Let's Talk About Your Future

Dymphna: Hello everyone, it's Dymphna here and welcome to iloverealestate.tv. I'm very excited today because I wanted to talk to you about something that's very topical and something that all of us should really be thinking about, and that's our future.

I want to do a little bit of an exercise with everybody today and I want you start to think about where you are now financially. I want you start to think about where your future lies and what possibilities you have for yourself in the future and I'm going to step you through a few little exercises that might help with that process.

So first of all, I'm going to use two hypothetical people. The first one, I'm going to call Graham 1and the second one, I'm going to call Graham 2.

Now the reason I've given them the name Graham is because I was actually in Adelaide a little while back and I had Graham sitting in a front row. He was an IT consultant and I used him as an example of hypothetically if Graham wanted this, then this is what we do. If Graham wanted that, then this is what he should do. So I'm going to do the same thing with you. So when I say Graham 1 or Graham 2, you have got to substitute your own name and work out if you are Graham 1 or are you Graham 2?

So let me set the scene for you. First of all, Graham 1is an IT consultant who earns $80,000 a year. Now obviously you might earn more than that, you might earn less than that and you may not be an IT consultant. All of that is irrelevant, just put your own scenario in there. I'm just working on a hypothetical person. So Graham earns $80,000 a year as an IT consultant.

Now Graham 1, he's pretty happy being an IT consultant. He lives within his means, a family or whatever else he may or may not have is irrelevant. He is pretty happy with his job and he can see himself working in that job for at least another five years but he would like to start to accumulate wealth. Over the next five years, he would like to build up some equity and build up some passive income, so that in five years' time, he can pull the pin.

He can perhaps, sell off some of his equity and reduce debt. He could live off his passive income, so Graham 1 is somebody who has got five years basically to get to a point where he can possibly retire, but I'm more in line to say for he can get to a point where he can do what he chooses in life - retirement is such a dreary word. Retirement means different things to everybody. The reality is everybody can retire at the moment for quite short spaces of time; it just depends on what kind of deals you go into and really start to concentrate on that passive income rather than negative gearing, which keeps you poor forever.

Anyway, my hypothetical Graham 1has a starting position of about $250,000 in his line of credit. Now again, some of you may have more than that and some of you will have less than that. Some of you may be listening starting with very little but don't think just because I'm using this is an example that it doesn't apply to you. It absolutely does. You are just going to do things a little bit differently.

So with my hypothetical Graham 1, starting with a line of credit of $250,000, he likes his job, is quite happy in his job and he's got an $80,000 salary, so we picture Graham 1? What should he do? Well the first thing is, he can afford to concentrate on quality properties. He can afford to concentrate on properties in the metro areas, in growth areas, he can really get out there and concentrate on the type of deal that he'd be very happy to perhaps even live in some cases but that's not really the way we should be looking at it. Graham 1 should be looking at properties that number one -because you know how I feel about negative gearing - that are not negatively geared.

They need to be at least neutral cash flow, if not neutral, positive obviously is better. So what do I mean about neutral cash flow?

Basically what I mean by that is all the money coming in from rents, from the rental of property, can be spent on the interest, on the rates, on the insurance, and on the management fees on the property. Basically it's a net zero for tax purposes. Now notice in there, I didn't say anything about depreciation because I really don't count depreciation a being a big factor in the overall process of cash flow because it's kind of like a tax deduction for not spending any money. Now admittedly that's nice and if you own that property in your name, sure you might get some offset against your current salary but I'm not that keen on properties in my own names for starters. I think all of your properties really should be held in protected structures but you've heard me talking on that before and that's for another day.

So let's talk about owning these properties. Now what are we looking at? We're looking at neutral geared, so it doesn't cost us any money on a real cash basis. They can be in metro areas. They can be in high-growth areas but obviously, you're going to need to start looking at a very different style of property. Design suddenly starts to become very important and one of the things that you're going to have to do is start to look at how many income streams you can get from those properties. So one of the things that Graham 1should be doing is looking for properties that can be made neutrally cash flowed because of the number and volume of income that comes in from those properties. He'll be looking for what I call multiple income stream properties.

Multiple income stream properties as an example, might be a house and a granny flat that rents separately or even together but at a higher yield. It might be an upstairs-downstairs where upstairs is rented to one tenant and downstairs is rented to another. It might be a place that has been divided into a number of flats. It might be a block of units. It might be a property that has a number of bedrooms that can be rented out on a bedroom-by-bedroom basis whether it be to singles or students or that sort of thing. All these kinds of properties are going to give you a great income stream for the value that you pay for the property.

Sometimes you'll be buying these properties outright as they sit there and the day you buy them, they're neutral to positively cash flowed or you'll be getting out there buying properties that you have to turn into this style of property, so Graham 1is looking for property ideally that he's in a high-growth area or at least in a reasonable growth area. He'll be looking for a property that is neutrally cash flowed because of the multiple income stream capacity of that property.

That can be done with what I call a 'resi-mercial', which is part, commercial, part residential. It can be done with straight commercial properties like strip shops (strips of shops), as in a number of shops in a row. It could be an office building with a number of offices. It could be medical suites. It could be industrial sheds in a row and that kind of stuff. We have got that multiple income stream characteristic if you like or of course, you could stay in the residential market and pick up the blocks of the units, house and a granny flat, that kind of scenario that we've talked about before.

Just think about it. Think about your circumstance. If you were to go out and buy a property that didn't cost you any money on a week to week basis. For many of you, this is the most alien concept that you would ever have even thought of because as investors, you are used to going out there and buying something that costs you money. This is because you've been bombarded by marketers selling you negative geared cash flow properties and even those they sell you are what they claim to be positive cash flow. It's only positive because of the depreciation which runs out to the first year. Then if you're lucky it might be neutral after that and in five years time, well that runs out and if rents haven't gone up, it's not going to be neutral at all - it's going to be costing you money. Anyway, that's another story, it's my theory on negative cash flow - it just keeps you poor.

So if you're buying a property that was positively cash flowed, then it puts a little bit of money back in your pocket every week, but still grows in value - imagine how many of those properties you could buy every year.

Now in Graham 1's scenario, if he went out there and bought properties with his $250,000. Now some of you are going to say, "But you can't buy much of a property for $250,000?" The $250,000 is just a deposit plus the costs to get into another property, so his $250,000 would theoretically buy a million dollars worth of property - which it would - but imagine if that million dollars worth of property wasn't one property because I think that wouldn't be right either, but it was two properties or it was three properties that were all neutrally to positively cash flowed. Effectively Graham 1 can get out there and buy three properties in the first year and sit back and do nothing for another five years and still do a very nicely out of the value of growth in those properties, plus the neutral to positive cash flow that's is occurring for him.

But of course, that's not going to be good enough for most of you. Most of you are going to want to be little bit more active than that which is why even Graham 1, who really just wants to be an IT consultant, sit back, have this income coming in, have some investments happening on the sides, so in five years' time, he's got choices. Well Graham 1still needs to be continuing to build that equity portfolio, so that he's able to continue to invest.

Let's say Graham 1bought properties in areas that had say, seven to ten percent growth profile on them. Alright, if that was the case and they were neutrally cash flowed. If that was the case, he could probably buy three in the first year and then the second year with the growth on those, he might be able to squeeze into one and then with the growth on that, he might be able to squeeze into another one, so that by the end of the five years - three in the first year and have one every year thereafter - so he'd have a total of seven properties with neutral to positive cash flow and great equity sitting in them.

Now again, he could sit back on his laurels and just continue to do that for another five years if he decided to stay in his job but just doing something is getting him further ahead. If Graham 1really had a deadline of five years' time, he could really look at that deadline and go, "You know what? I'm going to need to increase that $250,000 base by doing what Dymphna calls manufactured growth," because he needs to be doing a manufactured growth deal in order to top up that equity base to be able to, instead of buy one next year, buy two perhaps or buy three or buy whatever it needs to be.

Each time, he's replacing that $250,000 that he's putting in as the deposit on the properties or the percentage that has gone into the deposit on each one of those properties. Even Graham 1who wants to be relatively passive, still has to do some form of manufactured growth in order to be able to continue to invest.

Now I've done this exercise with a number of people in all sorts of scenarios. Some starting with very little. Some starting with a lot more, and obviously the strategies are going to be a little bit different but in each case, there needs to be that combination of neutrally deposited cash flow as well as manufactured growth, just to be able to keep that momentum going. And that's for somebody (Graham 1), who we said wants to continue to work and earn his salary and he's happy living off that salary.

Okay now, let's have a look at Graham 2. Graham 2 is still the IT consultant – it doesn't necessarily have to be your occupation. He still earns $80,000 and you may earn more from that or less than that but Graham 2 absolutely hates his job. He only wants to do quick work and start doing something else, I don't know. Maybe he wants to become a potter, whatever. I did actually have an IT consultant once who absolutely hated his job but only really wanted to do is be a potter. He wanted to make pots. A bit of a turnaround from being an IT consultant, this particular IT consultant - which is not Graham 2 - earns a $150,000 a year and he was heavily negatively geared. He had three or four properties, negatively cash flowed and he could not afford to give up his work as IT consultant earning $150,000 a year to go and do what he really wanted to do. He actually had to go out and sell down some of his portfolio (and a couple of them were even at a loss) in order to be able to move forward, re-structured and get some positive cash flow properties in there. So that he could afford to go and cut salary and do what he wanted to do which wasn't was as high paying as his IT job but he was a lot healthier, he was a lot happier, and his life was totally different because he was doing what he absolutely loved. I think in the end, he actually ended up becoming a very good potter and his work is now is quite well regarded and I think he makes a reasonable kind of living from doing what he wants to do. I mean, I know he cut the city life and a lot of his expenses and things as well and he moved to northern New South Wales where he's living his dream. The negative cash flow properties were actually killing him.

Anyway, back to the story. Graham 2 hates his job. He wants to give up his job as an IT consultant, so his criteria is that he wants it now. He wants it fast, and he just wants to make it happen as soon as possible. So Graham 2 needs to be concentrating on highly positive cash flow. He needs to be concentrating on properties that have a high level of income coming in - multiple income stream properties - in high-demand areas. Some of the mining towns, some of the regional towns would have come in to it. He will be looking at the certain styles of property where the property will have multiple income stream capacity where he can turn it into multiple income stream capacity but even with this, he's also going to need to have an element of manufactured growth. He still needs to be able to continue to invest, so his concentration will be on the income, not necessarily the growth that will come out of the property. Think about it, for Graham 2, he just wants to have an income stream to live on and can't stand his job and wants to quit as soon as possible, it really doesn't matter where the property is. It doesn't matter what his level of debt is provided he's got enough income coming in to be able to cover all of his debt and give him enough to live on. It doesn't matter whether that property ever grows in value or not because it's not a case of needing that growth to live off or pay down debt or any of those sort of things. It's really just the cash flow that's important to Graham 2.

So I ask you to think about in your circumstance, are you Graham 1? Or are you Graham 2?

I ran into a student of mine who reminded me of her story. It was number of years ago now before she became my student and she was talked in to buying a number of negative cash flow properties. The properties were all in one area that was down on the Gold Coast / northern New South Wales strip and they're all negative cash flow. She was convinced by sales people to buy all of these properties and because some of them had gone up in value and she had experienced some growth when that area was growing was quite nicely, to just borrow against that growth and then live of her equity.

That is the most dangerous strategy that you can possibly imagine because what happens when that area doesn't grow? What happens when the banking system changes? What happens when banks just won't lend you money on the value of the property anymore? All of this stuff starts to come into it where this woman actually went from owning about 14 or 18 properties - a lot of properties - down to being almost declared bankrupt. This was because she was put in a scenario where the banks decided that they were not lending any more money, and what she was doing is she was borrowing the money against the equity on the properties to pay her interest bill because that was negatively cash flowed. Honestly, that is the most dangerous thing that you can possibly do, so please don't fall into that trap and also make sure that you're concentrating on enough of the spread between the two. Yes, you want positive cash flow but you still need to have growth. Now whether you get that growth from buying in select areas from properties that will have a natural growth on them and will naturally grow in value or whether you buy properties that you can do something too to make it worth more, I mean that's what I call manufactured growth or chunk deal if you like - a property that you do something to and it makes a chunk of money for you. That's what I call the ability to be able to continue to invest and you do need both. It's not one or the other, it genuinely is both.

So are you Graham 1 or are you Graham 2? Are you Graham 1 who is happy to continue to earn their income doing whatever they do now and needs to be building up a portfolio so that in the future, they're going to be able to have choices; or are you Graham 2, who is absolutely jack of their job and wants to give up work as quickly as possible and do something else whether it would be run their property portfolio or go and be a volunteer in an orphanage somewhere or whatever it is. Whatever lights your fire, that's great, but at least you've got choices because life's too short not to have choices. Life is too short to be trapped in a situation or in a job where you feel like you have to do this. Like being put in that scenario where my IT consultant absolutely hated his job and it was affecting his health. It was affecting everything about him and all he wanted to do was follow his passion and his passion was playing with clay. A little boy playing in the mud. That's what's he really wanted to do. Just the ability be able to achieve what your life's passion is, is such a rewarding thing and it can be the smallest of changes that make the difference.

I can tell you that one of the changes that is going to make a massive difference to you is education. The more you know, the more you can be inspired, the more you can put things together for yourself, the better you're going to be, the greater the accomplishment and quicker it's going to happen for you.

Now I've got three events coming up very shortly. I'm going to be doing three 3 day events for free for my students and their families and friends and my big community out there that listens to all of my podcasts on iTunes, please come along.

You need to register for these events. I've got one starting in Melbourne, it's where I start the first one and that's starting on the 15th of June, so that's going to be the 15th, the 16th, and the 17th of June, I'm going to be in Melbourne. Now to find out about that event, just go to the www.iloverealestate.tv and jump on there and register. It's free, come along, meet some of my students, meet some of my friends and associates who are coming along to talk to you as well. It's going to be a great event and you are really going to be inspired to get out there and make it happen for yourself.

Just think about; are you the Graham 1 or are you a Graham 2? It doesn't really matter which you are, both are going to benefit massively by coming along to that event in Melbourne.

That's the 15th, 16th, and 17th, I'm going to be in Melbourne and then on the 22nd, the 23rd, and the 24th, which is the following weekend, I'm actually going to be in Brisbane and do the same thing, so come and along. I'm dragging my students along, so you can listen to their stories as well because I always find being inspired by other people's stories is the best motivation. It really makes you see just how quickly things can turn around for you when you've got the right people around you, with the right scenarios, and the right education behind you. Being in a group of like-minded individuals, it's like family. It's about creating that bigger support network to make it happen for yourself and then of course, the following weekend on the 29th to 30th and 1st of July, I'm going to be in Sydney.

I'm only doing these three events and it's for all of my students and their families and friends because I have got so many of my students saying, "Oh look, we want to get Aunt Mary to come along and I'd really love my nephew to listen to this or I really want my kids to come and when are you doing something that they come to?" And this is your opportunity guys, so come along it's going to be in Melbourne first, then Brisbane, then Sydney, starting from the weekend, to Friday, Saturday, and Sunday starting the 15th then the following Friday, Saturday, and Sunday, I'm going to be in Brisbane; and the following Friday, Saturday, and Sunday, I'm going to be in Sydney. So bring everybody along, come along, have some fun. Share with everybody else out there, they're going to be great weekends and a great inspiration for everybody.

If you want to register for those events, they are free. Come along and register on www.iloverealestate.tv and get your free tickets and I hope to see all of you there. It's going to be so much fun and I'm actually going to be doing this exercise of the Graham 1 and Graham 2 for you. I'm actually going to do it first up, so be there at 9 o'clock. The registration is from 8 o'clock on the Friday and I'm going to step you through exactly what Graham 1 and Graham 2 would do. What properties they would buy. Why they would buy those properties and they are real properties - real time today - not ten years ago. They are real time deals, so you can put yourself in those kind scenarios and they go, "What would I do?" and "How would I make that happen? How can I do that for me?"

This going to be a fabulous event, fabulous weekend and I've invited some of my very special mates along to come and talk to you as well who have amazing stories themselves as well as amazing learnings. So big weekend, fun weekend, it's all about the party, so come along and spend three days with me. It will be fabulous. Love to meet all of you.

Well that's it from me this week guys. Can't wait to meet all of you at the iloverealestate.tv Super Conference that we're having and as I said, I'm going to be Melbourne, I'm going to be Brisbane, and then I'm going to be in Sydney. So love to meet all of you guys that I know who have been sending me all the emails and messages about how much you love the podcast that I've been doing so, great opportunity. Bring your mates, bring your friends, bring everybody, it's one big party.

Thanks guys and I'll be back again to talk to you again next week. And just remember, are you Graham 1 or are you Graham 2? Whichever one you are, you can make it happen really quickly.

That's it for me guys and bye for now and I'll catch you again next week.