

# Mark Bouris

EXECUTIVE CHAIRMAN OF YELLOW BRICK ROAD, A FINANCIAL SERVICES COMPANY



## Rates cut a bid to build confidence

THIS past week, the Reserve Bank gave mortgage holders the relief that my company has been calling for over the past six months.

It's a welcome reprieve and one that is long overdue.

But in my mind, the decision is less about reducing rates and more about bringing back the confidence that so many Australians had lost since last Melbourne Cup Day's rate hike shock. It's about creating a "wealth effect".

Simply defined, the wealth effect is the impact that positive sentiment can have on the economy when individuals feel wealthier.

This can translate into increased retail spending, business expansion and even higher borrowings.

On the other hand, when equity markets and house prices are falling, even if consumers haven't sold, they are more inclined to hang on to their money and not spend.

You only have to look at the number of surveys that have the word "confidence" or "sentiment" in them to know how important a guide this can be for what's happening in the real economy.

The Westpac Melbourne Institute Survey of Consumer Sentiment, NAB's Quarterly Business Survey, the Australian Chamber of Commerce & Industry Business Expectations Survey, and Roy Morgan's Weekly Consumer Confidence survey are just a few examples.

Wherever you've looked in the past year or so, there's been

**“ The RBA was jaw-boning on the prospect of rates rising, not falling, so no wonder consumer confidence is so low**



plenty of data released to reinforce negative sentiment — and precious little from the RBA to give you a break. Since last Melbourne Cup Day, the RBA has been jaw-boning about the prospect of rates rising, not falling. So no wonder consumer confidence is so low.

Since then we've seen falling house prices, falling superannuation balances, dropping share markets, no interest rate relief, rising defaults from small businesses, and so the list goes on.

If that wasn't enough, the hard evidence came in the form of a much lower than expected CPI figure for the September quarter — tangible evidence of our slowing economy and an undeniable reason for the RBA to cut.

We've also recently seen a decline in the prices of our key exports of coal and iron ore. After some spectacular price rises in the past year, we are seeing falls driven mainly by a slowing in China's economy.

We also have an Australian dollar trading above parity with the US dollar — not something that helps exporters generally. And it's been kept there in part because of our relatively high interest rates.

So now we've finally been given some much-needed relief with a cut in the official cash rate of 0.25 per cent, taking it to 4.5 per cent. This is welcome news to the four million households in Australia with a mortgage.

Yellow Brick Road made our guarantee to pass on rate reductions in full a week ago, and we were the first.

We've consistently pressured the RBA in various social media outlets to give Australians a break and to acknowledge that the vast majority are struggling with interest rates that have been too high for too long.

We at Yellow Brick Road have had real-time information on this, as we're on the street talking with Australians every day.

While the cut will help sentiment around the country and release the pressure valve on many household budgets, this will only happen if your lenders pass their savings on to you too.

Please be vigilant about this, and call your lender to ask if you will be receiving the full benefit of the cut.

There is absolutely no reason why all lenders should not be passing on this cut in full. They have been very happy to pass on rate increases in full on the way up and, in some cases, like this time last year, we saw CBA pass on a 45 basis point increase even though official rates rose by only 25 basis points. So let's see them do this on the way down, too.

Yes, the banks have to balance the interests of their customers and their shareholders. But they've benefited from rates higher than they should have been for many months now, and this is reflected in the massive profits that have already been reported.

So take the time to find out what's happening with your mortgage rate. And if your bank won't cut your rate, walk! Come and talk to us.

## Ask Mark

WRITE TO: Ask Mark, The Sunday Telegraph, 2 Holt Street, Surry Hills 2010  
mbouris@sundaytelegraph.com.au  
Facebook.com/ybrwealth Twitter.com/ybrwealth  
Advice is intended for guidance only

### Light in the gloom of debt

WITH two credit cards and thousands in debt, I can't seem to see the light. I was working three days a week for 18 months and getting paid an insufficient wage — and that's how I've gotten here.

Now I have full-time work with steady pay and have moved out of home, but I am still so far behind and can't see myself getting to the point where I'll be able to pay off large amounts on my cards. Do you have any suggestions? I have worked out a budget until mid-2012, but to actually keep to it is the hard thing.

It is so frustrating not being able to do things, and even now, with more money, I am still not able to do things.  
— J. A.

Mark says: You may consider contacting your bank and taking out a personal loan to cover your existing credit card debts, which usually have a lower interest rate than what applies to most credit cards.

Once you have paid the credit card debt off with the personal loan, cancel all your credit cards, to prevent yourself being tempted to spend beyond your means. Pay interest and principal payments each week from your pay, and use available cash to buy goods and pay your expenses, as this is the best way to keep to a budget. Consider moving back home until you pay off this debt.

### Wipe out the mortgage first

I AM 34 and my wife is 35, and we have twin boys. We owe \$190,000 on our home which is valued at \$500,000. I own my business earning \$60,000 a year and my wife brings in another \$60,000 working three days a week. Once the kids are at school she will go back to work full time. We have no other investments or debts, except shares worth \$7000.

We are wondering if the best option is to buy more shares or an investment property, pay our house off first, or pay a bit more off our mortgage and then look at investing. Do you have an opinion on shares versus property right now?  
— S. T.

Mark says: As debt against your own home is non-deductible and you are paying it off in after-tax dollars, if we assume you are currently paying an interest rate of 7 per cent on your home loan, this is equivalent to an effective after-tax interest rate of about 9 per cent. In this current economic environment it is difficult to be rewarded with returns of more than 9 per cent on any asset class, so you should consider paying off your home mortgage as a priority. Once your mortgage has been repaid in full, you could then consider purchasing additional assets.

Diversification is very important, so you should consider a share portfolio to complement the major asset you already own in direct property — your home. The other benefit of a share portfolio is that there are not large costs, such as stamp duty, to outlay when purchasing, and you can buy a small parcel to begin with.

## DIRECTORS' DEALINGS

### Ansell's business on the up and up

AMP became a substantial shareholder in Ansell last week with a 5 per cent shareholding.

Ansell (exchange code ANN) is a global leader in protective health and safety protection. Operations are spread across four business segments covering industrial and medical gloves and condoms.

Products are mainly made of natural and synthetic latex, exposing Ansell to price fluctuations in rubber and latex concentrates.

Low levels of debt offer prospects for further capital initiatives or acquisitions. No franking credits means free cash flow is distributed mostly

through share buy-backs.

Ansell reported earnings at the top end of guidance in FY11. A track record for meeting and exceeding expectations is growing.

While many companies could not give guidance amid so much uncertainty, in August Ansell gave FY12 EPS guidance of 97 to 103c, representing growth of 6-12 per cent.

Ansell reaffirmed guidance at the AGM in October. Good sales momentum continues this year.

Growth in emerging markets and investments in sales, marketing, research and development and plant productivity are all contributing to top-line



Ansell keeps a tight grip on sales growth

growth and margin expansion.

Reputable brands, manufacturing and distribution capacity, and a balance sheet to support ongoing investment and potential acquisitions, provide an attractive foundation.

The growth strategy

continues with no radical forays. Strategy involves penetrating new regions with existing brands, expanding distribution channels, launching innovative high-margin products, and refreshing the existing range. The pace of growth, which

## Morningstar checks the market

owes much to this strategy, is commendable.

Morningstar has a Hold recommendation on Ansell.

### Billabong rolls out new stores

INVESTMENT managers UBS and Baillie Gifford both recently became substantial shareholders in Billabong.

With a strong youth following in the action sports market, Billabong (BBG) has a portfolio of pedigree brands and is increasing its company-owned store network.

The ability to generate near 50 per cent gross margins shows successful marketing.

Earnings growth will come from bolt-on brand acquisitions, increased sell-through of its own brands in company-owned stores and spread into new territories. Billabong's share price

rocketed up on the back of a favourable first-quarter trading activity update provided at the AGM.

First-quarter group sales are up 24.7 per cent, lifted by retail outlet acquisitions.

Comparable revenue growth is still strong, up 6 per cent, with an indication of margin expansion.

"I can advise that the vertical margin contribution the group anticipated from the move deeper into retail is starting to become apparent," says CEO Derek O'Neill.

Contracting earnings reported at the FY11 constrained Billabong's interest cover to 4.4 times, leading many to fear an equity raising to re-capitalise.

This quarterly performance eases short-term fear of further earnings weakness, removing the need for more equity.

Morningstar has a Hold recommendation on Billabong.