THE ARMCHAIR GUIDE TO PROPERTY INVESTING

BUSINESS #1 BESTSELLER

How to retire on $2,000 a week

Ben Kingsley and Bryce Holdaway

If you're interested, here's what to expect from the rest of the book:

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PREFACE
The Truth Will Set You Free

Do you often find yourself daydreaming about how great life would be if you had enough money to do what you wanted to do?

Where you wouldn't have to worry about what was in the bank and whether it would be enough for now and for your future needs?

And, finally, you didn't have to actively go to work anymore to generate an income?

Have you ever allowed yourself to dream of having free time to take those regular overseas holidays each year, spend more time connecting with family and friends, or being in a financial position to give your kids the best education and learning opportunities?

Or what about being able to afford the best health care if things don't go as planned, pursuing your hobbies with passion and time, or simply spending your retirement without a worry in the world?

Taking that concept a little further, imagine having $2,000 a week to spend for life! And guess what – the kicker is that it should only require an investment of 10 hours of your time per property per year. That's right; per year, a little over a full day's work to manage each property within your property portfolio that can generate a passive income for that lifestyle you've always wanted.

You'll be able to sleep at night, rest easy and be safe in the knowledge that you can enjoy what you've worked for over your whole life. Let's put it another way – in today's money $2,000 a week is the equivalent of living off $104,000 each year, which would also put you in one of the highest brackets of retirement earnings in the country.

Sounds fantastic, doesn't it?

However, the Australian landscape currently paints a very different story of how our wealth is shaping up. Each year, more and more reports are released suggesting very few of us will have enough savings, superannuation and investments to comfortably retire on. Many will be forced to work longer in order to fund their retirement. It's really concerning and a fairly bleak picture, which is capitalised on by all forms of advertisements keen to get you to start acting more now in order to do less in the future.

How are these for some scary statistics…

20 per cent of our population own over 60 per cent of our private wealth and sadly the bottom 20 per cent of our population only own just 1 per cent of Australia's private wealth. The top 20 per cent control over 40 per cent of all income and the lowest earn just 7 per cent. It's very clear that the vast majority of Australians have no real idea about money, finance and investing. Their financial literacy and understanding is below where it needs to be. Those who are in the top 20 per cent are people who have mastered the concepts, theory, mindset, resources and overall knowledge of money, finance and investing. We'd also bet they have had and continue to have sound professional advisers guiding them and helping them plan, manage and take calculated risks to add to their wealth.

Unfortunately, making your money work harder for you and creating wealth is not easy; if it were, everyone would be rich and we'd all be laughing on the way to the bank. Yet wealth creation is a massive global industry.

Today, thousands of spruikers, so-called 'educators or coaches', advertise get-rich-quick programs, offering 'secret formulas' or the 'one strategy that really works' to vulnerable and uneducated subscribers who happily fork out cash and expect instant life-changing results. Then there are the countless ways to control money, access finance, invest and implement different investment strategies, each covered off in the thousands of books that have been written over time.

Creating personal wealth through property investing is a multibillion-dollar industry, but sadly, there is a lack of independent property advice and quality research that supports some investment decisions. These get-rich-quick schemes might sound great on stage at the promoters' seminars or in their slick video productions but on closer investigation they reveal massive shortcomings.

The most obvious shortcomings relate to them presenting and 'pushing' a strategy that doesn't take into account your own personal financial situation, your risk profile to investing, your investment and retirement timeframes. There is nothing offering a complete solution tailored to you and your circumstances. It's just 'cookie cutting' – these off-the-shelf sales pitches are far more likely to result in these spruikers getting rich than you! Think of it like this, the guys selling the mining tools generally end up making more money than those actually doing the mining. Don't even get us started on how they 'gloss over' all the detail that goes into investing in property.

Our motivation for writing this book is not one of documenting our own personal success as property investors, as many of these self-help style books do. Instead, our motivation stems from trying to stop individuals from getting fooled by these smooth-talking, well-scripted spruikers, by showing you how it's done when you work with true, qualified professional advisers, who choose this as a career.

Our 'armchair' approach is all about presenting the real facts, figures, theories, risks and strategies in a proven framework and process that's easy to read, easy to understand and, hopefully, even easier to implement into your life – just as if you were having a professional consultation with us.

We strongly believe that 'the truth will set you free'. We will dispel the myths, shut down the spruikers and demonstrate to you our fundamental philosophy – that every Australian can improve their financial position.

For us, it all boils down to quality and balanced information – the good, the bad and the ugly – because if you have the right tools, process and knowledge, you will be better prepared to make informed and calculated decisions. These decisions aren't based on hype or fear, or a one-size-fits-all approach. Our view is simply that without sound knowledge and a proven professional approach, you're flying blind.

We will cut through the noise in the money and wealth creation space by addressing the fundamental principles – foundation, theory and action – which we all should learn and fully understand. Your understanding of and competency in this information is the knowledge that should propel you on your journey to a vastly improved financial position over the long term. With the right education, you'll be able to much more effectively carve out a holistic, tailor-made solution to suit yours and your family's needs. As qualified and experienced professionals in our fields, we know there are complex variables, assumptions and investment parameters which can be overwhelming for most just starting out.

Yet in writing this book, we have adopted the 'KISS' (keep it simple, stupid) approach to keep it as easy as possible to understand. Just imagine that we're all having a chat over a coffee at your place, presenting some ideas and giving you our two-cents worth of what's worked for us and our clients that can just as equally work for you. If our hundreds of clients can understand it and benefit from it, then hopefully you can too!

Finally, before you start this book and your potential new pathway to improved wealth, we want to congratulate you for allocating time out of your busy life to invest in yourself and your potential to be what you want to be. We hope this book contributes in a positive way to your journey of discovery and eventual fulfilment.

Ben & Bryce

Melbourne, 2016

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Congratulations! You've made it to the most important chapter of all – this is where we show you how to earn $2,000 a week from your property investments. This will allow you to retire – if that is your preference – or at least give you the freedom to choose whether or not to continue working. We've spent the last chapter showing you our 18 top strategies and now it's time to see how to apply them to our range of demographic scenarios that will each yield that magical figure. And let's be clear – the scenarios will enable you to cover all your costs as well as control a multi-million-dollar property portfolio, which will continue to deliver a passive income of $2,000 a week well into the next generation. Sounds OK, doesn't it?

Over the years we've met very similar client types, and these case studies are based on the six most common investors who walk through our door every year (before we apply our own sophisticated modelling and advice). By presenting portfolios that represent our most typical clients, hopefully they will be relevant to you in one way or another and you can apply the same rules for your own situation. It goes back to our 'armchair philosophy' that anyone can create wealth if they have the right tools, the right approach and the best team helping them.

Another important aspect about our scenarios is that you don't need to start out as a millionaire to achieve the $2,000 a week target. As we outlined at the beginning of this book, we'll show you how typical Australian households can keep the money rolling in and make their dreams come true.

Having said that, we are conservative property investors and advisers by nature, so these case studies haven't been quickly dreamt up. They are based on the combined decades of experience and knowledge of our qualified advisers who make up a committee that is highly skilled in creating and developing tailored property wealth plans and solutions for our clients. We hope you can immediately identify with at least one of these scenarios, but even if you find yourself straddling between two, we've given you enough information to allow you to apply them to your own situation.

We should also mention that this section is not a one-size-fits-all solution. This is because every client is different and it's inappropriate – and impossible – to include everyone in the same basket. We've already discussed the benefits of working with a good property investment team that will create a tailored solution to suit your specific requirements, so we'd highly recommend you get some professional help to set it all up before you jump in. We've done the numbers though so you're getting the benefit of our wisdom!

As you read through the scenarios, you'll see that we've tried to make them as easy as possible for you to understand. If you're a regular reader of our articles and listener to our podcast – The Property Couch – and have watched our videos, you might already be familiar with one or two case studies, but essentially here we showcase a portfolio plan that we've created to suit a particular demographic. We show you the numbers straight up and you'll be able to understand them straightaway.

What are the scenarios?

We pressure-tested the household budgets and life circumstances of a cross-section of the community. We wanted the case studies to be realistic and based on potential real-life scenarios, otherwise they lose their effect. So without further ado, here are our six case studies for you:

- ➔ **Rentvestor.** Our single person who is just dipping his or her toes into the investment market and stepping onto the property ladder for the first time
- ➔ **DINKS.** 'Double income no kids'. This growing market usually comprises a mid-30s couple without children
- ➔ **Couple with young kids.** This scenario is all about unlocking the equity in your home and putting it to work
- ➔ **Older couple with older kids.** Making up for lost time; there's a bit to do here to make it work as you're starting a little later than most
- ➔ **Empty-nesters.** These guys also fall into the 'making up for lost time' basket but we show you how it can still be done

- → **Divorcee.** Facing the tough challenges of raising a family on a single income. We show you how to protect yourself but provide growth at the same time.

How did we do it?

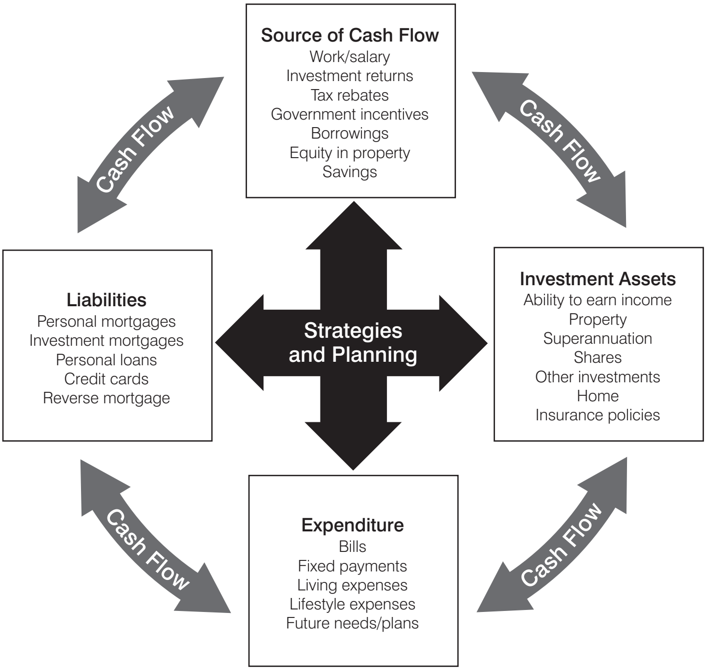
The case studies in this book have been developed using our professional advisory skills and our proprietary software called the Property Wealth Planning Simulator. The simulator was actually developed out of a need to help our own families make important property investment decisions, and to make some sense of the complexities of cash flows, offset accounts, taxation and multiple loan accounts, growth and yield forecasts and projections. Many years ago now, we were finding all of this very difficult to understand, let alone then trying to model future plans and the cash flow needed to ensure we could achieve what we wanted to achieve personally and financially without making any big fundamental or financial mistakes.

With the help of one of our business partners, Michael Pope, we spent a period of two years developing our projection and forecasting modelling software package. This software is specifically designed for people who want to build multiple property portfolios to provide themselves with a self-funding retirement income.

Today, the program has helped us develop more than $750 million worth of property investment plans for our clients and has also helped Ben win the Property Investment Adviser of the Year award for the last two years running – 2014 and 2015.

To best understand our case studies you need to understand all of the moving parts. There are a lot when you are striving for a true and accurate indication of current and future cash flow and wealth creation outcomes using a simulator on modellings, assumptions, forecasts and projections. We're really pleased to share with you the framework and assumptions we used to help us build this wonderful software program and all the considerations within it, so that when you are doing your own modelling you will know what variables and assumptions to use in your models.

Figure 16: Money and wealth accumulation model



The list below shows 'variables' and 'assumptions' to consider when modelling sophisticated money and wealth outcomes :

- Current salary and wages income
- Current other income
- Current taxation rates
- Current spending levels
- Current bill payment amounts
- Current value of family home
- Current savings
- Current superannuation balances
- Current superannuation contributions
- Current value of investments
- Current investment expenses
- Current investment yield returns
- Current borrowings
- Current interest rates
- Current rental yields
- Current value investment property/s
- Current property management fees
- Current maintenance expenses
- Current occupancy rates
- Current property investment expenses
- Current loan payment amounts
- Future salary and wages income
- Future other income
- Future taxation rates
- Future spending levels
- Future bill payment amounts
- Future value of family home
- Future savings
- Future superannuation balances
- Future superannuation contributions
- Future investment growth rates
- Future investment expenses
- Future investment yield returns
- Future borrowings
- Future interest rates
- Future rental yields
- Future property value growth rates
- Future property management fees
- Future maintenance expenses
- Future occupancy rates
- Future property investment expenses
- Future loan payment amounts
- Expected one-off lump sum incomes
- Expected one-off expenditures
- ATO income-variation impacts
- Future spending variations
- Depreciation cash flow add-backs
- Short-term income variations
- Long-term income variations
- Short-term expense variations
- Long-term expense variations
- Future property purchase expenses
- Future new loan balances
- Future land tax commitments
- Constant income monitoring
- Constant expenditure monitoring
- Regular investment performance reviews
- Regular investment performance adjustments
- Regular provisioning – income adjustment
- Regular provisioning – expenditure adjustment
- Regular adjustment variables percentage
- Regular review of assumptions percentages
- Your discipline to make it happen

When you think about it, this framework is absolutely the way it should be. As we've mentioned, property investing is a business and just like any business you need to create a business plan to become what you plan to become. All sound businesses make financial projections – you wouldn't see BHP-Billiton building a mine without a detailed financial and feasibility assessment – and that's why they are so successful, they have a plan. Use the same approach so you don't embark on building your $2,000 per week passive income without a game plan.

What are the assumptions?

To help you understand the level of detail that goes into these models without causing you a panic attack, it's important we highlight for you the general assumptions we've made within each case study:

- ➔ All income is forecast to grow at 3 per cent p.a.
- ➔ All expenditure is forecast to grow at 3 per cent p.a.
- ➔ Employer superannuation guarantee (SG) contributions are 9.5 per cent of gross wages
- ➔ Savings in the bank earn interest of 3 per cent p.a.
- ➔ All existing and new lending is assumed to be incurring 6 per cent interest costs
- ➔ Superannuation returns are assumed at 6 per cent p.a.
- ➔ All property acquisition costs are set at 6 per cent of the purchase price
- ➔ Taxation rates are current as at 2015-16 settings, indexing at 3 per cent p.a.
- ➔ The ongoing cost of holding and maintaining the property in good letting order is 1.5 per cent of initial purchase costs – increasing at 3 per cent p.a.

- ➔ Property management fees are 7.7 per cent
- ➔ Occupancy rates are set at 92 per cent (assumed vacant for four weeks of each year)
- ➔ No depreciation has been assumed in the modelling of any purchased property.

It should be no surprise that our key vehicle to generating our $2,000-a-week passive income is property. We're definitely not anti-shares or anti-traditional superannuation or anti-business; in fact, our firm actively provides advisers in all of these asset classes. But as we've clearly shown in this book our skillsets and qualifications are property-based and we have fine-tuned our knowledge over decades as property investors and property advisers.

Property is a tangible and easy-to-understand investment that will always be worth something as bricks and mortar. Furthermore, the banks love it, because they will lend to a higher loan-to-value ratio and at a lower interest rate than any other asset class they take as the security.

Finally, it's impossible to know where every one of the investment properties will actually be bought, considering that these are projections over the next decade and we don't know where the market will be headed. But we are confident that the properties do exist now in the current market, so we have every confidence that our scenarios will work in the future.

So here we go! We hope that these case studies will show you that even with different financial situations, following a set and proven process and formula for success will enable you to achieve the fantastic result of becoming a self-funded retiree!

CASE STUDY 1: Single (Rentvestor)

Meet Adam, age 25 (born 1990). You may have seen this term 'rentvestor' in the media lately; it's a hybrid of rent and investor. We're big fans of it because it neatly sums up the emerging market of young people choosing to rent in the inner city and buying an investment property in a more affordable suburb. Adam rents in a location he wants to live in, but where he can't afford to buy – so he's smart. Instead of waiting a long time, saving and saving so he can one day buy into the market where he wants to live, he's decided he's going to invest in property and keep renting. He's worked out that if he took out a large mortgage on a property to live in, he would be paying a lot more in loan repayments than what he pays in rent to live in this area. So instead, his plan is to put this money into several investment properties and he can have the people who rent them and some tax refunds help him pay them off over time and build a $2,000 per week passive income for his retirement.

Let's take a look at his current financials to paint a better picture:

Income

Adam currently earns $70,000 p.a. gross, and after tax and Medicare his net income is $54,303. His employer pays SG of $554 per month into his superannuation fund.

Outgoings

Now let's take a look at his expenses. His monthly bills and spending total $31,880 over the year.

Current Cash Flow Position	Monthly	Annually
Total Income	$4,525	$54,303
Total Expenses	$2,657	$31,880
Cash flow Surplus/Deficit	$1,869	$22,423

But that doesn't paint the whole picture. Adam has some assets contributing to his net worth and some liabilities reducing it. Adam's only liability is $500 owing on his credit card, so his current net worth position is:

Assets	Value
Securable Assets: Bank savings	$52,000
Unsecured Assets: Household effects, car and super	$61,000
Total Assets	$113,000
Total Liabilities	$500
Current Net Worth	$112,500

It's pretty obvious with this net worth position that Adam needs to do something. Other than the cash, which might earn some interest in the bank, the other assets he owns will actually depreciate in value over time and his savings and projected superannuation come retirement are around $850,000. If Adam were to try to live off $2,000 per week his money would run out very quickly indeed.

Adam isn't happy with this and has sought help and advice to build a plan to buy a series of investment properties over this journey that will turn his current situation on its head. The good news for Adam is that he has time on his side given his age, and he also wants to achieve his target earlier than the standard retirement age of 65. He is hoping to hit his $2,000 per week passive income at the young retirement age of 55 in 2045.

That being said, he also has to factor in some future costs to his household, which include replacing his car every 10 years and given he is going to invest in property and use lenders mortgage insurance (LMI), these costs also need to be accounted for:

Future Expenditure	Amount	Frequency	Date
Mortgage Insurance	$3,200	Once off	March 2016
Mortgage Insurance	$6,200	Once off	March 2020
Car Purchase	$20,000	Once off	June 2022
Car Purchase	$20,000	Once off	June 2032
Car Purchase	$20,000	Once off	June 2042

Investment property portfolio strategy

Here is our proposed investment strategy for Adam.

Investment Property 1

Present Value Purchase Price:	$250,000
Purchase Timing:	March 2016
Ownership Structure:	Adam

Capital Growth p.a	Yield p.a.
5.00%	6.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
No Vacancies	Scarce Diamond – Regional
The Non-Aspirer	Reliable and Durable
Boomtowners	Shoulder Rider
	Slice and Dice – Regional

Investment Property 2

Future Value Purchase Price:	$441,867 (Present Value Price $350,000)
Purchase Timing:	March 2020
Ownership Structure:	Adam

Capital Growth p.a.	Yield p.a.
6.00%	5.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
Waver Rider	Reliable and Durable
Changing Places/Changing Faces	Scarce Diamond
The City Fling	Ugly Duckling
No Vacancies	Shoulder Rider

Investment Property 3

Future Value Purchase Price:	$744,748 (Present Value Price $450,000)
Purchase Timing:	March 2024
Ownership Structure:	Adam

Capital Growth p.a.	Yield p.a.
6.50%	4.50%

Area/Location Strategy/ies	Property Selection Strategy/ies
Proven Performer	The Piggy Backer
Changing Places/Changing Faces	Reliable and Durable
Wave Rider	Scarce Diamond – Regional
City Fling	Ugly Duckling

Summary

Description	Target Purchase Price	Target Date	Target Growth	Target Yield
Residential Property 1	$250,000	Mar 2016	5.00%	6.00%
Residential Property 2	$441,867	Mar 2020	6.00%	5.00%
Residential Property 3	$744,748	Mar 2024	6.50%	4.50%

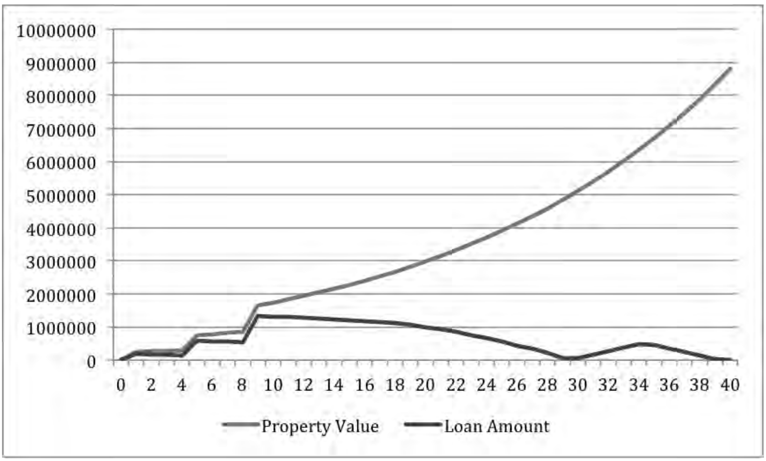
Below is the lending story associated with building this portfolio of properties. It's worth pointing out that when forecasting the purchase of each property you must also factor in borrowing a higher amount of money, which still needs to be paid off over the journey to allow that passive income to hit your back pocket and not the bank's.

Description	Loan Amount	As At	Monthly* Repayment	Loan Type
Loan for Property 1	$228,200	March 2016	$1,141	Int Only
Loan for Property 2	$405,508	March 2020	$2,028	Int Only
Loan for Property 3	$789,433	March 2024	$3,947	Int Only

*We assume a 6% interest rate on each loan

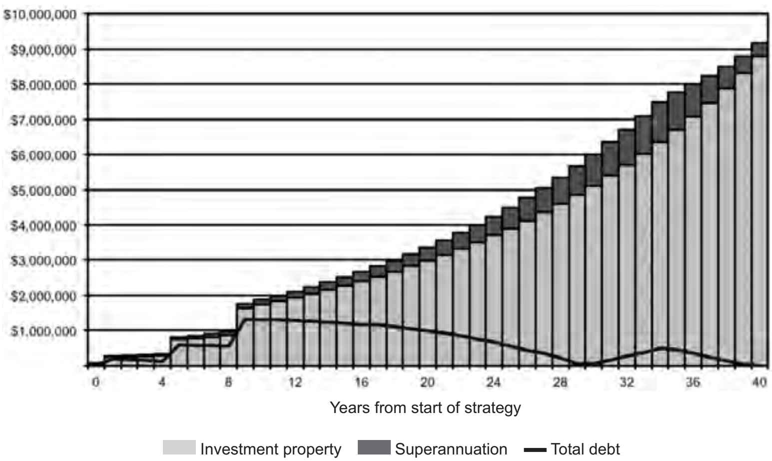
The future looks bright…

The table overleaf provides an excellent insight into the value of Adam's growing portfolio and the debt being paid down over time. *(It does look a little surreal when you see the potential value of the assets over a very long period of time, but that is the power of compounding interest, based on the value growth projections we estimated within the plan, which comes from historical growth rate returns that have occurred over the past 30 plus years!)* The weekly rent being collected will create the passive income Adam is after. If you are paying attention you will see the debt level actually increases after 30 years, which is caused by the fact that Adam doesn't yet have access to his superannuation. He needs to wait another five years before he can access this and when he does he can then pay down the debt and enjoy the spoils.



The fruits of Adam's labour are evident in the projections and forecast outcomes if Adam stays true to this plan. His rentvesting strategy will give him the flexibility to move around, rent and live where he likes, in the knowledge his property portfolio will grow over time and, hopefully, deliver the six figure passive investment returns for his efforts. You can see that by accumulating his assets he will successfully be able to reach $2,000 per week passive income, as well as retire at the younger age of 55 in 2045.

		Financial Position at		
Description	Now 2016	10 Years 2026	20 Years 2036	Retirement 2045
Savings and Super	$73,000	$130,654	$385,030	$851,051
Investment Property	–	$1,740,824	$2,979,881	$5,112,976
Other Investments	–	–	–	–
Total Investment Assets	–	$1,740,824	$2,979,881	$5,112,976
Total Assets	$73,000	$1,871,478	$3,364,911	$5,964,028
Total Debt	–	$1,312,752	$993,318	$0
Net Worth	$73,000	$558,726	$2,371,592	$5,964,028
Nest Egg (Investments)	$73,000	$558,726	$2,371,592	$5,964,028
Nest Egg (In Present Value Terms)		$415,745	$1,313,093	$2,529,799



CASE STUDY 2: DINKS

Meet Brian and Claire; our mid-thirties couple without kids. They fit the perfect DINKS profile – 'Double Income No Kids' – which you also may have read about in the media. There are more and more DINKS entering the market. Like many in this category, Brian and Claire have chosen not to have their own family as they are keen to retire early instead and live off their passive income. They have their family home locked away, as well as some equity to leverage from, which means their future situation looks very promising. As such, they are striving to be heading into retirement in 2042 at the tender ages of 55 and 54 respectively.

Let's take a look at their current financials to paint a better picture:

Income

Brian's gross income is $72,000 p.a. and Claire's is $78,000 p.a. After tax and Medicare Brian's net income is $55,615 and Claire's is $59,543. Their employer SG is $1,188 per month paid into their super funds.

Outgoings

Now let's take a look at their expenses. Their monthly bills and spending total $57,500 over the year.

Mortgage

Secured against their home is a mortgage of $300,000 with an interest rate of 5 per cent and a principal and interest repayment of $1,610 per month.

Current Cash Flow Position	Monthly	Annually
Total Income	$9,596	$115,156
Total Expenses	$4,792	$57,500
Mortgage Payments	$1,610	$19,326
Cash Flow Surplus	$3,194	$38,330

As you have heard us bang on about in this book, cash flow management is absolutely critical to manage the leverage you undertake when you build up your property portfolio. This case study is one example of taking control and managing that cash flow. Basically, the plan for Brian and Claire is to switch their loan over to an interest-only loan on their current home mortgage, which as we see will release an extra $360 per month to support any investment mortgages planned as they acquire their property investment portfolio.

Restructured Cash Flow Position	Monthly	Annually
Total Income	$9,596	$115,156
Total Expenses	$4,792	$57,500
Mortgage Payments	$1,250	$15,000
Cash flow Surplus	$3,555	$42,656

Here is their assets and liabilities story:

Assets	Value
Bank savings	$50,000
Household effects	$55,000
Superannuation	$180,000
Home	$550,000
Total assets	$835,000
Liabilities	**Value**
Credit Card	$750
Mortgage	$300,000
Total Assets	**$835,000**
Total Liabilities	$300,750
Current Net Worth	$534,250

With two incomes that won't be interrupted by the raising of children, you can see that this couple has more surplus cash now and into the future. It's true that money makes money so those who choose not to have children – DINKS – simply have more surplus cash flow. Not only can they enjoy uninterrupted income but also they have no ongoing costs associated with housing, feeding and educating children.

Still, there are some future expenses that need to be factored in, such as a provision for starting some new hobbies from 2017 onwards, a special holiday and replenishing their cars over their journey:

Reason for Future Expenses	Amount	Frequency	Start
Allocation to New Hobbies	$10,000	Yearly	Sept 2017
Car Replacement	$30,000	Once off	June 2020
Special Holiday	$25,000	Once off	Jan 2022
Car Replacement	$30,000	Once off	June 2028
Car Replacement	$30,000	Once off	June 2036

Investment property portfolio strategy

Now it's time to see what's possible for Brian and Claire.

Investment Property 1

Purchase Price:	$550,000 (Present Value: $550,000)
Purchase Timing:	March 2016
Ownership Structure:	Joint

Capital Growth p.a.	Yield p.a.
7.00%	4.25%

Area/Location Strategy/ies	Property Selection Strategy/ies
The Proven Performer	Reliable and Durable
Rare Earth	The Shoulder Rider
The Wave Rider	Scarce Diamond
Changing Places/Changing Faces	

Investment Property 2

Purchase Price:	$579,816 (Present Value: $480,000)
Purchase Timing:	March 2019
Ownership Structure:	Joint

Capital Growth p.a.	Yield p.a.
6.50%	4.50%
Area/Location Strategy/ies	**Property Selection Strategy/ies**
City Fling The Wave Rider Rare Earth The Proven Performer	Reliable and Durable Ugly Duckling The Piggy Backer

Investment Property 3

Purchase Price:	$925,981 (Present Value: $600,000)
Purchase Timing:	March 2022
Ownership Structure:	Joint

Capital Growth p.a.	Yield p.a.
7.50%	4.00%
Area/Location Strategy/ies	**Property Selection Strategy/ies**
Million Dollar Strip The Proven Performer Rare Earth City Fling	Scarce Diamond The Piggy Backer

Summary

Description	Target Purchase Price	Target Date	Target Growth	Target Yield
Residential Property 1	$550,000	Mar 2016	7.00%	4.25%
Residential Property 2	$579,816	Mar 2019	6.50%	4.50%
Residential Property 3	$925,981	Mar 2022	7.50%	4.00%

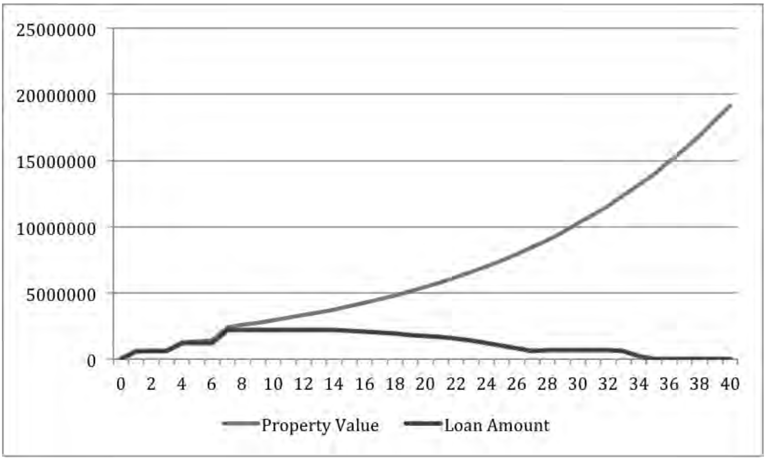
Opposite is the lending story associated with building this portfolio of properties, and it only takes three investment properties!

Description	Loan Amount	As At	Monthly* Repayment	Loan Type
Mortgage	$300,000	March 2016	$1,250	Int Only
Personal Buffer – Car Provision	$50,000	March 2016	$250	Int Only
Loan for Property 1	$583,000	March 2016	$2,915	Int Only
Loan for Property 2	$614,605	March 2019	$3,073	Int Only
Loan for Property 3	$981,540	March 2022	$4,908	Int Only

*We assume a 6% interest rate on each loan

It only took three investment properties…

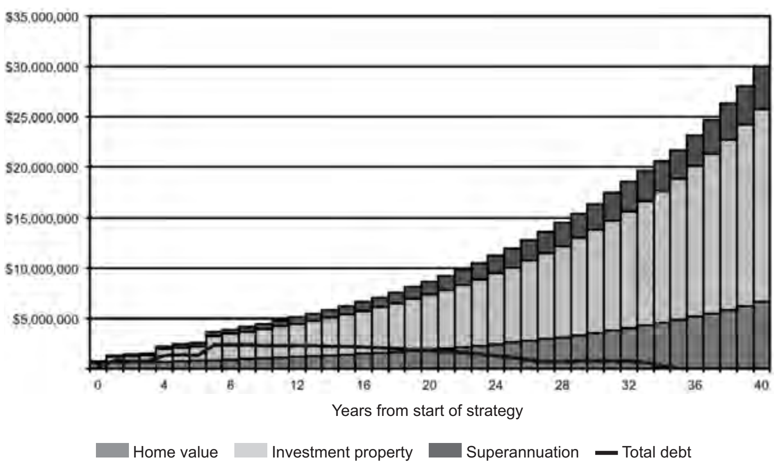
With just three investment properties, all with capital growth as the major focus, Brian and Claire can get the job done at such an early age. In fact, this couple could buy more and build themselves a bigger portfolio if they wished.



What we like about this strategy is that from a passive investment point of view, they only have three properties which makes their portfolio very easy to manage. Given the properties are expected to be bought in sound growth locations you'd like to think that the tenants these properties attract are respectful of the properties and will look after them. So there is little for Claire and Brian to do except get on with their international travels and enjoy the experiences that await them.

We've calculated that $104,000 in today's dollars is all ready for them to enjoy each year for the rest of their lives from 2042. You can also see that the value of their wealth continues to increase, so as time passes, they'll be worth even more.

		Financial Position at		
	Now	10 Years	20 Years	Retirement
Description	**2016**	**2026**	**2036**	**2043**
Savings and Super	$180,000	$523,331	$1,267,827	$2,146,160
Investment Property	–	$2,913,546	$5,454,376	$8,466,124
Total Investment Assets	–	$2,913,546	$5,454,376	$8,466,124
Personal Assets	$550,000	$1,024,376	$1,907,900	$2,770,854
Total Assets	$730,000	$4,461,252	$8,630,104	$13,383,138
Total Debt	$250,000	$2,312,171	$1,779,915	$680,959
Net Worth	$480,000	$2,149,081	$6,850,189	$12,702,178
Nest Egg (Investments)	-$70,000	$1,124,706	$4,942,289	$9,931,325
Nest Egg (In Present Value Terms)		$836,887	$2,736,425	$4,470,974



Who's paying attention? What appears to be quite 'interesting' in the above chart which predicts out beyond retirement to 2046 is that the debt increases in value from the years 2043 ($680,959) to 2046 ($742,394), yet their superannuation and savings total over $2.146 million. So why haven't we just paid the debt out?

This is because the vast majority of this is actually their superannuation balance and under current laws this money can't be touched until they turn 60 years old. So as they are retiring at 55 and 54 years of age, why wait to get access to super? Instead, they're actually using the money they have stored up in their offset accounts to enjoy their retirement and when they do hit 60, they can retire this debt and retain all properties as their retirement rent roll. Nice hey!

CASE STUDY 3: Couple with young kids

Meet David and Liz; a couple in their late 30s. They have two children: Francis, who's six years old and his sister Grace, who's four years old. Francis is in primary school and Grace is finishing up in child care and about to start primary school. David works full time and Liz works part time. They currently hold no investment properties but are looking to build up a property portfolio to assist them in achieving a retirement date target of 2037 and generating a $2,000 per week passive income. This will see David retire at the age of 60 and Liz at the age of 59.

Let's take a look into their current financials to paint a better picture of their situation:

Income

David's wage is $95,000 p.a. and Liz's is $56,000 p.a. After calculating share income, tax and Medicare, David's net income is $70,552 and Liz's is $45,293. Their combined employer SG is $1,195 per month paid into their super funds.

Outgoings

Now let's take a look at their expenses. Their monthly bills and spending total $58,870 over the year.

Mortgage

Secured against their home is a mortgage of $320,000 with an interest rate of 5 per cent and a principal and interest monthly repayment of $1,718.

Current Cash Flow Position	Monthly	Annually
Total Income	$9,654	$115,845
Total Expenses	$4,906	$58,870
Fixed Payments	$1,718	$20,614
Cash Flow Surplus/Deficit	$3,030	$36,361
Restructured Cash Flow Position	**Monthly**	**Annually**
Total Income	$9,654	$115,845
Total Expenses	$4,906	$58,870
Fixed Payments	$1,420	$17,040
Cash Flow Surplus/Deficit	$3,328	$39,935

Here is their Assets and Liabilities story:

Assets	Value
Bank savings	$36,000
Shares	$22,000
Household effects	$85,000
Superannuation	$264,200
Home	$650,000
Liabilities	
Credit Card	$1,150
Mortgage	$320,000
Summary	
Total Assets	$1,057,200
Total Liabilities	$321,150
Current Net Worth	$736,050

With two young kids, their education costs will increase as they head into secondary school, before those costs end and eventually their kids leave home. But the provision for their kids continues as they set aside some savings for special holidays and also a couple of very special wedding gifts. In addition, they plan some renovations for their current home. These future changes to expenditure are outlined below.

Reason	Amount	Frequency	Time Period
Special Family Holiday	$15,000	Once off	July 2020
Increase In Education Fees (High School)	$5,000	Yearly	2022 to 2028
Replacement Car	$35,000	Once off	June 2023
Increase In Education Fees (High School)	$5,000	Yearly	2024 to 2030
Replacement Car	$20,000	Once off	June 2025
Special Family Holiday	$15,000	Once off	July 2025
Home Renovations	$30,000	Once off	Sept 2028
Replacement Car	$35,000	Once off	June 2033
Replacement Car	$20,000	Once off	June 2035
Contribution to Wedding	$15,000	Once off	Sept 2040
Contribution to Wedding	$15,000	Once off	Sept 2042

Investment property portfolio strategy

It's now time to see what's possible for David and Liz.

Investment Property 1

Purchase Price: $500,000 (Present Value: $500,000)
Purchase Timing: April 2016
Ownership Structure: David

Capital Growth p.a.	Yield p.a.
7.00%	4.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
The Proven Performer	The Piggy Backer
Rare Earth	Scarce Diamond
Million Dollar Strip	Reliable and Durable
City Fling	The Shoulder Rider

Investment Property 2

Purchase Price: $359,552 (Present Value $320,000)
Purchase Timing: March 2018
Ownership Structure: Joint Ownership

Capital Growth p.a.	Yield p.a.
6.00%	5.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
Changing Places/Changing Faces	Reliable and Durable
City Fling	The Shoulder Rider
No Vacancies	Ugly Duckling
The Wave Rider	

Investment Property 3

Purchase Price:	$656,614 (Present Value $450,000)
Purchase Timing:	March 2022
Ownership Structure:	David

Capital Growth p.a.	Yield p.a.
6.50%	4.50%

Area/Location Strategy/ies	Property Selection Strategy/ies
The Proven Performer	Scarce Diamond
Rare Earth	The Piggy Backer
Million Dollar Strip	The Shoulder Rider
Changing Places/Changing Faces	Reliable and Durable

Investment Property 4

Purchase Price:	$284,420 (Present Value $200,000)
Purchase Timing:	September 2024
Ownership Structure:	Joint Ownership

Capital Growth p.a.	Yield p.a.
4.50%	6.50%

Area/Location Strategy/ies	Property Selection Strategy/ies
No Vacancies	Reliable and Durable
The Boomtowners	The Shoulder Rider
Non-Aspirers	Ugly Duckling
The Wave Rider	

Summary

Description	Target Purchase Price	Target Date	Target Growth	Target Yield
Investment Property 1	$500,000	Apr 2016	7.00%	4.00%
Investment Property 2	$359,552	Mar 2018	6.00%	5.00%
Investment Property 3	$656,614	Mar 2022	6.50%	4.50%
Investment Property 4	$284,420	Sep 2024	4.50%	6.50%

Below is the lending story associated with building this portfolio of properties:

Description	Loan Amount	As At	Monthly* Repayment	Loan Type
Mortgage	$320,000	March 2016	$1,420	Int Only
Personal Buffer	$50,000	April 2016	$250	Int Only
Loan for Property 1	$530,000	April 2016	$2,650	Int Only
Loan for Property 2	$381,125	March 2018	$1,906	Int Only
Loan for Property 3	$696,011	March 2022	$3,480	Int Only
Loan for Property 4	$301,485	Sept 2024	$1,507	Int Only

*We assume a 6% interest rate on each loan

Four investment properties is our target

David and Liz's property portfolio strategy has a blend of growth assets mixed with a balanced and high-yielding asset, which we often refer to as a 'cash cow'. The timing of each type of purchase is important to understand, given theirs will be when the kids are at secondary school and the household cash flow is less. It's a case of acting sensibly and within one's means during this time, which is why we have recommended higher-yielding properties to ensure the household cash flow position is not too constrained.

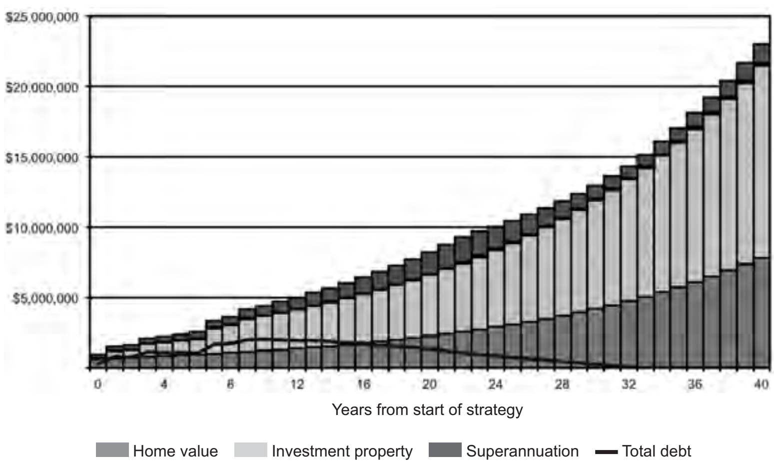
You should also pick up that we have used some of the equity they have in their family home to provide a personal buffer loan in the event of any emergencies. This buffer means David and Liz don't need to panic, as this money buys them some time to work things through and get back on their feet so to speak.

The graph above tells a story of the value of the portfolio growing nicely and the overall debt being paid off. So the full picture of how David and Liz will achieve a passive income of $2,000 per week in 2037 looks like this:

		Financial Position at		
Description	**Now 2016**	**10 Years 2026**	**20 Years 2036**	**Retirement 2037**
Savings and Super	$264,200	$680,106	$1,555,169	$1,778,465
Investment Property	–	$2,475,400	$4,360,333	$4,885,538
Other Investments	$22,000	$37,579	$64,191	$67,721
Total Investment Assets	$22,000	$2,512,979	$4,424,524	$4,953,259
Personal Assets	$650,000	$1,210,626	$2,254,791	$2,399,474
Total Assets	$936,200	$4,403,711	$8,234,484	$9,131,198
Total Debt	$284,000	$2,004,417	$1,317,447	$1,045,478
Net Worth	$652,200	$2,399,294	$6,917,037	$8,085,720
Nest-Egg (Investments)	$2,200	$1,188,668	$4,662,246	$5,686,246
Nest-Egg (In Present Value Terms)		$884,481	$2,581,372	$3,056,637

As with the other case studies in this book that there is still some debt outstanding at retirement. In David and Liz's case, this remains over $1.045 million, which when you look at it in isolation appears to be a lot of outstanding money. But at the same time they have over $9.131 million in total assets.

In this case study, David and Liz haven't opted to sell any of the four investment properties they own. Instead, they keep them because they are generating enough income to pay their passive income of $2,000 per week. Plus they are also generating surplus income over and above this amount to make the repayments on the outstanding loan balance. The wealth projection graph below shows that over time this debt will be completely paid out in full and David and Liz get to keep all four properties to generate even more than $2,000 income per week. A fantastic result!



CASE STUDY 4: Older couple with older kids

Meet Harvey and Ingrid, a couple in their mid 40s. They have three children all in their teens: Jessica who's 18, but plans to hang at home for a few more years yet; Kyle who's 16 years old; and finally Lauren who's 14 years old. To date, Harvey and Ingrid's life has revolved around their kids and giving them the best start in life.

Little did they know that they could have been investing some 10 years earlier, but like many, their lack of knowledge has hindered them to believe they were not in a position to invest. In fact, their decision to wait has potentially cost them hundreds of thousands of dollars in future lost wealth. Starting at their age will result in them working a little longer to hit the magic $2,000 per week in income at their retirement. Anyway they can't go back in time, so all they can do is learn from it and know they are ready to do something about it.

Given the ages of the kids and the fact they're pretty well grown up, both Harvey and Ingrid work full time and as such they bring in very good combined household gross salaries of $210,000. As mentioned, there are no investment properties in the mix just yet, but that is about to change as they have a strong equity position, thanks to having owned their home for so long. While only paying the minimum off their mortgage, their cash flows are very strong.

Their retirement date target is January 2035, when Harvey will be 65 and Ingrid will be 64. Once again, the target income we wish to generate is $2,000 per week as a self-funded retirement outcome.

Let's take a look into their current financials to paint a better picture of their situation:

Income

Harvey's wage is $120,000 p.a. and Ingrid's is $90,000 p.a. After share income, tax and Medicare, Harvey's net income is $85,253 and Ingrid's is $67,258. Their combined employer SG is $1,663 per month paid into their super funds.

Outgoings

Now let's take a look at their expenses. Their monthly bills and spending total $86,936 over the year.

Mortgage

Secured against their home is a mortgage of $410,000 with an interest rate of 5 per cent and a principal and interest monthly repayment of $2,201.

Current Cash Flow Position	Monthly	Annually
Total Income	$12,709	$152,511
Total Expenses	$7,245	$86,936
Fixed Payments	$2,201	$26,412
Cash Flow Surplus/Deficit	$3,264	$39,163
Restructured Cash Flow Position	**Monthly**	**Annually**
Total Income	$12,709	$152,511
Total Expenses	$7,245	$86,936
Fixed Payments	$1,685	$20,220
Cash Flow Surplus/Deficit	$3,780	$45,355

Here is their Assets and Liabilities story:

Assets	Value
Bank savings – Offset Account	$73,000
Shares	$10,000
Household effects	$130,000
Superannuation	$386,000
Home	$850,000

Liabilities	
Credit Card	$Nil
Mortgage	$410,000

Summary	
Total Assets	$1,449,000
Total Liabilities	$410,000
Current Net Worth	$1,039,000

With three older kids, the cost of running their household will actually reduce as each child leaves home. We have factored in that one of the kids will leave home in early 2018, then another in early 2022 and then the final child in early 2025. With each of these events, an additional $350 per month will go back into the household cash flows. Other future changes to expenditure are outlined below and reflect a realistic picture of one-off and regular changes in expenditure over their journey.

Reason	Amount	Frequency	Date
Help to Buy Child 1 First Car	$10,000	Once off	Dec 2015
Help to Buy Child 2 First Car	$10,000	Once off	March 2017
Replacement Car	$40,000	Once off	May 2017
First Child Leaves Home	-$350	Monthly	Feb 2018
Special Family Holiday	$25,000	Once off	July 2019
Help to Buy Child 3 First Car	$10,000	Once off	Sept 2019
Second Child Leaves Home	-$350	Monthly	Feb 2022
Replacement Car	$20,000	Once off	June 2022
Home Renovations	$80,000	Once off	Oct 2022
25th Wedding Anniversary Special holiday	$20,000	Once off	Feb 2024
Third Child Leaves Home	-$350	Monthly	Feb 2025
Replacement Car	$45,000	Once off	June 2027
Wedding Gift	$10,000	Once off	Nov 2027
Wedding Gift	$10,000	Once off	Nov 2029
Wedding Gift	$10,000	Once off	Nov 2031
Replacement Car	$20,000	Once off	June 2032
Replacement Car	$45,000	Once off	June 2034

Investment property portfolio strategy

It's now time to see what's possible for Harvey and Ingrid.

Investment Property 1

Purchase Price:	$700,000 (Present Value: $700,000)
Purchase Timing:	April 2016
Ownership Structure:	Harvey

Capital Growth p/a	Yield p/a
7.00%	4.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
The Proven Performer	Scarce Diamond
Rare Earth	Reliable and Durable
Million Dollar Strip	The Piggy Backer

Investment Property 2

Purchase Price:	$585,750 (Present Value: $550,000)
Purchase Timing:	September 2017
Ownership Structure:	Joint Ownership

Capital Growth p.a.	Yield p.a.
6.50%	4.50%

Area/Location Strategy/ies	Property Selection Strategy/ies
Rare Earth	Reliable and Durable
The Proven Performer	The Shoulder Rider
City Fling	Ugly Duckling
The Wave Rider	Size Matters

Investment Property 3

Purchase Price:	$476,406 (Present Value: $400,000)
Purchase Timing:	October 2019
Ownership Structure:	Joint Ownership

Capital Growth p.a.	Yield p.a.
6.00%	5.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
City Fling	Scarce Diamond
The Wave Rider	Size Matters
Changing Places/Changing Faces	Reliable and Durable
No Vacancies	The Piggy Backer

Investment Property 4 (Optional)

Purchase Price:	$316,330 (Present Value: $250,000)
Purchase Timing:	September 2022
Ownership Structure:	Ingrid

Capital Growth p.a.	Yield p.a.
4.00%	7.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
No Vacancies	Reliable and Durable
The Boomtowners	The Shoulder Rider
Non-Aspirers	Ugly Duckling
The Wave Rider	The Piggy Backer

Summary

Description	Target Purchase Price	Target Date	Target Growth	Target Yield
Investment Property 1	$700,000	Apr 2016	7.00%	4.00%
Investment Property 2	$585,750	Sep 2017	6.50%	4.50%
Investment Property 3	$476,406	Oct 2019	6.00%	5.00%
Investment Property 4 (Optional)	$316,330	Sep 2022	4.00%	7.00%

Below is the lending story associated with building this portfolio of properties:

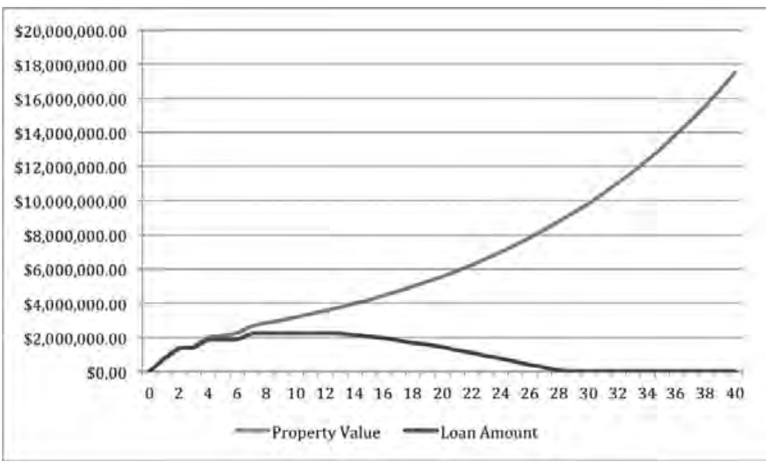
Description	Loan Amount	As At	Monthly* Repayment	Loan Type
Mortgage	$410,000	Mar 2016	$1,685	Int Only
Loan for Property 1	$742,000	Apr 2016	$3,710	Int Only
Loan for Property 2	$620,895	Sept 2017	$3,104	Int Only
Loan for Property 3	$504,991	Oct 2019	$2,525	Int Only
Loan for Property 4 (Optional)	$335,310	Sept 2022	$1,677	Int Only
Renovation Loan	$95,524	Oct 2022	$478	Int Only

*We assume a 6% interest rate on each loan

Three investment properties are all that is needed, with one as an optional extra

Harvey and Ingrid's property portfolio strategy has a weighted focus on growth assets early and then an optional high-yielding property (a cash cow) at the end of the accumulation phase. This last property is optional to help with building up additional income to reduce the debt. It's not completely required, but if they are comfortable at that time to take on one more property then the long-term outcome is even greater. The timing is not too aggressive either, and it's important they feel comfortable with the process, securing a tenant and feeling happy overall that they are doing the right thing. Then they will be well placed to buy the second and the third property, and so on.

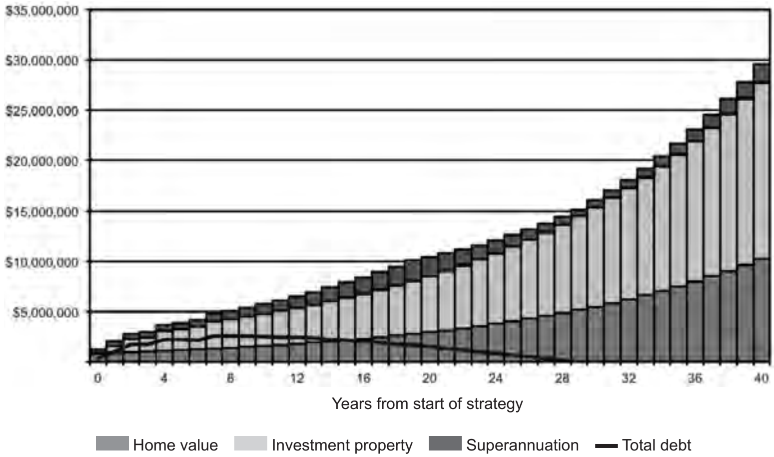
Once again, it's the use of the equity that has helped this family get into property investing. They borrowed 106 per cent of the value of each property using this equity, which enabled them to keep their current savings as a cash buffer. This is held in an offset account to look after the family's needs.



Another pleasing story shown above is the separation of value from the debt used to hold those properties. During the accumulation phase that debt is significant, but over time as the values of the properties increase, so too does the rent. When the kids leave home the surplus income gets stronger, which helps to pay down the debt completely over time, leaving the property portfolio for Harvey and Ingrid to pass onto the kids! (or they could just sell up and have an amazing retirement!).

	Financial Position at			
Description	Now 2016	10 Years 2026	Retirement 2035	20 Years 2036
Savings and Super	$386,000	$979,628	$2,029,420	$1,875,912
Investment Property	–	$3,165,109	$5,261,898	$5,569,204
Other Investments	$10,000	$17,081	$26,215	$29,178
Total Investment Assets	$10,000	$3,182,191	$5,288,112	$5,598,382
Personal Assets	$850,000	$1,583,126	$2,603,710	$2,948,573
Total Assets	$1,246,000	$5,744,945	$9,921,242	$10,422,867
Total Debt	$337,000	$2,484,352	$1,692,560	$1,496,309
Net Worth	$909,000	$3,260,593	$8,228,682	$8,926,558
Nest-Egg (Investments)	$59,000	$1,677,467	$5,624,972	$5,977,985
Nest-Egg (In Present Value Terms)		$1,248,193	$3,207,843	$3,309,865

Net worth and nest-egg are what we focus on in each case study. That's the true value or wealth that is being created by taking these risks and investing. In Harvey and Ingrid's case, 30 years into the future, their nest-egg figure is a crazy $10+ million, but then when you bring it back to present day terms it is at $4.3 million (factoring in the inflation of money), and it doesn't look that silly anymore. Property has always been a great hedge against inflation and this really highlights it.


$35,000,000
$30,000,000
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
0
4
8
12
16
20
24
28
32
36
40
Years from start of strategy
Home value
Investment property
Superannuation
Total debt

CASE STUDY 5: Empty-nesters

Meet Gary and Nancy, our empty-nester couple in their early 50s. Their kids have flown the coup and so they are really starting to put themselves first again. They need to build their nest-egg so they can enjoy what they hope will be a very long retirement full of new travels and experiences, while also being grandparents and spending time with their future grand kids.

Initially, they thought it might be too late for them to jump on the property investment ladder. Yes, we would have liked to see them some 20 years earlier, as it would have been a lot more 'relaxed' to build their property plan. But it is what it is and they have enjoyed their journey through life until now. Our job is to help them retire in a much better financial position than they are currently in, by helping them generate a $2,000 per week passive income for their life after work!

Their retirement date target is January 2031, when they will both be 68 years old. It's a little over the dream target of 65, but unfortunately that's what the impact of starting late can do and bear in mind we are chasing $2,000 per week of income. Naturally, if they decide they can live off less, then of course the strategy would adjust accordingly.

Let's take a look into their current financials to paint a better picture of their situation:

Income

Gary's wage is $87,000 p.a. and Nancy's is $52,000 p.a. After share income, tax and Medicare Gary's net income is $65,580 and Nancy's is $43,213. Their combined employer SG is $1,100 per month paid into their super funds.

Outgoings

Now let's take a look at their expenses. Their monthly bills and spending total $71,500 over the year.

Mortgage and credit cards

Secured against their home is a mortgage of $54,000 with an interest rate of 5 per cent and a principal and interest repayment of $290 over a 30-year term, plus $75 per month on the credit card with an outstanding balance of $900.

Current Cash Flow Position	Monthly	Annually
Total Income	$9,066	$108,793
Total Expenses	$5,958	$71,500
Fixed Payments	$365	$4,379
Cash flow Surplus/Deficit	$2,743	$32,914
Restructured Cash Flow Position	**Monthly**	**Annually**
Total Income	$9,066	$108,793
Total Expenses	$5,958	$71,500
Fixed Payments	$106	$1,272
Cash flow Surplus/Deficit	$3,002	$36,021

Here is their Assets and Liabilities story:

Assets	Value
Bank savings – Offset Account	$48,000
Shares	$30,000
Household effects	$120,000
Superannuation	$346,000
Home	$600,000
Liabilities	
Credit Card	$900
Mortgage	$54,000
Summary	
Total Assets	$1,115,000
Total Liabilities	$54,900
Current Net Worth	$1,060,100

Overall Gary and Nancy have been able to build up some superannuation relative to their ages, but if you strip out the family home (and we all need to live somewhere) there isn't a lot of nest-egg to be able to generate the income they are looking for to have a carefree retirement. Factoring in the future expenditures such as the increase in the annual travel budget of $2,000, which is fair enough in pre-retirement, wise money management and asset selection are going to be important as they move into top gear in their wealth accumulation phase.

Reason	Amount	Frequency	Date
Reno Bathroom and Kitchen	$40,000	Once off	June 2017
Increase In Annual Holiday Budget	$2,000	Yearly	Jan 2020
Replacement of Car	$25,000	Once off	June 2024
Wedding Gift to Only Daughter	$20,000	Once off	March 2026
25th Wedding Anniversary	$15,000	Once off	Feb 2027
Replacement of Car	$25,000	Once off	June 2029

Investment property portfolio strategy

Let's see what we are able to do for this couple who aren't getting any younger…

Investment Property 1

Purchase Price:	$480,000 (Present Value: $480,000)
Purchase Timing:	May 2016
Ownership Structure:	Gary

Capital Growth p.a.	Yield p.a.
6.00%	5.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
The Proven Performer	The Shoulder Rider
Changing Places/Changing Faces	Size Matters
City Fling	Reliable and Durable
No Vacancies	Ugly Duckling

Investment Property 2

Purchase Price:	$446,250 (Present Value: $425,000)
Purchase Timing:	May 2017
Ownership Structure:	Joint Ownership

Capital Growth p.a.	**Yield p.a.**
5.00%	6.00%

Area/Location Strategy/ies	**Property Selection Strategy/ies**
Changing Places/Changing Faces	Reliable and Durable
The Wave Rider	The Shoulder Rider
No Vacancies	Ugly Duckling
Non-Aspirers	Size Matters

Investment Property 3

Purchase Price:	$382,209 (Present Value: $350,000)
Purchase Timing:	May 2018
Ownership Structure:	Gary

Capital Growth p.a.	**Yield p.a.**
4.50%	6.50%

Area/Location Strategy/ies	**Property Selection Strategy/ies**
No Vacancies	Ugly Duckling
The Wave Rider	Size Matters
Non-Aspirers	Reliable and Durable
The Boomtowners	The Piggy Backer

Investment Property 4

Purchase Price:	$281,216 (Present Value: $250,000)
Purchase Timing:	May 2019
Ownership Structure:	Joint Ownership

Capital Growth p.a.	**Yield p.a.**
4.00%	7.00%

Area/Location Strategy/ies	**Property Selection Strategy/ies**
No Vacancies	Reliable and Durable
Non-Aspirers	Ugly Duckling
The Boomtowners	The Shoulder Rider
The Wave Rider	The Piggy Backer

Summary

Description	Target Purchase Price	Target Date	Target Growth	Target Yield
Investment Property 1	$480,000	May 2016	6.00%	5.00%
Investment Property 2	$446,250	May 2017	5.00%	6.00%
Investment Property 3	$382,209	May 2018	4.50%	6.50%
Investment Property 4	$281,216	May 2019	4.00%	7.00%

Below is the lending story associated with building this portfolio of properties:

Description	Loan Amount	As At	Rate	Monthly Repay.	Loan Type
Mortgage	$54,000	April 2016	6.00%	$30	Int Only
Credit Card	$900	April 2016	20.00%	$76	1 year
Loan for Property 1	$508,800	May 2016	6.00%	$2,544	Int Only
Loan for Property 2	$473,025	May 2017	6.00%	$2,365	Int Only
Loan for Property 3	$405,141	May 2018	6.00%	$2,026	Int Only
Loan for Property 4	$298,089	May 2019	6.00%	$1,490	Int Only

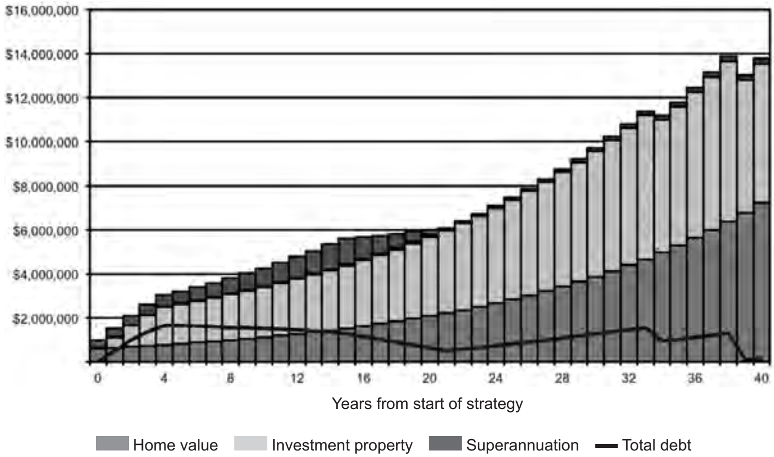
Four investment properties is the target for Gary and Nancy

There's no time like the present with this strategy. Gary and Nancy need to get moving to lock these properties away so that they'll do the lifting needed over the next 20+ years and beyond. The focus with this portfolio plan is to generate more yield quicker because Gary and Nancy need the passive rental income to kick in earlier and to mature quicker, due to lower cash flows and shorter timeframe to retirement. This is different to the growth-focused assets of previous case studies with a longer timeframe until retirement. Higher yielding properties will allow the portfolio to start to generate a surplus cash flow from the rent and help to keep control over the debt levels they have leveraged into. It's important to note that Gary and Nancy's decision to implement this plan comes with a willingness to take on the higher risk associated with debt at their age. To them, this is a calculated play and if it doesn't work over time they can simply exit the strategy, sell down the properties and pay off the loans.

In the graph above we can see that there are two planned sales post retirement. This helps them pay down the debt levels, while also enables them to enjoy the $2,000 per week that's generated from the property from the time they retire in 2031. They can also service their remaining debt at that time.

		Financial Position at		
Description	**Now 2016**	**10 Years 2026**	**Retirement 2031**	**20 Years 2036**
Savings and Super	$346,000	$813,085	$1,190,061	$221,874
Investment Property	$	$2,272,085	$2,853,515	$3,587,492
Other Investments	$30,000	$51,244	$63,483	$87,533
Total Investment Assets	$30,000	$2,323,329	$2,916,998	$3,675,025
Personal Assets	$600,000	$1,117,501	$1,433,133	$2,081,346
Total Assets	$976,000	$4,253,914	$5,540,192	$5,978,245
Total Debt	$6,900	$1,525,221	$1,295,164	$622,934
Net Worth	$969,100	$2,728,694	$4,245,029	$5,355,311
Nest Egg (Investments)	$369,100	$1,611,193	$2,811,896	$3,273,965
Nest Egg (In Present Value Terms)		$1,198,879	$1,804,849	$1,812,715

It's 2016 and Gary and Nancy are set to retire in 2031, which is 15 years from now. The graph overleaf shows the accumulation phase over the first four years before it becomes all about debt retirement to generate the clear passive income they are striving for. At retirement, they use super and savings to further reduce debt. Yet from 2031, in today's dollar terms they are drawing $2,000 a week income in this model and this is seeing their debt levels increase, as per the solid line towards the bottom of the graph. This is by no means concerning because when they think it's time to cash in on one property they do that, which gives them a cash windfall after capital gains tax. Gary and Nancy live off that windfall before they sell a second property some four years later. This second sale effectively removes all the debt and they still have two properties that will continue to generate the passive income of over $100,000 a year for their retirement. Great going guys!


$16,000,000
$14,000,000
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$6,000,000
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0
4
8
12
16
20
24
28
32
36
40
Years from start of strategy
Home value
Investment property
Superannuation
Total debt

CASE STUDY 6: Divorcee

Olivia fell in love early in life, ah that young love! But as one grows and matures over time it's not uncommon to drift apart and have values and goals that don't align anymore. This is the case for Olivia and she now finds herself as a single mum with a beautiful daughter named Trudi, who's 15 years old.

Life is not easy for single mums and Olivia's story is no different. However, she's wise to money and keen to carve out a better financial future for herself and her daughter. She isn't across shares and finds that side of things a little too scary for her and her money. Instead, she is happy with good old-fashioned bricks and mortar. She also wants to educate herself and put a strategy and plan in place to see a better financial future materialise. Olivia understands it is going to require some tight budgeting and Money SMARTS to make it happen, but she's willing to put in the hard yards.

Olivia's retirement date target is January 2038, when she will be 65. Once again, this property wealth plan is targeting income of $2,000 per week as a self-funded retirement outcome.

Let's take a look into Olivia's current financials:

Income

Olivia's gross income is $89,000 p.a. After tax and Medicare her net income is $66,343 and her employer SG is $705 per month paid into her super fund.

Outgoings

Now let's take a look at her expenses. Monthly bills and spending total $40,700 over the year.

Mortgage

Secured against her home is a mortgage of $120,000 with an interest rate of 5 per cent and a principal and interest monthly repayment of $644.

Current Cash Flow Position	Monthly	Annually
Total Income	$5,529	$66,343
Total Expenses	$3,392	$40,700
Fixed Payments	$644	$7,730
Cash Flow Surplus/Deficit	$1,493	$17,913
Restructured Cash Flow Position	**Monthly**	**Annually**
Total Income	$5,529	$66,343
Total Expenses	$3,392	$40,700
Fixed Payments	$460	$5,520
Cash Flow Surplus/Deficit	$1,677	$20,123

Here is her Assets and Liabilities story:

Assets	Value
Bank savings	$28,000
Shares	$0
Household effects	$103,000
Superannuation	$172,000
Home	$680,000
Liabilities	
Credit Card	$0
Mortgage	$120,000
Summary	
Total Assets	$983,000
Total Liabilities	$120,000
Current Net Worth	$863,000

Olivia's current position is OK considering she has been single for more than five years after her divorce. That said, her super isn't going to carry her off into the sunset, even if she works for another 20 plus years. Quite simply, more needs to be done and leverage, combined with property, will provide the vehicle for Olivia.

As mentioned earlier, Olivia is going to need to run a tight ship with her spending, yet she still needs to live, keep the home liveable and provide for Trudi until she is able to leave the nest herself. Based on our modelling, Trudi will leave home at the age of 25.

Reason	Amount	Frequency	Start
Gift towards Trudi's First Car	$5,000	Once off	June 2018
Special 50th Holiday gift to self	$5,000	Once off	June 2023
Replacement Car	$20,000	Once off	June 2024
Trudi Leaves Home	-$350	Monthly	Jan 2025
Cosmetic Home Renovations	$15,000	Once off	April 2025
Wedding Gift for Trudi	$10,000	Once off	Nov 2030
Replacement Car	$20,000	Once off	June 2034
Replacement Car	$20,000	Once off	June 2044

Investment property portfolio strategy

It's now time to see what's possible for Olivia.

Investment Property 1

Purchase Price:	$475,000 (Present Value: $475,000)
Purchase Timing:	May 2016
Ownership Structure:	Olivia

Capital Growth p.a.	Yield p.a.
6.00%	5.00%

Area/Location Strategy/ies	Property Selection Strategy/ies
The Proven Performer	Reliable and Durable
City Fling	The Shoulder Rider
Changing Places/Changing Faces	Size Matters
The Wave Rider	The Piggy Backer

Investment Property 2

Purchase Price:	$369,250 (Present Value: $350,000)
Purchase Timing:	November 2017
Ownership Structure:	Olivia

Capital Growth p.a.	**Yield p.a.**
5.50%	5.50%
Area/Location Strategy/ies	**Property Selection Strategy/ies**
Changing Places/Changing Faces	Reliable and Durable
City Fling	Ugly Duckling
No Vacancies	The Shoulder Rider
The Wave Rider	Size Matters

Investment Property 3

Purchase Price:	$457,436 (Present Value: $350,000)
Purchase Timing:	May 2021
Ownership Structure:	Olivia

Capital Growth p.a.	**Yield p.a.**
5.50%	5.50%
Area/Location Strategy/ies	**Property Selection Strategy/ies**
Changing Places/Changing Faces	Scarce Diamond
City Fling	The Shoulder Rider
No Vacancies	The Piggy Backer
The Wave Rider	Reliable and Durable

Investment Property 4

Purchase Price:	$340,215 (Present Value: $250,000)
Purchase Timing:	September 2023
Ownership Structure:	Olivia

Capital Growth p.a.	**Yield p.a.**
4.50%	6.50%
Area/Location Strategy/ies	**Property Selection Strategy/ies**
No Vacancies	Reliable and Durable
The Boomtowners	Ugly Duckling
Non-Aspirers	The Shoulder Rider
The Wave Rider	The Piggy Backer

Given Olivia's single income and the way she has to balance her single parent budget, the investment action is slower than some of the other case studies. Olivia simply doesn't have the cash flow to be making quicker acquisitions, so the time between some purchases is longer. You can see this in the four years between the purchase of properties two and three, as follows.

Summary

Description	Target Purchase Price	Target Date	Target Growth	Target Yield
Investment Property 1	$475,000	May 2016	6.00%	5.00%
Investment Property 2	$369,250	Nov 2017	5.50%	5.50%
Investment Property 3	$457,436	May 2021	5.50%	5.50%
Investment Property 4	$340,215	Sep 2023	4.50%	6.50%

Below is the lending story associated with building this portfolio of properties:

Description	Loan Amount	As At	Monthly* Repayment	Loan Type
Mortgage	$120,000	April 2016	$460	Int Only
Loan for Property 1	$503,500	May 2016	$2,518	Int Only
Loan for Property 2	$391,405	Nov 2017	$1,957	Int Only
Loan for Property 3	$484,882	May 2021	$2,424	Int Only
Loan for Property 4	$360,628	Sept 2023	$1,803	Int Only

*We assume a 6% interest rate on each loan

Four investment properties is the target

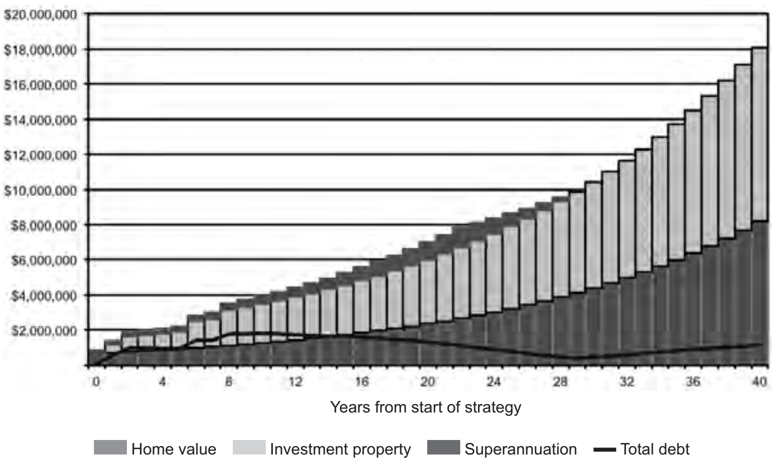
This idea of four investment properties has been pretty consistent for the case studies, which just highlights you don't need to own 10+ properties to retire wealthy. In fact, it's completely wrong to think about a number of properties at all; the combined value and combined income you will be able to derive is what you should be thinking about.

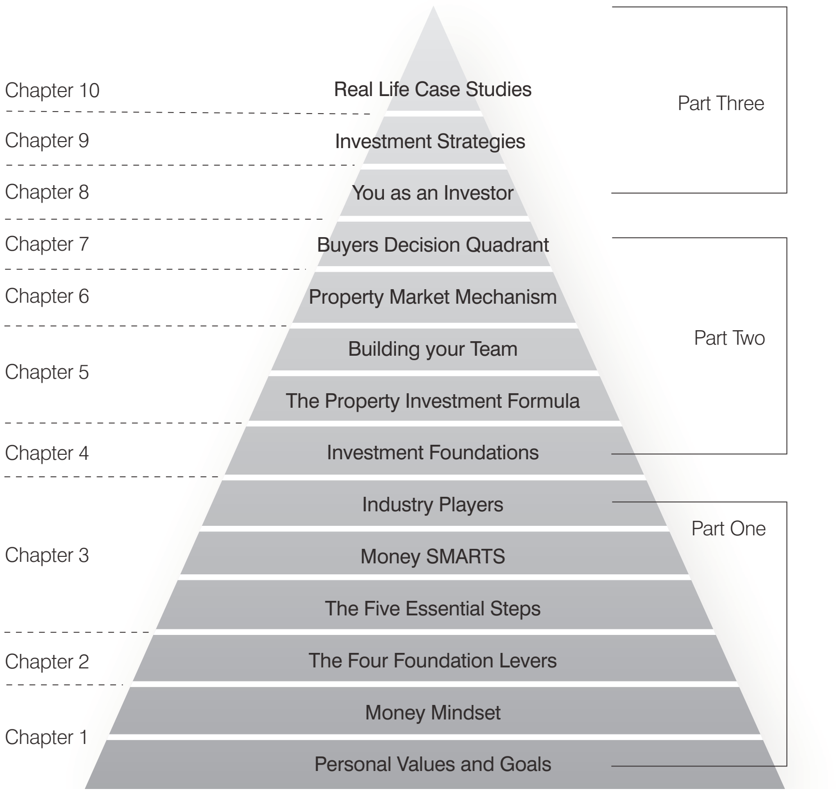
Olivia's strategy is more of a focus on balance and cash flow assets, meaning higher yield again to compensate for the lower surplus income she has to use for investing.

In the graph above you will notice that the debt actually hasn't been retired. In fact, the debt starts to increase after 28 years from today. What is happening here is that over time Olivia has been building up the surplus cash flows in an offset account and after retirement the $2,000 per week she is drawing in her self-funded retirement is reducing this balance and as it does the debt is going up.

Now you might wonder why Olivia wouldn't just sell some properties and pay out the debt. This is because she is now property- and money-wise. She understands how to control money and she understands where the wealth lies with property. If she sells them down, they won't add any more capital growth or rental income. If she can manage this money without selling any properties, those properties will go on to be worth more in the future and also generate greater rental income for her. And she will be able to pass on a very special legacy to Trudi, her daughter, and help set up the next generations of the family. A job well done we say!

		Financial Position at		
Description	**Now 2016**	**10 Years 2026**	**20 Years 2036**	**Retirement 2038**
Savings and Super	$172,000	$430,476	$970,511	$1,140,318
Investment Property	–	$2,242,116	$3,672,036	$4,184,797
Other Investments	–	–	–	–
Total Investment Assets	–	$2,242,116	$3,672,036	$4,184,797
Personal Assets	$680,000	$1,266,501	$2,358,859	$2,671,291
Total Assets	$852,000	$3,939,093	$7,001,406	$7,996,406
Total Debt	$92,000	$1,799,457	$1,319,751	$1,092,791
Net Worth	$760,000	$2,139,636	$5,681,655	$6,903,615
Nest-Egg (Investments)	$80,000	$873,136	$3,322,796	$4,232,324
Nest-Egg (In Present Value Terms)		$649,695	$1,839,752	$2,208,818

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The Four Foundation Levers
Chapter 1
Money Mindset
Personal Values and Goals

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