

MARCH 2009

# Lifestyle Matters

www.lifestyle.au.com

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## Interest Rates *To Fix or Not to Fix*

STOCK	BID	OFFER	LAST	VOL
STRAAT MINS	0.235	0.24	0.24	2HT
STRAAT POOL	0.245	0.25	0.25	0
STRATA	0.022	0.023	0.023	4HT
STRATHFLO	0.069	0.08	0.086	0
STRIKER	0.065	0.068	0.135	2HT
STRUCTURAL	0.485	0.50	0.096	3HT
STUART	0.72	0.73	0.72	5HT
STH COOH	3.35	3.38	3.38	6HT
SUBSAHARA	0.057	0.058	0.058	5HT
SUMMIT RES	0.062	0.068	0.061	3HT
SUN	0.085	0.088	0.082	0
SUN NET	12.45	12.46	12.45	3HT
SUNCAPITAL	0.065	0.068	0.065	6HT
SUNDOWNER	0.153	0.158	0.158	4HT
SUNLAND	1.19	1.20	1.19	4HT
SUNRAY.TV.	11.11	11.00	11.00	0
SUNSHINE C	0.275	0.285	0.275	14T
SUNTECH	0.031	0.038	0.031	2HT
SUNVEST	0.65	-	0.65	0

15800 WESTFIELD 14.07 22100 WOLNORTHS 11.09 17200 ALUMINA 5.93 49600 BHP BLT 11.42 62250 RIO TINTO

5:24pm MELBOURNE 2283.0 +16.8  
4:2pm TOKYO 1x  
8:24am LONDON 4311.0 -2.9

# Recovery Follows Recession

Additionally, every sharemarket crash has been followed by a recovery.

# Is the Sharemarket Dead?

## Will it Ever Recover?

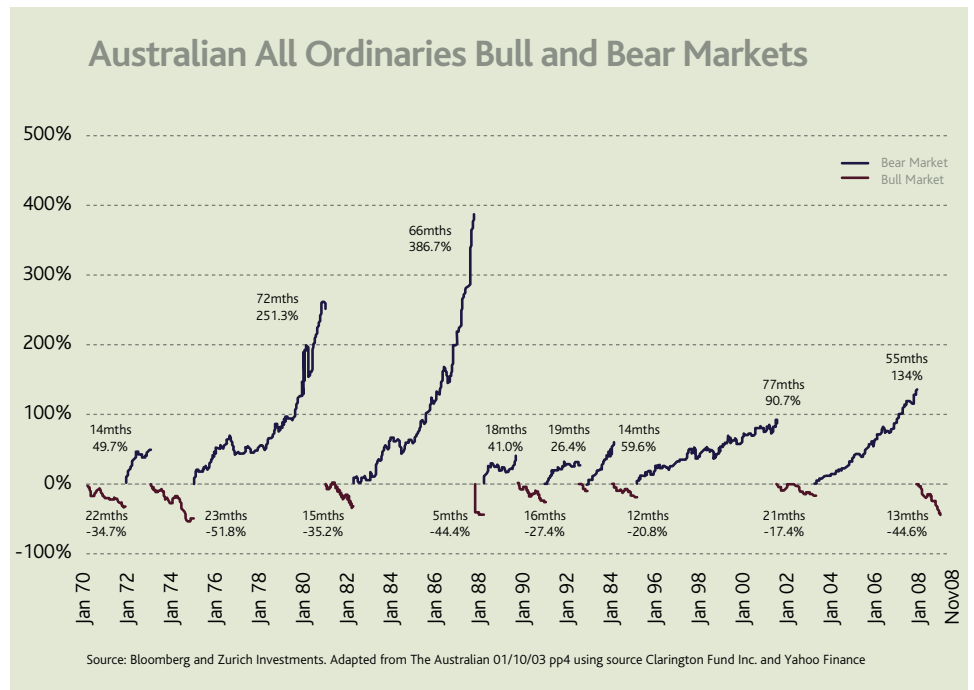
In 1974 they were asking these questions. In 1988 they were asking these questions. After the tech bubble bust, September 11 attacks and imminent Middle East Wars, in 2002, the same questions were being asked.

In the last 40 years, the Australian share market has had 7 bear markets (defined as 20% or more drops in the ASX). There have been 6 dramatic recoveries from these bear markets as illustrated in the chart below. Will there be a 7th? We think so.

Sharemarkets around the world are now off their highs by around 50%. By comparison to other share market crashes (and economic recessions), the current one is probably the most serious since the Great Depression. The reasons have been well documented in the press.

Despite this, there has never been an instance where a world wide recession has not been followed by a recovery. Additionally, every sharemarket crash has been followed by a recovery. What we don't know, is "when" it will happen and by "how much".

The biggest danger facing most people who have seen their investment portfolios decimated during this period is that they do not stay the course for the inevitable recovery. The alternative is cash investment, with a guaranteed poor return over the short to medium term given low (and decreasing) interest rates – see following article.



## Interest Rates Drop – Rejoice or Lament?

In September 2008, the Reserve Bank commenced an aggressive cycle of interest rate cuts. Those with mortgages are breathing a collective sigh of relief as the average home loan

rate has dropped from around 9% to 5% in 6 short months. On a \$500,000 home loan, that is \$20,000 pa (or \$1,667/month) less in mortgage repayments!

Effective Date	Change in Cash Rate	New RBA Cash Rate
04 Feb 09	-1.00%	3.25%
03 Dec 08	-1.00%	4.25%
05 Nov 08	-0.75%	5.25%
08 Oct 08	-1.00%	6.00%
03 Sep 08	-0.25%	7.00%
05 Mar 08	0.25%	7.25%

## To Fix or Not to Fix?

After being stung as a result of fixing rates at the top of the cycle, many people are nursing hangovers from paying huge break costs to go back onto lower variable interest

rates. Others have chosen to stick it out – continuing to pay fixed rates of up to 10% until the term of their fixed rate contracts expire.

Bank	Standard Var. Rate	Potential Discount	Interest Rate – After Discount
ANZ	5.91%	0.70%	5.21%
CBA	5.74%	0.70%	5.04%
HOMESIDE (NAB)	5.87%	0.70%	5.17%
WBC	5.91%	0.70%	5.21%
STG	5.89%	0.70%	5.19%
STG – Portfolio	5.99%	0.70%	5.29%

With variable rates plummeting to never before seen levels, some are predicting home loan rates to bottom at around the 4% level. Where does this leave fixed rates which are currently sitting around 6%? Is it attractive enough to lock yourself in for 3 to 5 years?

Bank	3 Year Fixed Rate	5 Year Fixed Rate
ANZ	6.19%	6.84%
CBA	6.14%	6.64%
HOMESIDE (NAB)	5.19%	6.29%
WBC	5.39%	6.49%
STG (VAR & Port)	5.34%	5.94%

Unfortunately, there is no right or wrong answer, and each person will have a different set of circumstances to consider. If cashflow is tight or there is some uncertainty around employment, fixing your interest rate may provide some peace of mind against a scenario where interest rates begin to rise again at a time when you can least afford it. Of course, fixing a portion of your loan rather than the whole loan may give you the best of both worlds.

Ultimately, during this time of rapid movement and change, the trick will be to do as much research as possible. Get all the rates on offer, understand the conditions and get professional advice before committing to a fixed rate contract. It can be very unpleasant and costly if you get it wrong.

### *Not Such Good News for Savers & Self-funded Retirees*

While the mortgage belt is rejoicing in their improved cashflow position, retirees and net savers (with no debt) are wondering what is happening. Sharemarkets have plunged 50% and now they are getting half what they were getting on their interest bearing accounts from just 6 months ago.

Predictions are that deposit rates could fall to as little as 1% or 2% meaning that you are effectively lending money to the banks for them to use as they wish while getting virtually nothing in return. Even the high interest online accounts are starting to look unattractive:

Bank	5 Year Fixed Rate
ANZ – Online Saver	4.00%
BankWest – Telenet Saver	4.25%
CBA – NetBank Saver	3.00%
ING Direct	3.75%
NAB – iSaver	3.00%
St George – directsaver	3.45%
Westpac – esaver	3.00%

### *Where to Go for Income?*

At possibly no other time in history, has the risk / return equation of investing been more closely examined.

**People are asking the question (of us at Lifestyle):  
“Where do I now get the income I need, but, with an acceptable level of risk?”**

The answer to this current problem, again, depends on personal circumstances and an individual's tolerance to risk and investment volatility. If bank interest rates keep falling, alternative income producing assets will need to be considered in order to achieve an acceptable rate of return.

It is fair to say that we are at an inflexion point...where rental income, dividends and interest from corporate debt securities are becoming higher than the rate of interest from banks on term deposits.

At some stage, as term deposits mature and capital is eroded, the higher levels of income from shares, property and bonds will be impossible to ignore and will need to be included within a diversified portfolio in order to provide sufficient income and capital preservation.

# What's happening at Lifestyle



## 4 More CFPs at Lifestyle

We are pleased to announce that Alex, Denise, Shane and Tim all passed their Certified Financial Planning (CFP) Certification course (as mentioned in our previous newsletter). This is the highest Professional Education standard that can be achieved within the Financial Planning Field. This now means that Lifestyle has seven accredited Certified Financial Planners.

## Ten Years and Counting...

At the tender age of 28, Alex has now notched up 10 years at Lifestyle. No mention yet of what he is planning to do with his long service leave. Although, with the current volatility on the share market, taking 3 months off is not at the top of anyone's agenda. All hands will be required on deck this year.

## Bollywood Anyone?

No, we are not about to do a song and dance routine but added 'a bit of spice' into our lives by attending an Indian cooking lesson given by esteemed Indian Master Chef, Ajoy Joshi. We cooked up a storm with varying degrees of success. Despite Ajoy insisting on a no alcohol policy in the kitchen, some hilarious moments were had as we concocted our own variations of Dahl, Mughlai Chicken and Paneer Makhni.

## Fresh New Look for Lifestyle

Lifestyle has a new look. After several hours of posing for the photographer during the heatwave of late January, our website has been updated with current photos of our team - a bit older but still smiling.



**Gareth Hall**  
CFP Financial Planner  
Authorised Representative



**Irene Kay**  
CFP Financial Planner  
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**David Kissane**  
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**Shane Foster**  
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**Anne Kennedy**  
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**Kathy Kurten**  
Receptionist



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**Denise Chambers**  
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IT Manager



**Chris Watson**  
Portfolio Manager  
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**Sim Tong**  
Mortgages



**Tim Egger**  
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