GPS News

October 2011

After five months operation of **GPS Invest Select Fund** and three months for **GPS Invest Pooled Fund**, we thought it was time to report to you on our progress so far.

To put it succinctly, the response to both Funds has been extraordinary and has exceeded all our expectations. We wish to thank our Investors for their support of both Funds and helping to make them both so successful, so early.

We also want to thank our Investors for their cooperation and patience during this time and for assisting Bruce Atkinson in the monumental task of filling in PDS Application Forms, obtaining new identification, bank account details, tax file numbers and other important information. If you have not already filled in the PDS Application Form/s, please contact Bruce on 1800 999 109 and he will assist you with these.

Statements

The format and content of our monthly statements remains a work in progress in satisfying compliance (ASIC) requirements and producing a meaningful document which is easily able to be understood by our Investors. GPS has been using and improving the same system for about 17 years and has established it as being very accurate.

It is GPS's intention that statements will be mailed out by no later than the 15th of each month for the previous month (i.e. September 2011 statement to be mailed by no later than 15 October) for both the Pooled and the Select Funds.

At present, GPS is producing the statements manually until a new computer system is installed in the New Year which will then produce the statements automatically and provide other benefits to our Investors. We appreciate your patience and understanding with the manual production of statements.

Payment Authority

A reminder that in order for you to invest any monies held at La Trobe in either Fund they should be repaid to your bank account automatically, as they mature. To arrange this, call Tina Orley or Bruce Atkinson on 1800 999 109.

Further investments

Once your chosen account has been opened by filling in the PDS Application Form/s, investments can be made as follows: -

GPS Invest Pooled Fund – cheque made payable to GPS Investment Fund Ltd – GPS Invest Pooled Fund or Bpay. (signed Additional Investment Form is required)

GPS Invest Select Fund – cheque made payable to GPS Investment Fund Ltd – GPS Invest Select Fund or Bpay. (signed SPDS is required)

Bpay numbers are set out on the top of each monthly statement and note there are separate numbers for Pooled and Select. Please notify GPS each time you Bpay money. If you do not already have your Bpay numbers, please contact GPS.

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Feedback

As always, we welcome your feedback on any matters to do with potential or existing investments in either Fund. Please call Bruce Atkinson or Richard Woodhead. We look forward to your call.

Recommend a friend

Referral of friends, family or business acquaintances is the lifeblood of any small business. If you are happy with the service you receive from GPS, please pass on the good news to others.

Future articles

We are currently working on a series of articles which will concentrate on how GPS Investment Fund Limited works to protect the interests of its Investors and how there is much much more going on behind the scenes than it appears. A first mortgage investment with GPS involves considerably more than simply the registration of a “first mortgage” over a property. More to follow.

In view of all the “doom and gloom” out there at the present regarding the direction of property prices, we thought it worthwhile to include the following article which reflects a bit more optimism.

A crash in property prices? Don’t bet on it

Could this be a real estate salesman’s fantasy come true? If financial Armageddon is what you crave, there’s plenty to feed your habit right now; a rout on global sharemarkets, commodity prices crashing, the dollar under attack and panic on debt markets.

But then there’s good old Aussie bricks and mortar. It has held up well during a time of almost unprecedented economic uncertainty.

Despite a veritable army of doomsayers – as evidenced by the number of websites and chat rooms – salivating at the prospect of a crash in property prices, so far it has stubbornly failed to materialise.

There is no doubt residential real estate prices are on the slide. And if the economy stalls and unemployment rises, they will continue to edge lower. But don’t count on a crash.

Latest numbers by RP Data-Riskmark show capital city residential prices are down just 3.2 per cent on a national basis compared with this time last year.

Most of that decline has been borne by houses – a 3.9 per cent decline in the past one year with most pain concentrated in the top end of the market – while there has been hardly any movement in home unit prices.

Look back two years, an in almost every capital except for Perth, home values are steady or slightly below 2009 levels.

Sydney, however, has bucked the trend. Prices have risen strongly over that two-year period, and in the past year they have remained barely changed against drops of between 4 per cent and 7 per cent in the other capital cities.

The fearmongers love to compare Australian real estate with America. They manipulate graphs and data to make it appear the local market is in as much trouble as the US one.

But American real estate still hasn't recovered. In case you missed it, an advertisement on the front page of the Asian edition of the Financial Times a fortnight ago had the realestate equivalent of the BOGOF (Buy One Get One Free) sale. The deal was, buy five American houses for $US200,000 ($209,000) all up and get the sixth one for just $US25,000.

The logic goes, if it happened there, it is bound to happen here. But you may as well compare Australian with Mars.

Ignoring that America is in recession and we are not, and that our population is concentrated on a narrow strip of coastal fringe, there are a host of other reasons that point to a soft landing in real estate, even in the worst case of a serious downturn in the domestic economy.

The main difference is the way our banks lend. Our mortgages are fully recourse whereas in the US, they are non-recourse. Default on a home loan here, and the bank will chase you for the outstanding cash and bankrupt you if need be. Not in America. If you owe double the value of your home, you can simply walk out, leave the keys in the door and let the bank take the pain.

The result is that Australians are less likely to default than Americans, even under extreme duress. That means fewer houses on the market during a recession, which means less pressure on prices. When the housing bubble burst in the US, an already soft market was flooded, causing home prices to slump by more than 50 per cent.

A Reserve Bank paper on our property market delivered this week says supply side constraints have conspired to keep home prices high.

The growth in available housing has not kept pace with population growth, particularly in the past decade when population increases outstripped housing growth for the first time in more than half a century.

This is partly because we have been slow to embrace high-rise and high-density living, even as urban sprawl has reached a critical point.

If home ownership is a national obsession, the flipside is that it is the Achilles heel of our banking system.

The big four banks are hugely exposed to residential real estate. So those predicting a crash in housing prices, by association are predicting a crisis in the banking system.

Right now, our banks are having a devil of a time trying to convince anyone to borrow money. Lending growth for housing has shrunk to just 5.8 per cent, its lowest in 27 years, forcing banks to actually start competing with one another.

At least it's positive. In fact, housing loans are about the only growth area for banks.

Corporate lending has been shrinking with the latest figures showing a 0.9 per cent decline from the same period last year.

That spendthrift attitude we had back in the boom has long gone. We've now become a nation of savers, and deposit growth has surged to record levels. In August alone, we slapped another $28 billion into bank vaults. That was a 2.1 per cent rise for the month, and 10 percent more than the same period last year.

That trend is evident across the developed world. Debt has become a dirty word and deleveraging is in.

In Europe and the US, a few economists have begun arguing that cutting interest rates when nobody wants to borrow is a futile exercise if you are trying to kickstart your economy.

It's a valid point. But we aren't trying to kickstart our economy. Until a couple of moths ago, we were choofing along at full speed. And we don't have vast numbers of empty dwellings up for sale. Most of ours are occupied.

So, unlike the rest of the developed world, a cut in interest rates would put a floor under the housing market as it would make repayments easier.

If worse comes to worst, our central bank has a great deal more ammunition than its European and American counterparts, ordnance that's a great deal more effective.

The chances of an Aussie property crash? As rare as hen's teeth.

Source: Ian Verrender Brisbane Times October 5, 2011