

VANGARD INVESTOR UPDATE

May 2010

WHICH WAY WILL INTEREST RATES GO

Ask two economists for an opinion and you're likely to get two different answers. Take interest rates for example. Almost every economist has their own view of the economy and the direction of interest rates.

For example, Dr Shane Oliver, chief economist with AMP Capital Investment takes a bullish view of the economy and believes that rates could increase a further 0.5% by the end of this year, and by a further 1% or above in 2012.

Conversely, John Edwards, CEO of property analyst Residex believes that things are not as 'hunky-dory' as others may suggest: housing values are starting to fall in some suburbs of all Australian cities except Melbourne, fewer people are now seeking housing finance, retail sales have fallen, global stock market are in free-fall, and Europe is facing a possible economic meltdown.

When the RBA increased the official cash interest rate for the fifth time on 4th May, it signalled that it may take a pause in further interest rate increases. Quite simply, the RBA doesn't know what is going to happen the month and year ahead.

There are great opportunities for property investment but how can investors plan within all this uncertainty?

The answer is to take a conservative and prudent approach, and factor 'worse case scenarios' into all your financial projections. Vanguard Group does this as a matter of course for all our clients so they can manage their investments within a volatile market to they are prepared for most eventualities.

BANKS TIGHTEN CREDIT FOR NEW INVESTORS

Investors are flowing back into the market, and over 35% of all mortgages written in March were for investors. But the major banks are taking a cautious approach and have tightened their credit criteria for new investor clients.

Mortgage broker are now reporting that major banks are becoming increasingly difficult to deal with; they are slow to respond and reticent to lend.

The news for new investors is not all bad. Competition from smaller lenders is gradually returning to the market and some of these smaller lenders are offering better rates and fees than the major banks. And they love investors and provide much better service!

Vanguard Group has access to over 30 lenders, including the major banks and, in most instances, can very quickly identify the most cost-effective lender for your circumstances. This will save you time and foot leather in approaching a bank direct only to be told later that they won't lend to you.

	Australia	Brisbane	Melbourne	Sydney
HOUSES - Median Value	\$435,000	\$464,000	\$580,500	\$651,500
Capital Growth - Annual	12.44%	4.87%	22.46%	17.00%
Capital Growth - Over 10 years p/a	9.95%	11.52%	10.53%	6.72%
Rental yield (April 10)	4.31%	4.21%	3.33%	4.01%
UNITS - Median Value	\$391,000	\$368,500	\$445,000	\$459,000
Capital Growth - Annual	10.26%	7.80%	18.75%	12.92%
Capital Growth - Over 10 years p/a	8.33%	10.66%	10.22%	6.21%
Rental yield (April 10)	4.67%	4.96%	4.10%	4.89%

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