



BALLAST BULLETIN

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Reserve Bank Governor The biggest mistake would be to talk ourselves into economic weakness



Given the underlying strengths of the economy, about the biggest mistake we could make would be to talk ourselves into unnecessary economic weakness, says the Governor of the Reserve Bank of Australia (RBA), Glenn Stevens.

Addressing the Committee for Economic Development in Australia's recent annual dinner, Mr Stevens said that circumstances were undoubtedly difficult.

Policy-makers and regulators both here and abroad would need to stand ready to act promptly to provide any necessary support for the financial system and sustainable economic activity.

He stressed, however, that in doing so we need not, and should not, abandon

the well-established and tested policy frameworks that are in place. "In fact, it is these that have given Australia, in particular, ample scope to do what is needed in the current situation.

"Yes, the situation is serious. But, the long-run prospects for the Australian economy have not deteriorated to the extent that might be suggested by the extent of some of the gloomy talk that is around.

Australia has the scope to tackle the current crisis

"If businesses remain focused on the long-term opportunities; if markets and commentators do the same; if banks remain willing to lend on reasonable terms for good proposals; if governments are able to so order their affairs as to continue supporting worthwhile - and I emphasise worthwhile - public investment (even if that involves some prudent borrowing); then Australia will come through the present period.

"We ought to go forward with some quiet confidence in our own abilities and in the opportunities that are on offer," he concluded.

An ideal time to upgrade?

If you've been thinking of selling your home and buying something bigger, now may be the ideal time to make the move.

In today's relatively slow market you're not going to get the price for your property that you would have in 2006.

However, if you're thinking of moving upwards, the home you're likely to be moving to will in all likelihood have been reduced significantly more than yours.

Right now, there are an increasing number of people who are seeing opportunities in the current buyer's market, with its lower prices and reduced interest rates.

The latest consumer sentiment index from Westpac and the Melbourne Institute indicated that the number of people who felt that now is a good time to buy a home rose by 21 per cent in the November 2008 survey, to its highest level since March 2006.

For those who believe in holding on for dramatic price falls, it is worth taking note of the opinion of one of WA's best known property valuers, Hegneys.

It has expressed the view that the September Quarter 2008 will see the bottom of Perth's property cycle.

What to do, now!

For sellers this is the time to get your house in order.

If it is well presented and competitively priced your home will be well placed to sell relatively quickly and at a reasonable price.

And if you are a first home buyer remember you only have six months to benefit fully from the recent boost to the Government's First Home Owner Grant.

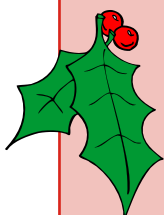
Whatever category you fall into, a good start is to work out what you can afford. Your finance broker will gladly discuss your options with you.

Christmas closure

The Ballast office will close at 5pm on Tuesday, December 23 for the Christmas break.

We will reopen on Monday, January 12, 2009.

Ballast would like to wish you all a happy and safe festive season and thank you for your support in 2008. We look forward to a prosperous 2009 for all.



The current market

A selling opportunity or a buying opportunity?



When making investment decisions in a volatile market one must consider many aspects.

Too often though investor sentiment and irrationality can lead to investors making poor decisions in defining market moments such as booms and recessions.

How many times do inexperienced investors buy investments at the peak only for the market to fall shortly after or alternatively sell investments after the market has dropped only for the investment to rise again?

The golden principles of making investment decisions are buy low, sell high, buy good quality assets and hold them for a long period of time.

Add to this that we should be regularly investing, especially before retirement age. They all seem simple principles to follow, but too often we let ourselves be influenced by the media hype on the property boom or world financial crisis.

“ Don't step outside the golden principles

In hindsight we all would have a PhD in investment decisions, but it is the future investment decisions that many of us get wrong because we step outside the golden principles of investing and instead make irrational decisions. Wouldn't we all have liked to have bought more property before the boom?

Now we all know that what goes up must come down but over the long term, the growth in share and property prices has generated real increases in wealth.

With our PhD in hindsight we would buy the best quality investments at the lowest price. However, because the future

is uncertain we must come back to our fundamentals when making this choice.

If we are to make rational investment decisions, before we buy any asset, we would want the price of that asset to fall as low as it could possibly go, then of course we would want the price to rise as much as possible after purchase.

Considering what has happened in the world's share markets, it would thus be irrational to sell now instead of buying now.

Inexperienced investors will continue to think they are going to lose more money from the fallen (lower) market and may sell.

That decision to sell may prove right in the short term but wrong in the long term as the asset regains its value and continues to grow more.

Smart investors would be inclined to buy when the market is falling (low or lower than the peak) with the knowledge that they are buying a good quality asset, plan to hold it for a long period of time (more booms and busts) and will make a lot of money from a good investment.

Again inexperienced investors will buy when the market rebounds and will be buying at a higher price and may miss most of the upswing, inadvertently buying high and selling low and doing the opposite of the golden principles of investing.

They will also have incurred a lot more in the way of transaction costs and effort than experienced investors further adding to their poor financial balance sheet.

Meanwhile experienced investors will be reaping the rewards of the new market upswing having purchased at a low price.

Inexperienced investors want the returns that experienced investors are

getting but act irrationally. Moreover the constant buying and selling creates unrealistic expectations as they try to catch up.

“ Expect good years and bad years when it comes to investment returns

If you buy a good quality equity investment that adds diversification to your portfolio with the aim of doubling your money in ten years you have to expect that during these ten years you will have good years and bad years when it comes to investment returns.

However, over ten years (long term), it is more likely that if you have bought a good quality asset, it would have increased in value.

It is not always smooth sailing when it comes to investments that go up and down in value. You have to be prepared to accept this. If you're not, then you're in the wrong investment.

So by utilising the golden principles and knowing the Australian Stock Market is down over 50% from November 2007, you should ask yourself - is the Australian Stock Market a good quality long term investment, can you diversify your risk and portfolio and is it at a low price?

Why buy your business premises?

Security aside, owning the premises from which you operate your business means you will not be exposed to unreasonably high rental increases or have to face the costly and damaging prospect of having to relocate your business.

And when the time comes to sell your business, you will be able to offer the buyer the option of buying the building in addition to the business.

Buying the building as well as the business makes it easier for a buyer to secure financing. Also, many people such as migrants are attracted to businesses that come with the security of property.

Of course you could choose to rather lease out the building, giving you a good income in your retirement.

If you are attracted to the idea of buying commercial property, or the premises from which you operate your business, speak to your finance broker.

First home buyers

Should you live in it, or rent it out?

The recent increase in the Government's first home owner grant, falling interest rates, the drop in house prices and big increases in rentals have placed renewed emphasis on whether to rent or buy.

With recent reports of increased first home buyer activity in the market, it is clear that given the right circumstances owning our own home is still a deep seated desire of both young and not so young Australians.

Young Australians living with their parents are in a particularly strong position to enter into property ownership without experiencing too much pain.

Why? Because while they are staying with their parents and paying a lot less than a commercial rental, they should have the disposable income to finance the purchase of an investment property.

In opting to buy and then rent out a property they will be able to exploit two favourable trends in today's market - falling house prices and low rental vacancy rates, translating into good rental returns.

Additionally, with an investment property they can enjoy tax relief on interest payments, maintenance costs, depreciation and can also amortise their establishment costs.

There are some disadvantages for first home buyers in renting rather than living in their properties.

In the first place they will not qualify for the first home owner grant (FHOG) nor can they claim it in future if they buy a home to live in. What's more any capital gain on the investment property is taxable.

It would, however, still be possible to claim the FHOG and avoid capital gains tax if the first home buyer lives in the home for the first 12 months.

They can then move back in with the parents for up to six years while renting out their property.

However, a word of warning: there are tax provisions that may deprive you of tax benefits if you adopt this route so be sure to first get advice from a tax specialist.

Nevertheless, whether you choose to stay in it or rent it yourself the current situation of falling house prices, the boosted government grant and falling interest rates could well present first home owners with a rare opportunity to enter into property ownership an opportunity that may not reappear again for some time.



Why you should have a structural inspection

In all the excitement and anticipation that comes with having just found the home of your dreams it is easy to overlook the need to undertake a thorough pre-purchase inspection to confirm the structural integrity of the building.

A structural report will give a purchaser or a vendor a detailed and comprehensive snapshot of the structure.

There need not be any inordinate delay since a report can usually be supplied within 24 hours of the inspection.

So what are the areas that would be inspected? Typically, a structural report would cover internal and external walls, internal and external roofing, floors, ceilings, doors, windows, fences and outbuildings.

It is also possible to commission a building report which, in addition to the areas covered by structural inspections, will also examine fly screens, guttering, tiling, cupboards, other fixtures, plumbing and electrical, and building defects which are not of a structural nature.

If you commission a pre-purchase inspection specialist, you will get an accurate report on the condition of your intended purchase and a simple explanation of what needs to be done to rectify any issues found. It will also focus on any areas requiring immediate attention.

Final inspections

While we are talking about inspections it is also critical to undertake a thorough final inspection of a property before taking possession.

It is important to remember that unless the contract makes specific provision, properties are sold in reasonably the same state as when first inspected.

So it is necessary to conduct a thorough visual inspection. If you want changes to be made to the property prior to the sale and/or you want to ensure certain items are included in the sale, you should insert specific terms (or conditions) in the contract.

If you discover that something is damaged or missing, inform the real estate agent right away.

The seller can then make a repair, offer you compensation or agree in writing to repair the problem.

It may be a hassle but in the end you will find that the final inspection was well worth it.



Look before you leap if a sea-change beckons

As baby boomers near retirement, many cast their thoughts to the idea of a sea or tree change. Maybe a home in seaside village where the fishing is good all year round or a property in the country?

It's a growing trend and interestingly, it's not just the older retiree population.

In Australia, 79% of people moving to high growth coastal regions in the year, 2000 were aged 50 years or less.

Apart from things being greener and the fishing better, one of the great aspects of moving beyond the city lights is that property usually costs much less. The sale of a modest city home may buy a fabulous home in a country town.

Choosing your locality needs to be done with care

Choosing your locality needs to be done with some care. While many towns regard sea-changers as welcome additions to their small communities, there are instances when the supply of urban infrastructure has not been able to keep up with demand.

The locality of Bermagui in New South Wales, famous for its fishing and beaches, found popularity outstretching its capacity to provide facilities to the point where local residents actively discouraged further development.

By contrast, other towns such as Mandurah have looked at sea-changers as a growth opportunity with the consequence the region has boomed and local businesses and employment flourished.

While the idea of moving beyond the city limits has appeal, you need to weigh the pluses and minuses.

First there's the aspect of finance. If you're selling a city property to move to the country or a seaside town in many

instances you'll be well in front, but that's not always the case as prices at Byron Bay, Broome and on the Gold Coast demonstrate.

If you're needing financial assistance, you need to know that finance for property in outer regions is not as readily available as in capital city metropolitan areas.

If you're using equity in an existing property to fund the dream, this may not be a problem but if you're borrowing on the property being purchased, it pays to be aware that lending institutions require a higher level of deposit usually at least 20% to 30% because they tend to finance to only 80% or 70% of the loan to value ratio (LVR).

If you have thoughts of eventually returning to the city it may pay to bear in mind that regional areas may not have equivalent capital growth to the city so your equity in property may move backwards.

Adventure and experiences make life worth living.

And then there are lifestyle aspects. Whilst the change may create the opportunity for making new friends and living in a wonderful new environment, there's also the possibility of losing contact with old friends, including family.

When it comes to health care, while many country hospitals and medical facilities are excellent, specialist care may not be available.

But after having said 'think before you make the move', it should be added that adventure and experiences make life worth living.

It's just that the experience will be all the more worthwhile, if it's well planned, rather than realising the down-sides after the move has been made

Off to the races

Eager Ballast office staff before heading to Incontro Restaurant, South Perth for their Melbourne Cup lunch.



New pastures for Jacinta

Our receptionist, Jacinta has just completed her Certificate of Business 2 Australian apprenticeship with Ballast. Jacinta is leaving Ballast in December and we wish her all the best in her future endeavours.



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