what it will be like paying for a mortgage. If you find it hard saving for a deposit then making mortgage repayments will be even harder.

We recommend that first home buyers save a deposit of at least 5% before they consider purchasing property. It makes good business sense to do so.

Some banks won't lend to new clients unless they have a deposit of 10% so the more you save the easier it will be for you to borrow.

There have been a lot of incentives for first home buyers including the current First Home Owners Boost but this doesn't mean you should rush out and buy something.

If you are a first home buyer, or know someone who is, then contact us for a complimentary copy of our First Home Buyers Pack which covers important topics such as what information lenders require, what incentives are available, a breakdown of the costs involved, and questions to ask when buying for the first time.

Saving a deposit

For lenders, a deposit is important because it demonstrates a good pattern of saving.

For a borrower, every dollar you have saved is a dollar less that you have to borrow and pay interest on. These days it also means the difference between getting a loan approval and being declined.

There's only one tip when it comes to saving for a deposit and that is to spend less.

Have a budget and stick to it. You will need to list all your outgoings so you can identify what costs can be reduced or cut back totally in order to save money. Spur of the moment spending on the credit card will have to stop and you should consolidate all your debts so you can pay them off quicker.

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Interest rates – Do they get any better than this?

With the standard variable interest rate at its lowest level in 50 years, the question on everyone's lips is: how low can interest rates go?

Some commentators are predicting more cuts but the banks have already shown they are reluctant to pass on all, or in some cases any, of the Reserve Bank's interest rate cuts.

Some banks began increasing their fixed rates within days of the Reserve Bank's April cut to the variable rate. A sign that perhaps the banks think the rates have gone as low as they are going to go.

The current variable rate and the quandary about how low the interest rates can go is prompting some loan holders to consider fixed terms to capitalise on the low rates for the next few years.

Naturally, the best time to fix a loan is when interest rates are set to rise. Ideally you need to fix before the banks and other lenders start increasing their rates. Is this what we're starting to see or is there still some way to go?

Predicting interest rate rises is always easier to do with hindsight but if you do decide to fix part, or all, of your loan then a major question and consideration is how long do you lock yourself in for?

The pros and cons of fixing interest rates are many. A safe middle ground is to hedge your bets and fix part of your loan, keeping the remainder at the variable rate.

If you are interested in knowing more about the fixed options and low interest rates available to you, give us a call.