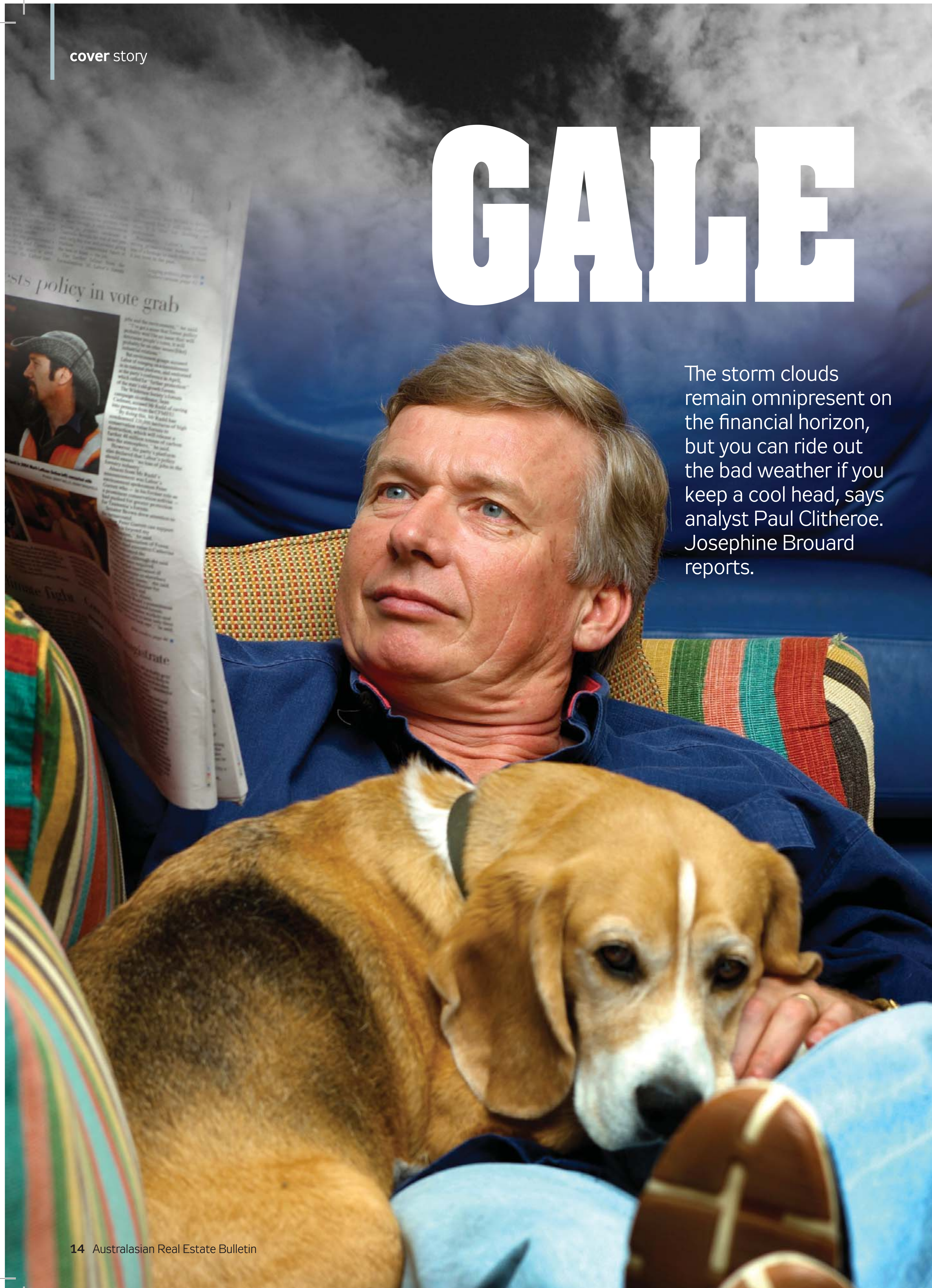

GALE WARNING

The storm clouds remain omnipresent on the financial horizon, but you can ride out the bad weather if you keep a cool head, says analyst Paul Clitheroe. Josephine Brouard reports.

With the Australian dollar currently at the lowest rate it's been in over a decade, Paul Clitheroe won't be taking his family on a holiday overseas any time soon - he'll be buying blue chip shares at discount prices with his money instead. "The financial climate is extremely dangerous right now," the chairman of the Federal Government's Financial Literacy Foundation says. "Any capitalist system is built on confidence and since more than 25 big banks around the world have been bailed out so far, confidence is close to rock-bottom. If we continue to see this kind of loss of confidence, the crisis will become self-fulfilling and anything could happen".

Clitheroe has been analysing the national and international financial landscape for some 30 years and is not about to downplay the scenario that lies ahead for Australian business and consumers. Realistically, though, he says there is good and bad news. The bad news is that, no matter what the Federal government and regulators do, there will be a credit squeeze in the short-term at the very least – and that will be challenging for property developers who want to borrow money to build. As a result, unemployment in the construction industry will most likely rise; the number of properties available on the market for a growing population will decline; there will be little if any upgrading or buying off the plan; and listed property trusts will continue to be slashed. Anyone who's thinking of selling a property at this time is crazy, Clitheroe suggests – "This is the worst time to sell since interest rates were 18.75% in 1990. Anyone who thinks property prices are going to maintain or go up is kidding themselves".

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Most Australian punters, alas, are the reverse of 'cashed up', notes Clitheroe. "The level of household and credit card debt in Australia is at an all-time high, and credit card debt is very expensive. Even so, the sky isn't falling in on us. In three to five years from now, this crisis will be just another blimp on the financial graphs. For most of us, it's a case of pulling in our heads; tightening our belts; foregoing the new plasma screen or iPod, and doing everything we can to balance our business and household budgets".

This is a time to look at cash flow and get serious about consolidating debts. For many small businesses, this will mean cutting costs, leasing smaller office space and possibly laying off staff, actions that ultimately impact on the overall economy. "Unless you're a blue chip client with a profitable history, don't expect a bank to give you a line of credit", Clitheroe warns.

On a macro scale, Clitheroe believes the US, UK and Australian governments are taking appropriate action to minimise the global meltdown. "Regulators have learned from depressions in the past and are consequently flooding cash back into the system. This appears to be the sensible thing to do".

Clitheroe believes the Australian financial landscape has two further advantages: the first is that the Australian government, unlike the US, is not in debt, and has a cash rate of 5.25 per cent. That leaves the Federal government a lot of room to move should more cash need to be injected into the economy – unlike the U.S., that has a cash rate of well below two per cent.

"We haven't been fighting in Iraq to the same degree that the US has, so we can open the Federal 'war chest' if we have to and bring some infrastructure projects forward. Fortunately for us, Australia has a financial buffer", Clitheroe says simply. He points out, that Australian banks are in relatively good shape too compared to their overseas counterparts. The Commonwealth Bank, for example, recently snapped up parts of the Bankwest business for a bargain basement $2.2 billion dollars.

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"For those individuals or businesses who have surplus cash, history says this is the time in the financial cycle to grow wealth. Property and shares have fallen significantly from their boom prices – many solid companies are now selling for less than half of their price a year ago. Sure, they can fall further yet, but with a long term view, investors who buy and hold are likely to benefit".

Clitheroe says the lesson to be learned from the financial meltdown will stand most of us in good stead for the future.

"Those with the most debt are the ones who are the most vulnerable. If you don't want to be a victim during a financial crash, you've got to put yourself in a position where you have surplus cash flow. The lesson in this for all of us is: to live within our means and to keep our budgets in the black".

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