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The cost of poor timing

Excerpt: Vanguard Investments

The strength of the bounce-back of the Australian share market underlines once again how tough it is to time the market. Picking just the right time to buy or sell stock with sustained success is near impossible.

Just consider that in the latest correction, the S&P/ASX200 fell from its record high of 6422.3 on July 24 to a closing low of 5671 in mid-August. Then the market rapidly recovered and it has just kept on hitting new highs, closing at a new record of 6659.9 at the time of writing (October 2).



The shortness of the correction and the power of the recovery have taken many by surprise.

Pity the poor investor who had tried to time the market by selling in mid-August, incurring transaction costs and probably capital gains tax, and then buying back at higher prices after the bounce. It would have been a costly and futile exercise.

Just think that from January 2000 to June 2006, the 20 best trading days on the Australian market accounted for 48% of the total return. Just imagine being out of the market for a few of those days.

Who would have thought the latest correction would end in just six weeks - the time from the top of the market to the bottom - when the publicity about the sub-prime mortgage crisis in the US has been so negative?

*Source: Smart Investing by Robin Bowerman
Full Article available at: www.vanguard.com.au*

If you need help with investing in Managed Funds or other wealth creating strategies, please call Jillian, Donna or Dominic on 0249 625 814.

Book Quote (Habits of Wealth)

“Persistence is powerful. An achiever can fall short in other areas and compensate for it with persistence. Persistence is to achievement what repetition is to learning.”

Bill Byrne

Coping with Interest Rate Rises

With money markets predicting another rate rise prior to the elections, households with a debt need to review their options. Here is an extract from a very recent article:

Paying off debt rather than saving is now your best investment. Think about it. Why earn 5-6 per cent interest in a savings account and pay tax on it when you can save 8.25 per cent by paying off more of your home loan, or 16-24 per cent by paying outstanding balances on credit card debt?

The first stop should be the bank manager. If you're a good customer, with insurance and credit cards with the bank, you should be able to ask for a discount of around 0.5 per cent on your standard variable home loan rate. They can only say no, but you may also be surprised to see how easy it is to get a deal.

At the moment fixed-term home loan rates are lower than standard variable rates, which could be worth looking at for those needing some certainty in their payments for at least part of the loan.

A common strategy is to merge your credit card debts and personal loans into a lower interest rate loan such as your mortgage. The beauty of this is that the lower interest rate will apply to all your debts, thereby saving interest in the short term.



However, if all you do is make the lower repayments it could actually take a lot longer to pay off your debt, so you end up paying more interest over the life of the loan despite the lower annual interest rate.

One of the most popular steps to help pay off your mortgage sooner is to pay every fortnight instead of monthly, because over a year you make one additional month's payment. If you want to do this, make sure your lender is clearly aware of what you want to do.

The easiest thing to do is halve your current monthly payment and tell the bank that's the new figure you want to pay each fortnight.

If you depend on income from your investments to live on, talk to your accountant or financial planner about locking in some of the higher fixed-interest returns.

Need further advice on restructuring your loan or Wealth Creation? Call IG now on 02 4962 5800.

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Rich but not retired

While making a million is appealing to most investors, Marcus Padley doesn't think this will get you far in retirement. Find out why he believes investing in people and companies that love what they do is a key to successful investing as they'll most likely continue to succeed.

I am probably one of the few people in the country who hopes he never wins lotto because winning a million dollars represents the single biggest threat to my marriage. As a financially trained spouse I know how much a million dollars is worth. Just \$58,855 a year invested in a risk free 10 year bond. That's all. My problem would be persuading Mrs "Oh no I've had these shoes for ages" that I'm right, and I'd have to, because I'm not sure I could take the pain of seeing it being spent.



It sounds a stupid thing to say but a million dollars is not a lot. It is not life making. Retiring on a million dollars is a lean prospect especially if you catch the wrong couple of years in the stockmarket or the wrong ten years of inflation.

Treating a million dollars as spending money when you have future liabilities is just madness. I have seen divorce settlements, stockmarket gains and inherited money wasted. If it comes quick, and in a lump, and is a surprise then that's the worst. So how much do we need to make a difference? What sum do you need to retire? Is there a sum? One million? Five million?

Well for some of us there is no number. Take Warren Buffett and Bill Gates. They haven't retired. Wasn't the first billion enough?

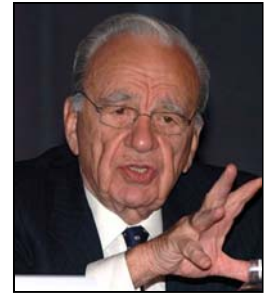
Well no. People like Warren Buffett love what they do more than they love money. Buffett loves investment. Gates loves business. Packer loves the media, business and gambling. So does Rupert Murdoch.

People who say they will retire when they get to \$Xm will never get there because they clearly don't love what they do. They want to retire. To be really rich you have to want to work and to do that you have to love what you do and never want to stop.

All the mega wealthy people weren't lucky. They just dug deeper, pushed harder, prioritised their lives and

succeeded, not because it was hard but because it was easy. If your life is hard you will more than likely not get rich. *Life is easy for the passionate when their passion happens to coincide with their business.*

Of course it's easy when you don't have responsibilities. Some of us with kids and mortgages, spouses and expectations just have to do what they have to do and for many people their passion is simply not commercial. Then there are others who simply wouldn't prioritise work over family or sport or hobby. That's fine, but that's the choice.



But there is an alternative to doing it yourself. If you can't love what you're doing or make money out of what you love, tie your money to business people who do love what they're doing. The chances are that they are a good investment.

The CEO of Cochlear Chris Roberts used to shake cans on the streets of Melbourne trying to raise money for his ideas. Do you think he cares about helping thousands of children to hear for the first time? Of course he does. Next time you go to a small company meeting look for his sort of passion. It's the same in all industries. Identify the core values.

We need to look out for these people in our own stockmarket. They are "Rich but not retired". These people have succeeded because they love what they do and because of that there is a good chance they will continue to succeed.

Moral

- Invest in people who love what they do.
- Invest in people who own a large chunk of their own business.
- Look for passionate MDs in small companies.
- If your life is hard, is it possible to do something else?

Source: Sept 2007 ASX Investor Newsletter.

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