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INTEREST RATES AND THE ECONOMY

THE AUSTRALIAN MARKET

The Official Cash Rate remains unchanged at 5.75% p.a. for the month of June. Last month's rate rise was justified from a pre-emptive viewpoint, after thirteen months of rate stability.

Domestically, the ballooning price of oil seems to have taken its toll on the price of consumer goods and services. This may be evidenced by recent inflationary figures, which illustrates that our economy is operating at the upper limit of the Reserve Bank of Australia's target range.

QUOTE OF THE MONTH

"It is the awareness of unfulfilled desires which gives a person the feeling that it has a purpose and destiny."

- Eric Hoffer

Market Data and Important Statistics

As at 20 June 2006

- Official Cash Rate: 5.75%
U.S. Fed. Funds Rate: 5.00%
90 Day Bank Bill Rate: 5.98%
5 Year Bonds Rate: 5.80%
All Ordinaries: 4854.3
Aust. Dollar (US Cents): 73.63

But what does the future hold for key domestic inflationary drivers such as oil, employment and, consequently, interest rates?

This is a very difficult question to answer as our economy has been largely driven by a commodity boom. Many academic and professional experts have questioned the key factors behind the recent increase in the price of oil and other base metals.

Oil and fuel are inputs to most factors of production due to transport costs and freight expenses. Genuine market demand is certainly warranted; however speculators and non-

substantiated supply concerns due to the ever-existing political concerns surrounding the Iraq war have also increased resource prices (refer to the graph below).

One school of thought is that oil, gold and metal prices have already peaked. As such, the price of these metals should subside over time, all things being equal, as our global political climate improves. This should see an easing of inflationary pressures as input costs such as freight and transport decline.

This may lead to a decrease in resources stocks which could have a Wealth Effect (decrease in consumer spending as their net asset position decreases). This would ultimately affect retail spending and increase unemployment as our frenetic production rates recede.

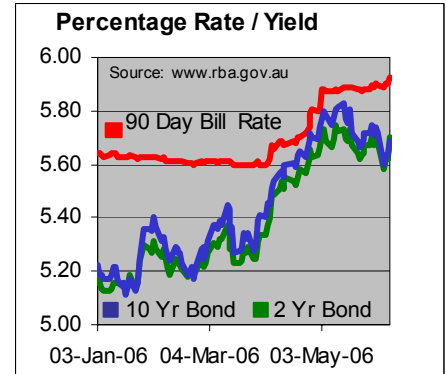
But there are no guarantees. When our economy is built around something as fragile as global demand and geopolitical unrest, it is often difficult to envisage and forecast a clear and concise economic future.

Price Index (Base Metals)



The ASX Materials Index has been corrected as investors question the true value of material prices and the role of market speculators.

Money Market Movements



While Two (2) and Ten (10) Years Bond Yields have decreased the 90 Day Bank Bill Rate continues to climb towards 6.00% per annum.

**QUESTIONS AND ANSWERS**

The MCP Group team will answer a selection of our clients' queries in each edition of our monthly newsletter. To submit your query to our office please contact our Group by phone on (03) 9620 2001 or via email ([enquiries@mcpgroup.com.au](mailto:enquiries@mcpgroup.com.au)).

**FINANCE**

**What is debt consolidation?**

Debt consolidation refers to combining several smaller loans into one larger lending facility, normally the one with the lowest interest rate. This provides two benefits: less administrative effort on your behalf (as you are making one payment instead of several smaller payments throughout the period) and a decrease in interest expenses.



Consolidating your credit card debt and primary mortgage can be an effective way to decrease interest charges, assuming that the term of the loan is not extended.

For example, if you consolidate your credit card debt and your mortgage loan and continue to pay the credit card portion of the consolidated loan within the same timeframe you will, in most circumstances, save on interest costs. This is because the interest payable would be determined at a lower rate.

**LEGAL**

**If I register a business name does this infer that it will be protected and/or trademarked?**

Businesses and individuals mistakenly believe that the registration of a Business, Company or Domain Name provides a proprietary right in the name equivalent to Trade Mark registration, or immunity from a Trade Mark

infringement claim. However, the registration of Business, Company or Domain Names of itself gives no exclusive right to use the name.

The registration of a Business Name will not prevent that name being used by somebody who has registered it as a Trade Mark. This confusion means many fail to conduct adequate searches of the Trade Marks Register that may lead to the infringement of another party's Trade Mark and substantial costs being incurred if the Business or Company Name must be changed. It also means many fail to maximise the protection of their Trade Marks.



**THE ADVANTAGES AND DISADVANTAGES OF SOLE BUSINESS OWNERSHIP**

A Sole Trader is a one-person business. Income and expenses are treated as part of your personal taxation position.

The Advantages and Disadvantages of Sole Business Ownership	
✓	The structure is simple and easy to establish
✓	The nature of the business and the composition of its operation can be simply altered
✓	There are few registration procedures other than GST and Business Name registration
✗	The sole trader is not a separate legal identity from the business and, therefore, is personally liable for debts incurred by the business
✗	There is no flexibility to allocate income to anyone else but the business owner
✗	A business owner must receive all revenue or profits and be accountable for them
✗	A sole trader cannot share the burden of management and costs

Please speak to our Legal Team for further information regarding business structuring advice.

This means that the business has no separate legal entity from the owner, which means that the owner is solely responsible for the liabilities incurred by the business.



**LANDLORD DUTY OF CARE TO TENANTS**

**INTRODUCTION**

A Lease is a contract between a property owner and a person wanting temporary enjoyment and use of the property, in exchange for paying rent to the property owner. Where the property is land, a building, or parts of either, the property owner is called a Landlord and the person that contracts to receive the temporary enjoyment and use is called a Tenant.

The recent investment property boom has brought to light an unforeseen issue in leases for Landlords - duty of care to Tenants. Liability to Tenants, becoming more defined in light of several recent Court decisions, can result in onerous and extensive obligations.

**Northern Sandblasting v Harris (1997)**

This is a landmark case for the issue. A nine year old girl received an electric shock while turning off a tap, causing severe brain damage. The electric shock was due to faulty electrical work the Landlord had arranged.

Although the electrician was apparently qualified, the works were carried out negligently, which resulted in the water pipes being 'electrically live' because of wiring defects in the home.

The girl successfully sued the Landlord for \$1million in damages. It was found that the Landlord owed a duty of care to the girl and her family, and had not carried out his duty to ensure that the house was fit for human habitation.

All judges accepted that a Landlord owed a duty of reasonable care to the Tenant. Some members of the Court based the decision on the Landlord's duty to inspect the premises and discover electrical and other defects.



**Landlords owe a duty of care to their tenants and must ensure that they free their rental property from defects they know to exist before letting.**

### **Jones v Bartlett (2000)**

The Plaintiff was the son of a Tenant. The child walked into a glass door and suffered an injury. The house was built in the 1950s and at the time complied with relevant safety standards, which subsequently changed requiring a different glass.

The High Court ruled that the Landlord had not been negligent and that, at least in this case, the Landlord had no duty to have the premises inspected by an expert prior to letting.

It appears that a Landlord is required to avoid foreseeable risks of injury from defects which the Landlord knows or ought to have known existed.

### **INSURANCE**

This is a vital aspect of protection from liability. A Landlord should ensure a Tenant's activities do not affect insurances and should consult with his insurance company and/or broker to ascertain if there is any problem.

A Tenant should have certain insurance cover, which should be spelt out in the agreement. It is always prudent for your Tenant to have insurances for at least all items in the Lease.

Importantly, a Landlord's insurances should be compatible and not be in conflict with any Tenant's insurances and there should be discussion between the parties as to what coverage is needed. A certificate of

currency of insurance should be provided to the Tenant upon request.

### **CONCLUSION**

The above decisions emphasise the need for a Landlord to have in place a reasonable system of inspection, and to carefully consider matters of insurance. Further, aspects of asset protection should be considered and reviewed regularly, in the event insurance does not cover in whole or in part liability. It is recommended business advisers including accountants and lawyers are involved in the process, to ensure rights and obligations are respectively protected and honoured.



### **TYPES OF INVESTMENT STRATEGIES**

There are many types of investment strategies employed by both individual and wholesale investors.

The common premise is simple - buy low and sell high - but, in reality, it is far more difficult (or else everybody would be on the beach). In fact, the vast array of investment styles seems to be as diversified as the number of investment vehicles in the market.

There are growth, value and contrarian investment strategies that are some of the better-known trading options. These strategies and some other methods of portfolio construction are outlined below.

#### **Blue Chip Investing**

There is much debate as to what constitutes a blue chip company. However, most brokers believe that the attributes which distinguish a blue chip from a medium to small stock includes a well established market base with a high degree of market penetration, large size in terms of market capitalisation and/or revenue, quality products and a solid profit history.

Blue chip investors generally adopt a buy and hold strategy and hope for long-term capital gains and solid income streams from dividends.

No blue chip share is perfect (Cochlear, AMP and Telstra have all suffered recent and extended periods of price downturn) although these type of investors believe that, over time, long-term profits should prevail, equating to gains in share prices.

#### **Growth Stocks**

Generally speaking, growth stocks have lower dividend yields than income-orientated shares. Instead of returning profits to shareholders growth stocks tend to reinvest monies into expanding their operations. The premise is simple, if the company increases revenue by business growth (via acquisition or otherwise) then profits should follow leading to an increase in the share price.



**Growth shares generally have low dividend yields but reinvest a high portion or their profits into the expansion of its operation.**

However, caution needs to be heeded with these sort of companies. Ensure that the organisation is not amassing copious amounts of debt and that price in relation to earnings remains in check.

#### **Cyclical Stocks**

The business cycle is a fundamental concept that purports commerce and production operates in four specific stages; notably growth which leads to monetary tightening, a peak, decline and interest rate reductions, and a trough.

Essentials such as food, gaming and alcohol do well during all phases of the business cycle and are seen as defensive shares, while building companies are favoured to do well when interest rates are low and the economy is expanding.

## Recovery Shares

Basically, recovery share tactics revolve around selecting shares that have been, from a price perspective, hurt by bad news. Some of the more recent examples of recovery shares include Multiplex (after substantial projected losses with European operations), AWB (wheat scandal) and the NAB Bank (currency dealing).

All of these companies have posted substantial gains since their relative negative public announcements, as investors swoop on these companies as they feel they have been oversold due to sentimental psychological factors.

## Income Stocks

Unlike growth shares, income stocks return a majority of their profits to shareholders. Retirees who seek to receive periodic income as opposed to long-term and fluctuating growth favour these shares. Caution should also be taken into consideration and a tangible dividend history should be sought with these companies. There is no point purchasing a share that has a high dividend yield due to the persistent selling of that particular share.

The above styles do not incorporate the complete list of investment strategies available. There is also technical and fundamental analysis, low P/E strategies as well as indexing to name a few. Please speak to John Ross at our office if you would like any further information regarding the implementation of an investment strategy.



## THE LENDING PROCESS

The lending process is often a confusing and demanding time for most borrowers.

Our Group strives to add value by alleviating some of your time constraints by liaising with banks, providing advice in regard to the legal contractual issues of purchasing a property and by researching lending products to deliver the most fitting loan for your

circumstances.

The following is a general mortgage overview of the lending process:

### 1. Collate, Review and Research

This is perhaps the most important part of the lending process. Collating information regarding the type of collateral that is going to be used to secure the loan, remuneration composition and employment details, credit history and an extensive inflows and outflows study is essential to find the correct product to suit your needs.

Your details are then run through various banks' serviceability calculators and compared with banking policies to deliver you an apt and fitting product recommendation. We also collect the relevant loan documentation for submission at this stage.

### 2. Loan Submission

One of the ways that MCP Group adds value is by writing detailed and comprehensive lending submissions to accompany all of the financial applications submitted on behalf of our customers. This enhances the probability of a favourable credit outcome after assessment. This is normally done within one (1) business day of receiving your application at our office.

### 3. Conditional Approval

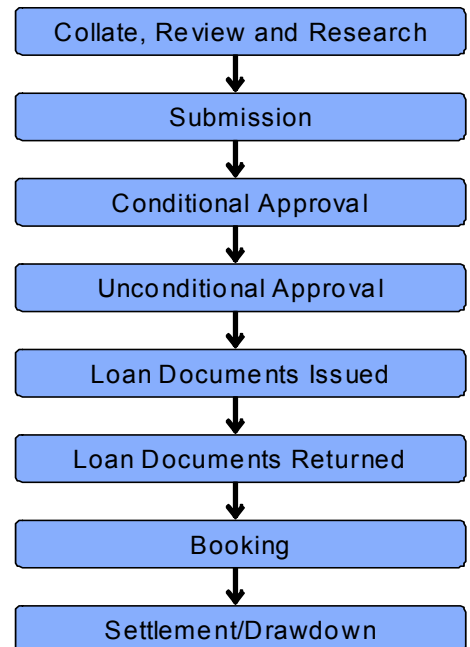
In some circumstances the bank may request further information from you in regard to your application. For example, all supporting documentation may not have been provided with the initial submission, or the bank may require a letter from your employer detailing the completion of your probationary period. Banks can take anywhere between one (1) to seven (7) business days to assess an application.

### 4. Unconditional Approval

Unconditional approval is granted when all of the supporting documentation has been provided and the bank is happy with collateral offered and your ability to meet loan repayments.

### 5. Loan Documents Issued

When a loan is unconditionally approved, Banks inform their legal



It should also be noted that a loan can be deferred (placed on hold pending further information) or declined after its initial submission.

department or paralegal service provider to issue loan documentation. Loan documentation consists of the following primary document; the Mortgage of Land and its Terms.

Other ancillary documentation may include a Discharge Authority Document (refinance), Loan Offer Document(s), Mortgage Repayment/ Account Details, Witnessing Declaration Documents and additional Declaration forms (e.g. to ensure that you have the funds to meet the financial obligations of a property purchase etc).

### 6. Loan Documents Returned

When the loan documents have been signed they are returned to the solicitor/paralegal or the bank's legal department for checking. If documents have not been signed correctly they are returned to borrower to re-sign and re-date. Borrowers may have to visit a bank branch to have one hundred (100) points of personal identification witnessed and/or to open a bank account from which to make loan repayments.

### 7. Booking

When the legal department schedules the date that your property will settle or, in the case of a refinance or investment loan, the

date that your refinance will be effected or funds transferred.

### 8. Settlement

The day that a payment for the house is finalised and the Transfer of Land and Mortgage of Land Documents are prepared for submission with the SRO.

This could also be the date when your refinance is effected or, as previously outlined, when the bank transfers the required monies in the case of an investment loan.



Settlement refers to the day where all monies are transferred to complete the purchase of the property.

## AN INTRODUCTION TO DEPOSIT BONDS

Deposit Bonds are also known as Deposit Guarantees and are considered as a substitute for a cash deposit when purchasing an establishment. The borrower offers the guarantee to the seller (provided by a deposit bond provider), for a fractional nominated percentage of a traditional deposit.

Fees for a deposit guarantee can vary but they are generally around 1% of a standard deposit (10% of the purchase price) for a six-month guarantee. Some deposit bond providers allow deposit bond periods of up to three (3) years.

Acceptance of a Deposit Guarantee usually requires the provision of documentation to support your ability to meet the financial obligations attached to the property purchase. This may be in the form of a pre-approval, share or fixed term deposit certificates, proof of investment holdings or evidence of available equity in other properties.



A deposit bond can be very useful for purchasers intending to buy a property at auction. This is because the certificate/guarantee can be used on any property at the discretion of the purchaser.

A Deposit Guarantee works similar to any other form of insurance. If the purchaser fails to go through with the purchase, the vendor has the right to make a claim against the issuer of the Deposit Guarantee. The Guarantee provider is then required to recoup the funds from the defaulting purchaser. However, making a claim to an insurer may be a time consuming and costly process. This factor is a primary driver and major disadvantage in relation to the acceptance of a guarantee from a vendor's perspective.

Deposit Guarantees are offered with a Deposit Certificate, with the Deposit Guarantee holder able to use the Certificate to purchase a property of their choice. This means that the holder can attend any number of auctions with peace of mind. Deposit Bonds can be obtained through most financiers or through a reputable mortgage broker.

## FINANCIER NEWS

### ANZ Bank (Residential)

The ANZ Bank has extended their Easy Increase Process to a larger range of customers effective immediately.

Self-employed mortgagors with an LVR (loan to value ratio) below 60% and between 60% and 80%, applicants with an increased income and customers with increased liabilities are now eligible to participate in the Easy Increase Process.

The Easy Increase Process involves completing a two page application

and a Statement of Financial Position instead of the standard loan application forms.

### BankWest (Residential)

Priced at 6.90% per annum, BankWest's Lite Home Loan is one of the most competitive mortgage products on the market. Lump sum payments are allowed with the facility and the ability to attach a fully functional offset account is also permitted.

No monthly account keeping fees apply and mortgagors can also receive a waiver of a BankWest credit card annual fee for the first year. Additionally, borrowers will be refunded the application/establishment fee assuming that their loan remains in operation for three (3) years.

### Commonwealth Bank (Residential)

The Wealth Package allows a host of benefits assuming that two (2) Commonwealth Bank loan products are taken in conjunction with a core lending product.

The package offers a discount off the Standard Variable Rate (0.4% to 0.7% depending on loan sizes), waiver of the application fee and monthly account keeping fees as well as discounts off credit cards charges (discount off personal loans are also available). Other benefits includes a discount off all fixed rate loan products (0.15% p.a.).

### Westpac Bank (Residential)

The Westpac Bank has extended their Premier Advantage Discounts to their Low Documentation Loan offerings effective 8 May 2006. Formerly, there was a delay period of two (2) years before any discounts for Low Doc lending could be received under the package.

The discounts allow for a discount of 0.6% p.a. off the loan amount for borrowings that range from \$250,000 to \$500,000. An establishment fee of \$355 and a Premier Advantage Package Fee of \$395 is required in the first year. Additional Low Doc loans incur an establishment fee of \$355 (no splits are allowed).



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## INDICATIVE INTEREST RATE SCHEDULE - AS AT 20 JUNE 2006

A selection of our financiers' most competitive Interest Rates. Rates displayed are generally discounted and may not apply to your situation. This is an indicative guide only. Comparison rates are available upon request. Please speak to MCP Group for further information.

	Variable Rates (Inclusive of Discounts)				Fixed Rates					Commission Rates (%)	
	Offset	L.O.C.	Basic	Low Doc	1 Year	2 Year	3 Years	5 Years	Upfront	Trail	
<b>MAJORS</b>	ANZ Bank	6.97%	6.97%	6.97%	6.99%	7.09%	7.09%	7.19%	0.60%	0.20%	
	CBA	6.87%	6.87%	7.06%	6.87%	6.99%	6.99%	7.19%	0.70%	0.25%	
	NAB	7.07%	7.14%	6.87%	7.07%	7.05%	7.05%	7.20%	0.60%	n/a	
	Westpac	6.97%	7.12%	6.99%	6.97%	6.95%	6.99%	7.25%	0.60%	0.25%	
	AMP Bank	6.92%	7.12%	7.01%	7.13%	6.74%	6.99%	6.97%	0.50%	0.25%	
	Adelaide Bank	7.57%	7.67%	7.04%	7.57%	6.99%	6.99%	7.09%	0.60%	0.25%	
<b>OTHER LENDERS</b>	BankWest	6.90%	7.10%	6.90%	7.49%	6.99%	6.99%	6.99%	0.50%	0.25%	
	Citibank	7.21%	7.21%	6.87%	7.09%	6.90%	6.99%	7.05%	0.65%	0.25%	
	GE Money*	N/A	N/A	7.34%	7.44%	Available Upon Request			1.00%	0.50%	
	HSBC Bank	7.20%	7.20%	6.94%	7.20%	6.89%	6.99%	7.20%	0.60%	0.25%	
	ING Bank	7.49%	7.49%	6.90%	7.49%	6.99%	6.99%	7.19%	0.60%	0.25%	
	Macquarie	6.89%	N/A	6.89%	7.23%	7.25%	7.30%	7.45%	0.60%	0.25%	
St George	6.97%	6.97%	6.99%	7.07%	6.99%	6.99%	7.19%	0.60%	0.25%		
Suburban Management	N/A	N/A	6.99%	7.49%	Available Upon Request			0.60%	0.25%		

\*Must be fully secured by Residential Property - Rates are Indicative Only. More lenders available upon Request (Selection provided only). LVR of 80% applies to GE Money.

	Variable Base Rates			Fixed Rates				
	Standard	Overdraft/L.O.C.	1 Year	2 Year	3 Years	5 Years		
<b>LENDER</b>	ANZ Bank*	7.92%	8.85%	7.30%	7.78%	7.80%	7.91%	
	ING Bank	7.85%	8.95%	7.80%	7.90%	7.95%	8.05%	
	Citibank	8.10%	8.70%	7.85%	7.99%	7.95%	8.15%	
	BankWest*	7.65%	8.75%	7.56%	7.64%	7.73%	7.84%	
	Members Equity	7.74%	N/A	Available Upon Request				
	St George	8.55%	8.92%	8.19%	8.25%	8.29%	8.35%	
Westpac	7.90%	8.20%	7.65%	7.75%	7.80%	7.90%		

\* ANZ Bank Commercial Loan Rates (Standard) must be secured by residential property. All commercial loan rates are a starting guide only. A buffer may be added to the above rates depending on the underlying strength of the commercial loan application. All rates are based on borrowings of \$500,000. The displayed Citibank commercial rate applies only to new business.

Nominal interest rates may be misleading in some instances (the rates we quote are subject to specific criteria being satisfied). Comparison Rates are provided upon request, tailored to your specific scenario for any number of products. Please contact our office for further information regarding comparison rates.