

Your Winter Riddle

During a world fair a group of scientists were exhibiting their advances in genetic engineering. There were cross-breeds of various bulls, cows and other domestic farm animals. Featured in the exhibit were several over-sized prized chooks. One afternoon during the show, a woman walked into the exhibit and shot the chooks, then ran out of the building. Although she was known to a number of people at the exhibit, no one made any attempt to stop her. Why?



This should keep you guessing for a bit. If you know it, don't forget to call **9477 4188** or email Marnie at **admin@catalystfinance.com.au** with your answer. The first correct answer wins a winter essentials pack containing **chockie biscuits, hot cocoa, cheese and bottle of red.**

A great big congratulations goes to Ross Campbell, the winner of our Autumn riddle. He won a \$50 Liquor Barons Voucher for having the first correct answer, which was the princess was in Room 7.

To Buy or Rent in The Current Market?

By Jason Cheetham

Who would have thought I would ever be writing an article about the merits of renting versus buying for owner occupation. Well with the market as overheated as it has been since the beginning of the year, its well worth thinking about, depending on individual circumstances.

A few years ago the rule of thumb was you could expect to receive a rental of \$200/week for a \$200,000 property, \$150/week for a \$150,000 property & so on. In effect a weekly rental of 0.1% of the value or purchase price was around the mark.

With property values growing at an unexpected rate over the last couple of years, rents have gone up but the gap has widened & thus the rental return has not risen in proportion to capital growth. This begs the question in some cases is it now cheaper to rent than buy if living in a property?

For example I have a client living in Waterman paying \$300 per week in rent for a home one street from the beach. Sure it is an older home but it is comfortable and to buy it would cost around \$600,000. Interest only mortgage payments on this amount (excluding purchasing costs) would be approx \$42,000 p.a. compared to rent paid of \$15,600 p.a. Yes, the rent paid is dead money and you would always get good capital growth in Waterman but it is costing you \$26,400 p.a. plus rates and taxes plus maintenance of the property. If the capital growth flattens out then there is merit in renting as opposed to buying.

Now if you think the property market has peaked and capital growth may be slowing or perhaps stagnate for a while, then the thought of renting may be financially viable in terms of cash flow. This then frees up monies that can be used towards investing in other things for which a tax deduction may be generated - thus you are creating good (tax deductible) debt instead of bad (non-deductible) debt.

With inner city apartments where capital growth is questionable due to low land content (high depreciable building content) it may well be prudent to rent

instead of buy although the gap between rent and capital value is not as wide with such properties. Also these sorts of properties tend to be held for shorter periods as we move on to marriage, having children etc.

The reason for investing, whether it be for investment or to live in, should be for security or for long term capital gain. If you only intend to live somewhere for a couple of years as an interim measure then there is certainly merit in looking to rent as opposed to buying and instead diverting your cash flow savings to other tax effective investments.

This is not to say that the bubble will burst but the mathematics of it all are favouring the renters in the current market; having said that, rental vacancies are low and it is difficult to find a suitable rental property for owner occupation at the moment.

In a nutshell, it is always better to get advice from a trusted professional on these matters rather than "buy on fear" of not being able to afford to buy in the future.

Food for thought.



Winter 2006 - Edition 6



A Client for Life...

Who's That New Girl?



Next time you pop in to our office, you might just bump into our new team member Marnie Dalziell.

She joins the Catalyst team as our new Administration and Marketing Manager and we're sure her creativity will add to the already vibrant Catalyst workplace!

She's already jazzed the place up a bit, developing our new brochures which we've attached for your reading enjoyment.

Brrrrrrr..... Winter is here! And what a start it has been... gorgeous clear days made for picnicking and cold chilly nights perfect for popping on the winter woollies and sitting in front of the fire (or the heater) with a glass of good red wine - and just think all those antioxidants will be helping to prevent that winter cold!

A Change of Pace for Cassie Rigby

Sadly you won't see the smiling face of Cassie Rigby so much around the office anymore. She's off to give birth to her first baby! She's swapping the hustle and bustle of office life with the hustle and bustle of nappy changes, 2 hourly feeds and sleepless nights.

But don't worry Cass won't be going too far, she will still be available on email and will be continuing the office book keeping and accounts from home.

We know she'll be a fantastic Mum and we wish both her and Dad-to-be Matt the very best for their impending parenthood! Keep your eye out for a photo of the new little Catalyst bundle in the Spring Edition of the Catalyst Newsletter.

No Time To Be Sick This Winter?

Try some of these handy hints:

- Eat plenty of fruit & vegetables - its an oldie, but a goodie!
- Exercise - get out into the fabulous winter sunshine, build up your body's defences and enjoy those "feel-good" endorphins!
- Cook with garlic - Natures antibiotic and a great immune booster.
- Take these supplements to boost your body:
 - Echinacea (said to reduce the severity of a cold).
 - Vitamin C (an essential for your winter survival kit).
 - Ginseng (said to improve overall immunity to illness).
 - Ginger (assists with relieving cold symptoms by reducing pain and fever).

- Couldn't prevent that cold from appearing? Well try this fiery concoction; 1/8th teaspoon of cayenne pepper, juice of half a lemon, a tablespoon or two of honey in boiling water. Drink slowly. It's sure to give your cold a kick in the butt!

Our New Postal Address



Next time you need to post something to us, please send it to our new postal address - PO Box 59 Coverdale WA 6985.

Don't worry if you've posted something lately to our old postal address, we have a redirect set up so we won't miss your mail!

Read All About Us!

You will notice we've enclosed a copy of our fabulous new brochure in this edition of our newsletter. (Already our new Marketing Manager Marnie has come in handy!)

Reaffirming our motto "A Client For Life" the brochure is packed full of reasons why Catalyst clients are happier clients. Feel free to pass it onto your friends so they can enjoy our service too - and if you'd like more copies to hand out, give Marnie a call on 9477 4188 and she'll post some out to you!

Remember if any of your details have changed or you're planning on moving in the future, please let us know so we can amend our database. If you no longer wish to receive our newsletters please let Marnie know and she'll remove you from our mailing list.



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Wintry Fare - Marnie's Scrumptious Vegetarian Lasagna

It seems the creativity of our new Marketing Manager isn't just reserved for the office ... her delicious home-made vegetarian lasagne is sure to impress your friends on a wintry night. And the best part is, it's so simple to make!

Ingredients

- 1 tablespoon olive oil
- 2 large brown onions, sliced thinly
- 1 tablespoon sugar
- 1 tablespoon balsamic vinegar
- 3 large sweet potato, boiled and mashed
- 1/4 cup garlic chives
- 1/2 teaspoon dried sage leaves
- Cracked pepper
- pack of fresh lasagne sheets
- 1 large zucchini
- 1 x jar marinated capsicum strips, drained
- 1 pack pre-washed rocket or spinach



they begin to brown. Add the sugar and balsamic vinegar and cook until caramelised.

- Stir garlic chives and sage leaves into mashed sweet potato and season with cracked pepper.

- Line a large lasagne dish with a layer of the lasagne sheets.

- 4 large roma tomatoes, sliced
- fresh basil leaves
- 1 x jar of grilled marinated egg plant, drained
- 1 tin powdered Gravox cheese sauce (to make 1 litre prepared)
- 1/4 cup Grated cheese
- 1/4 cup bread crumbs

Directions

- Pre-heat fan forced oven to 190°C.
- Heat tablespoon of olive oil in saucepan and cook onions for a few minutes until

- Layer on the zucchini, capsicum strips and mashed sweet potato and top with half the cheese sauce.
- Add a second layer of lasagne sheets.
- Layer on the rocket/spinach, roma tomatoes, basil, marinated egg plant strips and season with cracked pepper.
- Cover with the final layer of lasagne sheets and top with the remaining cheese sauce, breadcrumbs and grated cheese (use more or less as required)

Enjoy with your favourite red or white wine, and some crusty garlic bread - it's a guaranteed winner!

Tax Talk

As you would have no doubt read in the press lately, the Government announced significant tax cuts in the Budget. From 1 July 2006 a taxpayer can earn up to \$75,000 and their marginal rate of tax will not exceed 30%. The top marginal rate of tax has also been reduced from 48.5% to 46.5% (including the Medicare Levy).

Whilst this is good news for most people it also means that the taxation benefits of a negatively geared investment property will be reduced somewhat from 1 July. As a result of this it is important to maximise the tax benefit from your investment property in this financial year. To achieve this you should maximise the deductions on your investment property and you may consider prepaying interest on your loan or undertaking those repairs that you have been putting off. Another key part of ensuring that you maximise your tax benefits is to have a quantity surveying company prepare a depreciation schedule on your property, which includes an onsite assessment. Probably the largest firm offering this service is Deppro but you can find a number of others on the internet. Another way to maximise the benefits of the change in tax rates is to defer the receipt of rental income until after 30 June.



The other major area that always causes some confusion in respect of investment properties is capital gains tax. In broad terms, if you own an investment property for more than 12 months and then sell it then you will be required to include 50% of the gain in your tax return. Make sure that you include costs associated with the purchase (such as stamp duty) and reduce from the consideration received costs of selling the property (such as real estate agent fees). If you have lived in the property previously then you can rent the property for 6 years with no capital gains implications. This is referred to as the principal residence exemption. It is very important to note that you can only ever have one principal residence at a point in time. There are however strategies available for maximising the benefit of this exemption.

It's a Crazy Market!

By Matt Rigby

Picture these examples from recent experiences of some of our clients:

1. A real estate agent appraised my old neighbour's house at \$600,000 last week, but says she'll probably get more?? What happened to the days when the agent would list for \$600,000 in order to achieve offers of \$550,000. What happened to the to-ing and fro-ing of offer and counter offer?
2. A client of mine paid \$460,000 for a modest home in Scarborough in 2004, and sold it last week for \$860,000. This is by no means an isolated example. People have become millionaires in the past two years without even knowing it.
3. A Catalyst client went to a home open last month, along with 80 others on the first time open. Multiple offers went in on the house and the offer is signed and accepted that night.
4. A land developer selling land in one of our north eastern suburbs (will remain nameless) sells a block of land with no titles in August last year. Finally the titles become available after 9 months, and he now wants his money in 10 days or he will charge penalty interest! By the way, penalty interest is now the norm rather than the exception. What happened to the old days where you would only charge penalties if the other party was dragging their feet, and not if you went a couple of days over settlement date?
5. One of our banks, whom you have always given 48 hour turnaround time on approvals, takes 14 days before they even have a chance to look at your application!

Indeed, the market has gone crazy!

On the positive side, everyone is making a lot of money (or equity), and the prediction is that we are all going to make a lot more. If you can believe Gavin Hegney (Hegney Property Valuers), one of Perth's most respected property valuers, the market will continue to strive this year at an estimated growth rate of over 20%. This prediction, he says, is fuelled not

only by the strong demand in WA, but the lack of supply.

You've probably read in the papers over the past few weeks, that the stock of properties for sale in WA is at an all time low (approximately one quarter of homes available for sale compared to normal times). Also you've read (above) about our developer who is taking 9 months to bring a block of land on stream. This lack of supply will not correct itself this year, hence Gavin's bold prediction of 22% growth for the next year.



So, if supply is so scarce, someone must have bought the "normal" supply of regular stock in the first place? New immigrants into WA are at record levels, from both eastern states and overseas. Much of the immigration is fuelled by the strong economy and particularly the booming resources sector. Indeed, the strong resources sector is responsible for a lot of people having a lot of money to spend. For example, a client of mine who works at a mine site as a chef, has just been employed on over six figures to work as a chef on an oil rig! Now, the chef at my favourite restaurant Balthazaar doesn't earn anywhere near that money!

So, as you can see, there are an abundance of "mum and dad" investors in the market, buying investment properties and upgrading their modest homes with this newfound equity and income. Don't be offended by being called a "mum and dad" investor. I am one, and you are probably one too. Basically, a "mum and dad" investor is a property investor that is not a professional and does it part time. The fact is, we are all in the market. I myself have bought two properties in this crazy market.

(So who is more crazy, the market or me?). I once went to a mining conference in Toronto, Canada. (A long story, I can tell you over a cuppa one day). I attended a session presented on investing in the stock market (on resources stocks). The presenter made perfect sense. He said "It's not rocket science, everyone knows how to do it - buy at the bottom of the market, and sell at the top of the market. When people say - things couldn't possibly get any better, the market must be at its peak, so sell!. When people say - things couldn't possibly get any worse, the market must have bottomed out, so buy!"

It's a simple concept, like losing weight. We all know how to do it - eat less and exercise more - but how many of us put it into practice? So, has this "mum and dad" investor made a mistake, and gotten swept away in the momentum and emotion of a snowballing market, buying my two properties when "things couldn't get any better"? Only time will tell.

One piece of advice, and this is important: If you are a "mum and dad" like me, and you can't afford to lose money (equity), then choose your investments carefully. Don't get into bidding wars on properties and let the emotion carry you away. It is happening frequently, but let it happen to someone else.

If your strategy is to gear up and buy a few properties over the next year, make sure you are able to afford to hold those properties if you can't sell them. I do not agree with the philosophy of, for example, buying a unit off the plan, and selling once it is complete, if you can't afford to hold it. What happens if it can't be sold for some reason? Are you prepared to lose your hard earned equity in your own home?

Investing at the moment, due to the silly market, is not impossible, it just requires a little more research, thought and common sense. You need to take a step back from your proposed investment and be convinced that it is still "good value"! It's easy to make money at the moment, just buy anything! Its going to go up right?

Remember we are still trying to buy "good investments" not just any old investment. Don't let the market carry you away and stay focused on buying good real estate. Please note these are only my opinions and should not be construed as financial advice.