



MONEY DUE REWARDS:



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Black Monday the Second

The recent rejection of a proposed \$700 billion “bailout” package by the US House of Representatives has certainly caused a stir in the world’s share markets. On the Monday, when the news came through, the US stock-market plummeted by nearly 7%, representing the biggest one day fall ever in the Dow Jones Industrial index. Needless to say, other markets around the world followed suit, as widespread panic set in. Make no mistake, this is a major crisis for the USA, and undoubtedly for a lot of other places as well.

Mind you, the trigger for all this action – the failure of the US Congress to automatically pass the rescue package which was put to them – didn’t in any way mean that the US Government wouldn’t provide assistance. It simply meant that the particular package of measures which was put to them was voted down in the first instance.

For most people, however, who have little to do with Wall Street on a day to day basis, all this panic seems a little bit distant. What on earth does it have to do with us in regional Australia, and what can we do about it?

Unfortunately, it does have a little bit more to do with us than you would initially assume, and the reason for this is that the financial system these days is pretty much a global one. When we take out a home loan from our local bank for instance, there is a high likelihood that the bank has sourced a good portion of that money from overseas. For many years now, much of the easy credit which has been available to almost everybody through the local banking system, actually originated in the USA, and a portion of this was from the now infamous “sub-prime” debt markets.

So what has changed? To put it simply, several of the larger US banks and financial institutions seem to have been caught “with their pants down”, and have run out of cash. Suddenly, everybody needs cash, and a lot of businesses are reluctant to lend any – because they are concerned that they won’t be paid back. You see, the world’s financial system is built on trust, and at the moment trust is a little bit lacking in some quarters.

Getting back to Australia, what this means is that as time goes on, the Aussie banks will have to refinance the existing facilities that they have in the world’s marketplaces. In the case of the four majors, which are sizeable institutions, this is highly likely to be possible – but it might be just a little bit more expensive than it has been for some time. In other words, the interest rates could be quite a bit higher. It may be that the Australian Reserve Bank will come to the rescue, and fill some of the funding gap, but the general consensus seems to be that borrowing money will be harder and dearer than it has been for quite a while.

In addition, many commentators are expecting that a global shortage of credit will result in a falling away of economic activity, and may lead to a recession in much of the developed world.

So what can we do? The key strategies for most households and businesses for the next little while look like being “reduce your debt”, and “watch your cashflow”. Contact a professional advisor if you need some ideas on how best to do this.

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