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INTEREST RATES, EQUITY MARKETS AND THE ECONOMY

The Reserve Bank of Australia lifted the Official Cash Rate (OCR) for the second time in as many meetings as a means of combating potentially excessive and prolonged inflation. The OCR is used as a baseline measure by banks when determining consumer and business lending rates, and is now 7.25% per annum which represents its highest level in over a decade.

The RBA is now convinced that our productive capacity is being stretched to its limit, which could be evidenced by our 30-year low unemployment rate of 4% per annum.

With high employment comes a greater level of consumer spending at a time where raw inputs for business are increasing (e.g. oil, petrol, resources and labour costs). Even though the RBA acknowledges some consumer pressures in light of the recent tightening of monetary policy they are still less convinced of its effects on the business community. Put

QUOTE OF THE MONTH

"Bite off more than you can chew, then chew it."

- Ella Williams

Market Statistics

Rate / Index	3 Mar 08	25 Feb 08	Change	4 Feb 08	Change
Official Cash Rate***	7.25%	7.00%	▲ 0.25%	6.75%	▲ 0.50%
Federal Funds Rate	3.00%	3.00%	● na	3.00%	● na
ASX 200	5405.8	5621.6	▼ -215.8	5867.4	▼ -461.6
Dow Jones	12258.9	12570.2	▼ -311.32	12635.2	▼ -376.26
5 Year Bond Rate	6.31%	6.62%	▼ -0.31%	6.47%	▼ -0.16%
30 Day Bank Bill Rate	7.60%	7.44%	▲ 0.16%	7.27%	▲ 0.33%
90 Day Bank Bill Rate	7.98%	7.81%	▲ 0.17%	7.48%	▲ 0.50%
Australian Dollar (US)	0.9336	0.9237	▲ 0.0099	0.9046	▲ 0.0290

Sources: www.rba.gov.au, au.finance.yahoo.com, ***(Inclusive of 4/3 increase)

simply, our economy is performing too well at a time where inflation is too high for the RBA to be satisfied with the current cost of business and consumer borrowing and spending.

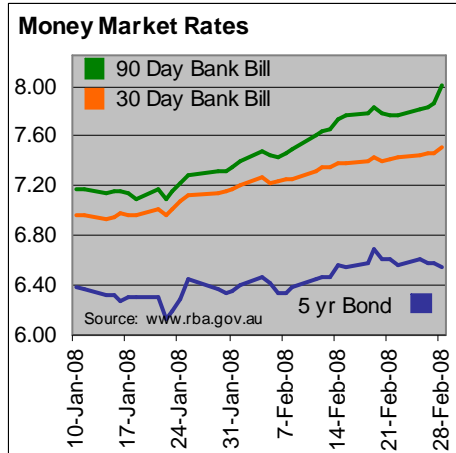
However, in the RBA's monetary report mention is made to international downside risks that could impact our economy. They state, "Absent further risks to the downside...monetary policy is likely to need to be tighter."

Such international risks include the deterioration of the U.S. economy due to the sub-prime mortgage crisis,

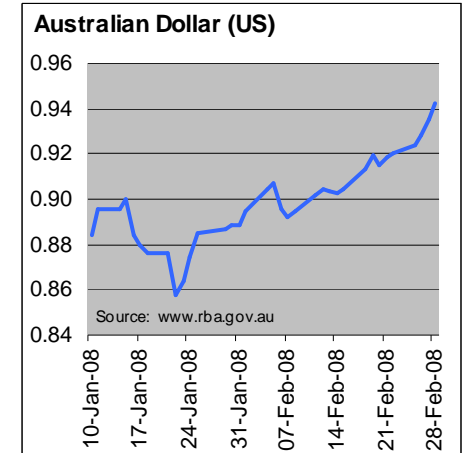
which could decrease the demand for resources in the form of Chinese manufactured goods. The U.S. economy is most likely in recession already and now has to combat higher oil prices, a weaker US dollar, rising unemployment and jobless claims and a housing meltdown.

The year ahead will be very interesting from an economic perspective. We are domestically set for higher interest rates according to the RBA notwithstanding significant international downside risks. In the short term the RBA is determined to decrease our red-hot spending habits by

Money Market Rates



Australian Dollar (US)



Short Term Rates: Bank Bill rates have risen sharply since early July due to the expectation of further increases in the Official Cash Rate.

Increasing Australian Dollar: The growing purchasing power of the Australian dollar reduces import expenses such as oil.

jacking up rates, which could mean another rate rise is around the corner.

Financial Quote

"It is possible that there will be a sharper downturn in the world economy than has been forecast"

- Reserve Bank of Australia

THE MCP ROLLERS

The MCP Rollers are heading off again, this time on the MAD (Melbourne Autumn Daytour) ride, which departs from Woodend and returns to Woodend on Sunday 6th April 2008. You have a choice of three rides; 60kms for Mountain Bikes and 65kms or 100kms for Road Bikes with the level of difficulty classed as "medium". Registration is via the Melbourne Bicycling Touring Club website – www.mbtc.org.au

THE 2008 AFL FOOTY TIPPING COMPETITION

The 2008 AFL football season is upon us again and MCP Group is again running its successful AFL Footy Tipping competition. The competition is open to all existing clients, prospective clients, our business partners, and their colleagues, friends and family.

Entry to the competition is \$25, with \$20 being put in the prize pool with the other \$5 (matched with \$5 from MCP) donated to The Smith Family's "Learning for Life" program. MCP Group has been supporting this charity since our inaugural competition in 2005, and now provide financial assistance to three high school students with their educational requirements. We are hoping with 2008 proceeds, we can extend our support to an additional student.

To register for our competition please fill out the attached form and either fax to (03) 9620 2002 or t.fisher@mcpgroup.com.au. Payment is required by round 3, however a form is attached with the option to pay by credit card for your convenience.

There are 1st, 2nd, 3rd and last prizes. All tips are entered online and you can, if you wish, enter sev-

eral or all the rounds at any time and change these prior to the commencement of the round. Please refer to our website for all of the rules of our competition.

We wish to once again thank all our participants for their involvement in our 2007 competition and welcome you back in 2008. We also look forward to seeing many new participants.

Good luck!

MCP GROUP STAFF UPDATES

MCP Group are pleased to announce the following staffing updates:

David Payton

The Commercial Finance Team at MCP is bolstered by the recruitment of a seasoned Commercial Banker – David Payton (CPA). Having spent time with Challenge Bank, Bank of Melbourne and numerous years in the Business Bank at Westpac on the relationship management side, David brings to MCP a wealth of experience in Business Finance with particular emphasis in the SME sector.

Over the years David has worked closely with Accounting Firms assisting clients with funding needs ranging from Equipment Finance through to complex cash flow lending requirements. In his new role at MCP David will be happy to take your call to canvass a particular lending scenario.

Elizabeth Douglas

We are delighted to announce the appointment of Elizabeth Douglas to a new role as a dedicated **Relationship Manager** to our Alliances team. As a Chartered Accountant, formerly from Ernst & Young, she is ideally placed to understand the needs of accounting firms and her role will be to coordinate and develop MCP Group's Accounting Partners program.



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DISCRETIONARY TESTAMENTARY TRUSTS

In essence, Testamentary Trusts are Trusts created by Wills, which come into existence upon a Will maker's death.

There are three main types:-

Discretionary

A Trust under which the Trustee has discretion or the ability to decide how the wealth in the Trust is distributed according to your wishes.

Protective

This type controls the disbursement of income (and/or capital) generated from the Trust, and are suitable where beneficiaries cannot control their own finances, including where they are incapacitated or vulnerable, for example involved with drugs of addiction or gambling.

Minors

Provides for beneficiaries under 18 years old, ensuring their income and capital is protected and managed to their advantage.

Discretionary Trusts are the most popular type, and can cater for Protective and Minor requirements at the same time. You provide instructions to your Trustee in your Will, as to how you wish your Estate to be dealt with.

SUPER DEATH BENEFIT NOMINATION FORMS

It is important to note that superannuation is not controlled by the Will. Instead superannuation proceeds are distributed by the trustees of your superannuation fund. The nomination may be binding or non binding. A binding nomination is binding on the trustees of the superannuation fund. Under a non binding nomination the trustees will take account of the nomination but are not bound by it.

For more information please contact MCP Commercial Lawyers or MCP Financial.

SUMMARY

In certain circumstances Testamentary Trusts can provide significant

benefits to a Willmaker's beneficiaries. Legal and accounting advice is vital to ensure appropriate Wills are created given a Will maker's personal situation.

ETHICAL INVESTING

Many investors desire to hold financial assets that meet their core beliefs, and support such companies they consider to be ethically sound, socially responsible and environmentally friendly. No longer are investors willing to accept that the "bottom line" is the be all and end all for the selection of an investment vehicle. Nowadays, investors are conscious of other factors such as the environment and sound corporate behaviour, due largely to the recent emphasis on global warming and examples of questionable business practices.

When selecting an ethical investment it is important to know what the core values of the underlying company/fund manager are, as one's ethics may not correlate to that of another's.

WHAT FORMS OF ETHICAL INVESTING ARE AVAILABLE?

The most common methods of selecting ethical investments are as follows:

Negative Screening: Looks at a broad range of investment available and excludes certain sectors such as native forest logging and tobacco.

Positive Screening: Actively searches for available investments that are beneficial to the environment



Ethical Investing: Ethical funds invest in companies with a good environmental track record, ensuring the sustainability of various ecosystems for future generations.

Responsible Investment versus Mainstream Fund Returns

Australian Share Funds	1 Year	3 Years	5 Years
Average Responsible Investment Fund	29%	27%	20%
Average Mainstream Fund	27%	26%	18%
International Share Fund	1 Year	3 Years	5 Years
Average Responsible Investment Fund	20%	20%	16%
Average Mainstream Fund	11%	11%	60%
Balanced Growth Funds	1 Year	3 Years	5 Years
Average Responsible Investment Fund	19%	17%	13%
Average Mainstream Fund	16%	15%	7%

Please note: All returns as at 30 June 2007 Source RIAA 2007 Benchmark Report

Returns: 1, 3 and 5 year returns for Responsible Investment Funds have outperformed mainstream funds.

and/or are socially ethical.

Best of sector: Where investments are made in funds and companies that are the most socially responsible and environmentally friendly in their sector.

Combination Investment: Where a fund manager or investor uses a combination of the above investment strategies.

Some investors may opt to avoid industries such as uranium mining, alcohol & tobacco, gaming, or forestry shares or companies (negative screening). In contrast, an investor who purchases shares or invests in funds solely due to a company's environmental strategy (i.e. wind farms etc) is said to be engaging in positive investment screening.

ARE RETURNS COMPROMISED?

It was once thought that making ethical investment meant that returns would be compromised. Many argue that avoiding several stocks in a particular sector will negatively influence the returns on an investment when these companies perform well; and even when ethical investments do perform well, many argue that the performance will be short lived.

However, this is not the case. Investors are now realising they can have the best of both worlds – good returns and ethical investments. According to the RIAA 2007 Benchmark Report it was found that, for Australian share funds, the returns for the average responsible investment fund was greater than the average mainstream fund's returns over 1, 3 and 5 years.

MCP Financial have access to a host of ethical investment funds and are

able to guide you to various products available in the marketplace. Please speak to John Ross for further information.

MCP Financial is a member of the Responsible Investment Association of Australia.



PROPERTY UPDATE

The median Melbourne house price exploded by 25 percent in 2007, which has been largely due to an increase in the city's population and insufficient new starts. Surprisingly, in the December quarter alone prices increased by a phenomenal 9 percent, which is, in anyone's language, an unsustainable rate of growth. According to the Australian Property Monitors, Melbourne will be the most expensive city by 2009 if this trend were to continue.

In New South Wales the Sydney housing market was a little more subdued, with the median price increasing by 5 percent. As at December 2007 the median Melbourne and Sydney house price was \$553,000 and \$463,000 respectively, while in the December 2006 quarter the median house price was \$370,000 for Melbourne and \$528,000 for Sydney.

The strong demand for Melbourne property, according to many industry experts, is due to an increase in the city's population, which has grown by approximately 1.5% in the past few years, superseding Sydney's population growth by almost double. The increase in this figure is due to both organic growth and an increase in

migration, which should underpin the demand for Melbourne's property in the coming years despite an increase in interest rates.

Another key element relating to the boom includes the lack of supply, which is succinctly evidenced by moderate housing starts data and a historically miniscule rental vacancy rate. New housing construction is roughly 170,000 per annum, which is far below the amount of new construction required to keep pace with surging demand by 100,000 new houses according to BIS Shrapnel, an economic researcher.

However, this year is set to provide many more challenges to the property market which may lead to the stabilisation of such prices. These include increasing interest rates, increasing pressure for banks to be more prudent when lending and an uncertain economic outlook and equity prices. The recent increases in the Official Cash Rate has a lag effect on the price of property of around three to four months, so there may be some cooling in property by mid year.

Many investment property or first home purchasers are unaware of the additional costs involved with acquiring a dwelling.

For example, to purchase an investment property a buyer ordinarily must account for stamp duty, transfer fees, mortgage registration, finance costs, conveyancing and disbursements and lenders mortgage insurance (if the loan to value ratio exceeds 80% in most circumstances).

Furthermore, other costs may arise including insurance premiums, furniture expenses, gardening and landscaping, fencing, modifications, paving etc.



Purchasing a Property: MCP Finance have acquisition and borrowing calculators on our website to provide a more tailored costs schedule for your circumstances.

Purchasing a Victorian Investment Property: A Working Example

Purchasing a Property:

The example provides a schedule of costs associated with purchasing a \$300,000 investment property. The investors will have to fund approximately \$26,000 to acquire the property, excluding expenses such as general property cover, landscaping and renovations. Amounts are to be considered as estimates only. Please speak to MCP Finance for more information.

Expenses / Costs	\$	\$
Property		
Purchase Price		300,000
Other		
Stamp Duty	13,660	
Transfer Fee	828	
Mortgage Registration	46	
Finance Costs	750	
Conveyancing	800	
Disbursements	800	
Lenders Mortgage Insurance	4,500	21,384
TOTAL		321,384
Less		
Loan		295,000
FUNDS REQUIRED		26,384

BUYING A PROPERTY: A WORKING EXAMPLE

Stamp Duty: This cost is payable on most land and mortgage transactions, with the amount of stamp duty owing dependent on the size of the transactions, payable to the relevant State Revenues Office.

Registration Fees: Payable to the Land Titles Office, these are the fees to lodge Mortgage and Transfer of Land documents. These are a fixed charge, which are normally minimal.

Finance Costs: Most financiers charge upwards of \$500 to set up your home loan. This includes a bank application and processing fee, legal fees as your bank will need to draw and prepare the relevant mortgage documentation and a valuation fee.

Conveyancing and Adjustments: Costs incurred in relation to the legal transfer of the property into your name. You will also be liable for the prepaid expenses of the property. These expenses are known as disbursements. Conveyancing fees range upwards of \$400 for a very basic service with non-qualified solicitors overseeing the process. Disbursements generally vary in size depending on the amount of prepaid expenses on the property.

Lenders Mortgage Insurance

An insurance that protects the bank in the event the borrower fails to repay their loan. LMI is, in most circumstances including the purchase of a residentially zoned dwelling, payable

when the loan to value ratio exceeds 80%. The insurance hypothetically eliminates the risk of the bank losing money if they are forced to foreclose the loan and sell the property for less than the amount outstanding plus expenses.

As clients of MCP Group know, we offer a superior finance broking service, generally at no cost to the client, as well as a quality conveyancing service at the same time. Our mortgage and conveyancing operations are synchronised which can be time and cost efficient, given you are only dealing with one organisation.

Please call if we can assist.