

Hi and welcome to your August edition of Financial Independence.

Change Is Coming...

When I started the Inner Circle, I wanted it to be a facility where members who shared a common goal could network together while experiencing the highs and lows of our struggles to become financially free. It is also a facility where I can act as a mentor for members looking for some help from an expert.

Generally speaking it seems that members are happy with the way the site has evolved up until now. The newsletters are informative, the hot topics useful and the forum posts contain a lot of the practical 'how to', yet from where I sit something seems to be missing.

Since coming back from Canada I've been thinking long and hard about what the missing element could be. Then the answer came to me... the Inner Circle is missing the interaction that only comes from attending regular meetings.

And perhaps worse still, there are some Inner Circle members who I've never even met.

This shortcoming needs to be addressed and I have come up with an action plan to improve the Inner Circle further.

Beginning on Saturday the 7th of September (in Melbourne) and then continuing on once a quarter (rotating between Sydney and Melbourne), I'll be organising a full day Inner Circle networking meeting. The day will be divided up between personal wealth, business success management and also real estate investing and while I'll have a structured agenda to work through, there will be plenty to answer specific questions and also socialise.

Adding this new resource will require that I change the pricing of the Inner Circle for new members and also charge an entry fee for existing members. I'll think about what is a fair amount to charge, but in any event, the first event on the 7th September **will be free of charge provided you pre-book**.

I'll get back to you with more information as it comes to hand, but you can assist me by letting me know if you'd be interested in attending these networking meetings and what you think would be a fair price for a full day event.

In this month's edition I'll be outlining:

- **Personal Wealth:** a personal wealth observation that occurred to me last night just before I drifted off to sleep. It's very important, because it provides perspective in our quest for financial independence.
 - **Business Tips:** step two of the business planning template model - a SWOT analysis.
 - **Real Estate:** the second and third PATTERN™ templates covering the due diligence over selecting a tenant and also acquiring a property that has an existing tenant.
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Personal Wealth: Are You Waiting For Financial Independence?

I'm a great believer of the saying "the teacher comes when the student is ready". I put this into practice by randomly opening the Bible each night and reading a passage. More often than not I find that the passage I read has true meaning in my life.

Last night's passage was:

PROVERBS 3:

27 Do not withhold good from those who need it, when you have the ability to do it.

28 Do not say to your neighbour, "Go! Return tomorrow and I will give it" - when you have it with you at the time.

It's easy to become consumed with our own quest for financial freedom. Sometimes so consumed that we forget why we want to achieve our goal in the first place. For most of us, we share a goal to regain control of our time so that we can choose what we do instead of *having* to do it.

But do we have to wait for financial independence before we can begin to do the things that we truly enjoy?

This is where the reading from Proverbs provides some guidance.

We are told that if we have the ability to do good, then we should not withhold it from those who need it. Financial independence may involve sacrifices, but helping those who look to us for assistance is not one of them.

It's great to have a goal of financial independence, and it's great to be earning lots of passive income, but these pursuits will be empty and meaningless unless you can look to help others *when you have the ability to do so*.

There's no doubt you'll have some excess time when you become financially free, but can you bring forward some of the benefit now?

Your money goal should not be one that forsakes all else, as there are many important aspects to your life. If you have the time now, don't delay... use it to help people who ask of your time, including your family and friends.

With this in mind I'd like to get you to try to write down the top three priorities in your life?

1. _____

2. _____

3. _____

What's one thing you can do for each of these priorities that doesn't require that you become financially independent first?

Remember that your personal wealth should be measured in both monetary and non-monetary terms.

Business

Avoid the #1 business mistake and start making more money TODAY!

I've said many times that the biggest mistake that small business owners make is spending too much time *working in* their business, rather than *on* their business. When most new business owners begin they have broad ideas about how they are going to revolutionise their industry, how different they are from their competitors and visions of customers breaking down the door to use their ground breaking product or service. They enjoy great success in the early months and make reasonable returns. Then they plateau out.

Plateauing out is when you reach a point where you cannot attract new clients. The good ideas don't come quite as often and when they do you're too busy attending to the day to day administration. That's frustrating and slowly those good ideas become things to do tomorrow and sadly don't ever get done. When you say, "If only I had more time" - you've made the number one mistake.

So here's the number one solution! It's step two in my Better Basic Business Plan and builds on the Business Quadrant Template I outlined in the June Financial Independence. If you missed the first step then visit the online tools section before proceeding.

The Secret To Avoiding The Plateau Is To Continually Achieve Small Amounts Of Progress That When Combined In Total, Add Out To A Major Achievement.

Take my wrap business for instance, I started at one property and then gradually built up from there after applying the same successful template. Each time I purchased a property (or more importantly found a qualified lead) it was a small achievement. Then when all the small achievements come together, quite a lot of progress was made.

It's OK to have grand plans, but understand these are long-term objectives that cannot be achieved overnight.

The SWOT Analysis Answer

Every great business plan needs a *SWOT Analysis*. This management tool categorises tangible and intangible business features into four areas. SWOT is an acronym for those areas and stands for Strengths, Weaknesses, Opportunities and Threats.

Included as an attachment to this edition is the second business template - a SWOT sheet. Please print it out and have it handy as you read through the rest of the analysis here.

You'll note the page is broken up into quarters with *Strengths* in the top left corner, *Weakness* in the top right corner, *Opportunities* below Strengths and *Threats* below Weaknesses. Let's define what each area means.

Strengths sell your service or add value to your business.

Strengths are the factors that bring new and repeat clients to your door and allow you to successfully differentiate your business from your competitors. Think about why clients use you and any favourable comments they have made about your service. For example, "Steve, I never have to wait" or "I like the quality of your product" translate into business strengths of reliability and perceived value. Start with eight strengths and if you have more then prioritize to get a top eight. Try and write in bullet point form.

A *weakness* is a factor that turns clients off your business and keeps you on the plateau.

Your weaknesses are your competitor's strengths and must be identified and corrected. If you have ever lost a client, then your business will have weaknesses – why else would they have left? Again, list eight weaknesses. Your number one weakness may be not enough time to work *on* the business. Other examples are not offering the right payment options, leaving clients unattended for long periods of time, no business plan, cash flow problems etc.

Opportunities are those great ideas that never get done.

In the Better Business Plan - Business Quadrant Template, you'll find examples of opportunities in Q4 - Future Services.

An opportunity can be possibilities for attracting new business or strategies for keeping existing clients happy. For example, putting on a new staff member, purchasing new machinery, seeking further education. When properly implemented, an opportunity will become a strength. Think about opportunities for your business and list the top eight.

Threats are potential ways your business could flounder.

They are not more than possibilities at present, but if they eventuate then they will become big weaknesses. Examples are not being able to renew leased buildings, losing key members of staff, a competitor opening next door. It may be difficult, but make a list of eight threats.

Now you will have a list of eight strengths, weaknesses, opportunities and threats. Spend a few minutes reviewing your list and looking for themes in each category. Are all your strengths a result of your excellent service? Are your opportunities from many sources?

Our next step is to write an *action plan* for the number one item from each category. Our plan is to:

1. **Lock in the strength**
2. **Turn the weakness into an opportunity**
3. **The opportunity into a strength and**
4. **Minimise the threat.**

You can print out the second business template attached to this edition called ACTION PLANS by clicking [here](#).

Select the strength that you want to lock in or improve upon. Write down a sentence about the nature of the strength and how it improves the service that you offer clients. Think about how you can reinforce that strength by an act and finally write down how and when that act will happen.

Complete the same process for one component of each other category. Your page might look something like this for strengths and weaknesses:

STRENGTHS

Strength

All my output is of an exceptional quality.

Act

Before I publish any information an independent reviewer to ensure it makes sense and is practical must review it.

How and When

Three days before the deadline the product must be finished and in the hands of the reviewer.

WEAKNESSES

Weakness

I spend too much time working in the business rather than on the business. This reduces the level of service I offer clients.

Act

I will allocate an hour every Wednesday morning to writing a business plan and developing strategies to improve my practice.

How and When

Starting this Wednesday I will block out the time in my diary and not take phone calls.

It is important to regularly monitor the progress of your action plans. Set aside time to review the progress of your action plans and the results that it is delivering. Once you have written an action plan and have resolved the issue, start on the next category number and so on.

Now that you have a SWOT analysis and action plan, you can look forward to conquering that plateau and achieving more success in your business. Next time I'll help you write a strategy for obtaining a sustainable competitive advantage, which is very important to help you keep existing clients at the same time as attracting new ones too.

Real Estate The Second PATTERN™ Worksheet

This month I'm pleased to be able to bring you the second and third PATTERN™ templates.

PATTERN TEMPLATE #2: TENANT APPLICATION

Background

When buying an investment property you'll spend a lot of time, effort and sometimes money trying to find the right property. Yet once the property is acquired, the important task of making it income producing is often outsourced to a rental manager.

This is a mistake. It should come as no surprise that I regard finding the right tenant to be *at least* as important as finding the right property.

You should avoid renting the property to just anyone, since the complications of difficult tenants are not just monetary.

It's my pleasure to make available to you the form that I use to qualify potential tenants in the form of a PATTERN™ Template.

I suggest you print it out by clicking [here](#) before proceeding.

You'll note this form is two pages long and is broken into an introduction and seven sections.

Importantly, the legal advice I've received is that you can make the accurate completion of this form to be a condition of the lease so that if your tenant has lied or been dishonest, then you can seek to terminate the lease (subject to tenancy laws).

Note that it is the potential tenant fills in this form and submits it for your evaluation.

Introduction

This includes some basic information about the property, together with the amount of bond to be provided, rent to be paid and also the date when the applicant wants to move in.

Section ❶

In Section One you gather a lot of information about the tenant and his/her ability to be able to afford the rent payments. You also gather some important personal details (driver's licence and car registration) so you can find your tenant if they skip out on the rent.

You also obtain employment details, together with the status the tenant's current rent - important data when deciding the quality of the tenant.

Pay attention to the language used, the stability of employment and the length of time they have been in the current residence.

Section ❷

Section Two asks for information about other people who may live with the tenant in the property. Pay attention to what sort of pets come with the tenant. You may like to charge a premium for each kilogram the pet weighs.

Section ❸

You may find the potential tenant will have multiple sources of income or may be eligible for some sort of government rebate or welfare payment. The higher the income, the more chance that the potential tenant will be able to afford the rent payments.

Section ❶

You can expect that the tenant will answer 'no' to all these questions, but I still ask them anyway because the accuracy of the application is important if I later find out they have been dishonest and I want to terminate the lease.

Section ❷

You may feel that checking references is a waste of time and when it comes to written references I'd agree. Anyone who goes to the trouble of writing a written reference isn't going to say anything too detrimental.

But if you can *phone* a reference then you can ask questions and judge the quality and genuineness of the reply. I ask for three contacts and also get the applicant to note what his/her relationship with the contact is (ie. employer, employee, friend etc.).

Section ❸

It's always wise to obtain permission to talk with the landlord/manager and employer before calling to ensure you don't upset anyone.

Section ❹

The final section is simply a declaration by the applicant that s/he has completed the form accurately and completely and that s/he understands the implications should any issues with the correctness of the data be found.

My experience shows using this form has really helped to gather detailed information about potential tenants in a uniform way that facilitates easy comparison.

I recommend you begin using it for all your tenants too.

PATTERN TEMPLATE 3: TENANT DUE DILIGENCE

This form has been designed to assist you to complete a due diligence over the purchase of a property that has an existing tenant.

Once, early on with our investing, David and I purchased a high-yielding rental property only to later find:

- The property had been through the hands of two rental managers
- A signed lease and condition report were lost and
- No bond had been collected.

When the tenant moved out and we disputed the condition of the property, we had nothing to fall back on and in any event, no bond had been collected. **What a disaster, especially when this mistake cost us almost \$2,000!**

To prevent you from making the same mistake, I've included a due diligence outline you can use to ensure you cover potential contingencies. You can download the form by clicking [here](#).

Ideally you would set up a purchase file that includes a section covering the existing rental arrangements and have the template as your cover sheet.

Section ❶

This first section requires that you obtain some simple details about the property. The idea is for this page to be the summary lead sheet in your tenancy due diligence section, behind which is all the necessary supporting documentation.

Section 2

It's a good idea to find out more information about the rental agency and person who is currently managing the property, particularly if you plan to continue using them once you settle on the purchase.

Make sure you get an idea of how much they charge for managing the property and also other costs such as letting fees and advertising charges. Be sure to check these fees against what is being charged by other agents in the same area.

I recommend you ask how long the property has been managed by the agency too. Where possible, obtain a print out of the rent record which is never much of an issue since most agencies operate rent records via computer.

Section 3

In section three you are gathering information about the current tenant. You want to discover if the lease has lapsed and whether or not any bond has been collected and properly lodged with the relevant authority.

One question I ask is "How long has the tenant been in the property?" While the lease may only say a year, it is possible the tenant has been living in the property for many years and as such may be more settled than you'd otherwise know.

Section 4

I suggest you obtain a copy of:

- Signed Lease
- Condition Report
- Evidence Of Bond Lodgement
- Rental Manager's Activity Report, and
- Tenant's Application Form

Don't just rely on sighting them, actually obtain a copy and place it behind the Pattern™ template.

Be sure to review the documentation to ensure it is complete.

Section 5

This final section is a series of possible contingencies you should be on the lookout for. If present, then you should weigh up any increased investment risk.

Rental Increases Just Before Sale

One tactic I've seen used is to 'up the rent' on properties just before selling to increase the yield for unsuspecting investors. This common trick is something to watch out for, as the current rent may not be sustainable once you own the property and the tenant moves out.

No Rental Increases

Sometimes landlords reward good tenants by not increasing the rent.

A lack of rental increases is one common factor agents use as a selling feature by outlining the potential for rising rents and immediately increasing yields.

My experience is that once a tenant has become accustomed to no rental increases and a new owner takes over, the tenant will be more inclined to move out rather than pay the additional amount.

On the one hand a long-term tenant is a bonus, but if they are conditioned to low rents then this may quickly turn against you if they move out and you cannot relet the property.

Month To Month Tenancies

Most leases revert to a month to month basis when the fixed term expires. This is fine, except as a landlord you require some degree of certainty that your cashflow will continue.

I treat month to month leases as being marginally better than a vacant property when I complete my due diligence.

Leases Not Signed, No Bond, No Condition Report

Missing documentation is a nightmare to be avoided at all costs.

You can easily place the responsibility back on the vendor by including a clause in your purchase contract that the required *signed* documentation is provided before settlement.

Lack Of Regular Inspections

The longer a property goes uninspected, the more potential there is for damage and poor maintenance. Be sure to check whether regular inspections have been completed and if not then demand to see a condition report and check it against the state of the property when you complete your own inspection before purchasing.

Lack Of Rental History, Irregular Payment History

Buying a property without a rental history is like buying a second hand car without a service or warranty book. The best way to test the quality of the tenant is to see if s/he has paid regularly and for the right amount. Past history is a good indication of future performance.

No Tenant Application

I like to see the application form submitted by the tenant to determine whether or not the required checks have been done. If no application form can be produced, that is a good indication of the quality of the managing agent and his/her approach to running a business, ie, stay away.

Payments Not Via Direct Debit

I suggest you structure your rent payments to come automatically via direct debit straight into your account. This is generally more reliable than tenants who pay by cash or cheque.

Manager's Fees Above / Below Market

My auntie says " If you pay peanuts, you get monkeys!" Don't try to save money on low budget rental managers because you don't want the real asset being managed by a poor operator.

Similarly, don't pay above market rates unless you are getting something extra in return.

Verbal Agreements

Make a policy that if it's not in writing, then it's not to be relied upon. Never go ahead with a purchase on the basis of a verbal agreement between the tenant and the old landlord.

Multiple Tenancies

A property with multiple tenants in less than 18 months is usually an indication that something is seriously wrong. Perhaps the property has structural problems or the neighbours could be like the Addams Family; be on the lookout for potential problems!

Tenant Owns Fixtures & Fittings

I once inspected a property where the tenant planned to remove the garden, carpet and garage when he moved out since he owned them rather than the landlord. You can guard against this by confirming with the tenant whether s/he owns any of the fixtures, fittings etc.

Hopefully you can see how comprehensive your due diligence must be to protect yourself against potential loss caused by a bad manager and/or tenant.

We've now come to the end of the August edition.

I welcome you to continue to post questions and comments on the forum and hope that you will be able to use the additional business and property resources I've introduced in this newsletter.

Watch out for more information about upcoming meetings and other special member's only offers.

Until next time remember, success comes from doing things differently.

Regards

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