Extraordinary Property Investing:

How an ordinary bank teller acquired 151 properties

Felicity Heffernan

OMNE

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Testimonials

I have known Felicity for over 15 years and during that time she has always delivered to me and my vendor financed clients her very best. I have financed over 76 properties in the past 10 years and to date I have found no one better than Felicity to assist me getting the finance and then managing the entire process from start to finish. Felicity's personal experience as a very successful investor herself has helped me increase my profits and, more importantly, saved heaps of time. Almost all mortgage brokers will tell you they can get the deal for you. Felicity actually can whereas most others fail to deliver because they don't have the experience or skills.

Jeff Muir Property Investor and Business Coach - That's Easy Learning 1300 555 635

Dear Felicity,
Thank you so much for your time and for organising my catch up on the phone yesterday. You cleared my head & I feel a lot closer than I was if I set my mind to it. I should get a good tax return this year & will put it straight on my credit card. Savings set up for $300 a month, not much but as you say it's the pattern / regularity! On to our builders re our potential deal in southwest Sydney. Have a great week, thanks again & I can't wait to call you when I have done those 3 things!!

Jacqui

Dear Felicity,
Just a quick email to thank you. Not only have you saved us thousands of dollars in bank interest, etc, but you are also shouting us to a few good movies!

Len & Sue Farrugia

Dear Felicity,
As a business owner, who values the customer first, it is easy to identify another business that has the same values. It was an absolute pleasure to deal with you all. I know that our refinances would have been super challenging. I also have a sneaky suspicion that there were many hiccups along the way, but you never stressed us with the details. You took on all the stress, sorted the issues without bothering us, and then called with all the great news humbly. You'll probably never told us how many extra miles you went to get it across the line. But please know deep down that we are forever grateful for everything you did for us to get the impossible achieved. You were so honest from the very beginning, so we knew exactly where we stood, with no unbroken promises. We really thought it was going to be the most stressful process, but instead it was actually fun! Thanks for all your genuine support, for the wonderful little cute surprises (movie passes, cheese making kit, cards, and the best follow-up process ever post settlement), and for looking after us like family would. We are actually looking forward to more purchases, which is extremely achievable now as our servicing has increased with the refinances, and the equity releases have allowed us to create even more equity through renovations. We are so honoured to be a client of yours. Thank you from the bottom of our hearts.

Belinda & Marc

I have known Felicity since 2001 when I bought my first home on vendor finance. As a business owner it is really difficult to get finance but Felicity has been my trusted advisor helping me with home loan finance and advice on many aspects of my money. Felicity has assisted me with everything from budgeting to paying off my mortgage quickly and referring us to the right people at the right time for specialist advice. I look forward to many years of continuing to work with Felicity as the results have been amazing.

Chris Everingham Hunter Maintenance and Management

It has been my pleasure to know Felicity since 2011. We met via our mutual interest in alternative home loan financing, an interest we still share today. I've regularly used the services of Felicity's mortgage broking business for my own investment strategies. This has been such a positive experience, I've happily recommended Felicity's services to many of my clients. Without exception, all have been so impressed with her knowledge and professionalism, they too recommend Felicity whenever they get the chance.

Felicity has a passion to improve the financial literacy of the general public and, as I share this passion, we've often worked together over the years, providing finance and investment seminars and workshops.

Felicity believes in a strong, diverse residential lending industry and to this end is the Chairwoman of the Finance Brokers Association of Australia's (FBAA), Vendor Finance Steering Committee. I too am a member of this Committee and can assure you that the Committee is driven from the top ☺

Felicity operates to the highest ethical standard and lives by her business credo, i.e. 'Client First – Always'.

I love this book and know it will assist so many people's financial lives. Enjoy!

Paul Dobson
FBAA Vendor Finance Steering Committee member
Vendor Finance Association of Australia - ex Vice President
Vendor Finance Institute - Director
Australia Credit Licence holder
QLD, NSW, VIC & WA Real Estate Agent licensee

Felicity was instrumental in making our loan happen for us. She was able to get the funds we needed when other institutions that we had been with for 15 years could not. Felicity & her team were fantastic & nothing was too much trouble for them. They kept us informed all through the process. I would recommend her without hesitation.

A & H Trimboli

I've found a true friend
Not one who gave me money
Not one who asked me for favours
Not one who expected anything from me
I found a friend who imparted knowledge freely in the simplest way
In that simple lesson, she has changed my financial world of chaos
You guessed it, that friend is now my MORTGAGE BROKER
With great thanks and appreciation, I would highly recommend Felicity Heffernan for her professional no-nonsense approach.
CLIENT FIRST ALWAYS

Mick Stewart Future founder of the $5.00 per day empire

I am extremely fortunate to have found Felicity after an extensive search for great property investment education. Felicity balances professionalism and fun to provide structured and comprehensive advice in an engaging manner. She has an extensive knowledge, based on experience, which she has channelled into providing people with financial literacy for mortgages. This has enabled me to keep my goals on track and grow my portfolio at an accelerated rate.

Property investment can be a challenging process with many associated risks. Felicity's attention to detail and strong ethical nature ensures that all information is accurate, unbiased and truthful.

I highly recommend Felicity as your trusted property investment loan advisor.

Karen Ruppert Property Investor

Felicity is a most extraordinary business person and investor. As her accountant, I have watched her grow from her earlier days as a budding property investor into the business success she is today. Her courage, tenacity, tact, expertise and professionalism is truly inspiring.

Bruce Whiting Business Artisans Pty Ltd

Felicity Heffernan walks her talk. She is a very experienced vendor financer and mortgage broker who loves to help people move forward and secure the great Aussie dream of home ownership. After 151 vendor finance deals, Felicity knows her stuff and I have dealt with her personally with buyers trying to purchase homes. This book is a must-read for anyone wanting to be a property investor. .

Janine Reynolds Beyond Sales Pty Limited

Just imagine if you could have a one to one with a first-rate property investment guru.

A guru who is willing to share her knowledge with you on how to buy your first investment property and how to build a property portfolio on solid foundations.

That investment guru is Felicity, and in this book she tells you more about the nitty gritty about property investment than almost anyone I know.

Personally, I would like to think that I am a Level 5 – Sophisticated Investor, who loves using vendor finance strategies both to buy and to sell property.

I'm hoping that you can all join myself and Felicity on Level 5, and receive passive property income in excess of what we earn in our day jobs.

Anthony (Tony) Cordato Property Investment Lawyer

Acknowledgements

I have been incredibly fortunate to have met many teachers and others in my life that have supported and encouraged me to be my best self. I offer a most sincere thank you to all…

Firstly, to my parents who instilled in me solid financial habits and gave me a strong foundation for my journey in life; to my husband, Greg, who has been by my side since I was 16 and has always been my love, my rock and the voice of reason when life becomes challenging; to our two beautiful girls, Laura and Courtney, who inspire me every day and are now young adults forging their own path to make a difference in the world, something I am extremely proud of; to my brothers and sisters and extended family, for your constant love and support.

To my staff at Property Loan Advisor, Ruth and Alyce, I could not ask for a better team to support me. Both of you are amazing and I am eternally grateful for the work that you do.

To the people that have supported me in my business life. To Bruce Whiting my accountant, my guiding light in the accounting and tax world; to Tony Cordato my lawyer and wonderful trusted advisor on all things legal; to Paul Dobson whom I have had the unique pleasure to work alongside to bring professionalism and credibility to the vendor finance industry; to Peter White and the team at the Finance Brokers Association of Australia for the amazing support you have given me personally to support the vendor finance industry; and to the wonderful people who assist me in my mortgage broking business. The list is long, but notably Suzanne Hemsworth from La Trobe Financial, Noushig Megerditchian from LoanKit, Jonathan Valentino from RESIMAC and Heather Gallagher from BOQ, you guys make it so much easier for me to serve our clients.

To the people who helped me with this book: the team from Key Person of Influence, notably Glen Carlson and Andrew Griffiths. To Alison J Green for editing; Julia Kuris for book cover design; Sharon

Westin-Shaw for graphic design; and Andrew Akratos for layout and printing. To my daughter Courtney Heffernan for the illustrations. To the team at Woo Hoo for the wonderful work you do with my hair and make-up, especially Makayla Frazer, Annie Hake and Emma Hutchinson. To Glenn Kelly for your amazing photography and your enduring determination to work as a photographer even though you are legally blind. You are a huge inspiration to me because you show that we can do anything.

To the countless number of wonderful people that I have not mentioned by name, thank you for being in my life.

And finally, a very special mention to John Burley, my teacher, mentor and friend. I am so incredibly grateful for your vision, inspiration, commitment and passion to educate the world on how to be financially free. It is your values I want to emulate and pass on through this book. The knowledge you shared has impacted my life immensely for the better, and I owe you a debt of gratitude that is beyond measure.

Extraordinary Property Investing.

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Foreword

It is my tremendous honor to write the foreword for my dear friend Felicity Heffernan's book *Extraordinary Property Investing*. The book tells the story, along with amazing tips and how-to's, of how Felicity went from being a Mum and part-time teller to becoming one of the great property investors in Australia!

Felicity is an inspiration to women and men all across Australia. She has spent countless hours teaching, mentoring and speaking, sharing her wisdom and educating so many people on how to become successful property investors.

When I first met Felicity, she was as new as it gets. Her journey and her passion for growth and learning are truly remarkable. You will learn how she set aside 'negative gearing' and amassed a fortune while building a portfolio of 'positive cash flow' properties.

Felicity is an 'extraordinary' person and I know you will benefit greatly from her knowledge and wisdom in *Extraordinary Property Investing*.

I am proud to count Felicity as one of my friends and as a peer in property investing. As you say down under she is truly a 'legend'!

John Burley Professional investor and author of the #1 best sellers.
Money Secrets of the Rich and Powerful Changes

Introduction

Many people seek out property investment as a vehicle to financial freedom. Property is something that most people believe they understand, as opposed to shares or commodities. That said, most people are 'sold' investment properties and not really educated on all facets of property investing. Worse still, they are taught that saving tax should be their primary objective. In reality, this can lead to huge negative monthly cash flows which, in turn, lead to disillusionment and possibly even financial ruin. Other important areas often overlooked by aspiring property investors include establishing the foundations for successful property acquisition and developing the mindset required to grow a property portfolio. After all, it is essentially a business and as such, requires all the skills and business acumen that would be required to run a successful business enterprise.

Having acquired 151 properties in a 10-year period, I have discovered what is possible and I know what works and what doesn't. I didn't intentionally set out to acquire so many properties, in fact the original goal was just 10. At the time this goal was regarded as very audacious. I found that the acquisition and possession of investment property was the easy bit. What really required work and stretched me were foundation and accumulation, both essential for success. These were the areas that required a mindset of development and growth.

I have used my personal experience, education and lightbulb moments to develop a comprehensive four-step framework to get you started and to keep you going as a property investor. The framework is holistic and addresses the often forgotten and not-so-sexy aspects of property investing that are so often overlooked, yet absolutely vital to success. It is one thing to go out and buy investment properties, however if your personal financial foundation is not strong, this is the quickest way to financial ruin. Another major element that is often overlooked is mindset. To demonstrate this point, think about all the people who have won substantial amounts on Lotto or Powerball. How many of them are financially independent five years after their winnings? The answer is that most of them have lost their fortune because they didn't develop the mindset to manage the fortune or learn to be a good steward of the money.

So what prevents people from being financially free? Why can't they get started and if they do, why don't they keep going? Why do some end up in financial ruin if they attempt to invest in property? The following concerns are what most people face when it comes to property investing:

- They haven't learnt to manage their own personal finances to work for them.
- They fear debt as a bad thing and not as a tool of leverage.
- They don't know where to start.
- They are afraid that something will go wrong.
- They listen to the wrong people, who often have zero experience in property investing.
- They feel they don't have enough knowledge.
- They don't believe enough in themselves to become financially free.

So how does one overcome any one or a combination of these daunting concerns? My framework covers the **four key areas in the property investment process** that, when implemented together, will ensure the aspiring property investor has the tools to overcome any of the concerns listed and the confidence to build a property portfolio.

The four areas are these:

1. **Setting a Foundation** – knowing where you stand personally and getting your own personal finances in order. Automating your own personal money system so that you have that area of your life under control. Understanding what level of investor you currently are and what level of investor you aspire to be. Choosing a property niche that suits you. You may be fantastic at structuring deals for cash flow but completely inept with a hammer and paint brush in the renovation

niche or vice versa. Getting the foundation correct will change your life.

2. **Acquisition** – learning how to do market research as a valuable skill for ascertaining good deals in the market. Learning about the tools available to help you make informed decisions. Learning how to analyse the numbers – that vary across different property niches - is vital in finding out what you are prepared to pay for a property. Learning tips and strategies on how to submit offers and negotiate the purchase of a property, some of which can save you thousands in holding costs.

3. **Possession –** learning how to take possession of a property; often you can take possession and have the property making you money prior to actually owning it. Learning cost-effective tips for preparing the property so that it produces maximum returns for your portfolio. Learning what it takes to develop effective property management; this is an area that can leave the aspiring property investor disillusioned if they try to do it themselves or employ a poor property manager. Learning how to find a competent property manager so your time is leveraged and focused on the task of acquiring the property.

4. **Accumulation –** Building a strong team of professionals to support you and understand what you are trying to achieve as you grow. The actual accumulation of property resembles a cookie cutter because the system is the same for one property and for multiple properties; it is your financial position that becomes more and more complex and requires sophisticated members on your team to help manage your growth. Learning to understand lag and how it can impact dramatically on the accumulation phase. Some people buy into the idea that you will become a millionaire overnight when you purchase an investment property; nothing could be further from the truth. It is the properties that are purchased as part of a plan that are going to contribute to your financial success and the longer you have been implementing the plan, the bigger the results that you will

> see. Learning to develop the right investor mindset will serve you not only in your property investment life but also in your personal life. Not everything is smooth sailing 100% of the time, but having the right attitude when things are rough allows you to course-correct much more efficiently.

Extraordinary Property Investing: How an ordinary bank teller acquired 151 properties in less than 10 years is a road map for the aspiring property investor to help you build a solid financial foundation and acquire multiple properties.

Chapter 1

Where It All Began

I was born in September 1962 (good vintage), the eldest of seven children, and raised in Glenbrook, a sleepy little town in the lower Blue Mountains of New South Wales. My father was a very staunch Catholic man who ruled with a firm hand to keep all of us in check. My mother, who was overworked and under-resourced, was an extremely good budgeter who managed the extraordinarily lean household finances.

My father was employed by the public service for all his working life as a manager at The Public Trustee. I never really knew what he did exactly, just that he looked after dead people's stuff. The advice that he gave all of as we were growing up was that if we studied hard, got good grades and found a government job with a good superannuation plan, we would be set for life. After all, that was what he did and it worked for him. In fact, I remember that when he retired he had one of those great superannuation plans known as defined benefits that was indexed for life. If he passed first, Mum would get five eighths of that payment. His goal when he retired was to outlive what he accumulated and he has achieved that goal! We all must have paid attention to his advice, as we all started with government jobs when we left school.

Growing up, I use to think how boring it was to live in Glenbrook, but now when I look back I think how idyllic the lifestyle was. My first memory of anything really exciting happening in Glenbrook was *The Sound of Music* motion picture being screened and the whole town being so excited. To this day it is still my favourite movie. I remember Mum thought it was a good idea to make play clothes out of the curtains, like Maria did for the Von Trapp children. I just wanted to die of embarrassment at the very thought of it. Imagine all my brothers and sisters wearing the same clothes made from curtain material! Mum was a good seamstress and made just about everything we wore.

Mum was always on the hunt for a money-saving tip and she was the queen of bargains. She would regularly drive to Fielders Bakery in St Mary's and jostle with the pig farmers to get the best of the day-old bread for five cents a loaf. She would often get 50 loaves of bread that would be distributed among three other families. Every Tuesday morning Mum would drive to Franklins in Penrith as it was the cheapest grocery store and Tuesday was bargain day. When Franklins released their no-frills brand Mum was their biggest advocate. If there was a bargain to be found, Mum would find it.

Mum used to rustle us out of the house by 9 am and we were always told to be home before dark. We lived very close to the national park where I spent most of my childhood roaming with the neighbour kids, especially during the school holiday breaks. There were some great swimming holes known as the Jelly Bean Pool and the Blue Pool, bush tracks and caves. There was one cave known as Red Hands Cave with a lot of Aboriginal hand paintings on the wall. As kids we use to hike out there and mix up the clay that was close by, dip the palms of our hands and place our hand prints on the cave wall to imitate the ones that were already there. Imagine being able to do that now! Red Hands Cave is now fenced off and it is regarded as one of the best showcases of Aboriginal rock art in the area.

My parents' first car was a Vanguard, and my earliest memories was Mum, heavily pregnant, having to use a crank handle to start the car as this particular model didn't have a starter motor. Dad thought it would be a good idea to change the colour of the car from black to white – no problems a little bit of white house paint did the job! They later upgraded to a station wagon and as more kids came along they eventually upgraded to a bright yellow nine-seater Combi van as the seatbelt laws were starting to be introduced. This was a huge expense and I remember dad having to negotiate hard with the bank manager to let him go into overdraft to afford the car. Putting it another way, it was not an option for my mother to be without a car as she relied on it heavily for the shopping and transporting us around, so he had little choice but to be really convincing with the bank manager.

My parents started off with an L-shaped two-bedroom fibro flat-roofed house on a quarter acre of land in Leslie Road, Glenbrook, that ended up as a four-bedroom square flat-roofed house. At the back of the property was a tree that had an enormous choko vine growing over the top of it. Mum loved it – she saw it as a very cheap way to feed us green vegetables. The problem was she put choko into everything: stews, casseroles, served on the side with the standard meat and three veg and even tried to pass them off as apples in an apple crumble pie. To me chokos were the worst vegetable, and I became very good at scooping them into a handkerchief when mum wasn't watching and disposing of them in the toilet after dinner. One day I came up with the perfect plan to get rid of the chokos – I climbed the tree, picked every single choko off the vine and placed them into a box. I was planning to sell them on the highway but Mum would have gone ballistic if I had ventured there so I hauled the box to Mount Street, a main arterial road coming off the highway. It was about a kilometre from home and I set up a stall with a sign to sell them – three for 20 cents. I was amazed at two things, first that people actually wanted to buy chokos and second, just how quickly I was able to sell them. My business venture was very short lived. I don't think I had ever seen Mum so angry when she found out what I had done. It was so worth it, the chokos were gone for quite a long time. When they eventually grew back I made sure that I kept them to a bare minimum by just harvesting a few off the vine at a time. I was able to exchange a small handful with the owners of the local general store for some lollies.

My second not-so-good 'business venture' involved giving my brother 'financial advice'. He was one of those kids that constantly gave my parents heart failure, almost from the time he was born. He had a fascination with electrical sockets and was constantly jamming things into a socket and on a regular basis being jolted across the floor. As he grew older his fascination turned to the bulbs in the back of the TV. He was always willing to tinker with the TV to try and improve the picture quality. One day he was rummaging through the old TVs that were donated to St Vincent de Paul, looking for replacement bulbs that we could use in our TV. He came across a brown paper bag full of cash, about eight hundred dollars. This was

1975 and back then that amount of money was nearly two months' salary. A loaf of bread was 24 cents, a litre of milk was 30 cents and a newspaper was 12 cents.

My brother came to me and asked what he should do. I came up with the 'bright idea' of banking it in his school bank account – not foreseeing my parents' apoplexy if they saw that much money in his account. Back then we were encouraged to save and the Commonwealth Bank ran a school banking program where they would come to the school once a week and we could deposit some money into the account. At the time we were banking 20 cents a week. The local post office was also an agent for the bank and my plan was to go there with my brother, deposit the money and keep a little cash at home. Before we could put the plan into action my brother told a few of his mates that he had found this cash. Next thing he knew there were a bunch of kids that pounced on him and started bashing him up because they wanted him to give the cash to them. By the time he arrived home battered and bruised, the police had also arrived on the door step, presumably because the word had spread like wild fire. Mum was mortified, the police informed her that what we had done was stealing by finding. My brother and I confessed everything and handed the money over to the police. This was followed by an angry lecture from my parents that we should have told them about it and not taken matters into our own hands.

My schooling was at the local St Finbar's Catholic Primary School in Glenbrook. I later went to Caroline Chisholm Catholic Girls High School in Mulgoa – near Penrith. I couldn't wait until I could get a part time job and have an income. My first job was at the BP Emu Plains. It was a full service petrol station and my role was to fill the cars with petrol, wash the windscreen and check the tyre pressure. I also took on a job with Mr Whippy serving ice cream. I remember feeling great about having my own money. I started to do my HSC at Nepean High School. I had lots of fun but found I just didn't want to study anymore. The seniors at the school had a smoking room so we didn't have to use the toilets – the message about smoking being bad for your health hadn't taken hold back in 1979. I left towards the end of year eleven and started full time work as a clerk in the Rural Bank of New South Wales.

I spent 20 years at the Bank and for many years I kept wondering how one gets rich. Then one day in August 1998 I attended an unexpected event on property investing that changed my life. I share many of strategies and lessons that I learnt from this event in this book. I hope they will change your life like they did mine.

Chapter 2

Action Beats Inaction Every Single Time

Iron rusts from disuse; water loses its purity from stagnation…
even so does inaction sap the vigour of the mind.
Leonardo da Vinci

My brother-in-law Chris rang me one day in August 1998. He was really excited about having two tickets to a property investing event in Sydney to see a guy named John Burley who was presenting a very different real estate investment strategy. Chris couldn't find anyone to go with him and in fact it took me a while to warm to the idea of going to see someone speak on real estate investment. The strategy that was widely taught at the time was negative gearing. I had already had personal experience with negative gearing – a great strategy to lose money every single month whilst hoping and praying that the property will go up in value, at least enough to cover all the months and years of losses! As you have probably guessed by now, I am not a big fan of negative gearing.

I was also a young mum with two girls, four-year-old Laura and nine-month-old Courtney, so the idea of organising my husband Greg and children for me to have the day in Sydney seemed like way too much work. We were also living in Newcastle, two hours north of Sydney and it was a big deal even to travel down and back in the one day. Chris was really keen for me to go and then I had the thought that it would be really good to get out of the house as I had been feeling like I had a little bit of 'cabin fever'.

When I first heard John Burley speak on 'seller finance' as it is known in the USA ('vendor finance' in Australia), it made so much sense to me. Instead of having a property that would lose you money every single month, you could have properties that made you money every single month. You could also provide someone with a home opportunity that they may not have been able to access otherwise.

After I heard about this strategy I couldn't let it go. Nobody was doing this type of property investment in Australia at the time, although it was a strategy that had been used in Australia since the early days of our country's settlement right through to the 1950s and 1960s. In fact, my grandfather bought the land for his house on vendor finance back in the 1930s. Bank finance has really only started to assist home buyers since the middle of last century, although it is now the most common way of financing a home. To this day many people are locked out of home ownership even though they have affordability due to lack of a deposit or to a life event that may have impacted on their credit.

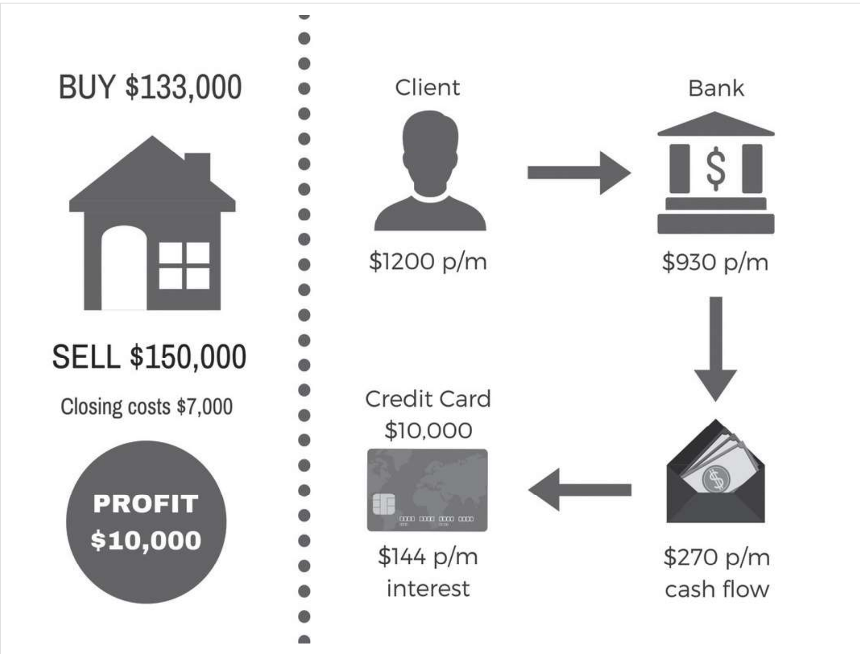
I wanted to learn more about it and that required me to go to the States (Phoenix, Arizona) to do the education. I had a couple of small issues that were preventing me from going. The first one was the course tuition fee, flights and accommodation and the second very important one was the care of the girls. When I first pitched the idea to my husband, well… you can imagine the response! "You want to take how much out of our savings and do what? Are you crazy?" After many loud discussions, my very wise husband suggested that if I wanted to do this course I should put one of these deals together to fund it and then he would be more than happy to take some time off work to look after the girls. He was thinking it would never happen and I was thinking about how soon I could make it happen. Amazingly, only one week after my husband set the challenge, an opportunity presented itself that would launch me into a fabulous career in vendor finance.

I was working part time at the State Bank of NSW. I constantly drove my colleagues insane with incessant jabbering about wanting to get involved in this niche of property investing. Friday evening rolls around and it is very common for people in the banking industry to have 'Friday night drinks' at the local pub. My opportunity presented itself when one of my colleagues asked me to tell him more about this real estate 'thing' I was involved with. He was recently divorced and he had come out of the divorce with literally just the shirt on his back. He was now in a new relationship but lacked the deposit to get into home ownership. He had the ability to afford the repayments, he just had no deposit. With a pen, a beer coaster and paper napkin

I drew up how he could get into a house of his own with me as his 'bank'. That weekend my colleague went out and found a house that would work with what we had discussed. He knew that I needed to make $10,000 from the deal. That amount, incidentally, was what I needed for my tuition, flights and accommodation.

This is how the deal worked:

- I negotiated the property down from $142,000 to $133,000.
- I raised a bank loan on the new property – my loan repayments were $930 per month.
- I sold the property to my colleague for $150,000. This sale price included all the purchasing and the profit of $10,000 that I wanted to make.
- My colleague's loan repayment back to me was $1,200 per month.
- This created a surplus cash flow for me of $270 per month.
- I was able to get a $10,000 credit card to fund my trip and tuition that cost me $144 per month in interest.



I now had the money for my trip and was beyond excited. I completed the course and came away with the big, hairy audacious goal to complete the acquisition of 10 properties and sell them on vendor finance. Never in my wildest dreams did I even consider that acquiring 151 properties would even be possible. Up to this stage of my life, I felt like I lived on the flat line of mediocrity, doing all the things that I was told were right, living a very ordinary life. I was completely unaware of or prepared for the wild roller coaster ride of a lifetime that has taught me so much about myself, other people and business. Wow, what a ride it has been.

SECTION 1: FOUNDATION

Chapter 3

Personal Financial Competence: What Type Of Property Investor Are You?

Games are won by players who focus on the playing field – not by those whose eyes are glued to the scoreboard.

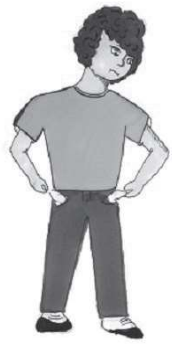
Warren Buffett

Seven levels of investor have been suggested by John Burley, a property investor who lives in Phoenix, Arizona. In my opinion, John has one of the greatest minds when it comes to property investment. John's teaching on the seven levels of investor and the money management strategies that I share with you in this chapter are among the most impactful things that I have ever heard. This knowledge has given me valuable perspective on money management and growing a large property portfolio.

If you have an opportunity, I would highly recommend attending a Burley Boot Camp in Arizona. Visit John's web site for details www.johnburley.com.

Level Zero: 'Non-Existent'

The **Non-Existent** investor technically speaking is not really an investor at all. This person is 'unconscious' when it comes to thinking about their financial situation. All they know is that they need money to survive and all they do is spend everything that they make. They give no thought to planning a future and tune out if the subject ever arises, as it is too painful for them to even contemplate. Their financial situation is so badly mismanaged that they don't qualify for even the simplest forms of credit. This is actually a good thing because they can't get themselves into too much trouble; they



are often in a better financial position than the person for whom credit is all too easily available.

Level One: 'Borrower'

The **Borrower** has a considerable amount of debt based around their consumption. They spend all that they make and then more.

Consuming is what they know best. When they have money, it gets spent. At best, they 'survive' on a week-to-week basis, but mostly they consolidate their overspending on a credit card. Their answer to a money emergency is to take on more debt. The short-term consequences of this behaviour are that the problem is moved on to a credit card or wrapped up in another home loan refinance, increasing the repayments for consumer debt. The long-term consequences are that as more debt is added to existing debt, they then start to feel like they are drowning in debt.

The Borrower's idea of 'financial planning' is to get a new Visa Card or MasterCard or to refinance their home in order to buy more things. When asked what they think the problem is, they invariably come to the conclusion that they just don't make enough money. If they just made more money, their financial situation would be fine. In fact, in many cases they are now 'starving' on what they only dreamed they could make five short years ago. The Borrower fails to see that the problem is not necessarily lack of income but rather their habits around money. They are often caught up in a vicious cycle of spiralling debt, coming to believe that their situation is hopeless, and as a result, giving up all hope. This person usually lives in complete financial denial.

The Borrower is often in a far worse financial position than the Non-Existent, because of the availability of credit although their potential for change may be greater. Surprisingly, not all people who in this category are low income earners; many are actually high income earners.

A very good friend of ours who stayed with us recently shared a story about his friend Jack who had spent many years working and living in Asia. Jack was a project engineer and ran huge projects, building big-name hotels throughout Asia. His annual salary was around $240,000. Whilst Jack was an awesome project engineer he had little knowledge about how money worked, and he certainly didn't know how to keep any of it. Over the years, Jack racked several hundreds of dollars on credit cards and serviced them at interest rates well over 20%. When one credit card blew out he either increased the limit or got another card. His plan was to make it through to retirement age of 65, retire on the pension and continue living in Asia because it is so much cheaper than living in Australia. Unfortunately, when his last contract finished he was only 61. Jack chewed through his accumulated superannuation within six months and now his wife is out working to meet the monthly living expenses.

I am not sure if Jack will be able to live on the pension even in Asia as he has never learnt to manage money. He is one of the lucky ones to be in a generation that has the safety net of the age pension to take care of him financially.

Level Two: 'Saver'

A **Saver** is the opposite of a Borrower. This person usually puts aside a small amount of money on a regular basis. The money is generally deposited into a low interest bank account. The Saver usually saves to consume rather than to invest (i.e. they save for a new TV, stereo, etc.). They are very afraid of financial matters and are unwilling to seek advice on finance. This type of person fears being in debt and doesn't seek help. Savers spend their time trying to save their pennies instead of learning how to invest. In times of inflation, they end up being the losers.

Level Three: 'Passive'

The **Passive** investor is also known as the 'level three screaming pig' for reasons shown below. These investors are aware of the need to invest, however choose the easy way out and do very little research.

Whilst they are intelligent people, when it comes to investing they are financially illiterate.

There are typically three categories of passive investor:

A. '**Gone into a Shell**'.

B. '**It Can't be Done.**'

C. The '**Victim**', also known as the '**Gambler**'.

A. The Gone into a Shell category is comprised of people who have convinced themselves that they don't understand money and never will. They make the following types of statements:

- "No one ever taught me what to do."
- "I'm just not very good with numbers."
- "I'll never understand how this investment works."
- "I'm just too busy to follow everything."
- "There's too much paperwork."
- "It's just too complicated."
- "I prefer to leave the money decisions to the professionals."

The excuses and justifications go on and on. All are designed to relieve them from having to take responsibility for their own money … and future. Due to their beliefs, they have very little idea where their money is invested or why. This type of investor blindly follows the market like a sheep and then squeals (a lot like a pig*)* before running to their own slaughter. Professional traders actually do commonly refer to this type of investor as 'pigs' because of this behaviour. Hence the 'level three screaming pig' mentioned earlier.

B. The It Can't Be Done passive investor has determined that all investments involving more than the most basic research by the investor and/or that promise much more than bank interest rates of return, are beyond them. They are cynical and an expert on why investing will not work. They are overwhelmed by cautiousness. They truly believe that high rates of return on investments are

impossible, probably illegal or available only to the chosen few. They believe that the knowledge and skills required recognising such investments are beyond them in their present circumstances.

Their usual defence to demonstrations of successful investing by friends or high profile investors is that the investor knew something that they themselves couldn't possibly have known, or had an opportunity or available money that they themselves weren't given in order to make the investment so profitable.

It is common for these people to whine and complain about missing out on an investment opportunity (after the fact), as if some barrier other than their own psychology (in regards to investing) was to blame for them missing out. They are afraid and unwilling to gain the knowledge they need to invest successfully. They choose instead to 'shoot down' and criticise others in an attempt to make themselves, and their beliefs about investing, right.

C. The Victim / Gambler is the third category of passive investor. These investors have no principles or rules for investing. They impulsively buy high and (in a panic) sell low. They see the share market in the same way as they see a casino craps table. It's just luck. Throw the dice and hope.

The Victim passive investor is always looking for the holy grail, some get-rich-quick scheme that can solve all their financial woes. They are always searching for the 'secret' to investing outside of themselves, rather than within by changing their unsuccessful behaviour. They are not afraid of risk; in fact, they actually find risk exciting and often actively pursue it. They often fall for investment telemarketing schemes, direct mail opportunities and the 'hot' offerings in newspapers and magazines. They are quick to jump into initial public offerings (IPOs or floats); commodities and futures trading, mining, gold, gas, and oil stocks (and other low probability/high-risk mining ventures); ostrich farms; wine growing;

timber and tea tree plantations; and every other risky, trendy, exotic or 'tax-effective' investment known to mankind. They love to use 'sophisticated' investment techniques such as margins, short-sells, puts, calls, warrants and other options, without proper knowledge of exactly what it is they are committing to or the *real* investment risks.

These people are easily the worst investors on the planet. They are always trying to 'hit a home run' and they usually 'strike out' in a big way. When asked how they are doing, they will always state that they are "about even" or "a little bit up". The truth is that they have lost money.

Level 4: 'Automatic'

Automatic investors are clearly aware of the need to invest. However, unlike passive investors, they are actively involved in their investment decisions. They have a clearly laid out and written long-term plan that will enable them to reach their financial objectives. Automatic investors 'set' the flow of their finances so that they don't ever have to worry about money. They know that their mortgage is always paid; they know that their bills are taken care of; they have a charitable giving plan in place; they know that their wealth is accumulating because they took the time to set up the system to make sure all of this is done automatically with scheduled internet banking payments.

They are generally very conservative with well-balanced financial habits. They diligently spend time when it comes to learn about investing and make wise investment decisions. They understand the importance of debt elimination strategies; they live within their means and steadily increase their assets.

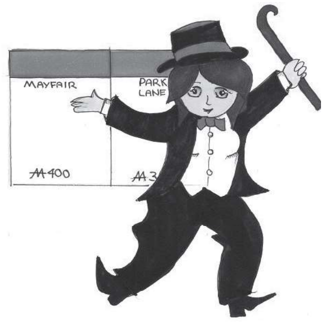
Level 5: 'Active' / 'Sophisticated'

This level of investor is an **Active** participant in the management of their investments. They consistently strive to optimise performance while minimising risk. Active investors are people who have a solid

financial knowledge and are involved in more complex investment strategies. They have mastered and maintain the level four investor principals. They earn more than they spend. They are continuously seeking more information when it comes to investing. They have good money habits and a long track record of investment success. Active investors start small so they can learn the game first; they are always seeking to learn more and place a huge value on education. They create and structure their own deals, which generate extraordinary returns. They are focused on continuously growing their asset base and cash flow.

Level 6: 'Capitalist'

The **Capitalist** not only creates large amounts of wealth, they invariably also create vast legacies of innovation, efficiency, economic prosperity, employment opportunity and philanthropy, thereby greatly increasing the standards of living for hundreds of millions of people throughout the world every year.



Very few people are capable of reaching the Capitalist level, which represents investment excellence. They usually have large businesses and large investments. A true Capitalist creates investments and sells them to the market. They love the game of money and are generally very generous. They are the movers and shakers of the world economy by creating jobs and goods.

KEY POINTS

1. Being aware of the different levels of investors can help you hone in on where you want to be.

2. Aim to be a level four investor before a level five. If you don't, you won't have the correct foundation in place and will end up at level three.

3. Once people have mastered the level four investor principles, they start to experience financial freedom. Some like to accelerate the process by moving to level five.

4. Property investors are regarded as level five, active and sophisticated investors. Level five investors are people who have solid financial knowledge and are involved in more complex investment strategies. They have mastered and maintain the level four investor principles.

FELICITY'S INVESTING TIP

Aim to be a level four automatic investor. This is the level where you have the systems in place and you know exactly what your money is doing. Level four is the launch pad to financial freedom.