

CAPITAL COMMUNICATOR

VOLUME 8, DECEMBER 2008

THE QUARTERLY NEWSLETTER OF CENTRECAPITAL



Welcome to the eighth edition of the *Capital Communicator*, the quarterly newsletter of Centre Capital.

We've developed this communication tool to keep our valued clients informed of the most up to date financial advice and investment opportunities, provide you with tips and strategies for managing your budgets and consolidating your wealth, and update you on changes in the law that may be relevant to your finances.

Capital Communicator is available in email or hard copy. Let us know how you prefer to receive your edition by logging on to www.centrecapital.com.au. Click on the **CLIENT AREA** section of the home page to update your details. You can also download this newsletter from our website. Please feel free to forward Capital Communicator to any family, friends or colleagues who may find its content of interest.

We'd like to know what you think...

We would welcome your feedback on what you think of this edition of Capital Communicator and would also like to hear from you about the types of information and articles you want to read about. Please email advice@centrecapital.com.au with any feedback and suggestions and we'll do our best to include these in future editions.

**We wish you
a merry
and safe
Christmas
and New Year
period and
are looking
forward to
2009.**



We will be closed from 12pm on Wednesday 24th December and will reopen on Monday 12th January 2009.

The advice provided in this newsletter is General Advice only and we have not considered your personal circumstances. Before making any decision on the basis of this advice you should consider if the advice is appropriate for you based on your particular personal circumstances.



Centre Capital offers a range of services. We tailor our advice in each of these areas to meet the individual needs and objectives of every client. In future editions of Capital Communicator we'll provide a detailed analysis of how each of these services might help you. In the meantime, here's a brief overview of what they all mean:

Tax optimisation

Are you aware of the latest strategies to reduce the tax you pay? By constantly being aware of your ongoing situation we can become more proactive in managing your tax burden.

Investment advice

Are you aware of the range of investment opportunities that could increase your wealth while managing your risk? We can introduce you to a range of these options and recommend those of greatest benefit to your individual situation.

Retirement Planning

Will your current retirement plan allow you to retire with the lifestyle you enjoy now? Would you like to explore ways to maximise your retirement income and protect your wealth?

Finance

Would you like to learn about the latest approaches to structuring loans, including how to minimise expenses and maximise benefits? In addition we have access to a wide range of home loans, investment loans, special purpose lending and business finance. We will find the loan that best meets your requirements but more importantly advise you on a strategy that will focus on increasing your overall wealth.

Risk Management

What protection do you currently have in place to cover your family or business from unforeseen loss? In the event of death, injury or illness you need to adequately provide for mortgage costs and other living expenses. We can assist you to protect your most valuable asset... you.

Estate Planning

Wealth can easily be lost across generations if the right decisions are not made to properly transfer and protect wealth. Business succession is often overlooked. How will your business survive if you are not there? What tax consequences will you be faced with if you sell your business?

Economic Update by ROB COYTE



and Our Big Picture

Well 2008 is coming to an end and it will always be remembered by history along similar lines to other years including the 1970's oil crisis, 1987 stock market crash, The Dot Com Boom and bust at the turn of this century. There have even been comparisons to The Great Depression which started on Black Tuesday 29th October 1929 and the magnitude of this "hiccup" compared to the others probably warrants such comparisons.

Importantly, we at Centre Capital have reiterated the fact that this is part of the investment cycle. As we close off this year we need to revisit the most succinct and simple piece of information I have ever seen that conveys why we do the strategies we do.

You should have all seen this previously but it gets back to creating an income stream that will grow over time. The full article is on the website but we will rehash some main points here.

The graph below shows two options for investing \$100,000 in 1980 for 27 years. One option was investing the funds in term deposits and the other investing in the share market.

"But remember in the last 27 years there were crisis such as the '87 crash, the Asian financial crisis and the dotcom boom and bust."

Initially you would have been receiving approximately \$9,000 interest from the term deposits, and slightly less from the shares.

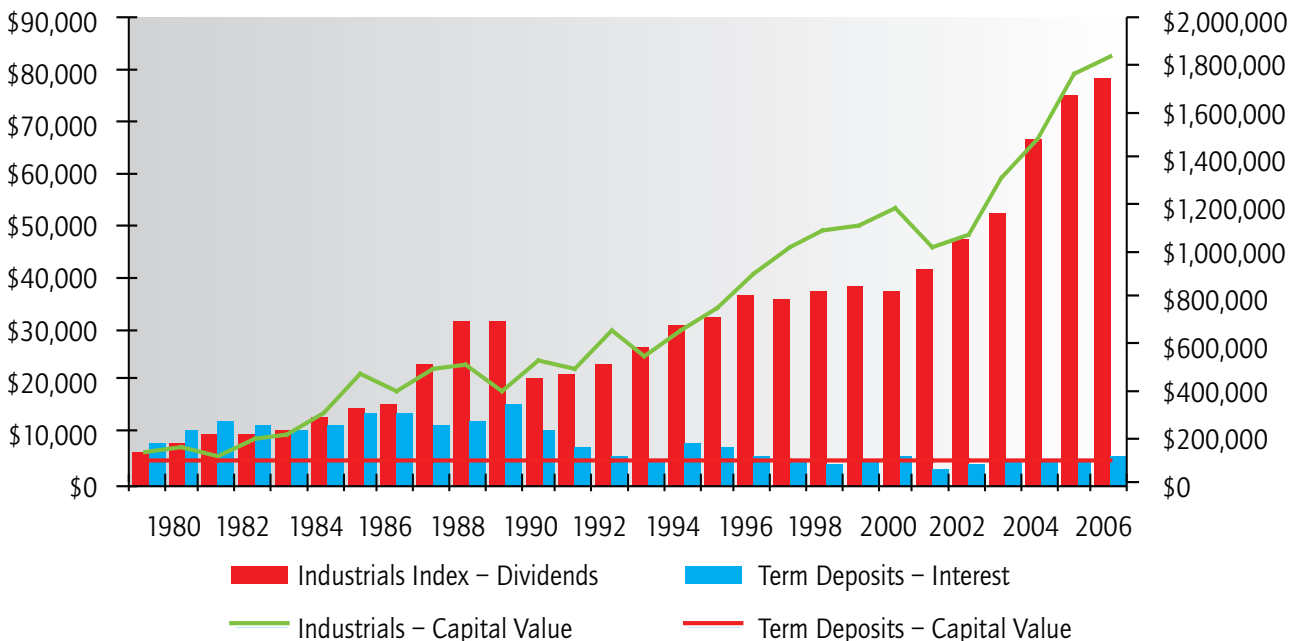
At the end of 27 years the value of the share investment is now \$1,800,000 whereas the term deposit has remained static. But more importantly the income generated from the share investments is now approximately \$78,000 per annum whereas the income from the term deposit is only \$8,000 per annum which would not offset the effect of inflation (rising prices) over the 27 years.

Which income stream would you prefer? In fact which income stream do you need?

Let's extrapolate the events of the last 12 months which are not included on this graph. The capital value of the investments may be say \$1,000,000 and it as yet unknown but let's say the income stream does take a hit to say \$60,000 per annum. We are still way better off than the alternative of having our original \$100,000 in the bank and our income stream of about \$4,000 per annum based on current interest rates.



Obviously the difficulty is for recent investors, who have not had the first 27 years. But remember in the last 27 years there were crisis such as the '87 crash,



Continued over...

Finance – Opportunities, Restructuring & Investment



by **GEOFF ODELL**

Recent worldwide events has seen the Rudd governments implement stimulus packages and The Reserve Bank has stepped in with its own strategy of four interest rate reductions in four months (see below), with future reductions still on their radar. The key right now is to access available funds, in the most cost effective manner, and take advantage of these conditions. But how can this achieved?



Borrowing Cheap Money to Invest

Generally an individual's home is their greatest asset (and greatest non deductible debt), and clearing the mortgage historically has been the sign of achieving financial security. However, it is this asset and this previous mindset of clearing the mortgage, which can now provide individuals with the opportunity to step into the market and take advantage of these depressed values.

Home equity finance can be viewed as the difference between the market price of your property and the current mortgage value. As a very basic example; if your home was valued (independently) at \$500,000 and the outstanding mortgage was \$100,000 then in essence the home equity available is the difference of \$400,000. What's more, money borrowed for investment purposes is tax deductible at the individual's current marginal tax rate. Given the recent RBA rate cuts, lenders have responded accordingly, and current lending rates, fixed and variable have fallen accordingly (i.e. Centre Capital can access money on 5 year fixed 6.29%, and variable 6.04%). The last time the RBA cash rate was at 4.25% was December 2001, so the

rate of borrowing to invest has not been this attractive for 7 long years.

We can show you the long term benefits of such a strategy in terms of tax planning but more importantly wealth creation for your financial security.

Refinance to Take Advantage of Lower Rates

In addition to these rates being attractive for investment purposes, they also provide existing borrowers with the opportunity to refinance their existing loans. Individual circumstances need to be taken into consideration when exploring such an opportunity, but often people don't think about restructuring their loans because they view the process as too complex, and simply continue on with their existing rates and payments. Centre Capital can help simplify this process, and step individuals through the necessary paperwork and procedures, with the result being more money remaining in your

household pocket that was previously going to banks and other lending societies.

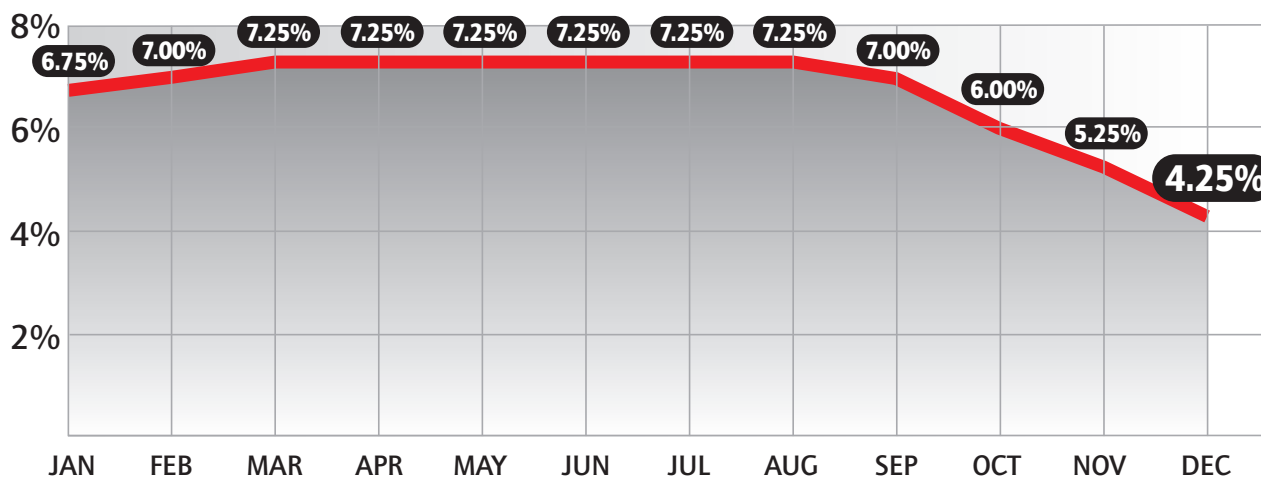
First Home Owners – Opportunity to Now Enter Market with Potential \$41,000 Benefit

Finally, there are those that are looking at possibly entering into the home owners market for the first time.

The First Home Owners Grant has been extended by the current federal and also the NSW state government, providing eligible individuals with the opportunity to receive as much as \$24,000 towards the costs of building a first home. This overall saving can amount to as much as \$41,000 when aspects such as stamp duty are taken into consideration.

With such a significant amount of money available towards what is generally every individual's greatest expense it is important people know what qualifying rules and guidelines are in place, which Centre Capital is able to assist.

2008 Reserve Bank of Australia Official Interest Rate



Economic Update Continued...

the Asian financial crisis and the dotcom boom and bust. Now let's go back to our graph above if we paid \$80,000 or indeed \$130,000 (instead of \$100,000 back in 1980) the long term results are still satisfactory at achieving our objectives. In short the difference (in value) gets smaller the longer time goes on.

Also I would refer you to the table we had in our last newsletter which shows the average return of markets after a year such as this. Also importantly is the duration of the "good" times before the next "bad" event, and there will be another one.

When we buy a share we are buying part of a business.

Over time if that business is profitable it will pay dividends as well as retain money to invest in the business to grow profit in future years.

Let's start a company named ABC with 1 shareholder who tipped in \$100 as we have done in table below "Fundamental Maths of Buying a Share".

Now ABC wants to start a business selling "widgets". In the first year if they make a 10% profit they will make \$10. They may pay half as a dividend (\$5) to the shareholder and retain the other half (\$5) to grow the business. This means the



company ABC will now have assets of \$105 making the shareholders 1 share worth \$105.

In the second year if they make a 10% profit they will make \$10.50 (10% of \$105). They may pay half as a dividend (\$5.25) to the shareholder and retain the other half (\$5.25) to grow the business. This means the company ABC will now have assets of \$110.25 making the shareholders 1 share worth \$110.25.

As you can see this process continues. This is how you can get increasing dividends as well as capital growth over time by holding profitable companies

Companies of all sorts have undertaken massive deleverage (paying down debt) and you have no doubt seen the companies in the news that have been raising equity to replace debt. Interestingly some of the biggest capital raises this year have come from the banks notwithstanding Rudd's effective bank rolling them through the bank guarantee. This is prudent for the long term future of these companies as it improves their financial position. We will see this continue into the new year until such a time that companies and banks are happy with the new "status quo".

Going forward the massive stimulus packages worldwide should start to feed through to the underlying economies. Think about the recent reduction in fuel prices and interest rates here for everyday Australian's this gives them more money to spend (if they retain their job). Importantly, investment markets will start to price in this recovery 6-9 months before it actually happens as they see things improve... They don't wait for confirmation.

Remember we are entering a strategy for 10, 20 or even 40 years so we need to be patient and not react to every bit of information along the way, as there will be many. A marathon runner does not win the 42 km event in the first 1km by going out hard and sprinting off the opposition. In fact this situation would probably be setting him up to lose the actual race. Similarly our strategy is focused towards your goals and objectives. Therefore we need to ensure that we are using appropriate measurements to gauge your progress and not worry about things that are external or irrelevant to those objectives.

BEAR MARKETS in Australia shares since 1960				
	Months to low	% Fall	Mths after low to high make new high	% gain in first 12 months after low
Sep '60 – Nov '60	2	-23.2	33	+12
Feb '64 – Jun '65	16	-20.4	25	+9
Jan '70 – Nov '71	22	-39.0	94	+52
Jan '73 – Sep '74	20	-59.3	59	+51
Nov '80 – Jul '82	32	-40.6	17	+39
Sep '87 – Nov '87	2	-50.1	75	+35
Aug '89 – Jan '91	15	-32.4	30	+39
Feb '94 – Feb '95	12	-21.7	20	+25
Mar '02 – Nov '03	12	-22.3	15	+27
Average	15	-34.0	41	+32
Nov 07 – ?	10 ?	-29.5 ?	?	?

Fundamental Maths of Buying a Share				
Year	Business Assets	Profit (R.O.E.)	Dividend	Retained Earnings
1	100.00	10.00	5.00	5.00
2	105.00	10.50	5.25	5.25
3	110.25	11.00	5.50	5.50
4	115.75	11.60	5.80	5.80
5	121.55	12.20	6.10	6.10
6	127.65	12.80	6.40	6.40
7	134.05			