

Hi and welcome to your June edition of Financial Independence. As I type O see that the end of the Australian financial year rapidly draws nearer, which can only mean one thing.... income tax time!

I'm please to announce a special feature in this month's edition by inviting outstanding share and option trader (and good friend) [Louise Bedford](#) to contribute a two-part article on critical aspects of trading success..

This month it's Louise's '7 Deadly Sins of Share Trading' and next month it will be an exposé into the amazing things that brokers say! If you are at all interested in shares then I know you'll enjoy Louise's approach to share investing (you can check out her website at: <http://www.tradingsecrets.com.au/>)

Other topics this month include:

- Details on my upcoming 'Australian Masters of Property Investing' seminar and the special Inner Circle offer that will instantly save you \$150.
- Opportunities! How to find and harvest great deals...
- Latest amazing developments on Traralgon and on my first commercial warehouse deal

Right, strap in and let's get going...

The Masters Of Australian Property Investing - Special Inner Circle Offer For Earlybirds

When I organise and speak at events I endeavour to raise the industry benchmark for excellence by putting on a first-class presentation that is focused to the needs of the audience.

And in 2002, I have something very special in mind as a way of fast tracking your wealth building success through property investing. I've worked hard to assemble a 'who's-who' of successful Australian property investors to gather in the one place over an action-packed two-day event.

Ignoring any sales hype or overstatements, I can tell you that I have a really good feeling about the outcome participants will achieve and know that by attending you'll receive answers on 'how' to become a successful property investor in addition to gaining massive momentum.

The topics I've selected for inclusion mean that we'll examine in detail the need for developing an entry strategy - or in other words everything you can do before buying to ensure that you lock in your profits from day one.

Then we'll go on to discuss and strategise four exit strategies: buy and hold, lease-options, renovations and wraps.

I've hand-picked the speakers based on not just *what* they know, but more importantly the *proven wealth building results* they have achieved themselves using the exact strategies that they will be discussing.

Never before has such an opportunity been presented for so many experts to be on hand at the one place at the one time... this is an absolute must attend event.

If you'd like more details about the event then I have uploaded everything you need to know onto the website at the following link: <http://www.wealthtipsonline.com.au/seminar>

Now the deal that I'm only offering Inner Circle members is \$1,845 (the full price is \$2,500 a ticket!) who book prior to 10th July 2002 is:

- **Two tickets for the price of one** (pay for one ticket and a friend comes free)
- Morning tea, lunch, afternoon tea on both days

- Full seminar materials
- **Complete audio of the event, valued at \$995, FREE**

No matter which way you look at it, less than \$500 per person per day to attend an event such as this one is a fantastic opportunity that you don't want to miss out on! Dates are Melbourne (3 & 4 August) and Sydney (9 & 10 November).

I urge you to take action and book a seat as soon as possible - and that means today. Just call the office on 1800 660 630 or if after hours either print off the fax application form (available at: <http://www.wealthtipsonline.com.au/orderform>) or send an e-mail registering your interest to: <mailto:seminar@propertyinvesting.com> Book quickly as both events are over 50% sold already!

Opportunities - How to find and harvest great deals!

While recently holiday on Brampton Island I was overcome with feelings of guilt at pigging out on the lunch buffet and decided to hit the gym to sweat off some calories.

There I was peddling hard on the exercise bike when an Anthony Robbins infomercial appeared on the gym TV. Over the next half-hour, Robbins pushed his \$150 product as hard as possible and using just about every marketing trick I knew and no doubt a few I didn't.

For the main part I found the pitch very entertaining, but there was something that he said that really hit home and I'd like to share it here. It's-

We all have winters in our life - some people freeze to death yet others learn how to downhill ski!

Later, while lounging in the sun by the resort pool, I found myself thinking about this in more detail. The question I asked myself was 'Why is it some people do extraordinary things in their life, while others only ever achieve mediocrity?'

And no matter which way I examined the question, the common thread in each answer centred on a theme of maximising opportunities for growth.

It seems that we are all blessed with many opportunities at various stages of our lives, but generally speaking the older we become, the busier we become which means less time to find and act on things that may change our lives forever.

Also, with additional responsibilities comes a fear that if we try to do something different then we may lose what we have already achieved. Thus by trying to protect what we have we find it difficult to have more.

I invite you to reflect for a few minutes and apply what I've written above to your own life. Identify a few of your 'life-changing' events and try to isolate the opportunity that you acted upon.

For example, think about the way that you 'won' your position in your current employment. No doubt you can pinpoint a few key opportunities upon which you took action and now have a regular income to show for it.

Then consider the point in your life when the opportunities seemed to dry up and try to identify the cause for you becoming too busy, or too tired, or too fearful to pursue new opportunities for personal and financial growth.

One critical lesson that I had to learn was to realise that more often than not we live in our worst case scenario - afraid to go forward and terrified to go back. We become wedged in an immobile state that means we don't have new experiences, just the same experience over and over again.

Yet it doesn't have to be this way at all. You are empowered with the ability to shatter the glass ceiling above your head by grasping the opportunity sledgehammer and shattering it forever.

So, the obvious question is 'How can **you** find new opportunities?' The answer is in the three-step process I've identified below:

Step One - Create Space

The first thing you need to do is be *open* to opportunities (old or new!). Most of us are so head-down and butt-up in our jobs and lives that we are simply too busy to ever find, let alone act, on opportunities that come our way.

For business owners, the key is to spend more time working *on* your business and less time *in* it.

Investors need to try and think beyond the current deal and begin to network, research or identify the source of where the next deal is going to come from.

A good example of the dangers of being too busy was one of the first houses David and I purchased with a renovation exit strategy. In this case we thought we purchased well and had a eight-week timeframe to get in there, do it up and then sell it for a higher price.

But unfortunately the reality of two accountants painting and acting as part-time renovators to save a few dollars was quite foolish. Not so much because we tried to save a penny and ended up paying a pound, but because while we were renovating an untold number of infinitely profitable deals passed us by which we never knew about!

In other words, while we were working *on* the house we weren't *in the market* for our next deal. During the day we were too busy working and at night we were too tired to find the strength to source new opportunities.

Does this sound like you and how you feel at the end of a day's work in your job?

If it does then I'm not advocating quitting, just finding some quiet time where you can escape the drudgery of a day-to-day routine to think and strategise.

Step Two - Ask How!

During your quiet time it's important to put your brain into thinking mode where you focus on a solution instead of the outcome to a problem. The easiest way to do this is to change the mental questions you ask away from 'can I do this?' to '*how* can I do this?' - or 'what would happen if...'

For example, for a long time now David has been interested in purchasing a high yielding 'big deal' (like a Bunnings Warehouse site) for up to several million dollars. In the normal course of events we wouldn't have the cash lying around to fund something like this, so the question I asked David was 'how are we going to make this a reality and what options are available where we use none of our own cash?'

A few weeks later David returned to advise that his best idea was to form a syndicate of investors who would pool their money. But in our case, instead of contributing cash, we'd contribute our expertise and take on the role of project managing the investment.

In analysing the thought process that was going through David's mind... he knew that, at this time, we don't have the financial resources to fund big-deal purchase. But as he said to me 'I didn't let the fact that we didn't have the money stop me from thinking about *how* we could buy another property!'

Some investors wouldn't even think about possibilities for making this happen. But stepping outside of the 'you can't do that' belief, a new-world of opportunity arises by asking 'how can I do it!'

In summary, step two is about shifting your paradigm away from *if* and moving it towards *how* - that is 'how can I do it?'

Step Three - Take Action

The final step needed to capitalise on opportunities is to actually be in the market for deals. For example, the Traralgon deal was sourced from reading the Sunday paper, the commercial property was found when I was window shopping at an agent's shop and the 21-unit Nambour complex was sourced from the Internet.

We regularly read newspapers, scan the 'Net, call our list of agents and business brokers to discover what deals are coming up - even if we have no means of funding the acquisition. We do this because we recognise that deals won't necessarily find us, we must find them and once we've found them we can begin to ask the critical question of 'how can we buy them'.

Share investors can look for deals by using the various fundamental and technical analysis techniques to spot an underpriced or distressed company.

Why not try shopping for deals right now? Have a quick look at the following sites:

Real Estate:

<http://www.realestate.com.au>
<http://www.propertylook.com.au/default.asp>

Businesses

http://www.businesses.net.au/businesses_for_sale.htm
http://www.lloydbus.com.au/lloyds_business_listings.htm
<http://www.businessbroker.com.au/commercial.htm>

In summary, unless you take action and do *something*, then even if you happen to stumble across a great opportunity you will never be in a position to capitalise on it. In very blunt terms - if you do nothing, then you can expect nothing in return.

Next month I'll continue this theme and expand upon the nature of making an untold fortune...

7 Deadly Sins of Share Trading, by Louise Bedford

Louise Bedford is a published author and expert in the share and option trading field and already has three books published (The Secret of Writing Options, The Secret of Candlestick Charting and Trading Secrets). As a special favour, Louise has agreed to contribute two feature articles - one on the 7 Deadly Sins of Share Trading and the other on the nature of brokers. For more information about Louise or trading, check out her website at www.tradingsecrets.com.au. Enjoy!

Property investing and share trading may be more similar than you think. As share traders, there are many lessons that we can learn from the recent market shenanigans. Here are the 7 deadly sins of the share market:

1) Trading Against The Trend

Self-delusion is a wonderful thing. It can make the trauma of being a modern adult so much easier to bear, without the need for medication!

However, convincing ourselves that the share market is trending up when it is not, can be a lethal mistake.

To assist in your quest to become a trader extraordinaire, consider hiring an 8-year old child. About \$2 per hour and the bribe of a chocolate biscuit should suffice. After they have programmed your VCR and cleaned up the viruses on your computer, conduct a simple experiment - show them a chart of a share in your portfolio. Explain to them that it is picture of how the share has been performing. If your new mini-employee says that the share is down- trending - believe them! Find a share that is up trending to buy, or your capital will suffer the same fate as the curry that you had for dinner last night.

2) Greed

"This one's a sure thing! In a couple of weeks, with the money you're going to make, you'll be able to buy New Zealand!!" says your broker confidently. If you believe this, and engage the trade without doing your research, you are the chump, not your broker. Your broker will still profit from the commission, while you are licking your wounds and mournfully expecting sympathy.

When traders lose money, they usually blame bad luck, poor advice etc, rather than their own personal qualities of arrogance, fear and greed. External attribution of blame is a sign of immaturity. Take responsibility for your own actions or your trading ability will never improve. This is one of the most difficult lessons to learn in your trading life.

3) Pride

Feel free to beat your hairy chests; men... it helped get us out of caves and into centrally heated houses. Unfortunately, there is no public killing of a predator in modern times.

If you have made a windfall profit, what makes you certain that you were the cause, and not just the hand of lady-luck? Put pen to paper and work out entry, exit and money management techniques. If you don't have a written trading plan, develop one quickly, or get the heck out of the market. Without defined rules you will lose in the markets over the long haul. Stay loyal to your system and be aware that there is no 'Holy Grail' in share trading. Every system will encounter a string of losses, but as long as you ultimately make more money than you lose, then you will be profitable.

4) Envy

As a teenager, with crooked teeth and a few too many kilos, I remember looking at the popular girls with abject envy. Damn them ... why were they born so pretty, skinny, clever, blonde etc? As my Grandmother told me: "comparing yourself to others only leads to heartache".

Although it seems as if everyone around you is making a killing on the markets, it is likely that they are only telling you about their good trades. Traders who tell you that they consistently get in at the bottom and out at the top of a trend are liars.

Good traders have achieved a sense of detachment from the market and have divorced themselves from chasing elusive profits.

5) Dividend Lust

"But it pays a good dividend" is the justification that many traders use for hanging onto a losing trade. This is equivalent to saying that you are a compulsive gambler because they provide free coffee at the casino. Even rats will put up with being zapped by an electric current if they are regularly fed tasty pellets!

Contrary to popular opinion, companies that pay dividends may not have their shareholders' interests at heart. If these companies retained their dividends, and invested in developing their strategic superiorities over their competitors, their earnings per share would increase. Investing in a share buy-back scheme, rather than paying a dividend would naturally drive the share price upwards. Whenever demand outstrips supply, a significant return on investment for shareholders is the result. This is inherently more beneficial to investors than a dividend, (or a tasty pellet) to keep them interested.

6) Wrath

The market does not know that you exist. Don't seek revenge if you have made a loss on a share, or if your dog has just bitten a chunk out of your best slipper. Fight your battles with an opponent that you can make eye contact with.

7) Capital Destruction

Dr Alexander Elder, a great trader, explained to me that there is a popular Russian saying that translates to: "Don't step on the same rake twice". Learn from your past errors.

Decide to exit a trade if it hits a certain point below your purchase price. The golden rule of share trading is: keep your losses small and let your profits run. Your first aim must be capital preservation. Making money is a by-product of following your trading rules.

Money flows naturally from the many to the few. Trading is definitely not for the faint-hearted, but the potential rewards ensure that there will always be a continual flow of new punters willing to try their luck. Luckily for skilled traders, these people still exist. It ensures that the share market will continue to redistribute wealth. Just make sure that you are the one that the wealth is being redistributed to!

Thanks Louise. I really appreciate and thank you for your contribution - especially your point about making money being a by-product of following your trading rules... this is very wise advise.

Latest Developments - Traralgon & our Commercial Warehouse

Over the past few weeks I've been working very hard to ensure that both these deals are a huge success. Our progress has been interesting to say the least, so let's have a look at what's happened...

Traralgon

Remember that this deal is 27 one-bedroom units that we purchased for \$510,000. My original plans were to do a quick renovation and then onsell them to make a quick profit.

Well, I've learned a valuable lesson about renovations... multiply the time you expect the project to be completed by a factor of 4, and the budgeted cost by a factor of 5 and you *might* be somewhere in the ballpark of reality.

At the moment, the (quite) rough numbers on the deal stand as follows:

Cost: \$510,000
Closing costs: \$30,000
Renovations: \$200,000
Total: \$740,000
Cost per unit: \$27,410

The arrangement we came to with the current owner is that we can have early access to the units to complete renovations before we are due to settle on the 5th July 2002.

Our first setback on this deal has been the actual cost of renovating the complex. My original estimation hadn't allowed for the waterproofing of all the showers, the replacement of stoves and a host of other niggly items such as broken toilets, taps, lights etc. Sadly, this is only something that one can learn as we progress through the job.

On top of this was our lender's sudden change of policy for 'commercial' residential blocks. Overnight their LVR (loan to valuation ratio) fell from 80% to 70%, which means that we have to come up with another 10% * 510,000 or \$51,000 cash out of our pockets - meaning the cash on cash return in the deal is beginning to look unattractive.

However the biggest problem has been trying to move the existing tenants out. One guy ended up living off site and was dealing drugs from his unit. Many other tenants had too much time on their hands and were always on the lookout for mischief!

The issue with the tenants came to a crisis point earlier this week when they started to damage some of our completed renovations. David and I sat down to develop a strategy to move people out and the best resolution we could come to was that the tenants couldn't afford to stay (we know they're not paying rent) and they couldn't afford to go (no one would rent to them and they have no money for a bond anyway).

So we resolved for David to go down and help them to find more appropriate accommodation and to lend a hand moving their gear out. It was tough work, but we managed to shift the ringleader and now the disturbing influence is gone, the situation is looking a lot brighter.

On a somewhat sadder note, one of the tenants was a 17-year-old with a 10-month-old baby and another on the way. David later told me the story that when he went to speak with them Human Services was already there and the situation seemed hopeless. But when everyone realised that the aim was to help rather than to criticise, new plans were made and she moved out that afternoon.

As I type this there are only two more people we need to shift before the place is vacant. It won't be easy to get the outcome we desire, but by taking action we have already created momentum which I don't want to let slip.

Reading the above news you may be inclined to think that I'm beginning to regret taking on this investment. This is certainly not the case! I enjoy a challenge because I know that I save make money by solving problems.

For example, here are two problems that I am in the process of solving:

Problem #1 Finance:

As I've mentioned, our lender has changed its policy from an 80% LVR to a 70% LVR meaning we have to put more cash into the deal.

But when I ask the question 'how can I avoid doing this', I decided to negotiate with the bank to lend based on the renovate value of the units rather than the cost. The first challenge was to get the units valued about \$27,410. Well, that was a success because the valuation has come in at \$35,000 a door. And when you factor in the second mortgage the vendor has agreed to, we will end up negotiating a 96% lend, which is nothing short of a miracle.

Problem #2 Rentals:

We want to make this deal cashflow positive as soon as possible - and a large part of our ability in doing this will be how easily we can rent the units out.

The hard way would be to rent them out individually, so I asked myself 'how can we rent all 27 at once?'

Knowing that action always beats inaction, David and I began to network with several organisations in the La Trobe Valley to see if there was anyone who would be interested in partnering us on the task of renting them out.

We called into several outreach places trying to find the name of someone who would be in a position to take on a lease of 27 units and then sub let them out on the basis of underwriting the quality tenants they put in there (meaning that if the tenant trashed the place then they would pay for it to be fixed).

Surprisingly, within half an hour of looking we'd found a name of an organisation, and when we rang they were most enthusiastic about meeting and discussing our proposal further.

At this stage things look quite promising having met with the CEO of the organisation and agreeing to meet again on-site.

On another front, we also decided to list the property with an agent and see if anyone wanted to buy it from us for \$960,000. We are not specifically looking to sell, but if someone wanted to cash us out then we'd be interested in talking.

Commercial Property

Our first commercial property was a factory / warehouse on two acres in Tasmania, currently renting for \$425 per week, which we purchased for \$155,000.

We have had some difficulty securing finance for this on favourable terms.

The best we could do was a ten-year principal and interest loan, or a five-year interest only loan at a fixed rate. We are still shopping around for a better deal, but at least we know that the worst finance option to happen is a five-year interest-only loan.

Better news though came in the form of a quantity surveyor's report. When we purchased, the contract we signed included a clause where we went 50:50 with the vendor on the cost of a report estimating the cost of the warehouse at the time of construction. We need this information in order to claim depreciation and building write-off tax deductions (for more information about the role and purpose of a quantity surveyor, visit:

<http://www.propertyinvesting.com/files/content.asp?cid=qs>).

The report came back with an estimated construction cost of:

Warehouse: \$196,090

Garage: \$15,759

Siteworks: \$32,177

Total: \$244,026

This is a great outcome given that we purchased for \$155,000 and the valued figure does not factor in the two acres of land the factory sits on!

It just goes to prove that opportunities in great deals exist in any market - but to find them you need to (1) Create space (2) Ask how! And (3) Take action.

Truly, deals such as this one are literally waiting to be uncovered **by you** right now. I'll keep you up to date as these and other deals unfold!

Summary

I receive a lot of e-mails from people asking me 'how do I find the great deals that you come across?'

This month I have attempted to spell out exactly what **you** need to do in order to capitalise on these deals. It is really a simple approach involving-

1. Creating the space away from your day to day routine. Being too busy to do anything is one of the biggest obstacles to overcome. Remember, for things to change - first things must change.
2. Asking how! When you change your paradigm from 'can I' to 'how can I', a New World of opportunity opens before you. For example, asking 'how can I rent 27 units to one tenant on a three year lease' led me to finding the right people in the right organisation who can write this kind of deal.
3. Take action. If you do nothing then nothing will happen. It's not enough to find a great opportunity; you need to take advantage of it before someone else does.

It was great to have Louise provide some valuable ideas about share trading. Personally, my favourite was part was not stepping on the same rake twice! If you haven't done so already, check out Louise's site at <http://www.tradingsecrets.com.au>

Finally, I outlined the latest developments on our property deals in progress. As you can see, the three-step approach to maximising opportunities is something we do everyday to make significant amounts of money and is something you can implement immediately too.

That brings us to the close of another edition. I urge you to seriously consider booking a seat at the upcoming 'Australian Property Investing Masters' event, scheduled for August 3 and 4 in Melbourne and November 9 and 10 in Sydney, as soon as possible to avoid missing out. To find out more information, click [here](#)

Until next month, remember that success comes from doing things differently.

Regards,

Steve McKnight