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money matters

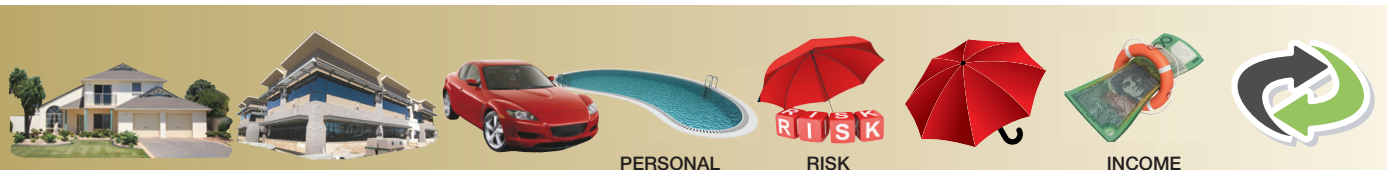
Now may be the time to lock it in: Historically low rates and 'fixing' your mortgage

Cast your mind back to our economy five years ago. Would you have believed that the national cash rate in Australia could be as low at it stands today?

The Reserve Bank of Australia has made history by moving our cash rate to an all-time-low of 2%. Should this cash rate cut be passed on in full by financial institutions, it could save a borrower with a $300,000 mortgage around $47.00 per month in repayments. If you're an investor looking to begin or grow your portfolio, there truly is no time like the present to go ahead and buy that property you've been meditating over. If you are already a mortgagee, now is also a critical moment to take stock: do your current mortgage terms and conditions reflect current economic trends and (more importantly) your own financial position? You may be best served by refinancing and opting to 'fix' your mortgage interest rate, capitalising on the ultra-low cash rate to your benefit.

Puzzled as to the difference between a 'fixed' and 'variable' mortgage? A variable interest rate rises and falls with the economy – when the RBA announces cash rate cuts, it is likely to float down (should your bank or financial institution pass on the discount). Trouble is, should the RBA increase the national cash rate, a variable interest rate will float north – increasing your monthly mortgage repayments. Some mortgagees resist 'locking in' or 'fixing' their mortgage, worried about gauging the bottom of the market incorrectly and potentially paying too much should the RBA announce further cuts.

Without a doubt, our current cash rate is at an unprecedented low – money is unlikely to be 'cheaper' to come by or loan. Consider 'locking in' your interest rate now and you'll enjoy multiple benefits: budgeting will become easier as you'll know exactly what your mortgage repayments will be, regardless of any rate rises. Another option is to fix a portion of your loan – many investors choose to keep 50% of their loan fixed and 50% variable, capitalising on the stability of ultra-low rates while retaining the ability to make additional loan repayments on a portion of their debt. Although no one can accurately predict how interest rates will move, should you be happy to make repayments on a fixed loan at the incredibly competitive rates currently offered by many lenders – now is the time to act!



Feeling outpriced? Coping with rising property markets

You've come to auction with a set budget – you can afford to purchase within the quote range of the property and you've already imagined where the lounge will go in your new home. There's just one problem: the first bid is well beyond your budget, and the property sells for considerably more than you imagined. This is the heartache of buying in a rising market. It's not all doom and gloom though – so ready your kit of emotional and financial resources for dealing with the possibility of being 'priced out'.

Firstly, realise that strong capital growth is great: it should actually compel you towards buying a property sooner - as the faster you're in, the faster your own asset will grow. Revisit your broker too: historically low cash rates mean that you might be able to loan more than you'd thought to fund your property purchase.

You may also need to rethink the location of your purchase – if you're an investor and your closest capital city is too pacey, consider the next largest city or town as your investment target. Lastly – if your heart IS set on a particular suburb – think about buying a smaller property just to get a foothold in the zone you'd love to own within.

Kids and cash: teaching financial literacy

Mum supports Collingwood? It's likely that little Jack will too. Dad's favourite food is lasagne? Odds on, it'll be little Chloe's also. Tastes and habits pass easily from one generation to the next, and children are keen mimics of their parents – so it's important to ensure that you're setting the right example in all aspects of life including money management.

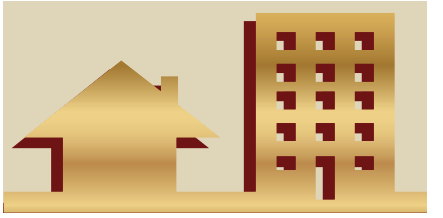
Financial literacy is critical to your child living an independent life – and there's plenty of ways you can go about giving your kids the tools to deal with money responsibly, early.

Financial literacy isn't just about saving (although that's important too) – it's also about valuing what we have and making decisions between what we need and what we'd like.

It can be difficult to educate kids about the value of money – after all, if they're not engaged in the economy, it's hard for them to gauge what money is 'worth'.

Consider starting them on a pocket money plan which involves depositing funds into their own bank account.

Want more ideas on educating your kids about money? There's plenty of great online resources to help you along: just ask your broker for a comprehensive list.



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