



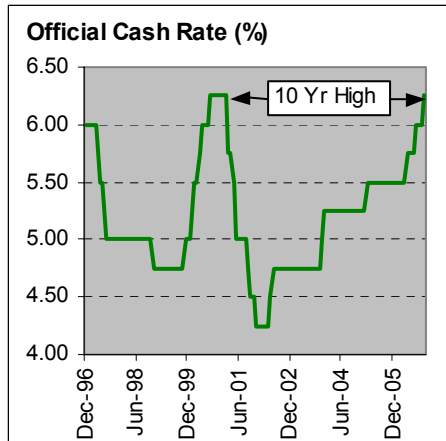
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QUOTE OF THE MONTH

“Everyone thinks of changing the world, but no one thinks of changing themselves.” (anon)

Official Cash Rate



The Official Cash Rate is now at its highest level in over ten (10) years.

Market Data/Statistics

Official Cash Rate: 6.25%
U.S. Fed. Funds Rate: 5.25%
90 Day Bank Bill Rate: 6.39%
5 Year Bond Rate: 5.855%
All Ordinaries: 5,455.5
Dow Jones: 12,343
As at 12 December 2006

“The most important consideration was that of our forecast of underlying inflation which has been progressively revised upwards.”

- Ian MacFarlane

INTEREST RATES AND THE ECONOMY

CONSOLIDATION?

After the Official Cash rate rose by 0.25% to 6.25% percent in November, there has been no movement in December. The rise was driven by the release of inflationary data, which indicated that the Consumer Price Index spiked to approximately 4% in the June 2006 quarter.

The climb in domestic inflation was due to a number of reasons. These include relatively high oil and petrol prices, wider global economic strength, an increase in consumer demand and, most recently, the lack of rain in farming regions.

It is now safe to assume the economy, both domestically and globally, is in a

phase of consolidation. Tighter monetary policy curbs business growth, and is a classic example that we are entering a more restrained period of business expansion. Intuitively, the increase will induce savings and reduce economic expansion by potentially curbing business lending.

According to a recent speech by the Reserve Bank’s Governor, Ian MacFarlane, non-mining related business investment has increased by 12% over the past three years. While the investment increases our supply capacity, it has the short-term effect of increasing the demand for labour and, resultantly, increases wage rates and consumer prices.

The other factor to influence inflation rates was the relative improvement of consumer demand over the last few quarters. By lifting the Official Cash Rate the Reserve Bank of Australia is keeping inflation and therefore demand in check, ensuring that our economy doesn’t overheat (which ulti-

mately leads to unemployment when supply is curbed due to excess stock).

The future of interest rates is teetering on a very delicate edge, as it seems even the slightest increase in inflationary data may be enough to prompt the RBA to increase the Official Cash Rate even further.

QUESTIONS AND ANSWERS

November levels. The MCP Group team will answer a selection of our clients’ queries in each edition of our monthly newsletter. To submit your query to our office please forward an email to enquiries@mcpgroup.com.au.

FINANCE

My home mortgage is \$100,000 and is secured against my owner occupied property worth circa \$300,000. I also have an investment property worth \$200,000 with an adjoining investment loan of

### **\$50,000. Will interest costs be tax deductible if I restructure my finances so that all funds owing are secured against my investment property?**

Our Accounting Partners advise our office that the ATO uses a purpose to determine whether interest expenses are tax deductible. As you have advised that the loan secured against your investment property is to repay personal debt (i.e. your mortgage), the interest on \$100,000 portion of the loan will not be tax deductible.

### **What is Superannuation? Can I withdraw my Superannuation prior to my retirement?**

While this may seem a very elementary question to our financially savvy readers, there are some simple misunderstandings when it comes to superannuation.

Superannuation is a form of investment just like any other – although it has particular significance as it allows investors/employees to accumulate funds in a tax effective environment for the provision of an income when they retire. Superannuation may be invested in shares, property, money market products, managed funds or even business dwellings if self employed.

Unless certain situations arise such as Total and Permanent Disablement etc, superannuation may not be withdrawn prior to the standard retirement age of 65.



### **THE ADVANTAGES AND DISADVANTAGES OF UNIT TRUSTS**

A Unit Trust is usually a trading Trust where capital is divided into Units, and each Unit Holder owns Units according to their contribution, similar to shares.

A Trustee invests the money into a business venture and the profits are then paid back to the Unit Holders, who are the beneficiaries of a Unit Trust, similar to shareholders receiving dividends.

The Unit Trust is run in accordance with its Trust Deed. The investors are initial 'Settlers' who contribute capital

### **The Advantages and Disadvantages of a Unit Trust**

✓	The Trustee has limited liability if it is a corporate entity.
✓	Unit Holders can pool their capital to achieve a viable investment.
✓	Unit Trusts are a way of spreading the risk of an investment.
✓	A Unit Holder owns Units, which are readily transferable and can be sold, similar to shares.
✓	Unit Holders directly own the property of the Trust.
✓	Unit Holders can wind up the Trust.
✓	Unit Trusts may offer tax effectiveness in some circumstances. Accountants should be consulted.
✗	There is an added layer of cost upon initial creation of Unit Trusts.
✗	A Unit Trust may have a deed which allows for shortfalls to be paid by Unit Holders.
✗	Unit Trusts are complex in nature and can cause concern through a lack of understanding.

**Units Trusts are an extremely flexible business structure as Units can easily be bought, sold or transferred.**

to a Fund. The Trustee is usually a company.

Parties owing Units in a Unit Trust should ensure that a Unitholders Agreement is signed between them reflecting the rights and the responsibilities of the parties, particularly in relation to exit and profit distribution.



### **PROTECTING YOUR ASSETS**

When contemplating a property, business or other asset acquisition, asset protection must be an important consideration. All people should adopt a plan for a worst-case scenario. Here we address some common issues relevant to protecting assets.

#### **PROTECTING ASSETS**

When purchasing an asset such as a

business or property it is vital to:

- Where possible ensure that capital injections into an asset purchase, generally in the form of loans, are secured over the assets of the business venture or the property.
- Determine the most appropriate structure to hold the asset in conjunction with lawyers and accountants.
- Wherever possible ensure personal and business assets are not at risk from creditors.
- Where possible avoid the provision of spouse/personal/director guarantees, which expose personal assets.

Ensure the above measures are relevantly documented.

#### **IS INSURANCE ENOUGH?**

Insurance is a vital ingredient of asset protection as a safeguard for circumstances where a person may suffer financial loss. However, many insurance policies may be inadequate to provide individuals exposed to trading and professional risk with adequate protection. While it's vital to seek coverage from the appropriate policy, insurance policies generally preclude cover where a person has done something outside the scope or in contravention of the insurance policy. If this is the case, you may be liable to find funds above what a insurance policy will provide, or in total if the policy is found to not apply. Seeking specialist insurance advice is important.

#### **THE FAMILY HOME: TRANSFER TO SPOUSE LESS AT RISK**

A common asset protection strategy when in a stable long term relationship is for the partner of the person exposed to risk holding all assets in their name. This is only effective where the spouses holding the assets are not exposed to any risk themselves.

#### **DISCRETIONARY OR FAMILY TRUSTS**

Trusts, where property is held by a trustee for the benefit of others (i.e. beneficiary(ies)), can be effective entities to hold and protect assets, including property. Generally, a beneficiary of a discretionary trust does not have any right to the assets of the trust until the Trustee exercises their discretion to distribute the

income or capital of the trust to a beneficiary stipulated in the Trust Deed.

Accordingly, the property and other assets of the trust are not usually exposed to creditors. If a trust is established for the purpose of asset protection, it should not generally operate a business or engage in any other trading or risk related activity.

### **CAPITAL GAINS TAX ("CGT") IMPLICATIONS OF TRANSFERRING PROPERTY OR OTHER ASSETS TO A PARTNER**

Generally this will apply, however you can ignore a capital gain or capital loss made from a CGT event relating



**Transferring the property to the business owner's spouse is one method used to protect business assets.**

to a dwelling that was your principal place of residence. This can change, however, depending on how you came to own it and what you have done with it, eg. if you rented it out. Accountants should be consulted in relation to all matters of taxation.

### **STATE STAMP DUTY IMPLICATIONS**

There is no stamp duty chargeable in respect of a transfer of property between those in a marital or genuine de facto relationship in Victoria. Trust - Stamp duty may apply where there is a subsequent transfer to a trust; notwithstanding it may be controlled by the transferor, if the beneficial ownership of the assets change.

### **CASE SCENARIO**

When one of our clients approached us a few years ago about becoming a Company Director we set up a structure to protect his assets, which included various properties. When the company went into liquidation last year with our client's signature on

several Directors' Guarantees the assets were beyond the reach of creditors. The protective structure deterred creditors from taking further action against our client personally.

### **CONCLUSION**

Aspects of asset protection and taxation must be considered when purchasing any asset such as a property or business. Further, asset protection should be reviewed regularly. It is strongly recommended business advisers including accountants and lawyers are involved in the process, to ensure rights and obligations are respectively protected and honoured. Onerous Directors and Trustee Duties may also be relevant depending on your preferred structure.

*Shane Frost, MCP Legal*



### **SHARES: WHY A LONG TERM OUTLOOK WORKS**

In simple terms, purchasing a share essentially means that you are buying a part of the underlying company. This means that you are eligible to receive dividends (if applicable) and participate in any capital growth from the positive performance and/or prospects of the company.

Companies raise funds through floating shares through an Initial Public Offering (IPO). The company benefits in that it can fund future business expansion, develop new and exciting business lines or advertise without having to pay interest costs. The company may either pay a dividend or preserve their funds to tap into future growth opportunities. Some companies even offer a dividend in the form of shares which are generally at a discount to the market. This is commonly referred to as a Dividend Reinvestment Plan.

### **THE ADVANTAGES OF SHARES**

There are many advantages in share ownership, including above average returns in the long-term, which allows investment profits to compound over the course of several markets cycles.

Another ancillary benefit are generous tax concessions. These include franking credits which allows individu-

als to receive a rebate on the tax paid on profit by the company. Additionally, shares qualify for a 50% rebate on capital gains tax if held for 12 months or more.

Shares also allow an investor to have a great deal of control over their investments. Buying and selling shares is relatively easy for companies with a high level of volume, which makes the asset class extremely liquid. With over 1,700 shares on the Australia Stock Exchange, investors also have a lot of choice when it comes to the construction of their investment portfolio.

### **SHARES (MIXED RETURNS)**

Shares are one of the more volatile financial assets. They generally have a return which fluctuates from its average more than most other standard forms of investment.

This is one of the major disadvantages for risk averse investors. Due to the mixture of returns, investment professionals say that shares have a higher level of risk, and therefore, in the long run, must have a higher level of return.

Due to the fluctuating returns a diversified portfolio is always recommended; complete with solid companies from different industrial sectors.

### **WHY A LONG TERM APPROACH ALWAYS WORKS**

As mentioned earlier, shares are a typically volatile investment. However, in the long-term the performance of shares tends to exceed the return of financial assets with a lower return volatility. This follows the premise of risk and return, which states that a higher level of return fluctuation should be met by higher average returns.

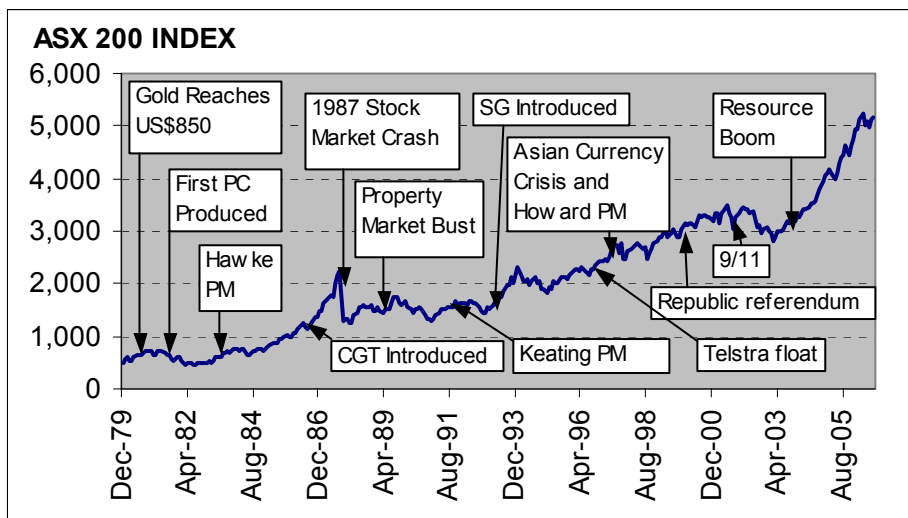
The ASX 200 index has risen quite steadily over the course 27 years. Despite short term setbacks, the index has always proven to rebound.

### **CONCLUSION**

Financial planners and industry experts are not able to guarantee whether the next 30 points will be up or down. However, there is more certainty when predicting where the next 1,500 and 2,000 points will go, and that is up!

*David MacManus, MCP Financial*

THE ASX 200 SINCE 1979 (INCLUDING IMPORTANT EVENTS)



Investors should not be concerned about the daily price movements of their shares if they are investing for the long term. Despite our changing investment environment the value of the ASX 200 has always risen despite short term setbacks.

Standard Purchase Costs Family Guarantee	
<b>Loan to Value Ratio</b>	
Property Value	\$ 300,000
Family Guarantee	\$ 60,000
Borrowings	\$ 285,000
Loan to Value Ratio	79%
<b>Purchase Costs</b>	
Stamp Duty on Property	\$ 13,660
Registration of Land	\$ 828
Registration of Mortgage	\$ 45
Loan Fees	\$ 750
Conveyancing (Legals)	\$ 600
<b>Total Acquisition Costs</b>	<b>\$ 15,883</b>

FINANCIER NEWS

The Over Fifty Group

The Over Fifty Group are offering great deals at present until the end of December. They will lend at an LVR for commercial deals at the low rate of 8.50% variable with a 0.50% Establishment Fee. There are no ongoing fees and no annual reviews. Loan amounts range from \$0.5m to \$3m and cash-flow lending is considered.



FAMILY GUARANTEES - THE BENEFITS

With housing prices at substantial levels, many MCP Group clients ask how they can help their children purchase their first house? Many gift funds to their children but there are better alternatives, including the offer of a Family Guarantee limited to a predetermined collateral amount.

We will take a look at the following example for a young couple who are about to purchase their first property, including all associated costs. The children's parents are willing to help with their acquisition and have come to MCP Group for advice.

The following is an example of the purchase costs associated with acquiring a loan to 95% of the property value.

Total acquisition costs are \$21,328 and because of the requirement of Lenders Mortgage Insurance they would also be forced to show 5% of genuine savings (funds built up over time to emulate loan repayments).

They would need to contribute a total of \$36,328 in funds, with \$15,000 made up of the genuine savings component to satisfy Lenders Mortgage Insurance requirements.

With a \$60,000 family guarantee,

purchase costs would be reduced by the amount of Lenders Mortgage Insurance, as this expense would no longer apply. This is because the Loan to Value Ratio is reduced to 79.15%. The purchasers would also be able to source the acquisition costs from gifts etc. and would not need to show the lender/mortgage insurer that they have a genuine savings history. By this method/strategy, the borrowers would only need to source \$30,883 for the purchase of the premises.

Scenario

A young couple seek to purchase a property for \$300,000 and seek to borrow as much as they can. They do not have a substantial savings history, although they have parents who are willing to help through gifting funds. Their parents own a house worth \$600,000 with a mortgage of \$100,000.

Standard Purchase Costs	
<b>Loan to Value Ratio</b>	
Property Value	\$ 300,000
Borrowings	\$ 285,000
Loan to Value Ratio	95%
<b>Purchase Costs</b>	
Stamp Duty on Property	\$ 13,660
Registration of Land	\$ 828
Registration of Mortgage	\$ 45
Mortgage Insurance*	\$ 5,445
Loan Fees	\$ 750
Conveyancing (Legals)	\$ 600
<b>Total Acquisition Costs</b>	<b>\$ 21,328</b>

SEASON GREETINGS

MCP Group wishes all our referrers, clients & prospective clients a very safe and merry Christmas and a happy New Year. We thank you for your support during 2006.



We look forward to working with you in 2007. Best Wishes.

-The MCP Team

## INDICATIVE INTEREST RATE SCHEDULE - AS AT 14 DECEMBER 2006

A selection of our financiers' most competitive Interest Rates. Rates displayed are generally discounted and may not apply to your situation. This is an indicative guide only. Comparison rates are available upon request. Please speak to MCP Group for further information.

Residential Lending		Variable Rates (Inclusive of Discounts)				Fixed Rates				Commission Rates (%)	
		Offset	L.O.C.	Basic	Low Doc	1 Year	2 Year	3 Years	5 Years	Upfront	Trail
MAJORS	ANZ Bank	7.37%	7.47%	7.47%	7.37%	7.35%	7.35%	7.19%	7.35%	0.625%	0.20%
	CBA	7.37%	7.47%	7.56%	7.47%	7.24%	7.24%	7.24%	7.14%	0.70%	0.25%
	NAB	7.37%	8.07%	7.37%	7.57%	7.35%	7.35%	7.18%	7.39%	0.60%	N/A
	Westpac	7.37%	7.52%	7.49%	7.47%	7.35%	7.35%	7.19%	7.39%	0.60%	0.25%
OTHER LENDERS	AMP Bank	7.42%	7.52%	7.48%	7.63%	7.35%	7.35%	7.18%	7.09%	0.50%	0.25%
	Adelaide Bank	8.07%	8.17%	7.54%	8.17%	7.35%	7.35%	7.25%	7.15%	0.60%	0.25%
	BankWest	7.40%	7.60%	7.40%	7.99%	7.30%	7.30%	7.30%	7.30%	0.50%	0.25%
	Citibank	7.71%	7.73%	7.37%	7.71%	7.40%	7.40%	7.19%	7.19%	0.65%	0.25%
	HSBC Bank	7.70%	7.70%	7.44%	7.70%	7.25%	7.25%	7.15%	7.35%	0.60%	0.25%
	ING Bank	7.40%	7.99%	7.40%	7.99%	7.29%	7.29%	7.19%	7.29%	0.60%	0.25%
	Macquarie	7.39%	7.55%	7.39%	7.73%	7.55%	7.55%	7.55%	7.55%	0.60%	0.25%
	St George	7.37%	7.47%	7.49%	7.47%	7.35%	7.29%	7.19%	7.15%	0.60%	0.25%
	Suburban Management	N/A	N/A	7.49%	8.14%	Available Upon Request				0.60%	0.25%

\*Must be fully secured by Residential Property - Rates are Indicative Only. More lenders available upon Request (Selection provided only). LVR of 80% applies to GE Money.

Commercial Lending		Variable Base Rates		Fixed Rates			
		Standard	Overdraft/L.O.C.	1 Year	2 Year	3 Years	5 Years
	ANZ Bank*	8.42%	9.35%	7.98%	7.96%	7.89%	7.89%
	ING Bank	8.35%	N/A	8.30%	8.25%	8.25%	8.20%
	Citibank	8.25%	9.20%	8.05%	8.00%	8.00%	8.00%
	BankWest*	8.15%	9.25%	7.87%	7.85%	7.85%	7.86%
	Members Equity	8.24%	N/A	Available Upon Request			
	St George	9.05%	9.42%	8.48%	8.40%	8.34%	8.31%
	Westpac	8.40%	8.70%	7.99%	8.05%	8.00%	8.05%

\* ANZ Bank Commercial Loan Rates (Standard) must be secured by residential property. All commercial loan rates are a starting guide only.

A buffer may be added to the above rates depending on the underlying strength of the commercial loan application. All rates are based on borrowings of \$500,000. The displayed Citibank commercial rate applies only to new business.

The Interest Rates provided are subject to specific lending criteria being satisfied - and therefore may not apply in your case. These rates are provided as a guide only to demonstrate offerings in the market. Please call MCP Group for an interest rate quote for your specific scenario. Comparison Rates, Fees & Charges are provided in MCP Lending Proposals.