29th January 2002

Hello and welcome to your first edition of Financial Independence for 2002. I hope this newsletter finds you in fine health and great spirits too.

I'm writing this newsletter to you from Houston, Texas where it's winter. But don't let that fool you… it's still over 20 degrees outside and much like an early Melbourne Spring.

Prior to coming here I enjoyed two weeks of work / vacation in Vancouver with Don Campbell. It was a pleasure to speak at a dedicated Canadian real estate workshop (in Calgary, Alberta) with over 150 people attending.

My presentation centred on my thoughts on real estate investing in general and an outline of the wrap concept (tailored for Canada) in detail. I spoke for over six hours and judging by the feedback, the Aussie accent and my approach to real estate investing was very well regarded… one person even called it 'Steve-eriffic!'

Starting from this edition I'll be e-mailing the newsletters to you as well as posting them online. If you require an easy-print version then please go to the site and download this newsletter in pdf format. You can do this by logging on to the Inner Circle, clicking on the 'E-Bulletin' tab and then selecting the file you wish to print out from the 'Printable Version' column.

Plans For Wealth Tips Online in 2002

My sole aim for Wealth Tips Online is to help you to achieve your wealth creation goals as soon as possible. I'm here always to assist you with your own path… but like all resources, in order to be effective, you need to use me.

In response to member feedback, 'Financial Independence' will take a slightly new direction in 2002. Several members have asked for (if I may put it bluntly) shorter newsletters and more stories from or about other people.

As always I'm open to feedback and over the next eleven editions I'll begin interviewing key players whom I consider to be experts in the wealth creation market and ask them to outline their financial plan which is working to great success, together with tips and strategies that they've found to be very useful.

I firmly believe that there's no better way to improve your own success than by looking at what other people do and then just copying what works with your own *spin* on how to make it better.

Another development that you'll notice is that the Hot Topic will now concentrate on advanced accounting, business and investing techniques. It will include case studies and worked examples and where possible also feature a research project that will attract a prize. More time and resources will be allocated to the Hot Topics and in order to keep the information flow manageable, the Hot Topic will be released as a special quarterly insight.

However, the development that I'm most excited about is the Quarterly Mentoring Meetings that are scheduled to begin in February. These meetings will bridge the online content of your Inner Circle membership with face-to-face mentoring where you can have your specific questions answered. It will also be an excellent networking opportunity for you to build valuable contacts and friendships with like-minded investors.

In summary, Wealth Tips Online is once again a valuable resource open to you. I'm honoured that you would like to share my success and profit from my experience as an Inner Circle member.

The Harvest Has Begun

In the December newsletter I outlined my theory of the four cycles to wealth creation -

1. Buy The Seed
2. Plant The Seed
3. Nurture The Seed
4. Harvest

I also outlined that 2001 was a year of cycles one to three for David and I and concluded with the hunch that 2002 was set up to be a year of harvest for us. Indeed, just before Christmas, David and I set the goal of acquiring another nett 100 income producing dwellings in 2002.

Already this has begun to occur. While in Canada an opportunity came my way to consider purchasing a 15-plex, that is, a 15-condominium complex in the Province of Alberta. I'm still negotiating the details of the deal, but the asking price is around $600,000 with an annual rent of $93,000. I'll leave you to calculate the '11 Second Solution' on that one.

Further, David tells me that he is continuing to negotiate and close on several property opportunities in Australia too. We continue to liquidate poorly performing investments (that is, properties we have previously purchased but no longer fit into our plans) and redirect our money into more profitable ventures.

Indeed, our wraps are performing better all the time. We had some issues as a result of a lack of pre-screening when we began wrapping, but these have all been resolved now. It's my plan to actually wrap half of the condos in the deal outlined earlier to recover some of the cash needed to acquire the complex and improve my cash on cash return.

If the deal goes further and I end up closing, then I'll be sure to post the full details of the acquisition online for you to review.

My Wealth Creation Plan

Earlier I mentioned that I would bring you the strategies that other people are using to become financially independent, but in this first edition of 2002 I'd like to share with you the intricacies of Julie (my wife) and my personal plan.

It begins in 1998 when I was working as the 'Manager – Audit & Business Services' in a medium sized chartered accounting office in Melbourne. In fact, David was the other manager in the practice and we would regularly chat about how hard accountants worked and how they didn't have any money.

We both agreed that acting as a manager was a thankless task and that we didn't see enough of our wives. So, just like all good accountants, we decided that we'd be *at least* as better off working for ourselves than for someone else.

We both quit and on the 1st January 1999 we opened the doors of a new accounting firm that would set the world on fire with the catchy name of 'Bradley McKnight – Chartered Accountants'.

OK – so it wasn't a business name that was going to win a creative award, but the business nevertheless served its purpose. Since David and I worked from our respective homes (to keep overhead costs as low as possible) we certainly saw a lot more of our wives.

Starting our own business was a necessary evolutionary step for us to make in order to be where we are today. For my part I finally faced the fear called 'quitting a high paying job to get my life back' and in doing so finally understood what I call the 'worst-case scenario dilemma'.

I perceive that most people live in their own worst-case scenario. Afraid to move forward for what is perceived to be at risk, they settle for a life of mediocrity complaining about life but unwilling to make any changes.

For example, I was already in my worst-case scenario working as a manager in someone else's business. I put in crazy hours, didn't see my wife enough and gradually put on weight. For some time I was afraid to quit because I thought I'd risk the lifestyle I'd grown accustomed to.

Yet there was nothing to really be afraid off, because if I quit I could always go back to a job working for someone else.

My problem was I couldn't go forward without giving up a portion of my past to create room for a new possibility.

So it will be for you too. It is simply not possible to surrender nothing and gain everything. You need to decide what you are willing to give up and what you expect in return. I gave up about $30,000 per annum to work in a less stressful environment and see more of my wife. It's a decision that I don't regret for a second.

Our accounting business motored along until David and I attended a Robert Kyosaki event in Sydney in May 1999.

I walked away with an insight that being self-employed is only just one step above being an employee. Instead of relying on your boss for money you rely on your clients.

Since I didn't want to rely on anyone, I began to explore the possibility of buying positive cashflow real estate.

My strategy was simple. Buy investments that made money from day one, and in doing so, become wealthy.

At its most basic level, my plan for success was to gradually replace the income the accounting practice provided. In doing so I could eventually substitute investment income for the profits earned from billing accounting services by the hour.

The Difference Between An Employee And An Entrepreneur

In making this plan I realised the difference between an employee, a business owner and an entrepreneur.

An employee has his/her wage set by the market and then adjusted by his/her employee. The amount of money that an employee can earn is limited by qualification, experience and available working hours.

A business owner can bypass qualification and experience by hiring educated employees. However, most business owners will remain constrained by time and can be blinded by the trap of accepting longer working hours since they are the prime beneficiary of their hard labour.

Entrepreneurs, however, are not constrained by qualification, experience or working hours. They find ways closed to others and in doing so, create opportunities that others cannot.

There was certainly nothing entrepreneurial about the way that David and I run our accounting business. In fact our market strategy was to charge less than our true value in order to attract business and then work an average of three days a week to earn a meagre yet sufficient salary.

But having now understood the nature of an entrepreneur, I wanted to bust through the constraints that hold other people back and go beyond the earning capacity of an employee and business owner.

I had a meeting with Dave where to his astonishment I handed in my accounting resignation. He said 'Steve, we're in an accounting partnership, if you're not going to do accounting, what are you going to do?'

My answer was to enter the world of property investing.

Remember that the master plan was to build enough income from investments to substitute the money that I earned billing by the hour in the accounting business. This meant one condition – the property I purchased had to be cashflow positive immediately.

The way I started in real estate was just like every other beginner – buying one property and learning from the process. Sure, the property I bought was only $44,000 – but it doesn't matter if you buy a property valued at $1 or $1 million, you still learn the same lessons about negotiation, dealing with agents and the conveyancing process.

In partnership with David I began to build the 'Bradley McKnight' property empire with the understanding that he'd make the money from accounting and I'd invest it.

With fees of $110,000 per annum, we worked backwards on the assumption our target property would cost $60,000 (or less) and we'd need $15,000 to fund downpayments closing costs per property acquisition.

On this assumption we'd be able to acquire seven positive cashflow properties per annum.

But coming to this conclusion wasn't rocket science, just an extension of an idea to its limit. In order to be entrepreneurial I needed to discover a way to stretch the $110,000 to fund more than seven property acquisitions.

The strategy I applied was one that a Canadian investor had briefly shown me at a marketing seminar in Vancouver in July 1999. Today it is better known as a wrap, but when I first heard of it, the concept had no name.

I took this strategy and discussed it with the solicitor who handled our first property purchase and together we created a way to leverage off the vendor finance model to speed up our acquisitions.

Using vendor finance I was able to reduce my cash in the deal by receiving a deposit from the person to whom I sold my property. For example, if I needed $15,000 to fund a downpayment and settle on a property and I could immediately sell it on vendor's terms and get back $7,000 or more, then the number of properties I could buy each year increased from seven ($110k / $15k) to ($110k / ($15k-$7k)) thirteen.

But in order to do this I had to give up owning the properties forever, since one day a wrap transaction will end when the buyer pays you his/her final repayment.

Perhaps I was lucky – or perhaps you make your own luck, but no sooner had I finalised my property acquisition model than did the Government announce the $7,000 first homeowner's grant.

Again I saw an opportunity when property prices fell in the period leading up to the introduction of the grant as first homebuyers exited the market. David and I went on to purchase thirty properties at $50,000 each and less in two months.

We would only put down maximum deposits of $2,500 and we'd organise staggered settlement periods. In this way we could tie up properties and then fund their acquisition from a mixture of our own capital and wrap deposits we received as we closed a deal before we settled on another.

With more and more positively geared properties came more and more positive cashflow, which created a new problem. Do we take the cash now or do we reinvest it and upscale our operations.

In the end the most practical decision was to repay our borrowings as soon as possible since this lowered our investment risk and further improved our positive cashflow returns.

My Plan Unmasked

I have now outlined the two critical components to the success of my plan and neither of them relate to money. Can you guess what they are?

The first is to step out of the mindset of an employee and business owner and into the real of an entrepreneur. In this domain there are no limitations – just solutions, however remote, that will propel you towards your goals. More often than not the way forward is revealed after you have set a path through impossible territory.

The second critical component of my plan is David Bradley. It would have been possible for me to achieve the things I have done without David – but it would have taken a lifetime longer and would not have been as enjoyable.

My plan of success has the following thought process:

- It was better **for me** to be self-employed rather than an employee
- Self-employed people must still rely on clients to provide the sustenance to maintain a lifestyle.
- I didn't want to rely on either an employer or client for my safekeeping and so I needed to create enough annual investment income to replace my accounting business profits.
- I had to invest in *things* that make money from day one – the thing I chose was property.
- But before investing in property I first needed money to begin with – the way to get money was to enter a partnership where David would earn the money (though accounting fees) and I'd invest it. This way we both benefited from each other.
- To accelerate my plan I needed to be creative and to take calculated risks – only later would I learn that those risks were minimal and necessary to test my resolve.

The Status Of My Plan Today

"My success is not dependent upon money – it's dependent on people!"

Today my plan is only slightly more complex than it was back in 1999.

Instead of just one source of income (the accounting practice) to fund properties I now have multiple sources, including the nett positive cashflow that my existing investments provide to the tune of about $170,000 per annum (and growing…)

And instead of just one relationship, David and I have built networks with other players in the investment scene and profited from their experience too.

In summary, my plan today is still the same basic idea only implemented on a much larger scale. Why mess with a simple idea that is working fine?

Top 5 Things I Think You Should Do

1. Before you can create a possibility for something different you must be prepared to sacrifice something first. For example, in order for me to open up the possibility of

retiring before age 35, I had to sacrifice the possibility of working as a public accountant.

Yet the sacrifice is one that could always be reversed, because I could always go back to being a public accountant, but unless I tried something different then I'd never retire before I was 65.

Accordingly, I recommend that you consider what you are prepared to sacrifice in order to open up a new world of possibility. Remember, for things to change, first you must change.

2. To turn your possibility into a reality you'll need to make a plan. When you begin, start with a simple plan that everyone understands.

   Make a simple plan – mine was to just buy genuine positive cashflow property. This is an excellent start if you lack a plan. But in truth, there is an infinite number of ways to make money and the method that is best for you will be related to the thing you know the most about.

   If you don't know anything, then become an expert at something first.

3. Build a team and learn from people who are willing to guide you.

   Your Inner Circle membership is an excellent opportunity for you leverage of other people's knowledge. Beyond this network you'll need someone to bankroll your investing or alternatively you might like to be the financier in someone else's venture.

   Developing and participating in teams is a rewarding component of the journey to becoming financially independent. I value my relationship with David and other team members more than money.

   Consider what part of a team you'd like to play and then find others to fill the roles or expertise you lack.

4. The nature of a risk is that you have something to lose. But it's the fear of losing something valuable that creates the opportunity for having more.

   Don't be afraid to take calculated risks.

   Experience has taught me that friendships are the most costly to lose and should rarely be risked. Yet money is something that exists to be risked in a prudent manner by the careful investor. Being money attractive is about risking money in a way where the monetary loss, if any, can be replaced without too much effort or additional risk.

5. Have fun! Your quest for financial independence should be as much about having fun and enjoying yourself as it is about setting a personal challenge and defeating it. My happiness is derived from the journey towards financial independence. And still the road leads onwards…

I hope that you've enjoyed this first edition of Financial Independence for 2002. Be sure to watch out for news about the upcoming mentoring sessions to fast track your wealth creation dreams.

And remember, success comes from doing things differently.

Regards, Steve McKnight