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INTEREST RATES, EQUITY MARKETS AND THE ECONOMY

The Reserve Bank of Australia kept the Official Cash Rate at 7.25% following their April board meeting. From media reports and opinion it was suggested that rates are in a neutral cycle for the immediate future. It now seems that consumers are starting to feel the impact of higher borrowing costs, especially when combined with a cocktail of increasing inflation/prices for necessary consumables, expensive petrol and with waning consumer sentiment.

Whilst official Cash Rates are now at a 12 year high, the US economy has slashed their Federal Funds Rate to stimulate liquidity. There are some immediate pressures there, with Bear Sterns (a major US investment bank) in the process of being restructured due to receding worldwide sentiment and an inability to sustain operations.

It seems fair to say that few commentators expected the sub-prime fiasco to be a problematic issue for the US economy, and for our sharemarket to be affected so greatly.

Since August, the Australian sharemarket (ASX 200) has fallen by approximately 25% after a record high of 6,828 points in 2007. In 2008, the ASX 200 has fallen by approximately

QUOTE OF THE MONTH

"There came a time where the risk to remain tight in the bud was more riskful than the risk it took to blossom."

- Anais Nin (Author)

Market Statistics

Rate / Index / Com	27-Mar-08	18-Mar-08	Change	27-Feb-08	Change
Official Cash Rate	7.25%	7.25%	Steady	7.00%	0.25%
Federal Funds Rate	2.25%	2.25%	Steady	3.00%	-0.75%
ASX 200	5372	5086	286	5767	-396
Dow Jones	12302	12393	-90	12694	-392
5 Year Bond Rate	6.07%	6.00%	0.08%	6.58%	-0.51%
30 Day Bank Bill Rate	7.63%	7.61%	0.02%	7.46%	0.17%
90 Day Bank Bill Rate	7.76%	7.77%	-0.01%	7.86%	-0.11%
Australian Dollar (US)	92.05	92.17	-0.12	93.50	-1.45
Gold (Ounce)	946.75	1006.75	-60.00	959.50	-12.75
OPEC Baset Rate	100.36	100.10	0.26	95.03	5.33

sources: www.rba.gov.au, au.finance.yahoo.com, www.opec.com, note: figures may be rounded

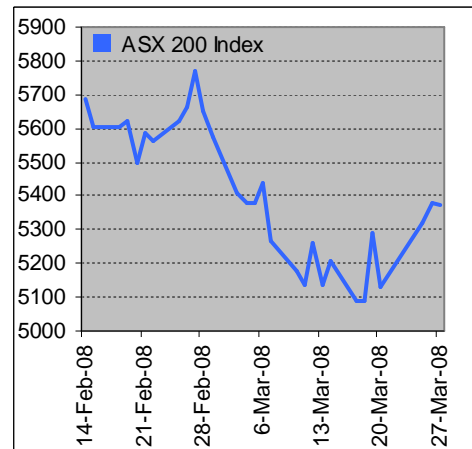
16% since the start of the year. In contrast, the US sharemarket (S&P 500 Index) has fallen approximately 16% from its peak, and continued to fall by approximately 8% since the start of the year.

The US market has been buoyed by several initiatives to increase market sentiment, with the periodic liquidity injections into their financial markets, while our local economy has been ordered to slow considerably. The reason why our sharemarket is suffer-

ing more than our US counterpart is contributed to their recession-fighting initiatives, which seek to improve short-term investor and consumer sentiment. Furthermore, a large portion of our equity markets are made up of financial companies that have been, or are seen to be impacted by the Subprime issues.

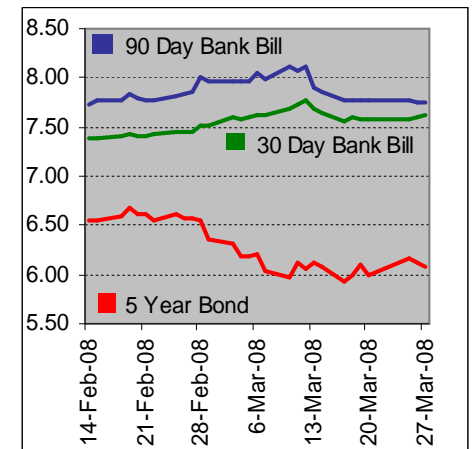
Nevertheless, the Australian economy remains in good health (with the omission of several large highly leveraged companies). These include solid GDP

ASX 200 Index



Share Market: There has been extraordinary volatility within local and international markets following the sub-prime fallout in the US.

Money Market Rates (%)



Money Market Rates: Many experts believe rates should remain steady throughout 2008 following 12 straight increases in our Cash Rate.

Fact

Finance stocks make up roughly 20% of the US equity market. In Australia they make up 40%.

Quote

"Our sector (financial) is one of the healthiest in the financial world."

- Australia Financial Review

and wage growth, booming employment, and the fact that our neighbouring developing Asian economies have an avid appetite for resources.

We seem to have few of the tangible problems the US is experiencing, although we have seen an increase in the cost of credit. Confidence should return to the Australian markets/economy, although this may take some time.

In the medium term, the gap between the US and Australian markets may diminish, with earnings announcements. However, nobody can be sure what direction the market will head, as the volatility of the economy and company announcements seem to be dictating, to an extent, the demand for US shares and consumer demand, which influences other worldwide nations, including Australia.

"OFF THE PLAN" STAMP DUTY CONCESSIONS

This concession is calculated on construction from the date of signing the contract to the settlement date.

It is very common for the assumption to be made that stamp duty will be payable on the value of the land only for all off the plan purchases. This is not correct.

Consider the example below:

Purchase Price	\$500,000
Construction Costs from Day of Signing	\$50,000
Stamp Duty Payable on	\$450,000
Saving	
Stamp Duty on \$450,000	\$22,600
<u>Stamp Duty on \$500,000</u>	<u>\$25,660</u>
Difference	\$3,060

NINE TIPS FOR STARTING YOUR OWN BUSINESS

Starting your own business, irrespective of its size, is a time consuming and challenging process. There are a few tips to ensure that your business venture has the best possible chance of success. Remember to budget and set clear business goals.

It is widely advised that you write and adhere to a business plan. The plan should ensure that long-term goals are broken down into several achievable segments.

Along with budgeting always ensure that you review your performance and speed towards your future goals. It is also advised that you keep some working capital in reserve for times when opportunities or situations arise that require the use of these funds.

Please speak to our office for further information.

Nine Tips on Starting Your Own Business

- 1 Write a business plan and stick to it. Always know where you want to go and how to get there.
- 2 Remember the 80/20 rule. If 20% of your customers are producing 80% of your revenue, be sure you know who they are and treat them like kings.
- 3 Stand out from the crowd – with a memorable business name and logo.
- 4 Hire the best people you can – and pay them the most you can afford.
- 5 Promote benefits, not features. In other words, be sure to tell your customers what's in it for them.
- 6 Stay image conscious by maintaining a consistent look across your printed material.
- 7 Be your own auditor. Write a budget, set your financial goals, and continually measure your progress.
- 8 Increase your sales staff for free. Satisfied customers are your best source of referral advertising (and they won't cost you a cent in commissions).
- 9 Go with the flow. Carefully manage your cash flow by conserving your capital and never committing cash until it is absolutely necessary.

Make sure you seek advice before entering into all property contract arrangements.

BUSINESS STRUCTURE REVIEW: PARTNERSHIPS

A partnership is a contractual relationship that involves a group of two or more legal persons associating themselves in a mutual business enterprise with a view of making and distributing profits amongst themselves.

The Advantages and Disadvantages of a Partnership

✓	Unlike companies, a Partnership may be formed without the need to lodge forms to statutory authorities. As such, it may be easily dissolved.
✓	There are no formalities, registration or reporting obligations other than tax returns.
✓	The Partners may agree to withdraw their capital at any stage.
✓	Some professions have prohibited incorporation, in which case a Partnership is an appropriate form of association.
✗	Partners have no distinct personal entity from the Partnership.
✗	Partners have unlimited liability for the repayment of business debt.
✗	Partners pay personal tax and can be sued for anything done in the name of the Partnership.
✗	Partners must register a business name if it is other than the names of the Partners themselves.

TIPS FOR FINANCIAL SUCCESS

The following is a short list of financial tips. While they are not fully comprehensive, they are a start towards improving your financial health.

1 PAY YOURSELF FIRST / BUDGET

A budget provides goals and allows you to analyse where your income is spent and whether savings can be made in a particular area.

While many people say they don't have time to budget, it is beneficial. A few dollars saved daily can add up to several thousand after one year.

Hand-in-hand with budgeting is the premise of paying yourself first. This involves contributing money to a savings account or investments before paying other expenses. This "forced saving" ensures that you budget for the remainder of the week/month and provides incentive to limit unnecessary spending.

2 INVEST AS EARLY AS POSSIBLE

Nobody can deny the power of cumulative earnings on your investment. Perhaps one of the biggest advantages of starting early is the benefit of exponentially increasing the size of your investment (earning returns on your initial investment at an increasing rate over time).

For example, \$1,000 invested in superannuation, returning 10% per annum will accumulate to roughly \$50,000 after 40 years. If you were eligible to receive the \$1,500 co-contribution scheme, your investment would equate to \$125,000 after 40 years (from just \$1,000 invested!)

3 DIVERSIFICATION/RISK MANAGEMENT

The former Australian test captain, Steve Waugh, when asked by an aspiring young cricketer how to make runs, simply advised that the best way to accumulate a high score was to "protect your wicket and stay in the middle". This may sound simple but he is correct – you can't make runs if

you get out!

The same can be said for investing. The game of investing is a long journey, and in the long term it's the investments that accumulate, compound and continue to grow that make money. It can be encouraging to see an investment explode in the short term, but if markets turn and you lose a large portion of your capital, then it may take years to recover your initial investment.

Diversifying your assets and having a structured risk strategy can curb your exposure to a large losing position. It's important to diversify across different assets and sectors within those asset classes (in the case of equities or property).

4 PROTECT YOUR ASSETS/ TAKE OUT INSURANCE

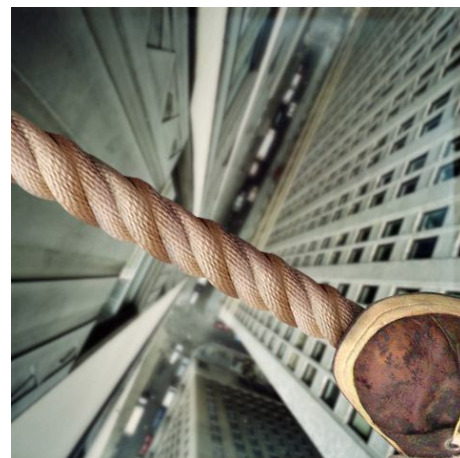
One of the most important assets is your education, trade, skill and/or qualification. Unfortunately, we are not invincible, and accidents do occur. From personal experience people make Death, Total & Permanent Disablement and Income Protection claims on a daily basis, and greatly appreciate having their policy to protect their family's wellbeing in such times of financial stress.

Basically, any loss that you can't afford is advised to be covered by insurance if feasible or possible. Many superannuation funds provide personal Death, TPD and Income Protection insurance, drawing the yearly premiums from the balance of your superannuation account, which may be less expensive than personal insurance premiums as the fund purchases bulk cover for members, engaging in cost savings due to economies of scale. Naturally, this would limit earnings within the account.

5 SEEK PROFESSIONAL ADVICE

There are experts such as Financial Planners, Lawyers, Accountants and Mortgage Brokers who can review your financial and legal affairs in such a way as to save you time, money and stress.

Strangely enough, many people are hesitant to engage in these services despite the fact they could save you



Insurance: Adequate levels of Death, Total & Permanent and Income Protection Insurance is strongly advised to protect you from unfortunate events.

thousands of dollars in the long run. Mortgage brokers, for example, receive a nominal percentage of the bank's profit margin and do not, in most circumstances, charge a fee for the provision of their services. Professionals should explain how they're remunerated prior to the engagement of their services.

6 ENJOY YOUR SAVINGS OR CAPITAL GAIN

There is no point saving or investing money, or having strict financial goals if you can't spend it! Believe it or not, spending a small portion of your savings or capital gain can make you a more prudent saver, as you can see a reward for the smaller financial sacrifices made. The object of investing money is to make yourself happier in the long run, whether through an increased pension or a higher standard of living in the immediate future – don't forget that!

Please speak to John Ross or David Mac Manus on (03) 9620 2001 should you require further information.

CONCLUSION

MCP Group include financial planners, mortgage brokers, legal professionals and are also able to refer you to the services of one of our accounting alliances to see if you are able to benefit, or are suitable for this investment strategy.

Please contact our office if you have any further queries.