



all of our clients to see how your lifestyle and investments are tracking against your previously stated goals.

Over the last months there has been a lot of fear about the Sub-prime crisis – what is it and just how bad will it be? We discuss this in our article below.

With the publicity and fear around, many people are worried about the share market at the moment and not sure where to put their money. In our piece about future investments we have a look at this. We also provide some little known information about the relative current value between shares and other investments.

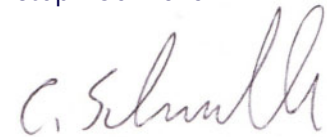
These items are to give you perspective and, possibly, make you think. What you do with this

information really depends on your particular situation and our advice will be quite different, depending on your situation. There is no such thing as us writing an article and you saying 'Ah! Now I know what to do'. This will require a deeply individual assessment.

**A BIG thank you to all those who referred new clients to us – we really appreciate it.**

As always please feel free to ring us if you have any questions about anything including the contents of this newsletter. Education is a vitally important part of investing.

Kind Regards,  
Christoph Schnelle



## *Hello* FROM CHRISTOPH

Welcome to our Summer 07/08 newsletter and greetings from the paradise that is North Eastern NSW where we are having great weather – lots of rain.

During the course of the year, as always, we will be in contact with

## SUBPRIME SAGA

### What is the subprime mess?

In the US (and only in the US) a large number of people received mortgages that they will not be able to pay back.

For example the “No Income No Job or Assets loans” or “Ninja loans” where people paid a low honeymoon rate for the first two years. This is one example amongst many of ridiculous loans we have never seen the like of in Australia.

These unviable loans cause a lot of foreclosures with houses being sold at a loss. This is very expensive for the lender and in addition they have big administrative costs and loss of income.

In the past when banks lent too much money, there was a banking crisis. Banks had to be bailed out by the government, typically at the cost of 10% of GDP. In Australia, that would have meant about 100 billion dollars.

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- what does In Your Interest think?
- what is the best future investment?

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This time, the banks passed the bad loans on to other people. Those other people borrowed most of the money they needed to buy the loans from ... the banks!

So, now we have a banking crisis where nobody knows which bank has lost how much. That is where the fear comes in.

In the past when banks kept loans on their books, people had a pretty good idea of how much each bank had lost. This time that is not the case.

The banks have a strong incentive to not tell the 'truth'. Partly because those banks that have to tell at least part of the truth lose their CEO (Citibank, Merrill Lynch), partly because nobody knows what those onsold loans are really worth and partly because the value of many of these loans changes dramatically in a short time.

When you have a lot of uncertainty in the market, you have a lot of fear and a lot of irrational behaviour.

You also have some people taking advantage of the fear. Goldman

Sachs, a very big investment bank has made a great deal of money from this crisis and its analysts are busy predicting that the crisis will be much bigger.

Here is a quote from the November 22<sup>nd</sup> 2007 issue of The Economist:

*"The only truly upbeat firms in America nowadays are the accounting giants, which for once are not being blamed for a financial disaster (this time that honour belongs to the rating agencies). They are determined to keep it that way, and are said to be racking up huge fees by challenging every assumption in banks' financial models to make sure they cannot be accused of optimism. The banks are thus having to disclose ever bigger write-offs, contributing to fear of recession in America both indirectly, by delivering a stream of bad news, and directly, by constraining banks' ability to lend."*

The above quote is a very interesting point which I have not heard raised before. This may mean that balance sheets will look worse simply because auditors are extremely (overly?) conservative, which happens to be in the auditors' interests.



### What to do as an investor?

If you think you can predict the future, there are a huge number of opportunities in this market. If you are afraid of the future, there are a huge number of dangers in this market.

It is always important to remember when investing to deal with your emotions, look at the facts and, depending on your age and circumstances, plan appropriately.

### What does 'In Your Interest' think?

In truth nobody knows. We have no idea what will happen but we keep ourselves fully informed and prepared.

What we do know is that we have not placed any of our clients in sub-prime exposed loans. Dimensional doesn't invest in such loans, they were always too uncertain.

Dimensional and clients that follow our advice only invest in the safest of bonds.

We continue to advise our clients to invest in shares and property as well. We know that shares are comparatively cheap at the moment (see graph on p 3) and we like well chosen direct investment property purchased through the right ownership structure because of the great benefits to our clients. ■

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**"As an alternative to the traditional 30-year mortgage, we also offer an interest-only mortgage, balloon mortgage, reverse mortgage, upside down mortgage, inside out mortgage, loop-de-loop mortgage, and the spinning double axel mortgage with a triple lutz."**

