

Hi and welcome to your February edition of 'Financial Independence'.

This month my fellow business partner, Chartered Accountant, tax expert, father and all round great friend Dave Bradley contributes an insightful outline of his experience in the quest for financial independence. He also provides his opinion about what you can do to improve your chances of success.

Of all the issues of Financial Independence to date, I think you'll find this to be one of the most entertaining, especially if you've already had the good fortune of meeting Dave.

One of my fondest memories of any event that Steve has done was the very first get together we arranged in November 2000. This event was held at a baseball club near our office and occurred well before Steve became a household name to property investors around Australia, well before any wrap seminar or even the Wealth Tips Online website.

The event was arranged for people who had subscribed to Steve's free newsletter. People from around Australia travelled to be there to see (and in some cases touch!) the new kid on Australia's property investing scene.

I like to keep a low profile at all Steve's events. More often than not, you'll find me at the back of the room or making sure that the logistics have been considered and accounted for. But on this first occasion I was the bar tender.

Wearing casual clothes and identifiable only by a nondescript name badge saying 'David', I was happily chatting and serving drinks incognito.

But it wasn't long until someone asked what I did. When I replied 'I'm Steve McKnight's business partner', heads turned and I seemed to gain a whole new level of reverence.

I like this story because it sums up the type of working relationship that Steve and I enjoy.

My business partner has a gift that I don't - the ability to stand in front of a room of strangers and present difficult concepts in a way that everyone can understand. Sadly I think my accounting training has cost me that skill, if you know what I mean.

Yet my contribution to the business relationship is equally important, although not as recognisable. I'm the support guy who provides the infrastructure for the glamorous end of our business and from the outside it is easy to gloss over my influence and input.

Occasionally someone will ask 'Don't you want to be the guy at the front?' The answer is 'no' because I know my strengths and limitations. A large part of my personal success has been teaming up with a guy who has different skills to me, but who is nevertheless committed to the same goal.

The Story Begins...

My story really begins when my parents moved out from England in the early 1980's. I had to assimilate into a new school environment, and being the kid with the funny accent, I had my work cut out for me.

When I finished High School I enjoyed the luxury of sleeping in until lunchtime. Then one day my father arrived home early, came into my bedroom and said 'If you think you're doing this all summer then think again!'

I hit the job market at the beginning of the recession earning \$11,750 per annum in a small Chartered Accounting firm in St. Kilda Rd, Melbourne.

Sure, this doesn't sound like a lot of money - and it isn't. But to an 18-year-old male with testosterone coursing through his body - \$179 nett a week provided plenty of scope for a better life.

With my first pay cheque I took a friend out to the Manhattan nightclub. I calculated that I needed \$20 for my train ticket for the next week, \$20 for lunch, which left \$139 remaining for beers! This was the depth of my financial planning at age 18.

Acting as a (very) junior accountant, my early days at work consisted of much more than making coffees. I was in charge of important activities such as running downstairs to put money in parking meters, getting people's lunch, dropping off and picking up dry cleaning and some occasional accounting duties too.

Despite the somewhat routine nature of my daily activities, I nevertheless adopted a work ethic which has stood me in excellent standing over the life of my career. I'd be one of the first into the office in the morning and one of the last to leave at night. When someone asked me to do something, I always tried to understand what I was doing and compete it accurately rather than rush through with the job.

I was still working as a junior pleb when the depths of the recession hit. I recall one shocking Friday afternoon when I learned the meaning of the word retrenchment. One by one phones around the office would ring and unlucky employees would be called into a partner's office and told not to come back Monday.

That day 20% of the workforce was culled. My work ethic saved me while fellow workers, and in many cases friends, were retrenched.

Sure Friday was a difficult day, but in the months that followed morale was rock bottom and I considered myself very lucky to have a job at all.

I think this highlights the illusion of stability associated with having a job. The experience provided my first insight in changing my mindset from employee to being in control of my work environment.

At the time I wasn't thinking about financial independence. I had observed that none of the partners were sacked and so concluded that if I wanted to keep my job, then I'd better become a Chief rather than an Indian.

Changing Carriages On The Same Train

In August 1997, after 10 years of working at my first job, I resigned to move sideways and accepted employment with another Chartered Accounting firm in Carlton. They promised better partnership potential and in doing so, I moved closer to my goal of lifetime job security.

I was employed as the tax manager and alongside the existing audit manager, we provided the spark and enthusiasm that flowed as the creative energy in the business. The audit manager was Steve McKnight.

When Steve and I started working together I wouldn't say that we hit it off. Don't get me wrong, I had a professional respect for him, but there is a friendly rivalry between tax accountants and auditors which goes back to the beginning of time.

A manager is often the most frustrating employment position in any business. You are often placed in an awkward position since you are the face of the employees as well as the rod used by the partners to enforce discipline. I concluded that being a manager was a no-win situation.

That's how Steve and my friendship began. We were two managers who often sought comfort and safe ground in tough times.

Being the sort of people that we are, we'd constantly come up with suggestions for improving the work environment and developing new business opportunities. Time and time again our input went unheeded. Frustrated and feeling disheartened, it was one Saturday (while playing cricket in work hallway) that we concluded we'd make more money and work less hours if we joined forces and became self-employed.

It took a few months to sketch out the details but on 1st of January 1999 a new Chartered accounting business called 'Bradley McKnight' was created. I'd calculated that all I had to do was work three hours a day at \$100 an hour and I'd be earning the same salary as before but with little or none of the old anxiety, plus I'd get to see more of my wife Michelle.

The business was progressing well when I received a phone call from Steve at 10:00pm one night in March. He'd been to a Robert Kiyosaki introduction seminar and was telling me that we needed to sign up for a \$2,000 (each) weekend seminar in Sydney right now because there were limited places left.

I hadn't read 'Rich Dad Poor Dad' at that point and to be honest I thought that Steve was crazy to want to spend that kind of money on an American presenter. I told him that we'd discuss it at work the following day and bid him goodnight.

The phone rang again immediately. It was Steve. He said that he *really* thought we should attend and that there may not be any spots left tomorrow. I told him we should *really* talk about it in the morning and that the offer would still most likely be available before politely hanging up again and then taking the phone off the hook.

I was settling down to sleep when my mobile phone rang. It was Steve, again! He said 'Do you trust me?'

If you can't answer yes to this question, then you shouldn't be in business with them in the first place! Steve signed on for the seminar that night and it was definitely the right decision.

A New Beginning

I don't know how Robert Kiyosaki's seminars are today, but the \$2,000 I paid to attend was good value for money.

Despite going through University and becoming a Chartered Accountant, I learnt more about real life opportunities for wealth creation in one weekend than all my years of education combined.

For example, at accounting school you're taught to invest in assets that are tax-effective, since over the long term you'll get a tax deduction and build wealth. On that basis I went on to buy a negatively geared unit in 1991 for \$70,000, with the agents comments of 'You cannot go wrong buying this property' ringing in my ears.

Yet when I sold it in 1997 for \$73,000 *before* agents commission, I realised that there is a difference between accounting school and real life when it comes to investing. I wasn't going to become financially independent investing in this type of deal.

Today, and certainly for most Wealth Tips Online subscribers, financial independence seems like a real and achievable goal. But my most of my world before the seminar consisted of working hard, earning a good salary and supporting my family through a job.

You could say that I left the seminar with an understanding of the possibility of a new way to achieve my goals without working in a job forever that somehow involved investing in businesses and real estate.

Steve has told the story of how we purchased our first property, an ex-housing commission 3-bedroom home for \$44,000 many times over and I don't have any new insight to add to it.

However one interesting insight that I can reveal, which Steve cannot, is the heartache that is caused by telling your wife that you are planning to sell the family home and rent to free up equity for investing.

I am lucky to have a very understanding wife who knows that everything I do is for the benefit of the family and she unconditionally trusts me. Still, it's quite a shock to have the nest sold out from under you and to have to move into a rental property when you have been conditioned since birth that to have a home is part of the Great Australian Dream.

Michelle was agreeable, but my parents and particularly my father were shocked. Of course (and as Robert Kiyosaki has pointed out) my father was applying his paradigm of success (work hard, pay off a home, retire). As Steve and I purchased more property my father would sometimes say 'When are you going to stop playing games and get a real job? Michelle's going to need a home when you start a family.'

Having two young children now I can't believe that they know the difference between a bedroom in a rental property and a bedroom in a house that comes with a massive mortgage. Either way the property is really owned by someone else - the landlord or the bank. It's difficult to explain that to a two-year old.

You may be interested to know that I still rent and continue to pay a price for my dream of financial independence. This won't always be the case; it's just the reality for today.

I have spent a lot of time giving you the background leading up to the purchase of Steve and my first investment property. I have done this since I perceive that many of the readers are in a similar start up phase.

The truth is that once you have made a start you begin to build up momentum. How fast you travel depends on your goals and commitment. The first house we purchased in May 1999 and we owned just three by the end of the year.

Not all of our investments have been wild successes. For example, the second property we purchased was a rehab. In hindsight it was a necessary part of our real estate evolution, but I still have bad memories of scrapping off cupboard liners, painting rooms and tearing up carpet.

Sure, we made a small amount money on the deal, but if you factor in a grief and time component then I'd have been better off flipping burgers at McDonalds.

Many investors are so happy to earn money that they'll do anything that will make a buck. My experience is that you really need to develop a niche and then concentrate on doing only that. For me it was servicing accounting clients while Steve went out and sourced property deals.

Later, when we were in a massive expansion phase both Steve and I would look for properties and handle wrap leads.

Today I handle quite a lot of the properties and Steve has moved on to sourcing 'big deals', creating opportunities for new business developments and generally handling the Internet businesses that we own.

The Business Model

The model that Steve and I are using to become financially independent is amazingly simple. So simple that many people dismiss it as 'there must be more to it than that!'

The Early Days

In the early days I'd make the money in the accounting practice by selling my time by the hour and Steve would invest it through property investing.

The way that I had set the accounting business up (that is, Steve and I worked from our respective homes) ensured we had minimum overheads and the majority of every dollar earned could be invested in the form of deposits on positive cashflow deals that Steve and I purchased.

Michelle and I made do on her nursing salary. It was a meagre existence, but this was part of the sacrifice needed to build an empire for our later benefit.

The plan Steve and I implemented was adequate if we wanted to buy between 5 and 10 properties per annum. But my wealth creation goal of \$250,000 of annual passive income by 9 May 2004 wasn't going to be achieved by doing this.

The Middle Days

It quickly became apparent that we needed to buy more properties with less cash, or alternatively needed to bring more cash into the business. We did both.

We took advantage of the \$7,000 First Home Owners Grant to reduce our nett cash in the deal on wrap properties. That is, we'd put down a 20% deposit and receive back \$7,000 from the person that we on-sold to under a wrap transaction.

To date we've received more than \$280,000 as deposits under the FHOG scheme.

Sometimes we'd locate a property that wasn't suited to wrapping but was nevertheless an amazing positive cashflow buy and hold opportunity. The cashflow made on these properties was reinvested.

The accounting business continued to spin off cash of about \$100,000 per annum which was again reinvested.

Finally, Steve opened up new business opportunities through Wealth Tips Online and also with the Wrap Secrets Revealed Library, which have also brought more funds into the investing pot.

The Current Day

Today we continue to apply the simple model of opening up multiple streams of income and then pooling available funds to acquire positive cashflow investments. Since Michelle is now a full time Mum, I draw down a salary of sorts from the business, but I don't live an extravagant lifestyle by any imagination.

I take advantage of compounding returns, otherwise known as the velocity of money. This means I invest a dollar and then reinvest the returns I make. Instead of working on multiples of \$10,000, which is what I did when I began, I now work on multiples of \$100,000. Tomorrow I plan to work in multiples of \$1,000,000.

This is possible when you understand that money can be a reward for ideas and a reward for labour. Harnessing your creative energy provides opportunities to create money from your imagination and legally print money. Properly harnessed good ideas are all you need.

Hence why we have embraced the wrap concept. In a wrap you buy at one price and sell it on the same day at a higher price - literally creating money. You then not only receive that money you invented as instalments over time, you're paid interest on it too.

Wraps are not the only way to leverage off creative energy though. It's really a matter of taking the time to look for your opportunities instead of spending your days working and coming home too exhausted to think.

Life is not an outcome, like living through Monday to progress to Tuesday.

It's a process where opportunity exists regardless of dates and times. It's waiting for you now even as you read this, provided you are willing to think and make the necessary sacrifices.

The Road To Financial Independence

You can expect to encounter serious issues as family and friends question the validity of your quest for financial independence. It matters little to them to pass comments that can cut quite deeply or make off the cuff comments that are without basis. Yet you must stay resolved to your goals and not falter at the first sign of trouble, since wealth creation is like a race and only the mentally tough make it to anywhere near the finish line.

Many people I encounter expect the road to financial independence to be easy. It's not. You must make sacrifices to create room for new possibilities. For me it was selling the family home and giving up the security of a high paying job. But in its stead I have co-built an amazing property portfolio and remain a director of three profitable businesses.

This is in part a result of teaming up with a guy like Steve, but it's more so an outcome of my old work ethic, having a thick skin and never taking my eyes off the end goal of creating a better life for myself and my family.

The road stretches on in front of us all. Take inspiration in the knowledge that I am just the kid from High School with a funny accent, a father and husband - just an average guy with above-average commitment. That's all it takes.

I'm well on the way to my wealth creation goal, but I still have some distance to travel. That's OK because I have until 9th May 2004 to get there (or sooner).

The Top Five Things You Can Do

I really believe that Steve's top five things could be said by me as well, but to give you five more:

1. Believe that you deserve a better life and see the illusion that working for a living really is. The vast majority of my working life I believed that becoming a partner in a Chartered Accounting firm was the pinnacle of success.

Recently I received a call on the mobile phone from a friend of mine who is a partner. He wanted to know how was it that I could be home by 3pm to play with my daughter while he (and every other accountant) worked frantically to get clients' GST forms completed by the due date.

2. Be realistic about the costs of success and understand exactly what you have to give up in order to have a different possibility. Expecting things to change without cost is just not realistic. My cost included the family home (in the short term) and a job as a partner (permanent).

And it has taken time to accrue the benefits, several years in fact. But commitment becomes your friend when it seems to make sense to abandon your plans and go back to earning a big salary in a comfortable job.

3. Don't do it alone. I doubt that either Steve or I could be where we are today without each other. Rarely has there been a success in business that has not had a team around them to support and advise.

Yet I see many people out in the marketplace all trying to conquer individually. Being part of a team may cost you a portion of the gain as you split the profits, but it will allow you to earn more profits in the first place.

4. Know what you are doing. This sounds obvious, but I perceive the majority of investors still have little idea of what they are doing and wildly spend tens of thousands of dollars. You simply must invest time and money into developing your financial acumen.

Read, attend seminars, search the web, post on forums... do whatever it takes to get out there and when you *think* you know what you're doing, explain it conceptually to a complete stranger. I've found that by explaining a concept it helps to consolidate it in your own mind.

5. Monitor your progress. Becoming financially independent is not something that happens in one day or one year. People expect investing to be about huge returns that come in thick and fast. This is not my experience of how it is done. My approach when beginning is 'small fish taste sweetest'. It is only recently that I have had the resources and investing resolve to chase bigger deals.

I hope you have enjoyed this outline. Since the story is a work in progress I can't tell you how it's going to end for sure. But I do know that I'm on an exciting escalator heading up and that the ride is providing a thrill in my life previously unattainable in my job as an accountant.

Wishing you the best of investing success,

Dave Bradley

Thanks Dave for that interesting and insightful review of your financial independence experiences to date. I think there is a lot that can be gained from reading this article from the viewpoint of the mindset transition from an accountant to an entrepreneur.

Indeed today we have shifted our focus from single investments to the *business* of investing.

The challenges that Dave and I face are the same that all investors must encounter. Remember that when you boil our achievements back to a primal goal, we are just a couple of guys seeking to make a better living for our families.

We continue to live by the motto that success comes from doing things differently.

See you on the forums.

Warm regards,

Steve McKnight