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INTEREST RATES, SHARE MARKETS AND THE ECONOMY

THE MONTH IN REVIEW

An almost certain United States Federal Reserve rate cut and a \$7.5b convertible note purchase by Abu Dhabi of Citigroup has helped lift the Dow Jones Industrial Index by several hundred points in the past week or so. However, the very real and fundamentally based threat of a US recession has not shown signs of abating.

In fact, there are many international economists who predict a 60% chance of a recession in the US. They believe the sub-prime contagion is very bad news, especially its economic side effects; namely an increase in debt levels and a decrease in US employment and housing prices, which are now experiencing their worst slump in over 16 years.

However, the only clear way of understanding

QUOTE

"If an individual sets an achievable goal and never gives up, they will either achieve their goal, or die trying."

- Matthew Groves

Financial Quote

"current stresses in financial markets makes the uncertainty...even greater than usual"

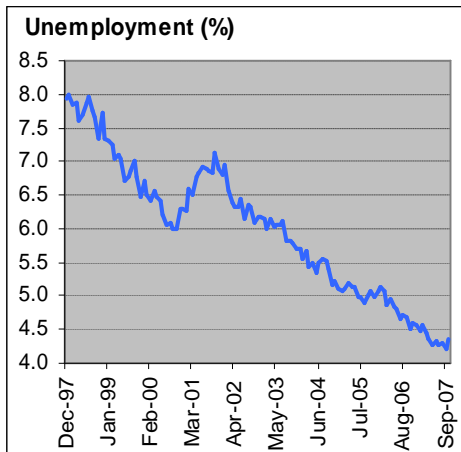
- Ben Bernanke Federal Reserve

be affected is after all sub-prime mortgage loans come off their introductory loan periods and spending reduces accordingly. As stated in a previous edition of our newsletter, most of the sub-prime lending products were 2/28 loans. This is basically where a borrower locks in a low rate for the first 2 years, which reverts to a more extravagant rate for the following 28 years of the loan thereafter.

Most of the sub-prime loans will come off this 2 year hiatus in elevated rates between February and August 2008,

so we may have to wait until then to ascertain just how deeply the US economy is afflicted.

Unemployment (%)



Unemployment: The unemployment rate continues to remain low as a re-

Market Statistics

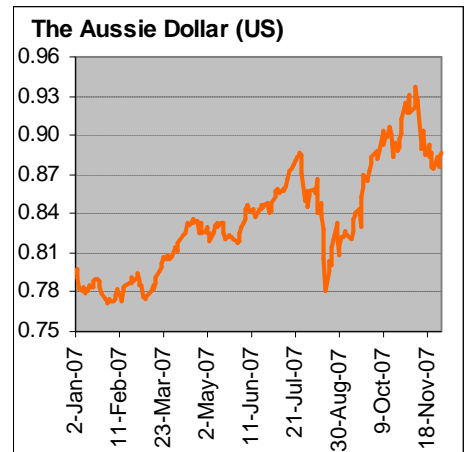
Table with 2 columns: Metric and Value. Official Cash Rate: 6.75%, U.S. Fed. Funds: 4.75%, 90-Day Bill Rate: 7.25%, 10 Year Bond Rate: 5.99%, \$AUD (US cents): 87.55, All Ordinaries (Aus): 6530.8

As at 5 December 2007

In contrast, the Australian market (both employment and equity) seems to be in better shape. This is because of a number of factors including wage growth, domestic demand, the international wealth generation by labour rich countries such as India and China and, of course, our resources. While all metals with the exception of gold have decreased in the last three months, the prospect of relatively high spot prices in the medium to longer term looks fairly buoyant.

To conclude, there is a high degree of short-term uncertainty with some international economies at present due to sub-prime issues in the US, as witnessed by the high degree of financial

The Aussie Dollar (US)



The Aussie Dollar: Our domestic exchange rate has been influenced by force demand and relative market rates this year.

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market volatility worldwide.



LEGAL ASPECTS OF BUYING, RENEWING, EXTENDING AND SELLING A FRANCHISE

INTRODUCTION

Buying, extending, renewing, or selling any Franchise will affect your life for future years. Parties must be aware of legal issues involved in such a transaction and recognize that both Franchisees and Franchisors have justifiable business interests to protect. Franchisors must know what they are selling and a potential Franchisee must know what they are buying. A Franchisor must also determine the most advantageous structure of ownership to operate the business.

DISCLOSURE

A minimum level of disclosure is required by the *Trade Practices (Industry Codes – Franchising Regulations 1988)* (the "Code"), aimed to provide information to the Franchisee in order to allow them to make an informed decision based on accurate information on whether to become involved in a Franchise. A Disclosure Statement must be provided by the Franchisor to the prospective Franchisee at least fourteen (14) days before entering into the agreement. It must contain details and experience of the Franchisor, litigation that the Franchisor is a party to, fees and costs, intellectual property, and goods and services you must acquire or provide.

A Franchisor must not make misleading or deceptive statements. The law provides remedies against such behavior including a claim for damages and other remedies including some under the Federal Trade Practices Act or the relevant

State or Territory's Fair Trading Act. Further, any breach of the Code is enforced under section 51AD of the Trade Practices Act 1974.

DOCUMENTATION

Any sale, renewal, extension and/or purchase should be detailed in writing in a Franchise Agreement. The agreement should state what is expected from



Operations Manuals: Franchisors generally provide manuals to assist with operations, management and training.

including what they must do, how much and when they must pay and what is being transferred. It may be necessary to have completion of the Contract subject to various conditions such as cooling off, finance, liquor licensing, and transfer of lease, minimum trading levels over a period of time and/or the satisfaction of the Franchisee's accountant with the financials of the Franchise.

WHAT IS BEING TRANSFERRED?

Components of a Franchise usually include names, goodwill, premises (lease or ownership), equipment, machinery and fixed assets, stock, current orders, supply agreements, intellectual property, and licenses. The Franchisor must be able to guarantee the transfer of the ownership of all components to the Franchisee.

FRANCHISE TERRITORY

It must be determined prior to commencement of the Franchise whether the Franchisee is granted an exclusive or non-exclusive territory, be limited to a particular site, or may operate a business which is substantially the same in a certain defined area.

TERM AND TERMINATION OF A FRANCHISE AGREEMENT

The term of a Franchise Agreement will vary from one Franchise to another. There may also be an option to renew the arrangement for a further term. This will generally be addressed in the Franchise Agreement. Termination may be by either agreement or assignment (subject to Franchisor

longer holds relevant licenses or permits on expiration of the term of the Agreement.

REMEDIES

The Code provides a mediation process between the parties if there is a dispute. Due to the time and cost involved, litigation should be seen as a last resort. Apart from contractual remedies available to both the Franchisor and Franchisee, various provisions of the Code and Trade Practices Act prescribe various remedies such as injunction or making orders varying or refusing to enforce the agreement and list several offences.



THE BENEFITS OF DIVERSIFYING INVESTMENTS

WHAT IS DIVERSIFICATION?

Diversification, in finance, relates to spreading a portfolio of investments across several different asset classes, with the main objective to reduce the amount of overall return volatility. Historically, investments do not perform the same way at the same time. When one asset class is performing well, another may not be generating its historical return for the given period.

ASSET CLASSES

A typical portfolio can be diversified across several investment vehicles, including cash based deposits, fixed interest investments such as bonds, property (commercial or residential) and shares (including domestic and international equities). Diversification may also be advised within a specific asset class. For example, too much exposure to an industry type within your share allocations such as the materials sector may be risky, as all shares within the industry may be affected by a particular event or geopolitical decision.

WHY DO ASSET CLASSES BEHAVE DIFFERENTLY AT ANY GIVEN TIME?

Asset classes have historically exceeded their average in different phases of the business cycle. Rising interest rates are a sign of a slowing

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economy, which is when money market products exceed their long-term returns and shares begin to consolidate, particularly as projected earnings are revised downwards and business investment stalls. Property has an inverse relationship with the interest rate due to the cost of borrowing funds. As such, holding a diversified portfolio offers protection against poorly performing asset classes throughout various phases of the business cycle.

DIVERSIFICATION PROS AND CONS

The main advantage of diversification is the preservation of capital and the hedge against the poor returns within a portfolio. However, other factors also need to be taken into consideration such as the length of time of the actual investment and liquidity (the ability to sell your investments). Shares and property may take several years to go through a complete investment cycle. As such, term deposits and money market products may be more beneficial to short or medium term investors (less than 3 years).

The disadvantages of diversification may include an increase in the amount of fees, charges and brokerage as well as the potential for the return of your portfolio to be reduced. Naturally, if you weigh a portion of your portfolio towards safer assets such as cash and money market products you may receive a smaller return than if you invested wholly in

shares or property.

EXAMPLE

The adjoining table shows the returns according to Vanguard, of alternative asset classes. Each year the best performing asset class is highlighted in blue and the worst performing asset class is highlighted in orange. By having a diversified portfolio you gain access to the best and the worst performing asset class each year, which can be a negative or a positive, whichever way you look at it.

As evidenced in the data, an evenly weighted portfolio has minimised risk when compared to other investments such as international, US and Australian shares. However, the return gained from the portfolio is less than if you invested 100% of your funds in aggressive asset classes excluding international equities.

CONCLUSION

Diversification is a great investment tool to reduce the risk of reduced return within your portfolio. However too much diversification can result in a reduction in investment returns. MCP Financial adopts a diversified focused investment approach, which means that while we diversify assets we also recommend a focused approach on investments likely to best suit the individual investor. For more information or a copy of our investment strategy please contact John Ross on 03 9620 2001.



CAPITALISING ON EQUITY: HOW TO PURCHASE AN INVESTMENT PROPERTY / SHARES

INTRODUCTION

Since 2000 Australian property has returned in excess of 12.1% per annum, which has resulted in a substantial increase in the net worth of many Australian households. The increase in home values is a very powerful tool, which can be used for a number of purposes, including the purchase of an investment property.

WHAT IS EQUITY?

Equity is simply the difference between the market value of a property and the loan amount owing. For example, if your house was bought several years ago and has increased from \$300,000 to \$500,000, with a mortgage of \$250,000 still outstanding, your share (or equity) of the property would be \$250,000. This results in a loan to value ratio 50% (mortgage loan divided by the value of the property).

WHAT CAN EQUITY BE USED FOR?

Equity can be used for any number of advantageous purposes such as helping your children to purchase a property through a family guarantee, building wealth through renovating, funding investments, seniors finance, holidays and personal ventures or purchasing an investment property.

There has been a documented shift in the way which Australians use equity. In the past a household would take

out a mortgage to purchase a property, then reduce the loan until the mortgage was paid. Nowadays there is more of a tendency for households to take out investments loans against their owner occupied properties once equity has been accumulated.

EXAMPLE

Two mortgagors, Peter and Wendy, purchased property several years

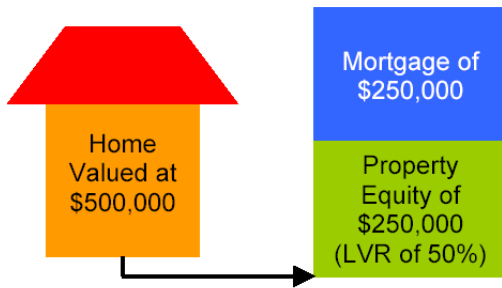
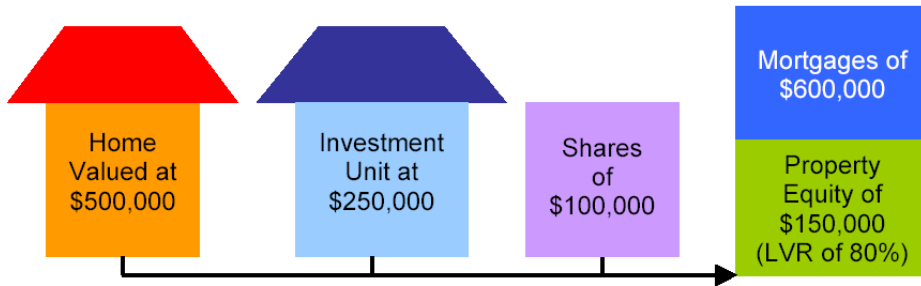
Year	Australian Shares	International Shares	US Shares	Property	Cash	Portfolio (20% for all Asset Classes)
1992	13%	7%	16%	15%	9%	12%
1993	10%	32%	27%	17%	6%	18%
1994	19%	0%	-7%	10%	5%	5%
1995	6%	14%	30%	8%	7%	13%
1996	16%	7%	13%	4%	8%	9%
1997	27%	29%	43%	29%	7%	27%
1998	2%	42%	58%	10%	5%	23%
1999	15%	8%	14%	4%	5%	9%
2000	14%	24%	18%	12%	6%	15%
2001	9%	-6%	1%	14%	6%	5%
2002	-5%	-24%	-26%	16%	5%	-7%
2003	-1%	-19%	-15%	12%	5%	-4%
2004	22%	19%	15%	17%	5%	16%
2005	25%	0%	-4%	18%	6%	9%
2006	24%	20%	12%	18%	6%	16%
2007	30%	8%	6%	26%	6%	15%
Mean (Average)	14.1%	10.1%	12.5%	14.3%	6.0%	11.4%
Standard Deviation	10%	18%	21%	7%	1%	9%

Why Diversify? An evenly weighted portfolio has a smaller level of return when compared to other asset classes.

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Loan Structure Diagram: Before and After the Purchase of Investments**Standard Structure – No Investment Property****Cross Collateralisation – Home and Investment Unit**

Cross Collateralisation: The above diagram shows how equity can be used to purchase investments.

ago for \$300,000, which has since increased to \$500,000. The mortgage on the property has been paid down to \$250,000.

Wendy and Peter have come to MCP Group for assistance, and would like to purchase an investment property and make additional purchases in the share market. As seen in our diagram, the investment property is valued at \$250,000. By securing all loans against the two properties Peter and Wendy are able to take out \$350,000 in loans to purchase an investment property and additional shares.

ADVANTAGES OF USING EQUITY

There are many advantages of using equity to purchase an investment property. By using an owner occupied property as security you can borrow 100% of the property's

price to complete the transaction (as you are partially lending against your home).

This increases the investment loan portion of your borrowings and may expedite the time taken to acquire an investment property, as you do not need to physically save for a deposit and fees. Increasing investment debt also has the potential to maximise the tax deductible portion

charges, as per advice from our accounting partners.

DETAILS OF LABOR'S PROPOSED FIRST HOME SAVER ACCOUNT

Decreasing housing affordability was one of the key political drivers during the Rudd/Labor campaign. After highlighting factors that could aid first home purchasers, the Rudd government has announced a proposal to launch a First Home Saver Account with details as follows:

- Eligibility open to 18+ individuals;
- The minimum contribution to be \$1,000 per year, capped at \$10,000 annually and \$50,000 in total;
- Funds are accessible after four years;
- Pre tax injections taxed at 15%, with post tax contributions incurring no tax; and
- Internal interest and earnings taxed at 15%.

Withdrawals for any purpose other than for the purchase of a property will have all concessions recovered.

The above proposal is only in its recommendation stage at present. The

passed by Government.

FINANCIER NEWS**BANKWEST BUSINESS**

BankWest Business is a relatively new player in the business lending space in the Eastern states, which has a very competitive product suite covering low documentation, equity and more formal business loan offerings. Rates vary according to the strength of the underlying application with a credit term available of up to thirty years.

BankWest strongly consider non property assets including a strong cash flow favorably as security, along with tangible collateral such as commercial and residential estates.

ING BANK NOW ING DIRECT

We wish to advise that the ING Bank are now, effective from December 2007, to be known as ING DIRECT. The delivery of products essentially remains unchanged.

MERRY CHRISTMAS

The MCP Group team would like to extend a Merry Christmas and a Happy New Year to all readers, customers and referral partners alike.

The MCP Group Newsletter will not be issued in January, due to the break of the Reserve Bank of Australia, which will meet again in February to discuss monetary policy for the New Year.

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