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QUOTE

“What lies behind us and what lies before us are tiny matters compared to what lies within us.”

- Oliver Wendell Holmes

March quarter was 2.4%, well below the street estimate of approximately 2.6%. As inflation seems to be well in control - keep in mind that the RBA's target inflationary range is between 2-3% - there is no need to lift rates to induce savings and/or deter lending. Dangers of a rate rise, certainly until the next inflationary release scheduled for August, seem to have been abated, with Money Market Rates retreating accordingly since late April 2007.

Our Federal Treasurer, Peter Costello, has placed the good news (certainly for mortgagors) on a number of factors including the decrease of fruit prices by 38%, plummeting travel costs and reduced rentals. However, with the continuation of adverse weather patterns such as low rainfalls and the upward revision of international resource demand, inflationary pressures may once again present themselves as an economic problem in the medium to long term.

Market Statistics

Table with 2 columns: Metric and Rate. Includes Official Cash Rate (6.25%), U.S. Fed. Funds (5.25%), 90-Day Bill Rate (6.37%), 10 Year Bond Rate (5.865%), All Ordinaries (Aus) (6336.4)

As at 9 May 2007 at 4.00 pm

In general, it seems the Australian economy is well placed to benefit for many years to come, as experts remain upbeat about Asia's demand for raw materials. Our unemployment rate remains low, inflation is in check and business and consumer credit is still in high demand, which augers well for our retail market. MCP Group expects our Cash Rate to remain unchanged for the next three months based on current information. In the long-run, our resources sector will exert upward pressure on interest rates.

Evan Tepper, MCP Group



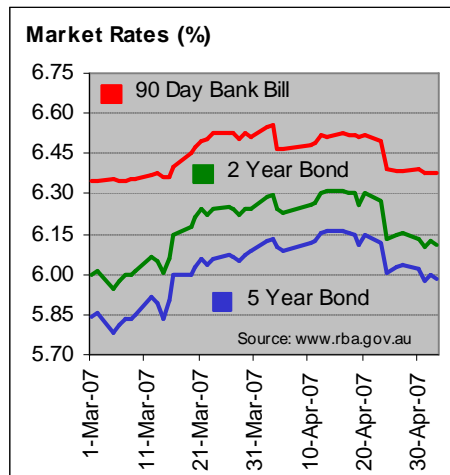
INTEREST RATES AND THE ECONOMY

First Quarter Inflation Fools the Market

The release of March quarterly inflation data has certainly duped many economists and money market professionals with their short-term projections concerning our interest rates. For example, a recent media release by a major Australian lending institution in March 2007 stated that the probability of a rate increase, according to our futures market, was over 90% between May and June 2007.

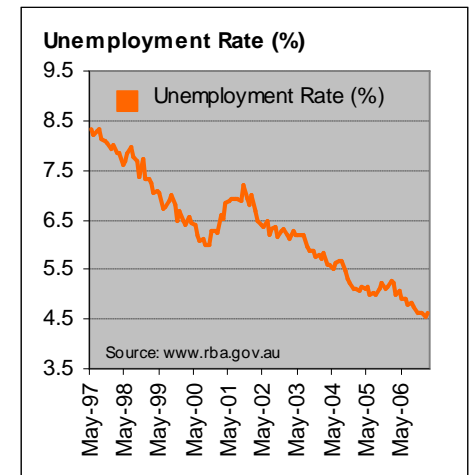
Despite a former consensus of bullish sentiment for a rise, the Reserve Bank of Australia (RBA) left our Official Cash Rate unchanged at 6.25% per annum for May, and deservedly so. Statistically, adjusted inflation for the

Money Market Rates



Rates Retreat: The rates/yields for many money market products decreased sharply after the RBA announced adjusted first quarter inflation to the market of 2.4% per annum.

Unemployment Rate



Strong Employment Set to Continue: Our high employment rates are scheduled to continue, with many major economic houses predicting global resource demand to remain robust for several years.



MCP
FINANCIAL

ONLINE INCOME PROTECTION QUOTES

MCP Financial now offers an online system from our website to request Income Protection Quotes. This is based on age, salary, occupation and smoker status. The website is a simple and easy to use process for acquiring a quote for you or your clients. We have comparisons from many different insurance providers and we can provide you with other types of insurance quotes if requested (Life, Total and Permanent Disablement, Trauma, Buy/Sell Business Expense Cover).

The screenshot shows the MCP Financial Planning website interface. It includes a navigation menu on the left with options like 'Home', 'About MCP Group', 'Resources Library', 'Contact Us/Enquiry', 'Our Business Groups', 'MCP Commercial Finance', 'MCP Financial Planning', and 'Our Services'. The main content area is titled 'Wealth Protection Quote' and contains a disclaimer: 'MCP Financial is independent advisory group and not owned or influenced by any particular insurance provider. Our recommendations are based on research by professional research providers and we consider benefits, costs and features. Basically, we work for you not the insurance company.' Below this is a form for entering details to request a quote, including fields for 'Preferred Contact Name (or Alias)', 'Sex', 'Smoker Status', 'State of Residence', 'Date of Birth', 'Age Next Birthday', 'Annual Salary (Net of Super)', 'Employment Status', 'Occupation', and 'Contact Preferences'.

Online Insurance Quote Software: MCP Financial's Online Quote Software is an easy to use platform which enables you to obtain a timely and accurate insurance quote for you or your clients.



MCP
COMMERCIAL
LAWYERS

COPYRIGHT

WHAT IS A COPYRIGHT?

The Copyright Act 1968 (Cth) which applies throughout Australia sets out how copyright applies for material created. The Act deals with copyright rights, performers' rights and "moral rights" of individual creators.

COPYRIGHT PROTECTED?

There are a large range of materials which are copyright protected. These include textual material, compilations, artistic works such as paintings,

dramatic and musical works, cinematograph films, sound recordings, broadcasts and published editions.

Something that is a literary, dramatic, musical or artistic work for copyright purposes will be protected if it is "original". Copyright does not protect ideas, concepts, styles, techniques or information. In some cases, however, people taking your ideas or information or styles could be in breach of other laws.

Some "works" are too small or unoriginal to be protected as copyright works. For example, single words, names, titles, slogans and headlines are unlikely to be protected by copyright and is more likely to be dealt with in other areas of law, such as trademarks.

REGISTRATION

To register a Trade Mark an application must be made to the Trade Marks Office. Once the Trade Mark has been examined, accepted for registration and fees are paid, the Trade Marks Office will issue a Registration Certificate. Once this is issued, you may use the symbol ®.

COPYRIGHT PROTECTION IS AUTOMATIC

You do not apply for copyright in Australia, and there is no system of registration here. Nor are there any forms to fill in, or fees to be paid.

The copyright notice consists of the symbol ©, followed by the name of the copyright owner and the year of first publication. For sound recordings, the letter "P" (for Phonogram) in a circle or in brackets is used instead of the "C" in a circle.

The "Copyright notice" does not need to be on something to ensure that it is protected by copyright in Australia or in most other countries, but it does remind people that the work may be protected. It also lets people know who is claiming copyright. Copyright owners can put the notice on their work themselves; there is no formal procedure.

COPYRIGHT AS AN ASSET

A Copyright is an asset, which adds to the value of a business. Owning a Copyright gives you the right to use, licence or sell it. A copyright protects the reputation and goodwill developed in association with your business.

INFRINGEMENT OF COPYRIGHT

Copyright is infringed when a person uses all, or a "substantial part", of copyright material in one of the ways exclusively controlled by the copyright owner without the express or implied permission of the copyright owner, where no defence or exception to infringement applies.

People usually need permission to use copyright material in any of the ways exclusively controlled by the copyright owner. Someone who doesn't get permission will usually be infringe copyright. Using part of a work without permission may also infringe copyright if that part is an important part-it doesn't need to be a large part. In this context, the issue is not whether you have changed or added something to the copyright material, but whether the part you have used is an important or distinctive part of the original material.

CIVIL REMEDIES

Remedies the copyright owner may be able to obtain against a person who has infringed their copyright include "damages" or an "account of profits". "Damages" is a sum of money intended to compensate the copyright owner for money lost, or spent, in respect of the infringement and will vary with the circumstances. An "account of profits" is the profit made by the infringer in selling the infringing copies. An injunction may also be imposed. Courts may also order the infringer to "deliver up" all remaining infringing copies, and may award an injunction prohibiting the infringer from continuing to infringe copyright.

Shane Frost, MCP Legal



THE CO-CONTRIBUTION

WHAT IS THE GOVERNMENT'S CO-CONTRIBUTION SCHEME?

The Co-contribution Scheme is a government initiative which was established to assist Australian workers in their quest to build a self-sustainable superannuation balance for their retirement. Eligibility is subject to the following criteria (to 30 June 2007):

- An income of less than \$58,000 per annum;
- Age of less than 71 as at the end of this financial year; and
- At least 10% of your income is earned as an employee (even in a casual or part-time location).

the three aforementioned investment methods.

CO-CONTRIBUTION FORMULA

$$\$1,500 \text{ maximum grant} - [(\text{actual salary} - \$28,000 \text{ per annum}) \times 0.05]$$

EXAMPLE

John Smith is a junior administrator and earns \$40,000 per annum. He chooses to contribute \$1,000 of his salary towards Superannuation.

CO-CONTRIBUTION?

$$\$1,500 \text{ Maximum Grant} - [(\$40,000 \text{ Income} - \$28,000 \text{ Lower Threshold}) \times \$0.05] = \$1,100 \text{ Government Co-contribution}$$

HOW MUCH WILL THE GOVERNMENT CO-CONTRIBUTE?

The Government will contribute funds at a sliding scale up to an income level of \$58,000 per annum. The maximum grant of \$1,500 is available to employees who earn up to \$28,000 per annum (assuming that a \$1,000 contribution is made).

A simple formula is used to calculate your entitlement for a \$1,000 contribution. Basically, the amount that the government will co-contribute will be reduced by \$0.05 for every dollar earned above \$28,000 per annum (or \$50 for every \$1,000 earned above \$28,000 per annum).

WHAT IF I INVEST INTO A VEHICLE OUTSIDE OF SUPERANNUATION?

A number of factors have to be taken into consideration when it comes to investing. A needs analysis is always recommended, meaning that the investment must draw parallels to your personal needs and objectives.

The three options are to directly invest monies into super before tax, after tax or invest in a vehicle other than super.

In our example, we will take a look at Peggy, a sales associate who earns \$50,000 per annum. Her boss has provided her with a \$1,000 pay increase due to exceptional performance and she has come to MCP Financial for advice regarding the tax and financial implications of

The table (below) provides a brief insight into Peggy's net gain from investing post-taxed monies towards superannuation. As a general rule, a person with a lower income would benefit more as the government's co-contribution works inversely to a person's earnings.

CONCLUSION

Superannuation, in most cases, cannot be withdrawn unless a person reaches the preservation age and certain conditions are met, such as permanent retirement from the workforce. If money is required before the preservation age (which is 55 for employees born before June 1960) it may not be beneficial to contribute funds into your superannuation, even if it achieves the greatest financial gain.

Dave Mac Manus, MCP Financial



Helping Growth: The Co-contribution Scheme was designed to assist low income earners accumulate superannuation.



EQUITY FINANCE MORTGAGES

WHAT IS AN EQUITY FINANCE MORTGAGE?

An Equity Finance Mortgage is a mortgage product where the lending institution finances up to 20% of the value of a property, albeit for a portion of any future capital gains upon sale. Under the product, the financier will also share the burden of capital losses, if incurred.

If the financier lends 20% of the property value, they are subject to receive 40% of the capital gains upon sale, and will decrease their loan by 20% of any capital losses if the situation arises. Normal lending criteria apply such as the ability to service the loan. A 5% deposit is also required, and a standard home loan

Working Example: The Government's Co-contribution Scheme (Peggy)

	Superannuation Contribution (before Personal Tax @15%)	Investment Purchase (after tax of 31.5% inc. Medicare Levy)	Superannuation Contribution (after Tax of 31.5% inc. Medicare Levy and Co-Contribution)
Initial Earnings	\$ 50,000	\$ 50,000	\$ 50,000
Take Home Pay	\$ 38,078	\$ 38,078	\$ 38,078
Pay Increase	\$ 1,000	\$ 1,000	\$ 1,000
Investment Contribution	\$ 850	\$ 685	\$ 650
Government Co-contribution	\$ -	\$ -	\$ 350
Total	\$ 38,928	\$ 38,763	\$ 39,113

Comparing apples to oranges? The above table does not consider the benefits and disadvantages of the three investment philosophies. However, contributing post taxed funds and receiving the government's co-contribution is rewarding from a financial perspective.

must be taken in conjunction to the Equity Finance Mortgage.

ADVANTAGES

There are many advantages of taking out an Equity Finance Mortgage, including the ability to own your own home/investment property sooner, as well as a general reduction in Lenders Mortgage Insurance (LMI) through a decrease in aggregate borrowings. The product also increases home affordability, decreases a borrower's monthly repayments (as fewer Funds are required) and has the ability to heighten a homeowner's quality of life, as they are living in a property that they may not have otherwise been able to afford/repay.

DISADVANTAGES

If the Australian property market increases markedly over the course of a few years (read Perth), much like the early 2000's, the mortgagor may find that the Financier's overall share in the capital gains of the property far exceeds the benefits of the borrowings/loan.

WORKING EXAMPLE

Jack and Jill purchase a \$400,000 property and take out an Equity Finance Mortgage. This allows them to borrow and repay a loan of \$300,000 per annum. The other 20% of the purchase price is financed through the borrower's Equity Finance Mortgage. Based on a 25-

year mortgage at 8.07% per annum they will pay approximately \$3,000 and \$2,500 per month for a \$380,000 (no EFM) or \$320,000 (EFM loan) respectively.

However, we will now assume that the property increases by 8% per annum. The \$400,000 property will now be valued at \$740,000 after 8 years. At 40% of the capital appreciation, the financier is scheduled to net \$136,000 of the property's capital gain, plus the additional loan amount of \$80,000.

The total of the Financier's earnings under an EFM amounts to approximately \$216,000. At property returns of 10% and 14% the financier would reap funds of \$263,000 and \$376,000 (including the initial Equity Mortgage) respectively.

Contrastingly, the \$80,000 loan indexed at the Standard Variable Rate of 8.07% for 8 years would accumulate to \$149,000.

CONCLUSION

There is definitely a market for Equity Finance Mortgages, although all alternatives must be considered before committing to such an open-ended loan product with unlimited liability. In a bull market (think Perth since 2000) a financier's share of the property's capital gain may exceed the cost of a regular loan.

Adam Maciejewski, MCP Finance

Working Example: Equity Finance Mortgages

	EFM Loan	Standard Purchase
Property Cost	\$ 400,000	\$ 400,000
Deposit	\$ 20,000	\$ 20,000
EFM Loan	\$ 80,000	\$ -
Total Borrowings	\$ 300,000	\$ 380,000
Property Value Returning 8% for Eight (8) Years	\$ 740,000	\$ 740,000
Capital Gain (Property Value Less Cost)	\$ 340,000	\$ 340,000
Costs of the EFM Component		
Financier's Share of Capital Gain (40%)	\$ 136,000	\$ -
Repayment of EFM Borrowings	\$ 80,000	\$ -
Value of an \$80,000 Loan at 8.07% for Eight (8) Years		\$ 149,000
Total	\$ 216,000	\$ 149,000

Note: All figures have been rounded and no acquisition costs have been included

Are Equity Finance Mortgages worth it? A number of factors determine whether an Equity Finance Mortgage is beneficial for a consumer, including a borrower's access to other, more affordable loan products.

RUNNING A SUCCESSFUL BUSINESS

You know how sometimes at a dinner party you'll get asked about what you do for a living and you just want to say "oh I make sandwiches"?

Why don't I want to talk about what I do very often? Because I run a marketing and communications business for the wine and drinks industries. I invariably end up talking to someone who loves wine, wants to know what my favourite drop of all time is and if I've ever tasted Grange.

The reality for all small business operators is less about wining and dining and more about bloody hard work, wearing many hats and worrying about maintaining good cash flow. It's all about being true to your core values and making sure you get the basics right – it's too easy for many SMEs to get distracted by a hot new client who doesn't quite fit but gee the budget is huge! Or what about chasing down a new marketing campaign that is pretty risky but if it pays off, you're off to the Bahamas!

My biggest gripe is when you look at these companies and find there are so many little things that are not right - their website hasn't been updated for a year, the receptionist asks you for your name three times and you have to notify them of a change of address at least four times before it sticks.

So my advice to all SMEs out there looking for the next big break, walk around the block and come back to your business with a fresh set of eyes. Making sure the 1%ers are all in place will pay off a lot quicker and a lot bigger, and win you more new clients than any flash new marketing campaign. Sticking to your beliefs and doing what feels right deep down inside will ensure your business is great, not just growing.

Angie Bradbury operates a Public Relations company, Dig Marketing, which is tailored towards the food and beverage industry. We sincerely thank Angie for her contribution this month.

www.digmarketing.com.au