



Welcome to the eLocal financial update

by Tina Webb
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There is definitely more activity in the market place but does that mean that the worst is over? No one can give any definite indication; one expert says this, the other says that. The average person has questions such as 'should I sell now, buy or wait? Are interest rates going back down, going up?' There are always opportunities and choices to make. Even deciding not to make a choice is a choice in itself. The average person buying and selling in the same market should do fine. For instance, if your property is currently down 10% on a year ago and you buy another that is also down in value then the end result is around the same as in any market. It's all about the difference between sale and purchase.

If you would like the best of both worlds then there is another option. You could consider keeping your existing home as a rental for a while (approx 4 years, maybe less before prices recover- and they will), buy another home possibly below valuation. Once the market recovers you have a choice to either sell the rental and use the extra funds to reduce the mortgage on the owner occupied property. Alternatively you keep the rental which gives you tax savings by way of a tax refund. The value of the rental property will increase over time, and will be much more than what you could hope to save in the bank over the same period. Residential real estate investing is still one of the safest ways to invest money but it is not for everyone. You don't need to manage your own investment property; there are some very good property management companies around who will take the stress out of investing for you.

There is an optimistic energy happening with definitely more activity coming about in various industries but it will still take a while for everything to come back to normal- what is normal you may ask?

Companies are recognising that they want to keep as many of their staff as possible so that they don't need to retrain in the future. People are being asked to work less hours rather than losing their jobs. Remember that we're in this together and that the employers are hurting just like their staff.

Everything goes in cycles and that includes money, property, industry and life in general. What goes up does come down. This current cycle is a larger bump in the road, so to speak, than previous ones, but life goes on and people still need to keep making plans and moving forward. Looking back over the past 30 years and despite the various dips in property values, properties have still gone up in price.

This month's quote

The real source of wealth and capital in this new era is not material things... it is the human mind, the human spirit, the human imagination, and our faith in the future
- Steve Forbes



Here to help with your business problems

eLocal's 'Business Mr Fix-it' Phil Long-Taylor

Send your business related questions to Business Mr Fix-it Phil at editorial@elocal.co.nz

A reader asks: Phil, I need help quick. I bought a local franchise three years ago for \$30,000. It hasn't taken off as the parent company said it would and I now have just under \$300,000 debt on my home in order to promote the business and meet the annual expenses. Everything appears to be coming apart which includes my family life. Help!

Phil: A difficult one to answer in a few words without sitting down to discuss this with you, but this problem is more common than you would expect. In times like this, being positive and optimistic should never ever be confused with the need to get real. Consider what I call the foundation blocks of business.

- Business is a process of money changing hands in a recorded and controlled manner. If you are not recording and monitoring you are not following the process.
- Business is all about making a buck. If you are not making a buck you are not in business.
- Business is all about human relationships. It can't exist without them.

Now answer the following question, keeping in mind that \$1 + \$1 = \$2. Not nearly \$2, or on a good day maybe \$3, but.. \$2.

What is your total annual income? What are your total annual expenses? What is the Gross profit, the Nett profit before tax and how many hours per day/ days per week/ weeks per year are you working in your business? Are you recording and monitoring the total income and total expenses on a daily, weekly and monthly time frame? Remember, business is a process, therefore if you don't know the answers or even what the questions mean then you need information and quick. I believe many people in business simply don't know. It is time to get real.

Now consider the slowing economy, the type of industry and the nature of the market you are in and project it into the future one year from now. Remember, business is all about making a buck. Realistically as it stands, is your business going to make enough of a buck to meet future running expenses and repay the debt to the bank borrowed against your family home? The stakes are high, you need to get real.

Do you remember the lifestyle you wanted for yourself and your family, from this business? Is it working for you? Remember, business is also about people. People like us. Is reality setting in? If the answers are yes on all accounts then you wouldn't have a problem. If the answers are no then it is time to do something about it NOW!

Three years ago, did you consider a worst case scenario, a time limit for the project to achieve results and a plan to end the project in a calm and controlled manner? Most people don't when they go into business. 85% of new businesses end within two years and 95% are gone by five years, so we must have a plan for that occasion and most people don't. The objective of all this is not only to operate a successful business in good times but to protect our hard earned money when times are tough.

Another question that must be asked is: What role has your bank manager and accountant played in this chaos? So often when it is turning to custard all around, many people appear conspicuous by their absence.