



Your Wealth Bulletin

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Dear David,

Welcome to our April edition of Your Wealth Bulletin.

"I can't change the direction of the wind, but I can adjust my sails to always reach my destination." (Jimmy Dean)

Social Site links:

Video of the Month

[How we perceive happiness differently](#)

Talk by Daniel
Kahnemann
(Noble Laureate)

Government Links

[Environment Rebates](#)

-
[NSW Hot Water & Toilet Rebates](#)

How to buy a house?

A very well known author and unique thinker is Seth Godin.

He has a daily blog that typically has some interesting thoughts. Given the current situation whereby Australian residential property prices continue to rise into the stratosphere, a recent article that he wrote is worth sharing with you:-

"You don't see a lot of ads trying to sell you on spending too much money on a house. It's more subtle than that. The marketing is all around us, and has been for years. The enormous social pressure and the expectations that come with it lead to misunderstandings and confusion. Here's my advice to someone in the market:

In an era where house prices rise reliably (which was 1963 to 2007), it was almost impossible to overpay for a house. It was an efficient market, and rising prices cover many mistakes. Investing in houses in the USA was a no-brainer. More leverage and more at stake just paid off more in the end. This consistent, multi-generational rise taught us more than an ad every could: buy a lot of house with as little downpayment as you could.

[Fridge Buyback](#)

[Child Care Estimator](#)

A house is not just an investment, it's a place to live. This is the only significant financial investment that has two functions. Things like cars and boats always go down in value, so most of the time, if you're investing, you're doing it in something that you don't have to fix, water, fuel or live in. You shouldn't fall in love with a bond or a stock or a piece of gold, because if you do, you won't be a smart investor. The problem (as people who sell and fix and build houses understand) is that you just might fall in love with a house. What a dumb reason to make the largest financial investment of your life.

The psychology of down markets is irrational. Rising house prices might be efficient (many bidders for a single item lead to higher prices), but when there aren't so many bidders, irrational sellers (see #2) don't lower their prices accordingly. So, inventories get longer and it's easy for the prospective buyer to think that a certain price is the 'right' price because so many people are offering houses at that price. Just because someone offers a price, though, doesn't mean it's fair in a given market.

Along the same lines, anchoring has a huge impact on housing prices. If someone offers a house for \$800,000 and you think it's worth half that, you don't offer half that. No, of course not. The price is a mental and emotional anchor, and you're likely to offer far more.

The social power of a house is huge. When you buy a big house or an expensive house, you are making a statement to your in-laws, your family, your neighbors and yourself. Nothing wrong with that, but the question you must ask yourself is, "how big a statement can I afford?" How much are you willing to spend on personal marketing and temporary self-esteem?

Debt is an evil plot to keep you poor. If buying a bigger house (or even a house with a living room or a garage) is going to keep you in credit card debt, you've made a huge financial error, one that could cost you millions.

By the time you buy a house, you probably have a family. Which means that this is a joint decision, a group decision, a decision made under stress by at least two people, probably people that don't have a lot of practice talking rationally about significant financial decisions that also have emotional and social underpinnings. Ooph. You've been warned.

Perhaps you could add some artificial rigor to the conversation so that it doesn't become a referendum on your marriage or careers and is instead about the house.

If you have a steady job, matching your mortgage to your income isn't dumb. But if you are a freelancer, an entrepreneur or a big thinker, a mortgage can wipe you out.

That's because the pressure to make your monthly nut is so big you won't take the risks and do the important work you need to do to actually get ahead. When you have a choice between creating a sure-thing average piece of work or a riskier breakthrough, the mortgage might be just enough to persuade you to hold back.

Real estate brokers, by law, work for the seller (unless otherwise noted). And yet buyers often try to please the broker. You'll never see her again, don't worry about it.

You're probably not going to be able to flip your house in nine months for a big profit. Maybe not even nine years. So revisit #2 and imagine that there is no financial investment, just a house you love. And spend accordingly.

I'm optimistic about the power of a house to change your finances, to provide a foundation for a family and our communities. I'm just not sure you should buy more house than you can afford merely because houses have such good marketing."

<http://sethgodin.typepad.com/>

Help for property buyers

Our clients are aware that we adopt an attitude of having BOTH property and shares as a prudent investment philosophy. But given the state of the property market, and particularly in a rising interest rate environment, it is easy to get swept up with emotion when buying, rather than using logic and 'value' parameters when investing.

This issue can easily be overcome through the use of a buyers agent. In fact, the decision to hire one can be a profitable decision when the agent negotiates on your behalf to build terms better than you could do personally, or alternatively, they steer you away from opportunities that may look good on the surface, but have high risks

associated with them that you weren't aware of.

We have recently spent time reviewing this area of service providers for clients. We now have the pleasure to advise that we have linked services with a trusted fee-for-service buyers agent that we are comfortable in recommending to you.

If you'd like to know more about the service, and about our service provider, please contact me directly via viadavid@reedfinancial.com.au or 9525 0777 to discuss further.

Fortunately, there was a good article written by real estate agent Neil Jenman that describes the role and benefits that having a property buyers agent in your corner, and why he has used one himself:-

http://www.jenman.com.au/news_article.php?id=258

If you would like to discuss any of these issues further with us, please feel welcome to ring me on 9525 0777 or email enquiries@reedfinancial.com.au

Warm Regards!

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