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opportunity knocks

The latest economic news is hardly uplifting stuff. Even if we miss out on a full-blown recession, a slowdown is on the cards and that inevitably means rising unemployment.

But if you have a reasonably secure job, some spare cash and not much debt, the current environment offers opportunities to set yourself up for the next boom.

Bad news often steals the lion's share of headlines and there is no doubt some people are hurting. These people include those who have lost jobs and others who have seen their retirement nest egg smashed. But in every cycle there will be people who can benefit and there are some positives in the current environment that we shouldn't overlook.

For starters, lower interest rates help around 5 million households. Interest rates have taken a massive dive since last spring, and that's putting plenty of cash back in homeowners' pockets.

On a variable rate mortgage of say, \$300,000, the monthly loan repayments have dropped by as much as \$600 since September. That's a saving of around \$150 each week, and in my books that's worth a lot more than a pay rise or tax cuts.

Low to middle income families are benefiting from the Rudd government's cash handouts, and there's more to come. Inflation is no longer the bogeyman it once was, and falling fuel prices are helping us save on travel costs.

When you think about it, all the signs point to opportunity – the chance to use our spare cash to reduce debt, build some savings and take advantage of depressed asset prices. The opportunities to invest in quality shares and property looks

compelling when compared to cash rates of 3.25%. After inflation and tax, the cash rate would be an even lower real return that could go even lower if rates keep falling.

All too often we delay investing until we're in the middle of a boom by which time assets are over-priced. Right now we have the opportunity to buy undervalued assets, and when markets rebound as they inevitably will, the biggest gains will be made by those who bought when assets were cheap – as they are today.

Shares in plenty of quality companies are selling for substantially less than you would have paid a year ago. BHP is currently trading at around \$31 - \$11 less than this time last year. Commonwealth Bank shares can be snapped up for \$29, well below the \$44 you would have paid in February 2008. The price of Woolworths shares fell 25% last year.

Of course share values could fall further over the coming months but losses of the magnitude we saw last year, where the market dropped 40%, tend to be a once in a generation event. Within the next few months the worst of the corporate skeletons should be out of the closet, giving investors a clearer picture of what they are buying into.

It's much the same with property. Values in many parts of Sydney are depressed at present, and prices could go lower as the economic slowdown deepens. I certainly wouldn't want to be selling my home in the current market, but if you're buying either as a first home buyer or an investor, buying when values are down puts you in pole position when the market picks up.

Be warned though, I reckon you need to be prepared to wear out

some shoe leather finding the right property, and I wouldn't expect the market to turn around over night.

Let me stress, I'm not spruiking some sort of get rich quick strategy. No one is expecting a boom in the near future, and you're a mug if think you're going to make a fast buck in the current climate. But it's also important not to let the barrage of negative news blindside us to the raft of opportunities presented by today's investment markets.

To give you an idea of what to look for, and what to avoid, over the next few weeks I'll be putting three popular asset classes – property, shares and cash, under the spotlight. This will paint a more detailed picture of the opportunities that are worth tapping into to build a portfolio that will carry you through to the next bull run.

Paul's tips

- ~ Amid the doom and gloom there is positive news.
- ~ Falling inflation, in particular lower fuel prices, mean we're making savings on essential spending.
- ~ Massive falls in interest rates are putting plenty of cash back into homeowners' wallets, and the government's stimulus packages are providing welcome cash handouts.
- ~ The key is to use this extra cash wisely, strengthening your household balance sheet by reducing debt and building a pool of savings.
- ~ If you have good cash flow and a secure job, use it to eliminate high interest debt, then start to set yourself up for the recovery.

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