Jaimie's Newsletter

from the desk of
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DON'T SIGN ANYTHING!

APRIL EDITION

I trust this first newsletter of the year finds you all well and happy and ready for the challenges of the remainder of 2010.

I confess that I remain intrigued at the disparate observations emanating from a range of commentators in regard to the prosperity of our wonderful country. There is little doubt that Australia was spared the worst of the GFC given the strong state of our banking industry and to a large extent the continued surge in commodity experts fuelled by the Chinese.

This has translated into our relatively high level of interest rates, ostensibly to dampen too rapid a growth underpinned by a still - almost inexplicable - rising property market, especially in Melbourne and Sydney. Compare this with the USA where existing home sales fell for a 3rd consecutive month and median prices fell to $US165,000.

Not here - for none of this seems to matter to the spruikers and property bulls claiming there is a national shortage but this infatuation with housing is reaching ridiculous proportions. You can tell by the volume of credit and property nonsense now hitting our screens with new shows promising to teach viewers how a lick of paint, a manicured garden and a bit of Feng Shui will return a huge profit! This is the same sort of rubbish seen in the UK and USA at the height of the boom - appealing to our sense of "get rich quick, now" we'd have to be idiots not to tune in!

But hang on… doesn't money, somewhere in this equation, have to be borrowed… and repaid at higher rates? Westpac recently tipped "5 years of interest rates" and have moved to raise those rates up independent of the RBA decision citing the global cost of bank borrowing as having risen. In addition, Glen Stevens, the Reserve Bank Governor, just warned that people should not be putting all their faith in the family asset on borrowed money as the risks were too great.

To quote one commentator - "The yoke of Debt may have felt light until now. But the lash of higher rates on the back will definitely be noticeable. Let's hope it doesn't break the financial back of a whole generation of home buyers as it brought premature buyers into the market who will not be able to survive in a world of higher interest rates."

Part of the problem is that money is still too easy to come by, despite banks finally tightening their lending criteria. When one is bombarded with the ads - No deposit, no repayment for 4 years - it is easy to understand why the unsuspecting, financially immature are so easily seduced to sign up. Like cigarette packets warning that smoking can damage your health so too should all credit ads…"borrowing can seriously damage your financial future!"

Over the last 12 months, I have seen increasing evidence of sellers, especially of high priced properties wanting - no needing - to sell, simply to lessen their debt levels and put something away for the future. I also see a lot of prospective buyers, in reality, speculators, looking for that bargain that with a quick makeover will return a tidy profit. In all honesty, how could I possibly recommend such a course of action when I believe it is palpably false to raise someone's expectations. Take into account stamp duty, selling fees, renovation costs and possible capital gain implications - it's not worth the trouble unless the property can be bought at a bargain price - but that's not what our sellers pay us to do!

Sorry folks, the family home should always be divorced from the money making exercise. You live in it, raise a family and enjoy it. When you sell, you may make some money - though not a lot if you are buying in the same market - but you should say "who cares!" - as long as you can afford it. I think we're getting good at helping our clients avoid debt stress. If you want any help - just call.

Best wishes,

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