CLIENT
INFORMATION BULLETIN

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There is No Magical Wand

Retirement income comes from very few sources. Rent from property, dividends from shares, a little bit of bank interest, or taxes taken by the Government from the Rich and given to the Poor.

Pooling those areas together and giving it a fancy name, "Superannuation", so that Fund Managers can charge fees, doesn't make it any different, those are still the only things that generate income in retirement.

Nowadays if you want an income of $50,000 p.a. that will grow and keep up with inflation, you need $1,000,000.

If you want to put your savings in the bank for the long term, then you need closer to $2,500,000 invested at 2%, to generate $50,000 p.a. interest.

However, if you can keep working, even part time, every $20,000 you can earn is equivalent to having $1m in the bank.

So my suggestion when you are considering retirement is to strongly consider Not retiring. Eventually we all will retire of course, but best to try and avoid retiring without enough money, and condemning yourself to a breadline existence.

The Year in Review

Acknowledgement to Terrence Duffy, Lead Researcher "Cycles Trends and Forecasts" for my paraphrasing his summary.

"The year opened with plenty of turmoil. George Soros warned it looked like a repeat of 2008. Royal Bank of Scotland (RBS) warned of a cataclysmic year, advised investors to sell everything and added that 2016 looked very much like 2008.

(RBS, the same bank that was totally caught out by the events that lead to the GFC, was forecasting a major collapse. 2 out of 2 – Wrong!)

The Dow Jones, the S & P 500, the NASDAQ and the FTSE are all trading around all-time highs.

It's not the equities market which drives the economy, but the real estate cycle.

2008 was the peak of the real estate cycle, when prices fell below the level of loans outstanding. Whereas in 2016 real estate is moving off the lows of 2011-12, the constraints placed on banks after 2008 mean none of the banks are lending loosely. 77% of Commonwealth Bank mortgages are 30 months ahead in their repayments. Not the conditions when housing crashes!"

In fact Donald Trump made it one of his election platforms that he would be removing the rules and regulations placed on the banks after the GFC. This is an absolute free kick for the next major boom in US housing. Subsequently the rest of the world will follow. 10 years of growth leading up to the next major crash in 2026.

USA

Trump has promised tax cuts and infrastructure spending. That alone points to a bullish year ahead for the US stock markets.

Australian Shares

2016 The poor All Ordinaries had another year that went nowhere!
However if you were invested in either of the 2 InterPrac Funds we recommend to clients you have had growth exceeding 20% for 2016.

If you were a subscriber to one of the boutique share subscription services you may have been fortunate enough to have achieved in excess of a 50% return from only a very small number of recommendations made for the year.

There are excellent returns out there, however the major funds are so constrained by having to just invest in the Blue Chips that they have achieved very inglorious returns the last few years, leaving their investors more Red Faced than Blue Sky.

(On that point - The money that was in the shares component of your Superannuation back on 1/11/2007 still won't have got back to being worth what it was then until the All Ordinaries returns to its value on that day of 6,851. Since then the main reason your Super has grown has been because you put more money in, not because the Fund Managers have made you anything)

USAIC Trusts

How is the American investment fund going? Fantastic!

Every 18 years when property has crashed and the world goes into a state of despair, accompanied often by a share market crash, what follows is a share recovery and land is available at bargain basement prices. A huge gain is what should be the expectation! The returns for our USAIC clients who invested in the Drapac Stars and Stripes Funds managed by the Drapac Group have been incredible. House prices in the US have just recently exceeded their previous highs. The cycle continues!

In the lead up to the fund being available I said to anyone whose ear I could twist, that the US provided the opportunity for Drapac to do again exactly what they had done in Melbourne from the mid 1990's. Except with much greater choice as nearly all of America had experienced a crash in land prices. When I mentioned the fund to Phil Anderson (author of "The Secret Life of Real Estate"), he was of the opinion that there was no way that the Fund wouldn't make millions. Of course this has been proven correct.

Only my opinion, but I think there is a good chance of the USA investors seeing a significant amount of their capital being returned within the next 12 months or so. I wouldn't be surprised if Drapac then makes available the opportunity to invest in Spain, as the Spanish banks finally have to take their medicine and sell off much of the land they currently hold. Land which has dragged down their balance sheets due to the mountains of debt the Spanish Banks hold following the GFC.

Some clients missed out because they had invested in 2 prior Drapac Funds that had lost money and weren't prepared to give them a third try. One of those funds was the Japan Fund. When Drapac saw the GFC taking hold they pulled the pin on the Japan Fund and clients lost around 9% of their funds. A very good move, Michael didn't delude himself, or clients, and believe that he could make it work, unlike Babcock and Brown who lost 90% of their clients' money.

The other loss Drapac experienced was their venture into the Sustainability Fund. All those "Green" proponents arguing that going Green would add enormous value to a building must have fallen on deaf ears, because when it came to paying a premium for a magnificent healthy fully sustained building, no one wanted to know.

My understanding is Drapac is going to stick to the tried and true methods that have always worked for them previously, and stay out of trying to do another Victoria St renovation.

Some clients also missed out because of the events of 2013. Unfortunately I was immersed in demerging from the disastrous period I spent with that Mob who, having not paid me for the best part of 12 months, tried to get my practice from me for nothing and would not allow us to promote the Drapac investment. Therefore a lot of people missed out who I would have loved to have been proactively recommending the investment to.

Interest Rates

Governments still want to raise interest rates. I suspect that the tiny changes that occurred this year may be all they can do for many years without suddenly causing a recession. Governments hate recessions, because that is usually when they get voted out.

The Big Winner - Property

Not Property, actually, Sub Divisions!! The big winner in property in Melbourne in 2016 has been subdivisions. The gains I have seen amongst colleagues and clients have ranged from $200,000 to $800,000 profit. All achieved in less than a 2 year time frame on just one project.

What is your answer to "How are you're kids ever going to be able to buy a house?"
Imagine if you have access to some cash or equity, you could buy an old place, knock it down, build 3 units, have the rent cover most if not all the expenses. During retirement the positive income would supplement your needs, when you die you leave a property to each of your children. The average Australian has little knowledge of how this works. Instead they continue to invest in products that have never made anyone wealthy in the past, expecting a different result. Most of which are run by Fund Manager Exec's who don't buy their own products, they buy property.

We have access to the assistance of developers who have been doing sub divisions for over 20 years. We have identified suburbs where the council will not stand in your way. We know suburbs in the early stages of growth, where a sub division only enhances further the gains to be made.

The out of pockets once the development is completed aren't that much. You would not do a development if you want a massive tax deduction once it is completed, because that just won't be the case.

In fact, even if you build to sell, but you find that the recession due around 2019/2020 has dropped house values, you shouldn't have any problem holding onto the properties as the rents will probably cover most of the expenses. You can just wait for the boom to kick in between 2020 and 2026 and then see your properties increase in value. Hold them long term, and when you die pass them on to your children.

Which is in fact what the wealthy families have done, currently do and will always continue to do. The average Australian doesn't understand that generational wealth is built through property. They don't educate their children regarding building wealth, the schools their children go to don't educate their children about wealth either. So the rich families getting richer don't really have much competition, as so few others understand how they do it.

Are we there yet?

In your 50's, can't afford to retire?
The last 30 working years hasn't got you to where you want to be?
Time to try something different?
Maybe it's time to call us!

We again extend our deepest appreciation for your loyalty and support during 2016. Please call us to help you grow your income and your wealth.

Wishing you a very
Merry Christmas &
a Happy New Year

Grant, Emma and Renate