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INTEREST RATES, EQUITY MARKETS AND THE ECONOMY

The Reserve Bank of Australia has left the Official Cash Rate at 7.25% following their May meeting. Undoubtedly, inflation would have been a major concern for the Board as it has significantly exceeded their policy threshold of 3% per annum.

Inflation topped 4.2% per annum in the year ended March 2008, representing its highest level since 1991. Drivers included an increase in rent due to organic population growth and net migration, elevated food prices and higher petrol costs due to global oil demand. It should be noted that none of these factors seem likely to abate in the short term, with oil and property set to remain historically high due to bona-fide parameters which are driving demand, such as Australia's need to house overseas workers and oil supply concerns.

It seems the RBA have weighed in the 20 or so basis point rises that selected banks had added to their lending rates, waning consumer sentiment, decreased housing starts and low

QUOTE OF THE MONTH

"It is hard to fail, but it is worse never to have tried to succeed."

- Theodore Roosevelt
US President (1901-1909)

MARKET STATISTICS

Rate / Index / Com	1-May-08	24-Apr-08	Change	1-Apr-08	Change
Official Cash Rate	7.25%	7.25%	● 0.00%	7.25%	● 0.00%
Federal Funds Rate	2.00%	2.25%	▼ -0.25%	2.25%	▼ -0.25%
ASX 200	5,586	5,587	▼ -1.50	5,361	▲ 224.60
Dow Jones	13,010	12,849	▲ 161.05	12,654	▲ 355.64
5 Year Bond Rate	6.17%	6.33%	▼ -0.16%	6.03%	▲ 0.14%
30 Day Bank Bill Rate	7.60%	7.59%	▲ 0.01%	7.57%	▲ 0.03%
90 Day Bank Bill Rate	7.80%	7.82%	▼ -0.03%	7.79%	▲ 0.01%
Australian Dollar (US)	93.77	94.74	▼ -0.97	91.02	▲ 2.75
Gold (Ounce)	853	895.50	▼ -42.50	887.75	▼ -34.75
OPEC Baset Rate	106.13	110.63	▼ -4.50	95.75	▲ 10.38

Sources: www.rba.gov.au, au.finance.yahoo.com, www.opec.com Note: Some figures have been rounded

manufacturing performance figures. This supports the view that our economy is already cooling.

In contrast, the US economy looks to be entering a phase of consolidation. But despite the gloomy outlook for the all-important economic powerhouse, their equity market has pegged back some of this year's early losses to be down less than 4% for the year. Better than expected quarterly profit results from two larger financial firms has provided the impetus for this improvement.

It does seem that lending has deteriorated consumer spending. To put this into perspective, the US economy grew at 0.6% in the first quarter,

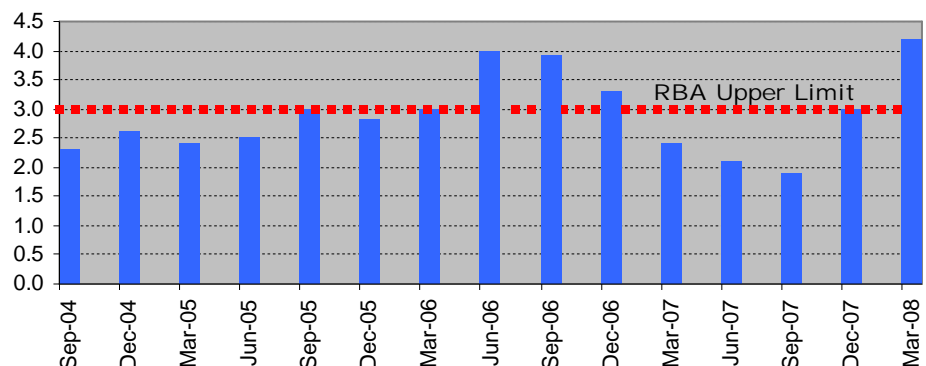
prompting many analysts to concur that the economy is enduring recession type conditions at the moment.

Forecasting the future of the Australian economy (including interest rates) is a difficult task. We seem to be torn between a stifling US economy and the continuation of economic progress in China and India (anecdotal evidence may be seen in the price increase of coal and iron ore, propelling our terms of trade results). The months ahead will be interesting.

We hope to see an easing in liquidity pressures during this time. For borrowers, fixed rates do not appear attractive, though this is of course contingent on individual circumstances.

Year ended domestic inflation

Year-ended percentage change



Inflation: The increase in rent, food and oil prices has led to inflation reaching 4.2% for year ended March 2008 - its highest level since 1991.

STRATEGY (STYLE) DRIFT

The recent volatility in global and domestic equity markets has, it seems, rattled the confidence of retail investors in 2008. From the highs reached in the latter stages of 2007, the All Ordinaries Index has fallen to approximately 5,200 points, with the market drifting lower due to the sub-prime lending and domestic inflationary concerns.

The downward trend has forced some investors to review their investment strategy and, in some situations, take the radical action of selling a portion of their portfolio's aggressive assets for less volatile/defensive securities (i.e. money market products). The trend (diverting from an investment strategy) is known amongst Fund Managers as "style drift" and may, depending on the circumstance, be detrimental to an individual's portfolio performance in the long run.

WHAT IS STRATEGY DRIFT?

Strategy drift is a situation where a person, or Fund Manager's investment strategy moves away from its stated objectives. For example, a Fund Manager may have advised they intend to operate a balanced fund with asset allocation equally weighted between defensive and more aggressive financial assets. However, if shares or property perform exceptionally well, the fund may become unbalanced if they fail to sell down some of the more aggressive assets, and thereby become a growth fund in the process.

At a personal level, strategy drift may occur if a personal investor changes the asset allocation within their portfolio or moves their holdings within financial asset classes (i.e. value to growth shares).

An extreme example of strategy or style drift may be taken from the incredible performance of technology shares prior to 2000. Many investors who held a mix of blue chips during the ascendancy of technology shares waned from their original objectives, with some of these investors buying into technology toward the end of the upward trend. As a consequence, these shares, which weren't supported by strong fundamentals, dipped in value, which stripped a large portion of the aforementioned

SOLE TRADER, PARTNERSHIP, COMPANY & TRUST STRUCTURES

MCP Business Structures provides a complete service to assist you with your corporate objectives.

Our services include:

- Incorporation of Corporate Entities;
- Company and Business Name searches with ASIC to determine the availability of desired names;

- Preparation of Company Constitutions;
- Any changes to existing entities lodged with ASIC; and
- General ASIC & Corporations Law Advice.

Trust Formations:

- Establishment of Discretionary, Unit & Hybrid Trusts; and
- General Trust Advice, including Superannuation.

	Sole Trader	Partnership	Company	Trust
Registration	No	No	Yes	No
Formalities	No	Strictly no, Partnership Deed is highly desirable	Lodge annual review. Comply with Corporations Law	Create Trust Deed, Pay Stamp Duty
Regulation	Minimal	Minimal	Heavily regulated	Minimal
Duties	Minimal, Common Law	Common Law, Fiduciary Law	Directors duties	Trustee Duties
Business Name	Yes. Not if trading in the name of the Proprietor	Yes	Optional	Optional
Agency	Not Applicable	Partner can bind another Partner	No, Director may bind another Director	No
Asset Ownership	Personal	Personal	In the name of the Company	Trust as Owner
Number of Stakeholder	One	No more than 20	Unlimited	Unlimited
Profit Distribution	Flexible	Not flexible	Not flexible	DT - Flexible, UT - Inflexible
Taxation	Tax of Profit at Individual Rate	Tax on profit at an individual rate	Pays own tax on profit	Tax on distribution at individual rate
Liability	Yes, Unlimited	Yes, unlimited	Yes, limited to share value	No
Succession	Business may be sold by the estate	Partnership dissolved, Goodwill may be saleable	Death only affect ownership of share which maybe bequeathed	Trust Deed amendment required to omit as beneficiary
Privacy (Public Accessibility)	Business name search	Yes	Company search	Yes
Cost	Minimal (cheapest structure)	Legal, if Deed created.	Legal and ASIC fees	Legal and State Revenue Office fees
Dissolution	Simple	Agreement Court	Involuntary/Voluntary wind up	Vesting, Court and Agreement

investors' portfolio value. Another example of style drift which is more recent is the sell off for Australian shares, particularly banks, due to recent market volatility. As investors worry about the future of the Australian market some investors have deemed it necessary to move away from these assets in fear of losing more of their capital, which could transform their portfolio from a balanced to a defensive combination of assets.

POTENTIAL DISADVANTAGES

Strategy/style drift can occur at any stage of the business/investment cycle; however, two of the worst cases of strategy / style drift are prevalent during the two extremes – one where an asset class is performing exceptionally well and the other when it's performing badly.

To put this into context, say the mar-

ket has dipped markedly as it has in the past 9 months. Investor confidence gradually wanes and they become discouraged with the poor performance of their aggressive assets, sell them, then invest into something less volatile such as cash and term deposits. The aggressive stocks have a tendency to rebound, and the investor who sells them has missed out on the upside in price. Alternatively, an investor may invest in current hot stocks at the time, only to find that they are revalued as their price falls back to a true valuation of the underlying company's circumstances (i.e. some technology shares prior to 2000).

Financial assets are subject to an investment cycle. Various economic conditions are conducive to the superior performance of various financial instruments. It is widely advised that you do not make dramatic variations to your portfolio's asset allocation

unless you have weighed the advantages against the disadvantages.

CONCLUSION

MCP Financial is able to answer any queries in relation to your Financial Planning needs, and can devise investment strategies and plan your portfolio's asset allocation to match your objectives and risk profile.



Style Drift occurs when an investor's strategy moves from their pre-determined objectives.

BRIDGING FINANCE: WHAT YOU NEED TO KNOW

Essentially, Bridging Finance is a product that enables you to bypass the sale of your existing property before committing to the purchase of another, thereby saving time, energy and the organisation of temporary living arrangements.

Bridging Finance is primarily used to cover the gap between the receipt of funds from the sale of your existing property and the finalisation of payment for the new one. For example, it is very difficult to coordinate the settlement for the sale of your existing property and the settlement for a property that you intend to move into. A Bridging Loan alleviates this need, as it essentially advances the funds.

Bridging Finance can also be used when a borrower intends to build a house off-the-plan while living in their existing mortgaged home, downsize (buy a less expensive property) or upsize (buy a more expensive property).

INTEREST CHARGES?

Interest is charged on both loan amounts (your current mortgage and the bridging loan facility); however, the interest on the new bridging loan can be added to the loan amount in pending the sale of the existing property (which is called 'capitalisation'). When the original property is sold the proceeds can be deposited to the new loan, Normal repayments can commence on terms negotiated between the mortgagor and the financier.

ADVANTAGES

Bridging finance does have distinct advantages including the following:

- You are able to purchase a new property without selling your existing property.
- Flexible loan arrangement such as capitalisation and interest only bridging loan periods are often available.
- Competitive bridging finance rates and loan to value ratios.
- Loan terms of up to 12 months which can reduce the time requirement to sell your home quickly. However, interest costs will accumulate in this period.

DISADVANTAGES

Disadvantages are as follows:

- In some circumstances, to qualify for bridging finance, a borrower must be able to meet their existing repayments and the interest expenses for the new loan.
- Bridging finance, in some situations, can be more expensive than standard finance, as the bank is assuming a greater level of credit risk.
- Various prerequisites may include the unconditional sale (signed and dated contract) of your existing dwelling.
- Additional fees and interest charges may accumulate and be costly in the long run.
- There may be exit fees and penalties for your existing loan.
- Financiers may cap their Loan to Value Ratios for bridging loans (they may only offer the product to borrowers with sufficient equity in their existing home).

- The expensive nature of bridging finance may make the seller feel pressured to release/sell their existing property as quickly as possible, which could yield a lower sale price.

HOW CAN MCP HELP?

MCP is able to find the best loan to suit your needs and provide step-by-step advice through the bridging finance process. Our office is also able to outline and explain your mortgage documentation, exit fees and your maximum borrowing limits using various lenders' serviceability criteria.

In addition, our legal team may also review your purchase/sale contract and provide timely and accurate conveyancing services.

Contact Brigette McDonald or Erin Lawlor for any initial queries in this regard.

CONCLUSION

Bridging finance is one of the more complicated forms of financing and, as such, a dedicated and understanding financier broker/adviser is vital to ensure the smooth transition for the borrower between properties.

THE BIRTH OF MIKAYLA FROST

We are delighted to advise the recent birth of another perfect child, Mikayla Frost, to our Shane Frost and his wife Natalka, and a sister to Cooper.

We wish Mikayla and her proud family well in the coming months and a long and happy life together.