2011 looks to be very good year

Noel Whittaker

As the US economy recovers, the omens are bright for bullish shares and a continuing commodities boom.

ANOTHER year has flown by. From where I sit the dominant theme of 2010 has been continual change, or to put it more correctly, potential change.

In just 12 months we have seen the release of the Henry Tax Review, the Cooper Superannuation Review and the findings of the Ripoll inquiry into the financial planning industry.

But, despite the thousands of hours that went into the production of these documents, and the huge implications that implementation of their recommendations could have, very little has actually changed in the real world.

Sure, there have been a lot of headlines and promises, but I am still left with the impression that politicians are better at talking than acting.

It is easy to say what should be done, but much harder to make things happen when tough decisions are involved.

Unfortunately, waiting for the laws to change gives us an excuse to put off doing what needs to be done.

I recall vividly the financial disaster that happened to a friend in the 1970s when he declined the opportunity to move his business from a partnership to a family trust structure, because he had heard the government was about to crack down on trusts.

He went bankrupt when his business failed because he did not have a business structure that protected him – the government is still talking about cracking down on family trusts.

Last year our stock market returned better than 40 per cent, so a repeat of those numbers in 2010 was always going to be most unlikely.

However, the market did give us an exciting ride along the way.

Things looked good early on when the index peaked in the second week of January, but we then had a 10 per cent correction followed by a new peak in April, quickly followed by a 15 per cent drop. The volatility kept up for the whole year.

The All Ordinaries Accumulation Index which includes income and growth started the year at 33,698, bounced up to 34,188 on March 31 and finished the year at just 34,877.

That's a return of little more than zero for the 12 months and way under the figure of 42,479 where it was in October 2007.

> "If you are investing long term I still believe there is no better place than shares."

Of course the pessimists will claim they were better off leaving their money in the bank to enjoy a safe 6 per cent, and I agree there is no better place to keep money that will be needed within two years.

However, if you are investing long term I still believe there is no better place than shares.

History tells us that the index has never failed to make a new peak after a fall, so we have a virtual guarantee that the index will exceed 42,479 sometime in the future – that's a 21 per cent gain from where it is now.

No, I can't tell when this will happen, but I do believe it will be sooner rather than later.

The US and European markets did better than 12 per cent for the year, even though the appreciation of the Australian dollar stole a lot of that gain from our international portfolios.

Things are looking rosy for 2011 – America is slowly climbing out of recession and the vast majority of the world's population is still moving towards a higher standard of living.

This is bullish for shares and gives us confidence that the commodity boom has many years left to run.

To quote my mentor Jim Rohn, the next year will be like the last one – opportunity mixed with difficulty.

It's a safe bet that interest rates and utility prices will keep on rising, which makes managing your budget more important than ever.

If you stick with the fundamentals and concentrate on spending less than you earn, while using clever strategies such as salary sacrifice to invest the surplus, you will almost certainly end up in much better shape than when you started.

Here's to a healthy and prosperous 2011.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noel.whittaker@whittaker macnaught.com.au

BALANCING ACT: Interest rates and utility prices are expected to continue rising, which makes managing your budget more important than ever.

Q I've owned and lived in my unit for four years and now I am moving and want to rent it out. Can I do improvements now while I live here to its rental standard, for example air-conditioners , painting, and general repairs, and be able to claim them on tax as investment property? Or do I have to wait for tenants to move in and then do the repairs to be able to claim them?

A You are not entitled to a deduction for repairs and maintenance done to prepare the property for rent so you are better off to hold off until the property is tenanted. Keep in mind that renovations are capital expenditure and so cannot be claimed as a tax deduction. Just make sure you speak to your accountant before you do anything because items such as an airconditioner can be depreciated over its effective life and the timing of its installation is not so important for taxation purposes. Also, the property must be rented before you do repairs if you are to succeed in your claim for a tax deduction.

Q With regard to the First Home Saver Accounts, I read that there was to be legislation to allow the funds saved in that account to go to the mortgage if a home was bought before the four-year period expired, instead of it being compulsory to go to super. Have you heard anything further on the proposed legislation?

A As far as I can find out the matter is still in the consultation phase. Let's hope there are no obstacles and that an act will be passed early in the new year.

Send your questions to noel.whittaker@whittaker macnaught.com.au

Our world-beating housing juggernaut set to slow

By **BARRY FITZGERALD**

AUSTRALIA led the world in house price increases this year.

But the prospect of more interest rate increases next year is predicted to force a slowdown in the rate of gains.

A survey covering selected advanced economies ranked Australia as the clear front runner for rising house prices, with a gain of 9.4 per cent in the year to the end of September, adjusted for inflation.

France, up 6.8 per cent, and Sweden (5.6) came in second and third, while the US, Japan and Canada were among the countries where prices retreated.

Australia's 9.4 per cent increase represented a slowdown from the 15.9 per cent recorded in the year to March 31, with successive interest rate rises and the expiry of the enhanced first home owner's grant starting to bite.

Scotiabank analyst Adrienne Warren said Australia's front-running status was due to low unemployment and tight supply in the housing market.

But Ms Warren expected both housing sales and price rises to slow down next year.

"While Australia's close trade ties with Asia and resource wealth will continue to underpin a solid pace of domestic activity, higher interest rates will worsen already strained affordability," she said.

She said the 1.75 percentage point rise in official rates since October 2009 and the end to the federal government grant had succeeded in cooling Australia's "red-hot property market" to some degree.

The managing director of Melbourne-based real estate agency Jas H. Stephens, Craig Stephens, said that because of Australia's effective full employment status and low inflation, it could take another increase of two percentage points in official rates before it "really started to hurt and we get mortgagee auctions kicking in".

"But generally speaking, the Australian housing market is in better shape than those other countries," he said.

Mr Stephens forecast a slowing of price growth in the next six months until vendors and buyers "get a feel for where interest rates are going".

He said the issue was not so much the Reserve Bank lifting official rates, but the banks independently lifting rates.

"That's what has been holding the market back," he said. "Everyone seems to be treading water at the moment as we get over this nervousness. And I think that will continue for the first six months of next year."

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