



TIPS

Disclaimer:

Please note that the information contained in this report is for illustration purposes only, and is only to be used as an indicator of the progression of your personal situation given ideal conditions.

As we cannot accurately predict economic changes to interest rates, inflation and other indicators, or the manner in which individuals will conduct their personal financial affairs, it is impossible to determine the exact situation.

As accurately as possible, we have attempted to portray your financial situation given reasonably expected variables.

We cannot be held responsible for any economic changes or personal deviations outside our control and by no means is this report to be interpreted as an exact prediction.

PROJECTION ANALYSIS

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Completed
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Current Position (Assets)

Depreciating (e.g. cars, furniture, boat, other assets)	\$120,000.00
Appreciating (e.g. personal property, investment property, shares, cash, superannuation)	\$850,000.00
TOTAL	\$970,000.00

Current Position (Liabilities)

Mortgages (Personal and Investment)	\$450,000.00
Personal and Other Loans	\$25,000.00
Credit Cards/Store Cards	\$10,000.00
TOTAL	\$485,000.00

Nett Worth (Assets less Liabilities)

\$485,000.00

Current Cash-Flow

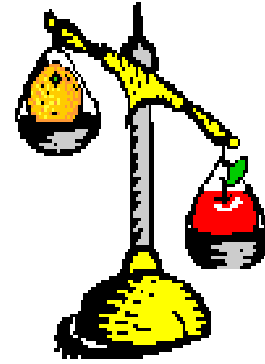
Total Nett Monthly Income (after tax)	\$7,593.00
Total Monthly Expenses (as per application)	\$5,166.00
TOTAL MONTHLY POSITION	\$2,427.00

Why Property?

People consistently compare the performance of property against that of shares, so that they can make a choice about where to invest.

In reality, no such comparison can or should ever be made as property and shares are *different* assets which behave differently from each other.

Additionally, they satisfy different needs in people, and so one should consider the features, benefits and risk factor of all assets before choosing one in which to invest.



People like property for many reasons...

It is stable in comparison to other investment vehicles.

When we buy property, rarely will it suffer fluctuations in price as share markets often can. In comparison, the value of a share portfolio of \$200,000 could vary either way in excess of \$5000 on any one day, and this is a characteristic we are not likely to see with property.

It will rise in value over time.

Property is a medium- to long-term investment. Understanding this about property *and* buying a well researched property will most likely see an increase in value over time.

Property which loses value in many cases was either purchased in an overheated market or sold to an unsuspecting buyer at greater than market value.

This has often been the case for many properties purchased by buyers in states away from where the property is situated, who have not carried out their due diligence.

Property can be purchased using home equity.

While it is true that you can certainly borrow against your home to invest in shares and managed funds, people generally prefer to use property equity to purchase more property. Banks also like property and will lend up to 95% of its value and often don't require the funds to be 'at-call'.

We feel like we know property.

We are born and raised in property and it doesn't seem to take any great financial skills to invest in it. There is no charting, plotting or second guessing the market.

It is this very familiarity with property which often leads us to make serious errors when we do purchase. It can make us a little careless in our choices.

All in all property satisfies our need to see and touch our investments, and get the feeling that we have some control over them, where paper-based investments generally don't satisfy this.

In addition, you only need equity in property somewhere (even your own home) to get started, not cash and so this is why so many people choose property.

It is for this reason that we believe property can provide a viable investment for people, without the high risks often associated with investing.

Property represents the opportunity to own something which, in almost every case, will not only maintain its original capital value but will steadily increase over time.

Property allows us to use what may be a small deposit (either as cash or as equity in other property) to obtain an investment often worth up to 5 times our own input (due to our ability to borrow).

The right way to buy property...

In the 80's and 90's when people were flying high on huge increases to property prices, it may have been OK to continually pay money from your own pocket each week on a property you were sure to sell for a huge gain.

Now, with property prices being a little less volatile, and with people choosing to hold property for the long term, the aim is to seek out property whose cash flow can become positive as quickly as possible.

We suggest building a portfolio which is geared to create a positive cash flow.

Quite simply this is where the income on the property portfolio, plus the tax breaks you receive from on paper deductions such as building depreciation, add up to being more than you need to pay the expenses.

Sometimes this occurs immediately, and at other times it may take a year or two for an individual property to become positive.

Your aim should always be to add to your portfolio, properties which are or can be turned positive within a short space of time as the more property you own, the greater your exposure to capital growth and hence the greater your own net worth and ability to buy more property.



Owning a \$200,000 house will mean that a 10% market increase will effectively give you \$20,000 more Net worth but, if you owned \$1,000,000 worth of property (simply by using the bank's money, the tenants money and the tax man's money) then a 10% increase will give you a \$100,000 nett worth.

Property and Risk...

When buying investment property, people often become careless. They choose property which they feel good about, or like in some way, which may not relate to its viability as an investment.

In addition to this, few people realise the importance of understanding different property types and their risk factors.

Many investors think they should choose the type of property which can deliver the highest yields, without stopping to consider if their own tolerance to risk can support an investment in a vehicle with that level of risk.

As with all investments... the higher the potential return on your investment... the greater will be the risk potential.

Commercial property will generally deliver higher yields than residential, but with a greater risk of vacancy and other problems.

Yields...

Usually when investors discuss 'yield' in its context for a property investment, they are considering the rental return as a percentage of purchase price.

For example, a property bought for \$150,000 with a 7% yield would return a rental of \$10,500 per annum, or about \$200 a week.



The problem with this type of measurement is that it does not take into account on-paper deductions which result in some of your tax being paid back to you and thereby increasing your cash flow.

If you purchased property simply based on the yield as mentioned above, you may miss out on some good opportunities.

Take the property below for example:

Income is \$10,500 per annum and costs are \$13,400 per annum.

This is a loss of \$2,900, on which an investor in the highest tax bracket would receive \$1,363 tax back.

The total income on this property is \$11,863 (the rent plus the tax return) while the costs are \$13,400, giving an overall loss of \$1,537 per annum, or \$30 per week.

Imagine if another property with the same price and rent return also had a range of on-paper deductions, such as Capital Works deductions (depreciation on the building) and furniture, fixtures and fittings depreciation.

Let's assume that, in year one, the investor had a total of \$5,000 available to claim against their tax.

The loss, only on paper, is now \$7,900 (actual loss of \$2,900 plus the depreciation of \$5,000) resulting in a tax return of \$3,713.

Total income is now \$14,213 and the expenses are \$13,400. This investor saw an after tax gain of \$813 per annum, and the income as a percentage of purchase price would become 9.4%!

Most 'investors' rarely measure yields this way and it is important that you are aware of how to do this, in order to get a true measure of return.

You should also know how to add your yearly growth to your calculations to assess what your true gain has been from your investment.

Depreciation...

All property investors must be fully conversant with tax deductions and, more importantly, depreciation and its impact on your investing.

When you buy property which was constructed after 1985, you are allowed to claim a range of deductions against your income.

Included in these allowable claims will be the depreciating value of both the building and the fixtures, fittings and furniture which are contained in the property.

Most people are unaware of just how valuable these deductions can be.

You will be most vulnerable in the early days of your property investing when you have borrowed the full purchase price and all of the costs.



To assist you to gain equity until such times as the property you have purchased begins to rise in value, you will want to create as much cash flow as you can.

Cash flow will allow you to reduce your debt so that, when the time comes for some of your tax deductions to run out (as they have a set period of time over which they can be claimed) your debt may be low enough so that the property can remain positive, even without needing these deductions.

Your aim will be, of course, to reduce your costs as much as you can during the period you are allowed to make on-paper claims.

These on-paper claims result in you getting back some of your tax with no corresponding cost being raised.

This extra money will help you to stay ahead in the early years of ownership.

Beware when buying an Investment Property...

There are a large number of people seeking to take advantage of unsuspecting investors by selling them poorly performing properties at grossly inflated prices, making it more difficult for the purchaser to gain equity in the short term.

Any projections we do for you will clearly illustrate whether you can truly afford your property purchase without affecting your current lifestyle.

Debt Facts...

One of the common misconceptions people have about debt is that the interest rate is the most important feature of the loan. People strive to secure the lowest interest rate possible, regardless of the other features of the loan.

In fact, it is the term of the loan, and its flexibility, which will have the biggest impact on how much you repay, rather than the actual interest rate.

For example, let's take a \$100,000 loan over a 10-year period:

A 6% interest rate would require a repayment of \$1,110 a month.
A 10% interest rate would require a repayment of \$1,321 a month, just \$211 more.

The difference in total interest repaid over the 10 years would be \$25,356.

If we took the same loan amount and increased the term to 25 years we would find the 6% interest rate would have a repayment of \$644 a month and the 10% interest rate would require a repayment of \$908 per month... \$264 more.

The difference in total interest paid is a staggering \$79,300.

Clearly, the term has a huge impact over the total amount repaid and the ultimate cost of the asset which was purchased with this loan.

This illustration shows that the true financial benefit of repaying your loans as quickly as you can is far greater than the actual dollars you use to repay that debt. If you can pay off your debts more quickly and ultimately pay less for your asset, as well as leverage sooner because you have gained equity more quickly, then you will be effectively consolidating your position in many ways.

You will be making money by paying less interest and you will be making money because you will be in a position to invest again, sooner, by gaining equity through the combined effects of debt repayment and natural market growth.



The power of repaying DEBT...

Let's look at a couple of examples to truly illustrate the power of effective debt repayment.

All of the following investors have realised the benefits of a property portfolio and have embarked upon a plan of their own. Most of them, however, have not also considered how important debt repayment can be in increasing the effectiveness of their plan.

In all of the following examples we will assume that the investor does not add to their portfolio of properties in a 15-year illustration period...although in reality they probably would.

Mary and John have a loan on a portfolio of properties worth \$1,250,000.

The loan amount is \$1m, and they make interest only repayments. The growth rate on their property portfolio is a conservative 6% per annum. After 15 years they still owe \$1m, their properties are worth \$2,826,000 and they have a net worth of \$1,826,000.

If we considered a conservative 5% return as viable for property, then Mary and John have assets which would deliver a nett return of \$91,300 in income to them, each year.

Louise has the same value of properties and the same value loan, only it is a 25-year P&I loan.

She makes the required monthly repayment diligently. Assuming the same growth rate on her properties, after 15 years Louise's net worth is \$2,217,283 and her income from this is a potential \$110,864 per annum.

Note that by making these repayments, and potentially losing some tax benefits in the short term, she has increased her yearly income by almost \$20,000.

Paul also has \$1,250,000 of property and a P&I loan of \$1m over 25 years.

He has been clever and his portfolio now delivers \$100 per week to him as a cash flow after he has paid all expenses and interest costs and claimed all deductions.

Rather than spend this, he uses it to gain equity in his loan and so he pays it as an extra repayment over and above his required monthly repayment.

Paul's net worth at the end of the 15-year period is \$2,354,632 (\$137,349 more than Louise despite paying only \$75,000 more in repayments) and his potential income from this sum is \$117,731 per annum.

Sylvia and Andrew have a line of credit loan for their property portfolio.

They have a combined gross income (from employment) of \$70,000 per annum with personal expenses (not including their mortgage repayment) of \$37,000 per annum and ensure that every cent of their income is paid into this loan, along with the positive cash flow they make from their property portfolio after paying all costs and interest and making all tax claims.

They draw money out to meet the personal expenses specified as and when they fall due with all cash not required to fund their lifestyle, left to accrue in the loan and offset interest.

Note that they do, however, meet all required personal expenses.

In just 12.42 years, their net worth position is \$2,826,000, giving them a potential net income per annum of \$141,300.

In reality, they, like all of the examples above, would have invested again, however their potential to invest again comes much sooner because of their debt reduction strategy and they can consolidate their position so much more effectively.

This report shows you how you can work towards an efficient property portfolio and debt reduction strategy like Sylvia and Andrew, and takes into account your own personal income and expenses.

As you can see, simply refinancing is not sufficient as your approach must be a complete one which may incorporate many strategies, not just one.

Using the correct tools...

Rapid mortgage reduction involves the use of a combination of financial tools to ensure that you have the best possible chance of achieving your goals.

You may have the correct loan, but unless you conduct your finances systematically you may end up in a worse position. So, reducing debt is more about the system or method, than it is about the products you use.

You may already have a home loan which allows you to offset interest and make extra repayments when you want to, and as long as this loan has all of the features that you will also need to invest in property (such as redraw to the full original limit and the ability to split for investing purposes) it is possible that you may be able to use this loan.

However, if the long term costs outweigh the benefits and your current loan is not flexible enough, you may need to refinance.

A line of credit is still a securitised mortgage, with the added benefit of unlimited redraw of any funds which have built up as credit to this account.

This means that you can, at any time, drawback to the full approved limit at any time, and this can be a quick and easy way to unlock loan equity for a deposit on new property.

There are many variations to a line of credit, some of which are useful and others which are too restrictive for rapid mortgage reduction.

In addition to a suitable loan, you will also need to use a credit card. It is your choice as to which lender you use to obtain this facility, but do be aware that some cards come with greater benefits than others. A low interest rate is not crucial, as you will never pay interest on this card. Some cards, however, will have excellent customer reward programs which could bring added benefits.

Understand your Risk Profile...

Always know your own attitude to risk before investing anywhere. All properties have different risk levels which in turn means, that not all properties are right for everyone.

While it is true that some property types have a greater return than others, it is also true that the higher the return, the higher the risk.

We recommend the completion of a Risk Profile Analysis as this may help you to identify which type of property is most suited to you personally and you will be clearer about what types of property to buy.

We suggest that you re-do this analysis annually, as risk profiles tend to change as you become more adept at investing.

Protect your wealth...

The most neglected aspect of every person's life... wealth protection is, quite simply, ensuring that you are prepared for any contingencies which may occur at any time in your life.

We spend a good part of our adult life accumulating assets and planning for the time when we can retire to enjoy them focusing our energies on "wealth creation" yet too many people spend their time trying to create wealth, without realising they have an even greater need ...wealth protection.



Very few people hesitate to insure their car or their house...leaving their two greatest assets unprotected...their income and their life! Statistics show us that from 25 to 35 years of age, disablement lasting one month or more is six times more likely than death!

How would you fare without income for this period of time?

Consider the following as tools to assist you with wealth creation...

Superannuation

For some years now, the federal government has been implementing laws which make it compulsory for all employers to make a commitment to the future of their workers by putting aside an amount equal to a percentage of their wage toward superannuation.

Superannuation is a great way to employ 'before tax dollars' in an investment strategy, so you should be also considering salary sacrifice to your superannuation if this option is offered by your employer.

Life Insurance

While we are enjoying good health, it is easy to overlook this important and inexpensive type of insurance, but imagine the impact on your family if you could no longer contribute to the all important task of paying off the mortgage and meeting the daily living expenses.

Many families who have not considered this have faced financial hardships in the face of the grief of losing a loved one.

People also underestimate the importance of a non working spouse being covered as the working spouse may be prevented from working in order to look after children if they do not have the funds to employ a nanny in the event of a spouse's death.

Trauma Cover

Trauma cover protects you against the risk of contracting a life threatening condition such as a heart attack, a stroke, cancer and many others and becoming unable to provide for your family.

Depending on the level of cover chosen, if the insured person falls ill with one of several conditions outlined in the policy, a lump sum payment is made to that person.

This is not a replacement for Income Protection Insurance as the lump sum is usually needed for medical bills or home alterations following a disablement ...so an income still needs to be provided for as a separate item.

Income Protection

The traditional Australian family today sees one spouse in full time employment, and the other either full or part time employed.

To maintain our standard of living in times of increasing costs most couples find it essential for two incomes to be contributing to the household. Yet few people ever stop to think about the impact of the sudden loss of one of these incomes through illness or accidents outside of the workplace.

Debt Reduction Analysis







Note: This strategy assumes paying all incomes into this loan and only drawing out required expenses (as per the completed application and an assumed mortgage interest rate of 9%)

Opening Balance	\$ 485,000.00	Year	\$ Balance	Year	\$ Balance
Year 1	453,933.22	Year 11		Year 21	
Year 2	417,317.25	Year 12		Year 22	
Year 3	377,266.45	Year 13		Year 23	
Year 4	333,458.60	Year 14		Year 24	
Year 5	285,541.28	Year 15		Year 25	
Year 6	233,128.99	Year 16		Year 26	
Year 7	175,800.06	Year 17		Year 27	
Year 8	113,093.28	Year 18		Year 28	
Year 9	44,504.17	Year 19		Year 29	
Year 10	Nil at 9y 8m	Year 20		Year 30	

Property Acquisition Strategy

Note: This Projection is based on the following assumptions:

- [1] Property Purchase Price of \$200,000
- [2] Average Rental Yield of \$260/week
- [3] Assumed Year 1 Depreciation of \$4,500
- [4] Assumed Yearly Costs of \$3,400
- [5] Assumed Average Property Growth Rate of 5% per annum

Number of Properties	Purchased
	Within the first 12 months
	Within the first 12 months
	Month 18
	Month 25 *
	
	

* required for potential retirement projection outcome

Projected Retirement Outcome

Current Age (client 1)	45
Current Age (client 2)	43
Preferred Retirement Age (client 1)	65
Preferred Retirement Age (client 2)	63
Likely Life Expectancy from Retirement Age (Based on current statistical data)	17.75
Likely Life Expectancy from Retirement Age (Based on current statistical data)	24.25
Current Total Superannuation Balance	145,000.00
Current Employer Contributions of 9% per annum	12,600.00
Years to Retirement (average)	20
Superannuation Balance at Retirement (assumed 5% return per annum)	770,648.00
Value of Property Investments (does not include existing residence)	1,356,389.00
Estimated Investment Debt (all investment debt assumed as "interest only")	800,000.00
Total Retirement Capital Available	1,327,037.00
Retirement Income (p.a) (assumed 5% return per annum)	66,351.85

Note: All figures indexed using estimated CPI figures of 3%p.a.

