

## I Have No Idea

Most months I have trouble coming up with something half intelligent and hopefully entertaining to say in these bulletins. This month is different. World events, the activities of our politicians and the possible impacts here in the Land of Oz leave me with much to talk about, but where to start. Perhaps I should confine myself to the view I'm enjoying from our holiday rental apartment at Coolangatta. The waves are breaking around Greenmount Point, there's a volleyball festival on the beach out front, and one of my favourite bands is playing this arvo at the legendary Coolangatta Hotel.

The managing director and I have taken my mum to Cooly for a little holiday after my dad passed away late last year. Many happy memories of the southern end of the Goldy revisited and a cracking outlook from Reflections by the Sea. For our money the views are the best on the coast and while some of the units are getting a little tired you simply can't beat the location. Nice staff too.

The views do contain one sad vista. The old Greenmount Resort is now a pile of rubble to be replaced by a new residential development. Prices start circa \$4.8M so God knows what a penthouse will be worth! If the number of mega buck residential apartment projects either on the go or in planning are any indication, there is some serious money looking for a home on the Gold Coast and in Northern NSW. You'd have to think that will put upward pressure on existing unit values and with that clever segue, it's crystal ball time.

Let's say values of new off plan units continue to hit stratospheric numbers. It's true that these new projects provide a level of architectural elegance and amenity mostly unmatched by existing apartment buildings. But, as the old saying goes, a rising tide lifts all boats and it's hard to see unit values at, say Reflections, not rising as a result of the prices at Greenmount. Even if you've got to do a full reno the value proposition is hard to argue against. Of course, such a trend might not be all good news for management rights operators with expensive managers apartments. The old unit to business value ratio challenge may mean that unit values giveth and business values taketh away. Will any of this happen? I have no idea.

Let's say our rulers in Canberra decide to tinker with negative gearing and capital gains tax concessions. In fact, let's say they abolish both but grandfather existing arrangements. If you are already in the market, you are now a property investor with a tax arrangement that new investment buyers can't access. While you hold the asset, and when you decide to sell, you can take advantage of negative gearing and/or capital gain concessions. The person you sell to cannot. Therein lies a strong motive to retain the property and take advantage of tax concessions both while you hold and when you sell.



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Maybe such a situation would stem letting pool losses to owner occupiers. Almost certainly new investor demand would slow. Would that result in falling prices for traditional investor stock? Will any of this happen? I have no idea.

Let's say there is a war in the Middle East, and the net result is constricted world oil supply. Let's say that while our politicians say we have plenty of reserves we really don't. Petrol prices rise and so do the costs of every service and function in our economy that relies on oil. Think the grocery stores, delivery drivers, farmers, airlines, etc etc. All of this is of course inflationary, and we all know what that means. The blunt instrument of interest rate increases comes down upon 3.3 million owner occupiers, 2.2 million investors and 2 million businesses. But here's the thing. There is demand and supply side inflation, concepts that our treasurer is currently studying so he can differentiate. What I'm talking about is supply side and no amount of tinkering with interest rates is going to stop me from buying toilet paper, no matter how expensive. Will the RBA apply some nuance at its next board meeting or bring out the hammer? I have no idea.

Let's say all this has you thinking about interest rates. To quote Shakespeare, "what light from yonder window breaks"..... ahh, wrong one. Let's try "To fix or not to fix, that is the question". On this we can be fairly clear. Fixing is for the fearful and variable is for the brave. Throwaway line but grounded in truth. If you borrowed a few bob 30 years ago and stayed on variable the whole time you'd be, on average, ahead of the fixed rate curve. That doesn't mean that through fortunate timing some fixed rate punters haven't done well, particularly if you fixed during a pandemic. Hope we never have one of those. If you sleep better knowing your loan payments are locked in go right ahead. For the rest of us variable is the go. Of course, there are numerous interest rate management options the banks will try and flog you. Hedging, caps, collars and split facilities, to name a few. My advice is to take the advice of Alan Bond, legendary businessman, borrower, fraudster and sailor. If you owe the bank \$1M you got a problem, if you owe them \$100M, they got a problem. Will fixing work for you? I have no idea.

Let's say you borrow some dough and want to preserve a few bob for emergencies. You also want to pay down debt as fast as you can. Maybe you want to park your money in an account that pays you no interest but offsets that balance against your loan balance. For you the interest rate question has been answered. It's gotta be variable. Provided your loan has a redraw facility and redrawing funds doesn't create a tax problem there seems no need for an offset account. Just pay off more than you must and know that if a nasty surprise arrives you can redraw the funds. The banks tend to promote offset accounts which seemed weird to me if a paydown and redraw facility is available.

Then I read ASIC's annual report on areas they will be focusing on in the banking industry. Turns out some banks hadn't been properly linking offset accounts to loans, and some hadn't been offsetting interest at the same rate. To be fair some banks self-reported these "discrepancies" while others got caught fair and square. I reckon these dramas are almost always related to outdated IT and rarely if ever an evil plot. Having said that, will the Australian banking industry ever sort out these dramas and cease paying fines to the regulator? I have no idea..... Do they?

In closing some clarifying remarks:

*RBA is the Reserve Bank of Australia, not Resort Brokers Australia.  
Stop it you guys.*

*Negative gearing is, of itself, a complete waste of time and money.  
Don't do it for its own sake.*

*Borrow as much as you can, make sure you spend the money on an  
appreciating income producing asset and pay it off as fast as you can.  
Debt is good but only if it builds wealth. Debt for a new TV is bad.  
Always trust your finance broker.*

*None of this is financial advice.  
Please consult someone who has an idea.*

*If you really want to be guided by Shakespeare, may I suggest Side 1,  
Track 2 of Making Movies. Will it change your life? I have no idea.*

*How did I become so opinionated and grumpy, and how does the  
managing director put up with me? I have no idea.*

In memory of my Dad, Ross Phipps (1935-2025), who loved these articles. What a great role model..... you have no idea.

Mike Phipps F Fin  
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At the time of writing, this was a forward-looking forecast, prepared without knowledge of any outcomes



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