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G'day!

If you want to protect yourself against the impact of rising interest rates, then grab a pen and a coffee and read this newsletter email ASAP!

Beware the Nasty Sting in the Interest Rate Tail

It's been twenty years since Paul Keating labelled Australia as a potential 'Banana Republic', but I doubt even he could ever have imagined that the humble banana might actually play a major part in turning an economy.

Now, just in case you were on Mars last week, the ABS has released data putting Australia's inflation rate at 4% per annum. The explanation given by Treasurer Peter Costello was that the spike was caused by higher fuel costs (i.e. the oil price), and higher fresh fruit prices (i.e. the humble banana).

Whatever the cause, prices are now increasing faster than the RBA's stated inflation comfort zone, and this means that there is an expectation that the RBA will announce a rise to its cash benchmark rate tomorrow morning.

Rather than tell you a whole lot of economic mumbo jumbo though, I thought I'd share with you something that I only learned last Friday from Paul Nojin.

When I invest in the stockmarket, the first person I always turn to for advice is acclaimed expert Paul Nojin. As a favour, Paul flew to Melbourne last Friday and provided a 90 minute 'locked' briefing to six VIPs.

During the meeting (which I happened to video), Paul mentioned something profoundly important that the press has failed to report. When I heard what he said, it was like he'd given me the missing piece to an important jigsaw puzzle. Paul said:

"Interest rates are a function of growth and inflation. Just because growth slows, interest rates can still rise further - it all depends on inflation. If inflation rises faster than growth slows, then interest rates will continue to rise despite growth slowing. And this is the likely prospect at this stage."

Restating Paul's comments, growth can slow and inflation can continue rising. No one is expecting this, but Paul indicates that it is more than a possibility.

So, in an attempt to rein in inflation, the government may try to put the brakes on growth. However, this is at odds with the current policy of tax cuts (which stimulate demand) and jobs growth. With an election looming, the conditions simply don't exist right now for there to be easing of interest rate pressure AND EVEN IF growth is controlled, inflation from non-controllable factors (like cyclones, wars etc.) is likely to continue.

Boiling it all down... 12 months ago, the banana plantations were growing nicely and, while there was there was unrest in the Middle East, there was not the tension of today. However, what did exist was a new upward trend in interest rates.

In summary then, the killer observation that dawned on me last Friday was this: As a trend gains momentum, events conspire and unfold to support that trend. Even if action is taken to prevent the trend, once it has a momentum of its own, it will take a lot of intervention to curb its impact.

My expectation is for near-term future events to continue to put pressure on inflation. Perhaps the tension in the Middle East will escalate. Perhaps the tax cuts will cause inflation. Perhaps there will be a change in government at the next election which will destabilise the economy... I don't know WHAT will happen, but I expect the result will keep placing pressure on interest rates to rise further.

As property investors, what should we do then? Here's my personal list of priorities:

HIGH PRIORITY

- Exercise extreme caution and prudent due diligence on potential deals
- Reduce debt, particularly in the following situations:
    - Personal debt (credit cards, personal loans)
    - Home equity funded personal debt (equity loans used for lifestyle)
      I believe a <60%LVR against your home is a defensive but safe enough benchmark
    - Investment debt against non-income (i.e. growth) bearing property
- Review your property portfolio
    - Have strategies for protecting interest rate sensitive property
    - Consider cutting the asking price for property that has been on the market for some time
    - Re-crunch the numbers based on interest rates being .75% higher. Act as needed
- Now would be an appropriate time to see your financial adviser and review your investments assets

MEDIUM PRIORITY

- Build cash reserves. Cash IS king.
- Increase your financial literacy. Anyone can make money in a boom, but it is much harder in uncertain times
- Renegotiate and lock in employment contracts, particularly subcontractors
- Defer non-essential lifestyle expenditure

LOW PRIORITY

- If you are looking to borrow money for property, start working on a business plan
- Keep networking with people albeit you don't need them now, but you may need in the future

AVOID

- Risky deals that are cash intensive
- Using home equity to fund non-deductible lifestyle debt
- Quitting your job to become a full time investor

In summary, the financial fat that existed in the boom times will quickly burn away under the flame of higher interest rates. Times HAVE changed and WILL change further. It's absolutely critical that you embrace becoming an active manager of your money. If you need help then seek it out immediately.

You can make a comment, or read other comments, on this article at:
http://www.propertyinvesting.com/forum/topic/24752.html

Scratch 'n Dent & Surplus Stock Sale

If you want to educate yourself at the same time as banking a bargain, then I have some great news for you.

Coinciding with our year end stocktake, we have identified strictly limited numbers of stock that I am able to literally slash the price on. In some cases, the stock may be 'shop soiled' which means that it may have been damaged in transit (a scratch or dent). Alternatively, to make room in the warehouse, I am just about giving away other unblemished items.

In all cases, the information is A-Grade, only the packaging might be dented. All products come with the 100% 14 day money back guarantee (ex-shipping costs).

NOTE: There is strictly (and I mean STRICTLY) limited stock at the prices mentioned below. First in best dressed. No rainchecks or backorders.

WealthGuardian (was $339), JUST $179
Discover how to protect your assets and save tax at the same time.

BuyerBeware (was $130), JUST $89
PropertyInvesting.com's highest selling resource that makes due diligence easy. Don't get caught with a property lemon

$1,000,000 in Property in One Year (was $30), JUST $12
My second best-selling book. If you don't have it then snap it up at this price now!

Kiwi Property Insight (was $30), JUST $10
CD audio explaining the essentials for Aussie investors buying NZ property

Fast Track 2 (was $30), JUST $5
Audio CD with me and Dave Bradley sharing our secrets of property investing success.

Fast Track 1 (was $30), JUST $2
Original Audio Tape of me and Dave Bradley sharing our early secrets of success. Don't be fooled. Plenty of great insights and at just $2, how wrong could you go?

Again, there is only STRICTLY limited stock available! These prices are GST inclusive but plus postage and handling. If you need more info about these products then visit: http://propertyinvesting.com/go/135

Note: Unfortunately, no further discounts are available on these prices given the nature of the stock.

++HOW TO ORDER++

Given this is special stock, to you will need to go to http://propertyinvesting.com/go/135 and use the discount codes mentioned there to access the discounted prices mentioned above.

If you order multiple items then you will need to enter in multiple discount codes. Do this by entering in the discount code, and then clicking on redeem, for each product in your cart.

Final Words

I implore you to take the changing market seriously! I believe we are now into a newly established trend of inflation led interest rate rises. Accordingly, we need to reassess our investing strategy to remain relevant.

It is opportune therefore that, should you need it, you can pick up a bargain on certain PropertyInvesting.com resources. Don't break the bank though... only buy what you can afford to.

Having said that, the prices mentioned are bona fide bargains, so if you are interested, then don't mess around. Get in quick or miss out.

Until next time, remember that success comes from doing things differently!

Cheers,

Steve McKnight

P.S. Please share this email around to anyone who you think will benefit from the contents (friends etc.)

P.P.S. If you are going to snap up a bargain then visit: http://propertyinvesting.com/go/135 ASAP.