

catalyst

client for life



Double the Festivities for Catalyst!

This edition of our Catalyst Newsletter is a special one for us – we turn 20! That's right, we're no longer a teenager.

To celebrate the milestone we're giving our clients the opportunity to win some extra spending money for Christmas. The first person to email Marnie on

marnie@catalystfinance.com.au the correct answer to this question **"What is Catalyst's core philosophy?"** will win a **\$50 shopping voucher.**

And with the festive season well and truly upon its time to grab hold of that celebratory Champers, wrap yourself in Christmas cheer and slowly panic as you go over your ever-growing 'to do' list.

To allow Catalyst staff time to cross a few more things off their lists and mingle with loved ones we're closing our office from Thursday 24th December to Friday 1st January 2010.

From all here at Catalyst we wish everyone a safe, joyful festive season and look forward to catching up with you all in 2010!

Land Content vs Depreciation Capital Growth vs Tax Savings

Written by Jason Cheetham



With investors making a recent return to the market, as first home buyer demand subsides, I feel it is good timing to look at investment strategy in relation to purchasing an investment property.

The first question you should ask yourself is "What is my motivation for investing?"

Is your driving force to create long term wealth for retirement OR simply a way to reduce tax without forking out too many hard earned dollars at the end of the day? This is one of the first questions I ask clients and to be honest it's something some people have never even contemplated – *why would I want to invest?*

Determining your reason for investment

is important because the two strategies mentioned above cater for different investment markets. Are you looking for long term capital growth or are you seeking to minimise your after tax contributions to the investment and hope it takes care of itself with little input or direction from you?

If it's the latter then you're likely to be seeking a newer property, probably a strata-titled unit with very good rental return (high yield) requiring little maintenance and

easily tenanted. Being a new property you can depreciate the building and most of the fixtures and fittings within it's walls (e.g. air conditioner, dishwasher, alarm system etc) creating a decent tax deduction in the first few years. Savvy software programs can map out your initial tax savings based on the estimated rent, depreciation write offs, etc and, depending on interest rates at the time, it may even be cash flow positive so effectively the investment is paying for itself.

For long term capital growth a different approach is wise. An investment property has two components – a land component and a building component. Over time, the land appreciates in value whilst the building, like any capital item, depreciates in value. So those who take a longer term investment approach are best to look at property with a higher land component than say a strata-titled unit which has very little land component to it.

So from a long term investment perspective, older homes on bigger blocks which allow for future subdivision may look more attractive. Of course the downside to this approach is the rental yield from an old property will not be as high and property upkeep will be more expensive as things need repairing and replacing in order to keep it tenatable.

It will come down to choice and your investment time frame. If you are in a high tax bracket, work away and want a hassle free

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Spotlight on Super

Written by Choon Kwa, Interworx Wealth Management



The last two years have seen huge volatility in our Superannuation balances. With the global economy now showing signs of recovery, this is a good time to be reviewing your superannuation policies. Particularly, it is important to know the risks in your fund, as well as the total fee story.



Sometimes a default super fund may take on this type of over-exposure risk without your knowledge. They may invest too much in direct property, private equity, farming, sub-prime mortgages. These types of investments often have very little liquidity (your ability to make a withdrawal) and may quickly become worthless because of unforeseen circumstances like uncontrollable debt or acts of nature (drought, flooding etc).

Clients often call us interested in investing in "ABC company" offering 10% per annum interest. They say "it's 5% more than the bank's term deposit, where do I sign up?" Anything that offers a premium above the bank's rate has to have some risk. You need to fully understand your downside risk if the investment fails – can you lose everything?

Diversification is the key to successful long term returns while managing the downside risk. For some time now, we have been strong advocates of using Index funds in a portfolio. Whether in Australian shares, International shares, Property or Fixed Interest, Index funds give you 'Market' exposure to a very well spread number of securities at a low price. Active investment managers still have a place in a portfolio to add value and to give you exposure to assets where Index funds may not cover. However, by using Index funds as the 'core' of your portfolio, this leads to significant ongoing cost savings, as well as lower investment risks by having a diversified portfolio.

In summary, Superannuation continues to be a very tax effective structure for your retirement nest egg. Talk to your adviser today about your fee structure and investment risks. It is crucial that you are getting the most out of your fund. Feel free to contact myself or Sam Pizzata on 9440-1377 if you would like to discuss your super options.

Fees, Fees, Fees

Over the years, we have seen a huge variety of fee structures in the market.

Examples include Entry fees of up to 6% each time a client makes a contribution, and Exit fees of up to 25% of a client's balance if they want to make a withdrawal or rollover prior to retirement. Other fees include: expense recovery fees, switching fees to move your portfolio, performance fees if the manager has beaten a target. Many funds fail to report some of these hidden costs and it is vital that you have the full picture.

Don't be fooled by some funds claiming they are run only to profit members. Executive salaries, fund manager performance bonuses, and endless television commercials have to come from someone's pockets.

A good financial planner should be able to identify all the costs of your fund including any hidden fees by asking the right questions to the super fund administrator. A good financial planner should be able to discuss any ongoing commissions and review fees

they are receiving. It is important that they can explain the value, strategies and services that are being provided in exchange for any payment received from your super fund.

We believe that ongoing Entry fees are a thing of the past. How can an adviser receive payment when they have not done any work? If you are being charged an entry fee, or if your adviser is receiving ongoing commission, yet never calls you or writes to you, complain about it, or get yourself a new adviser.

Investment Risks

The biggest mistake clients make is the lack of diversification in their portfolio. Some take huge bets investing in one company and go crying to 'A Current Affair' when they have lost everything – Westpoint, Firepower, MFS, Bridgecorp to name a few.

It is so important that you don't have all your eggs in one basket. Spread your money between Property, Australian Shares, International Shares, Cash and Fixed Interest. This is very easy to do in your super fund.



"This editorial provides general information only. Before making any financial or investment decisions we recommend you consult a financial planner to take into account your particular investment objectives, financial situation and individual needs. Charter Financial Planning and its Authorised Representatives do not accept any liability for any errors or omissions of information supplied in this editorial."

Hamelin Bay Oasis For Sale

Reluctantly, the Directors of Catalyst Finance have decided to sell their beloved holiday home set in the forest overlooking Hamelin Bay.

Many of our clients have enjoyed the sun, sand, forest and wineries of the South West destination over the past few years. For those, the home needs no introduction; its beauty speaks for itself.

Hamelin Bay is a secluded little beach just 15km from Augusta and 25km south of Margaret River. The estate, nestled on the edge of the Leeuwin – Naturaliste National Park is something that will probably never be repeated. Just 30 residential lots, all of at least an acre, dot the edge of the National Park, some with stunning views of Hamelin Bay from the ridge of the hillside.

Our little oasis hides beneath a canopy of Karri trees, a Godsend during the summer months where shelter from the sun and wind makes it a likely place to fall asleep on the hammock, glass of wine in one hand and novel in the other.

Each room has full views of gorgeous bush land. There's no better way to greet the morning sun than with Kookaburra's laughing in the trees and the calming vision of bush as far as the eye can see.

The home comes fully furnished and fully stocked as a holiday rental. There is nothing to buy. From the washing machine, microwave, tv, satellite access for metro channels, barbecue, lawn mower, lounges, tables and chairs, cutlery, crockery and even the aluminium boat with Honda outboard – everything can be negotiated into the sale.

Augusta is the sleepy little town for a stocking up on groceries, crabbing in the inlet or enjoying the river festival once a year. Margaret River on the other hand is the busy hub for shopping, enjoying a nice meal out or gathering at the busy pubs and bars.

The wineries and micro breweries of the Margaret River area hardly need my endorsement, but how many times have you tried the wineries south of Margaret River? Little gems like Redgate, Eagle Vale, Hamelin Bay Winery, Voyager Estate and even Leeuwin Estate await just a few short minutes south of Margaret River and on the way to Hamelin Bay.

The beach at Hamelin Bay is iconic with its old jetty, used in the region's historic past for shipping for the logging industry. The



beach is famous for its sting rays which can be seen, stroked and fed from the water's edge. Further up are pristine sun bathing and swimming beaches as far as the eye can see. For the beach loving family, this truly is heaven and just a two minute drive down the hill from the spacious home.

Currently, the home sleeps 8 with a further foldout couch able to sleep an additional two. There are three bedrooms, study, open plan living, split system aircon, slow combustion heater, undercover pizza oven and several sheds for storage.

Please register your interest in this stunning property by calling either Jason or Matt at the office on 9477 4188.

As a valued Client for Life, we would like to extend an exclusive opportunity to make an offer prior to the property's official release on the open market. The asking price of \$799,000 is inclusive of all furniture, crockery, cutlery, barbecue, pizza oven, etc.

The aluminium boat can be negotiated separately as part of the sale if you are keen to purchase it.

Land Content vs Depreciation Capital Growth vs Tax Savings

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investment to help save tax and possibly make a small profit over a few years then perhaps the newer, low maintenance unit is your preferable option.

If the aim is to accumulate a property portfolio over time, hold the real estate for as long as possible with likely higher holding costs, then you will bear the fruit of long term capital gain which would outweigh the tax benefits of the other investment option. Over time, properties with a higher land content proportionate to the total property value, will see the land content become close to the entire property value, allowing you options to redevelop the property without having to write off a loss from the value of any building remaining on the property. With

an apartment in a block of 100 you can't just knock down the walls and redevelop. You are bound within those four walls to make your mark on the property thus leaving you with fewer options in the long term.

I have seen some very savvy investors over the years who have built a property portfolio, bought in the right locations for the right price, with rents climbing to the point where they are almost cash flow positive based on their purchase price, while retaining a high land content assuring good capital growth.

Your Catalyst broker can assist you in determining your property investment goals and how best to structure your debt to obtain the highest tax deductibility and ensure long term affordability.

Christmas Cake Recipe



Hands up who is running a little behind on their Christmas planning?

Well, you'll appreciate this cheats Christmas cake recipe then. It not only looks fantastic but it tastes delicious too.

INGREDIENTS (serves 8)

- 175g unsalted butter, softened
- 225g brown sugar
- 275g self-raising flour
- 1 tsp baking powder
- 175ml buttermilk
- 2 eggs
- Grated rind of 1 lemon
- Grated rind of 1 orange
- 225g fruit mince
- 2 tbs brandy

– FLORENTINE TOPPING:

- 50g hazelnuts
- 50g blanched almonds
- 85g brazil nuts
- 140g red glace cherries
- 100g golden syrup



– ICING:

- 2/3 cup (100g) icing sugar
- 2 tsp lemon juice

METHOD

1. Preheat oven to 160°C. Grease and line base of a 20cm springform cake pan. Beat butter and sugar in bowl of an electric mixer until light and fluffy, sift flour and baking powder and stir into butter mixture with buttermilk and eggs. Stir in rinds with fruit mince and brandy. Spoon into pan and bake for 1 hour.
2. Meanwhile, for florentine topping, place nuts, cherries and golden syrup in a saucepan and



warm over a medium heat. When cake has cooked for 1 hour, remove from oven and spread topping over. Return for a further 15-30 minutes or until a skewer inserted into the centre comes out clean. Cool, then transfer to a rack to cool completely.

3. For the icing, mix together sugar and lemon juice, place in a piping bag with a small nozzle and drizzle over cake.

Summer Riddle

As we stare down the barrel of the year 2010, I thought a retro riddle might help to send you back to a time when things were simpler...

*Eating white is what I mostly do
If quick enough, a fruit and
some things blue
When you see pink, sky blue,
orange, or red
It would be wise to turn my
yellow head
In a dark room with blue walls
I run from the ghosts that
roam the halls
What am I?*

The first correct answer emailed to marnie@catalystfinance.com.au will win a \$50 shopping voucher to help with their Christmas spending. Good luck!

Winner! of our Spring Riddle

Congratulations to **Warwick Harry**, the winner of our Spring riddle about the engineer, physicist and mathematician challenged to fence off the largest amount of area using the least amount of fence. How did the mathematician win? By making a small fence around his body and declaring himself to be on the outside of the fenced area. Well done Warwick, we hope you enjoyed your **\$50 shopping voucher**.

Surprise win for Catalyst!



In October this year Catalyst staff attended the Professional Lenders Association Network of Australia's Annual Conference and Awards Night in Cairns.

The Event was held for Australian and New Zealand brokers aggregating under PLAN and was a huge success.

It was with much delight that Catalyst was voted as the **number 5 broker nationally**

and **number 4 for Western Australia**.

Quite an achievement!

Along with these 2 prestigious Business Masters Awards, **Jason Cheetham** was the proud recipient of the **2009 Platinum Sales Master Award** and **Matt Rigby**, the **2009 Sales Master Award**.

Our success is borne from the support we receive from our clients. So again we offer our heartfelt thanks to every last one of you! We thank you for your business.

Remember if any of your details have changed or will be changing shortly please contact us so we can amend our database. If you no longer wish to receive our newsletters please contact Marnie and she will remove you from our mailing list.

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