



To fix or not to fix my interest rate?

“It's about reducing risk, rather than making money” Michael Pascoe suggests:



Many home owners are now asking about whether they should have a fixed or variable interest loan and or whether they should be investing & in what. To assist you we have dedicated this newsletter to some views by two leading finance professionals, Michael Pascoe who is one of Australia's most respected finance commentators with more than three decades in newspaper, radio, television and on-line journalism & Robert Kiyosaki, bestselling author of "Rich Dad Poor Dad," explains why many commonly held truths about managing your money may be obsolete.

In a recent article Michael Pascoe discussed the good, the bad, and how to make the most of your situation regarding the latest interest rate reductions. “The problem remains though that it's still something of a bet on what interest rates will do over the next few years. In truth, no-one knows with even the most educated assessments still only guesses.

Which is why it's best to look at fixed-rate loans as a form of insurance. If you bet the wrong way and lock in a rate that turns out to be higher than the variable rate in the longer term, the higher cost should be considered the insurance premium - what you pay for the peace of mind of rates not surging. If the variable rate does rise above the fixed rate, the saving becomes a nice windfall. If your finances are sound enough to be able to weather higher rates so that you don't need that insurance policy, there is still the question of which is likely to be the best option.

The fixed-term rates are a reflection of what the money market professionals think interest rates will end up doing over time. They don't always get it right by any means, but they tend to do better than the average punter. What makes it hard is that the professional market tends to move before retail home owners think about it. Thus the best time to fix loans was when variable rates themselves were cheap, before the Reserve Bank starting lifting rates.

Right now, if you're not entirely comfortable about the idea of locking in, you can always hedge your bets by fixing half your mortgage and leaving the remainder as a variable rate. It's about reducing risk, rather than making money.

In a 2nd follow-up article (4 feb 09) after the latest reserve bank cut he wrote:

“First the good news: Even after the latest 100 point rate cut by the Reserve Bank, interest rates are going to fall further. And now the bad news: Even after the latest 100 point rate cut by the Reserve Bank, interest rates are going to fall further. Whether the news is good or bad for individuals depends on their personal circumstances - and, depending on those circumstances, there's a great deal of difference in how to make the most of the fastest series of rate reductions in our history.

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Competition Winner Announcement

The **WINNER** of our Summer Edition 2008 Newsletter ‘Win an Overnight Stay and Show Package’ competition is:

KYLIE VELLA of Bligh Park, NSW

Congratulations! You have won an overnight stay and show package in your Capital City to the value of \$500.

Also in this issue:

- Your greatest asset for financial success is your brain



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The RBA's slash yesterday brought its cash rate down to 3.25 per cent - and it would have been a bigger cut if Kevin Rudd hadn't been standing on the corner handing out cash and offering to retrain sacked investment bankers as Pink Batt roof insulation installers.

For very good reasons, the Big Four banks have not been slow in passing on all the cut to their variable rate mortgage clients, which means the average nominal home loan is a little under 5.9 per cent - the lowest it's been in a generation. And that is obviously good news for people with variable mortgages - several thousand more dollars a year better off than rates were at their peak just a few months ago. But only about a third of households have mortgages - the rest of us have either paid off our loans or are renting or camping under bridges.

For self-funded retirees, such rapidly falling interest rates are not so obviously good - and that's showing up in their spending decisions. I was talking to a travel agent recently who told me that the part of her business that has really disappeared is the retiree market - people depending on their investments to live. Aside from forcing them to be more frugal, the falling interest rate climate eventually forces investors to take more risks in search of better yields than they can get from a bank. And this is part of how easy monetary policy helps get an economy going again.

I know there are many retirees and soon-to-be-retirees who are already shell-shocked at the fall in value of their investments and will recoil at the idea of more risk when it's only their money in the bank that has held its value over the past terrible year.

But when the RBA cuts its cash rate down to about 2 per cent in the next few months, banks won't be paying much interest for deposits. The reward part of the risk/reward ratio will start to play a bigger role again in making decisions.



Your greatest asset for financial success is your brain, so be sure to protect it from poor advice.

By Robert Kiyosaki,

At this time of financial crisis, people are seeking good, relevant advice. But this can be hard to find. The following is typical of a question you would see in a financial publication -- and it's less-than helpful answer:

Q: What can someone whose 401(k) is down do to rebuild their retirement savings?

A: For anyone who is at least five years from retirement, there is probably time for their investments to right themselves.

Resist the urge to take money out of a 401(k) or to stop making contributions to it. Research has shown that dollar-cost averaging -- investing at given intervals -- pays off well in times of crisis.

Check whether the wild market swings have thrown off your asset allocation -- the specific mix of stocks and bonds that makes sense for an individual's financial goals and risk tolerance. If so, then rebalance it by selling shares that are overvalued and buying those that are below optimal levels. Focus on low cost....

Blah, blah, blah..... How naive do the so-called financial experts think people are? Well, obviously, many people are that naive because millions keep listening to the same old advice again and again.

The Same Old Story

So what is wrong with those giving the advice and those following it? Now that the markets have crashed and trillions have been lost, these so-called experts continue on like mindless parrots, saying over and over again, "Polly wants you to invest in a well-diversified portfolio of mutual funds."

Don't they know the market has changed? Don't they know the global economy is contracting, not expanding? Don't they know their advice is bad regardless of whether the market is expanding or contracting? Doesn't the general public realize that most financial "experts" are not professional investors? They're either sales people or journalists -- people who earn money via commissions or a pay check. And even the people running our biggest investment banks -- or what use to be investment banks -- are compensated via commissions or a pay check. They are not investors. They are employees working for banks. So my advice is, be very careful whom you take financial advice from -- and that includes me. My guidance, after all, does not work for 80 percent of the people. My suggestions are not right for those who work for a pay check or for commissions, nor do they work for those who save money in the bank or a retirement account.

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Your greatest asset for financial success is your brain

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The Right Advice for the Right Audience

My advice is for people who are entrepreneurs or professional investors. I have had a "real" job for only four years of my life, which means I only collected a traditional pay check for that very short period of time. I do not have a retirement account. If my businesses or my investments are not profitable, then I don't eat. And I like to eat.

I chose to live my life this way because this financial lifestyle keeps me honest. It also keeps me wary and very suspicious of financial experts who offer inane advice. I personally cannot live on such advice. My businesses and investments need to be profitable monthly and pay me monthly, regardless of whether the economy is expanding or contracting. I don't live in some fairytale world with the hope that the markets will right themselves in five years. I don't keep putting money into a losing venture such as a retirement plan filled with stocks, bonds, and mutual funds. I do not live on false promises. I cannot afford to live on bad advice.



Some Serious Questions

My questions to financial journalists and others who are doling out poor counsel: "What if your advice is wrong in five years? What happens if the markets don't come back? What happens if the markets just stay flat or crash even further? What happens if the markets recover and then crash when the person following your advice is in their late eighties?"

My advice for those seeking financial advice: Look for investments that pay you monthly or quarterly, regardless of whether the markets are up or down or whether the economy is expanding or contracting. Stop listening to those pseudo financial experts with crystal balls and journalism degrees.

The following are tid bits of information to keep in mind as you consider your financial options:

1.

I learned my investment philosophy at the age of nine by playing Monopoly. In the game, if I had one green house, I was paid \$8. If I had two green houses, then I was paid \$16.

I began playing Monopoly for real when I was 26 years old. Today my wife and I have approximately 1,400 little green houses -- each paying us monthly. You do not have to be a rocket scientist or have a Harvard degree to play Monopoly for real. Today's depressed real estate market is the best time to start buying little green houses, even if credit is tight.

In 1987 the stock market crashed. That crash was followed by the crash of the Savings and Loan industry. Those two crashes led to the crash of the real estate market. The economy stayed down from 1987 to 1995. Even though my wife and I were strapped for cash and bankers did not want to lend to small investors, we found ways of putting deals together by using seller financing and creative financing, or simply taking over properties that the bank did not want on its books. Most financial experts discourage people from doing what I do. They often say that it is risky -- and it certainly can be. But, in my opinion, following their advice of putting money into a savings account and investing in a 401(K) is even riskier in this volatile economy.

2.

Today, as the economy is contracting, cash is king. Yet because the Federal Reserve is printing trillions of Monopoly dollars in order to stop deflation, in a few years we could see a hyperinflationary period. Hyperinflation will wipe out the value of a saver's holdings and eventually destroy most mutual funds as the government begins to raise interest rates in an attempt to stem inflation. In a hyperinflationary period, gold and silver will be king.

3.

I am not actually recommending gold, silver, or real estate. Assets do not make you rich. Assets can make you poor if you are not careful. In 1980 gold and silver hit all-time highs, gold hitting \$800 an ounce and silver \$50 an ounce. So the suckers jumped in and were slaughtered. The same thing happened with real estate in 2004.

If you do not know what you are doing, no asset can make you rich. Ultimately, what makes you rich is your financial intelligence. Your greatest asset is your brain -- so take care of it and protect it from bad advice.

Thank You.....

A note to say thank you for your business and some helpful hints to help you explain how we as finance brokers can help your friends, relatives etc, get their finances in order and find the best deal to match their current financial arrangements.

If they are serious about finding a professional to help them with their finances, particularly if they are looking to borrow money, then finding a broker that is reputable, experienced and well connected is the key.

One thing when comparing other brokers to us, is that we do not charge. We are paid on a commission basis by lenders and providers on a per transaction basis, so as a result both you and your referrals do not need to pay any brokerage fees.

But why use a broker in the first place? Well you know the answer to that - Because we can save time and money - and we all want to do that don't we! As finance brokers we know a lot about the products that are available in the marketplace.

This means that we can save them the time and hassle of having to do the research - after all we have it all at our fingertips.

If your friends & relatives are prepared to take the time to share the details of their current financial situation with us, we will be able to not only find them a product, but find one that meets their financial and lifestyle needs.

Call us today or visit our web site to see how we may be able to help them as we have helped you, for which we say, thank you again for your valued business.

Regards,

Kerri Spanner

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Conditions:

1. All travel is subject to availability at all times and maybe dependent on specific room category availability with accommodation partner. Travel must be completed by the 28 February 2010. Blocked out for travel periods will apply including but not limited to Easter Long Weekend, Christmas School Holiday period and during special event periods. All bookings and documentation regarding the prize must be made via Free-2-Travel Holidays Pty Ltd or their agents. Redeeming the prize is conditional on acceptance of the terms and conditions of travel as detailed by Free-2-Travel Holidays Pty Ltd in accordance with normal travel practices. No portion of the prize is redeemable for cash. The prize is not refundable or transferable. In the event the winner is under the age of 18 years, they must be accompanied by a parent/guardian. Winner is responsible for any amendment fees issued by suppliers once booking is confirmed and ticketed. Additional spending money, meals (other than those included), transfers and any other ancillary costs, including but not limited to insurance and any applicable insurance excesses, not listed in the prize package descriptions above are the responsibility of the prize winner and his/her nominated.

2. Staff & Members of National Brokers Group Pty Ltd are not permitted to enter this competition.