

30 March, 2002

Hi and welcome to your March 2002 edition of Financial Independence - the e-publication for subscribers of my Wealth Tips Online *Inner Circle*.

This edition marks the end of the first quarter of 2002 and soon the Easter celebrations will be behind us and those tempting Easter eggs will be off the supermarket shelves until at least mid-January next year!

I've worked hard to bring you a bumper edition this month which includes:

- First quarter update on the success of my wealth creation goals so far in 2002.
- Exciting news about the First Quarter Hot Topic, which will be an amazing interview with Australian Property Investing success Nivia Pryor.
- Discover the highs and lows of my latest web business www.PropertyInvesting.com and follow along from an insider's vantage point as I outline my plans for the site and how I'll turn a good idea into another stream of income.
- Use the simple 'Path Of Least Resistance' exercise that I featured in my recent speaking tour and bust through any investing cobwebs that might be holding you back.
- Become financially educated about the likely effects of a movement in interest rates as our economic climate changes. The peak of the property boom has now passed us by and I've outlined how rises in interest rates will impact individuals, businesses and investors.
- The details of my purchase and exit strategy over my latest property investing acquisition - 27 units purchased for the rock-bottom price of only \$510,000. Discover how when my plans are executed I'll be left with a lifetime annual passive income of over \$32,993 without any of my own funds left in the deal.

There's so much to cover, let's cut straight to the chase:

The First Quarter Update

I've made it no secret that my goal in 2002 was to acquire another 100 positive cashflow investment dwellings and continue to create and build multiple streams of income through the many businesses that I own.

I also know that many Inner Circle members enjoy finding out about how I'm going and derive much inspiration and motivation to get off the investing sidelines and enter the game.

You may remember that I flagged 2002 to be a year of harvest after 2001 became a year of planting and consolidation. Well, that has certainly panned out to be the case.

In the first three months to date David and I have already:

1. Purchased 47 positive cashflow properties that equate to *additional* annual passive income of \$122,200 per annum. These have been in the form of two 6-plexes, an 8-plex and a 27-plex (the details of the 27 plex are in this edition).
2. Completed a national speaking tour where I presented to over 2,000 people and delivered my '10 Laws Of Property Investing Success' and promoted my two systems for success - Property Secrets Revealed and also my Wrap Library
3. Relaunched our next e-business which has already banked \$10,000 in its first month of operation, the profits of which have been quarantined to fund deposits on our next round of property purchases need to meet our 2002 goal.

I know many Inner Circle members have gone on to achieve wealth building success so far in 2002.

I'd love to hear of your success and failures so far this year and invite you to post them on the Wealth Creation Forum Board. Sharing the details of your wins and losses is an excellent way to assist other members to leverage off your knowledge and fast-track their own success.

If you'd like me to comment on a potential deal or wealth creation opportunity, all you need to do is post the numbers. I'm here and ready to push you to the next level of wealth creation success, but your *effort* has to be a long way from passive.

This year is a year of action. If you are not in the game then get off the sidelines and start participating. As I write below the era of low interest rates is coming to an end, but it's not too late to take advantage and become well placed to capitalise on the impending massive redistribution of wealth.

From Checkout Chick To Property Investing Success And Everything In Between

When I outlined my plans for Wealth Tips Online in 2002 I made a commitment to finding and interviewing people who I regard as masters of wealth creation. I did this with the goal of creating a resource that will motivate, inspire and above all deliver good ideas, which you can instantly turn into cash profits.

The easy two interviews were with myself (January Financial Independence) and business partner David Bradley (February Financial Independence).

Now I'm excited to reveal that the third interview now recorded and professionally edited is with Nivia Pryor, perhaps better known as 'The Wife'. In an amazing 70-minute interview we cover many of the stories and great ideas that have provided Nivia with the success she currently enjoys.

In case you don't know, Nivia is a self-made millionaire after being kicked out of school at age 13 and while she was recently the focus of a feature article in 'Australian Property Investor', Nivia had never done a studio recording.

That was until I convinced her what a great inspiration she was and how powerful her ideas were. Your Inner Circle membership will ensure you'll be among the first in the world to profit from it.

Best of all though is your personal Wealth Tips Online Inner Circle copy of the recording will be delivered to your door within the next two weeks.

In fact, Brent from my office has just finished listened to the recording for the first time and was literally blown-away by how insightful and useful it was.

I regard it as an outstanding resource for anyone contemplating investing in property - which I'm certain includes a large portion of all Inner Circle members. This is such an important resource that I'm making it the first quarter's Hot Topic!

Keep a watchful eye on the mailbox because the tape will soon be in the mail!

An Insider's Probing Look At Property Investing.Com

By now you have hopefully seen the re-release of my second e-business –
www.PropertyInvesting.com

The progression of the site from its humble beginnings to what you see before you now is a very interesting story and one that all business owners will benefit from reading.

Please note that some of the comments I've written are very sensitive, so I'm asking for your trust and discretion not to reveal them outside of the Inner Circle.

Property Investing.Com Pty Ltd was company created to house a business created in February 2001.

The major asset of the business was the domain name <http://www.PropertyInvesting.com> which I purchased from a cyber-squatter for the bargain price of just US\$250.

I knew that having a good domain name was very important and spent several hours surfing around the net. As expected, I noticed that all the really good ones were taken - but that they did not necessarily have sites already created.

In the case of property investing.com a person had registered the domain name on the basis that someone would buy it from him (this is also called cyber-squatting).

I first contacted him in October 2000 and he told me that he'd sell it for US\$1,000. When I wasn't interested he then reduced the price to US\$500. Perhaps I should have snapped it up, but I was busy building wealth tips online and was still not enthusiastic. I e-mailed that the most I'd pay was US\$250.

Then in December 2000 the seller contacted me and said he'd take it.

Just like in property investing, the best buys occur when you have a motivated seller.

In fact I recommend that instead of low-balling and having 1 in 100 offers accepted, focus on finding motivated sellers and then find a solution that creates a win-win outcome.

This lesson is reinforced when you consider that I also tried to acquire another domain name - propertysecretsrevealed.com

But unlike the first example, the owner e-mailed back that she had massive plans for a future site that would generate sales of 500,000 pounds per annum and that she was only willing to sell at this point for the bargain price of one million pounds!

There is no point negotiating further because the owner (like in some real estate deals) is emotionally attached to the future potential rather than the current reality. She advised that the site would be live within months, but checking recently I noted that the site had still not been created over twelve months from my original inquiry.

In summary, you can secure a price discount when you find a 'don't-wanter'.

Anyway, [PropertyInvesting.Com](http://www.PropertyInvesting.com) sat dormant between February and June until I returned to Canada to create the site content with Don Campbell.

Although we lacked a formal business plan, the idea was to create a community of people interested in discovering several simple and effective tools that would distinguish a good property deal from a poor one (based on cashflow of course!).

We employed a team of three Canadian programmers and provided them with a deal where they would complete the site for a percentage of the sales the web business generated. This seemed like a win-win outcome at the time and would only later prove a disaster.

The rough business concept was to set up a global real estate investing product shop and then sell it online around the world with a unique rating system designed to protect customers from buying a dud information resource.

However, anyone who believes creating a web site will be easy is mistaken. Sure, writing a simple web page is nothing tricky, but integrating a database and members area, together with masses of information is a huge logistical process to say the least!

Following on from the excellent idea of a web designing colleague, Don and I used post-it notes to map out the site and stayed up until midnight writing content for the site in an effort to transform an *idea* into a positive cashflow *business*.

Yet anyone who saw the first cut of the site knew that it was plagued with problems from day one when links didn't work and the design (while looking good on post it notes) was, well, visually challenged.

Property Investing.Com was launched in the latter half of 2001 to very mixed opinion. I knew that it was in trouble when the excellent feedback I had received about wealth tips online was non-existent and the Canadian web programmers became more focused on jobs that paid the immediate bills since Property Investing still had no product to sell other than my Wrap Library.

When a business is in trouble the best thing to do is stop and step outside the issue and look at it as a complete stranger. That is, detach yourself from the emotion of running a business and look at it from the point of view of a friend's business and she has hired you to be very critical.

Not wanting to reinvent the wheel I went back to the Business Tips that are published on the Wealth Tips Online free are and asked two questions - what do I want out of the business and where will it be in six months time?

That's when I hired a new team of Aussie web development professionals (Alister Cameron and Eugene Ware) and created a comprehensive business plan that utilised the Better Basic Business Plan templates that are available in the Online Tools Area of this site.

It was only after completing those templates that I realised the site lacked a soul, mission, purpose and direction and that while the concept of the site was a good idea – it was nothing more than another version of an electric car. That is, a very good idea but not saleable in the marketplace.

So armed with a 15 page business plan, I created the Property Investing.Com:

1. Soul - a community for positive cashflow investors
2. Mission - to be the best property investing community site in Australia
3. Purpose - to collect names of people interested in property investing and then match them with a product or service to create a win-win business opportunity
4. Direction – establish project milestones over the first 12 months, including setting up an automated sign-on facility, regular newsletters and a forum board

As in all businesses, the way to create profits is to create rapport and then solve client problems. And the best way to do this in a web-business is to build a community and then let the community tell you what, where and when to offer product and also the correct how to frame the sale.

When I returned to Canada in January this year, I worked with Don to strip back the web site to:

- a basic interface where site visitors could opt-into the free newsletter (that is, trade their name and e-mail for information), and
- a purchaser's-only upgrade and support area for people who have purchased my Wrap Library.

The site was re-released at the beginning of March and already the opt-in rate has been excellent with about 800 new members subscribing and the feedback being very positive. In the first month alone we sold five wrap libraries and grossed \$10,000 in sales.

It seems that to be successful we had to take a step back and make the site more simple and focused to a niche market being Australian property investors.

Revisiting the web site business plan is now a monthly job – in the next few months the focus is to build traffic to the site (through links and alliances) and developing the community with a forum board and other incentives.

If your business is not performing as expected the first task is to step outside of the business. Hire yourself as a brutal consultant and challenge the true cause for the problems you're experiencing and the offer honest solutions.

***If you don't change your input,
then you can't realistically expect
your business output to change either.***

In summary, development the business model for the Property Investing.Com web business has provided me with:

- A renewed commitment to the importance of having a business plan that outlines the (1) soul (2) mission (3) purpose and (4) direction. These were all created for Property Investing.Com by using the Better Basic Business Planning model templates which are available to Inner Circle members through the Online Tools area.
- Confirmation that you should focus on a niche market (ie. Australian property investing) rather than try offer something to all customers (ie. global property investing market) and end up disenfranchising everyone.

A business is a vehicle to derive profits, but like real estate, it is the customer or real life person who pays. Demand, cashflow and goodwill can be easily created when you solve the problems of your customers.

I invite you to watch the progress of the site and will keep you in the loop from an insider's angle about the success of the marketing campaigns and promotions to increase membership that will be beginning in late April.

Don't Make Work For Yourself, Follow The Path Of Least Resistance

I have just completed a speaking tour comprising introduction nights in Sydney, Parramatta, Melbourne, Gold Coast, Brisbane and Sunshine Coast in conjunction with Break Free Events.

Once upon a time I'd have tried to organise the seminar and speak, but experience led me to believe that teaming up with seminar promoter Break Free Events would enable me to focus on the really important tasks - like playing tennis and using the resort swimming pools.

I spoke to over 2,000 people in an event designed to outline to the audience my secrets of success when it comes to positive cashflow property investing and outlining my two success systems which I replicate to guarantee my success, which are:

System One: Property Secrets Revealed: How I find invest in real estate for cashflow first and capital gains second and why it is that only 1 in 200 property investors ever own more than five properties. A key component of this system is the PATTERN due-diligence templates that are available to all Inner Circle members **free** through the Online Tools Area.

System Two: Wrap Library: How I regularly buy property with as little as \$2,500 and then create lifetime passive income with none of the hassles of regular landlords.

There was one component of the seminar that I'd like to share with you in this e-bulletin. It's a visual exercise that will help you to bust through all of the emotion and noise you might be experiencing about investing and focus on only three simple issues.

All you'll need is a scrap piece of blank paper.

Task One

Place a dot (●) at the top of the page. This represents where you are now.

Task Two

Place another dot (●) somewhere else on the page at least ten centimetres from the first dot. By placing this second dot you have set a goal of where you'd like to travel to and more importantly the direction you need to take to get there.

Task Three

Connect your two dots using the 'path of least resistance'.

Of course, the path of least resistance is a straight line – which represents your strategy or winning system. Stocks, property, ostriches... whatever, but you need to have the winning system to be successful.

If you lack a system then you are at risk of travelling a path that zigzags at 45-degree angles. You'll progress from wealth building opportunity to wealth building opportunity looking for the quick buck and ending up poorer for it.

For example, in 1999 you might have been tempted to sway from your success-system with the boom in tech-stocks, perhaps today it is inner-city property, then tomorrow it may be olives, blue gums or offshore opportunities.

My success stems from adopting one core winning strategy (positive cashflow real estate) and replicating it many times over as I edge towards my goal of \$250,000 passive income by 9 May 2004. The question is not will I make it, but what do I have to do to make it.

There is nothing passive about gaining enough momentum to achieve your goals and become financially independent. That is, your income may be passive by your effort is not.

***The issue is not how much you earn,
but how you use the available funds.***

Staying focused to my wealth-creation goal and seeking the path of least resistance is the overriding secret to my success. My second dot is a must-achieve target.

I had no idea how I was going to get enough money to fund the deposits on 100 properties. But the simple task of being open to the possibility of acquiring many more properties meant that I would be open to opportunities that would push me further along my path of least resistance.

In my experience, success doesn't just happen. You first need to plan for success and then opportunities will arise to push you forward towards achieving it. The problem is most people don't understand that a success plan is as simple as the dots on the page I outlined above.

So the two questions I pose to you are:

1. Do you know what is at the end of the financial or wealth creation path you are currently walking?
2. Are you following your path of least resistance?

The Impending Threat Of Rising Interest Rates

I've been watching the news headlines closely the past few weeks and have been interested to follow the talk of rising interest rates.

My belief is that interest rates have to rise, it's just a matter of time, almost certainly within the next six months.

If you are not already familiar with the economic clock theory, I encourage you to read what I wrote back exactly one year ago in the March 2001 Hot Topic.

Last year I believed we were somewhere around seven or eight o'clock since the economic conditions were steadily increasing stock prices on the back of low interest rates.

Since that time we have seen a rise and fall in the oil price, and the rise and rise in the value of gold, traditionally used as a buffer against inflation.

It's interesting that demand for gold has been high recently on the back of low interest rates and perhaps the message is the days of medium to high interest rates are not entirely a thing of the past as some commentators would have you believe.

Within one year we may have travelled from 7 o'clock to approximately 12:30.

So *when* interest rates rise, what can we expect to be the flow on effect?

Sharemarket

Traditionally stocks fall because the cost of servicing existing debt (in the form of interest expense) increases.

Rising interest rates are also thought to dampen consumer demand since shoppers have to fund higher debt repayments and become spooked or less inclined to spend.

Expect resource stocks to become more popular and boutique retail and building stocks to fall from favour following on from a drop in demand and profit outlooks.

Real Estate

I expect there to be a major redistribution of wealth in real estate as interest rates rise. People who have purchased negatively geared property in the hope of unlocking tax savings will be hardest hit.

This is because the tax-deductible loss increases as interest rates rise without a jump in rent.

In fact, I've calculated that interest rates only need to rise to 8.51% for the median household in Melbourne to be maxed out at the traditional 30% debt:income lending ratio (see the article on [PropertyInvesting.Com](#) titled Making Sense Of Statistics).

I expect that a 2% rise in interest rates over the next 3 three years is a very real probability.

In any event, when property investors *have* to sell because the continuing loss is too great to carry an important shift in market psychology will occur.

No longer will property be seen as the safe haven and instant path to riches that it currently is and you'll know the market has turned when less flattering headlines in the national newspapers appear.

I have no doubt that the boom in real estate in a traditional sense has now passed us by.

But this does not mean that you cannot make an absolute fortune in real estate in the impending correction that will occur.

There will be a redistribuion of wealth and the possibility of buying cheap property, but as always I encourage you to only buy positive cashflow real estate.

Businesses

Those businesses that have invested in assets or have borrowed money to plug a temporary problem will be the hardest hit.

In many ways it is time to batten down the hatches and become lean since the era of business lunches will soon pass us by.

To this end it will be important to concentrate on mothering the 20% of your client base that provides the 80% of your profit. If you haven't taken the time to keep them pleasantly surprised then now is the time to get busy.

Businesses that work on contract work should also be mindful if the contract falls due for renegotiation in the next six months. Competition for work will escalate if demand becomes flat.

Yet your strategy should be to expand when a down time occurs (similar to the comments on real estate above) and don't become spooked by talk of dark times.

Opportunity comes when the turmoil reaches crisis point and the constant cycle of boom and bust means that we can rely on making money, but only provided we are positioned to cash in on the deals as they fly past.

If you are too busy fighting the tide when you should have been assessing the dangers then you are in the most danger with the threat of rising interest rates.

If you're not making money in today's economic climate then there is something seriously wrong!

Individuals

Now is **not** the time to be borrowing more money to fund lifestyle expenses, otherwise you'll borrow at the bottom of the market and repay at the top.

Those buying a home and borrowing large sums of money are the worst positioned. For example, borrowing \$210,000 at 6.5% carries weekly interest payments of about \$326.94.

Yet if interest rates rise to 9%, the repayment rises to \$406.38. The difference of \$79.44 per week must be paid from after tax dollars, which for someone on the top marginal tax rate of 48.5% is an equivalent salary pay cut of \$8,517 per annum!

Now more than ever the need to get out of bad debt become more urgent!

What Steve McKnight Will Do

Not surprisingly, I have very low personal debt to service and will not be impacted if interest rates rise as an individual.

However, my real estate investments will be impacted since returns will fall as interest rates rise and higher interest charges.

While I allocate one-third to of my cashflow to debt reduction, I still need to go through the exercise of determining what is the interest rate that wipes out the profit on each of my properties and look to fix the interest rate before this occurs. The income is passive, but I cannot divorce myself from the need to regularly monitor and finetune the profitability of all my investments.

Overall

As interest rates rise you will fall into one of the following three categories:

1. Basket Case

If you can't afford to invest in today's economic conditions and have decided to place lifestyle before investments, then rising interest rates could wipe you out.

The redistribution of wealth will be away from you towards people who have low / no lifestyle debt.

2. Primed For Action

The opposite of #1, you'll be cashed up and have the ability to borrow to secure the deal of a lifetime that is almost certain to come your way.

Simply being in the game during rising interest rates will mean you adopt a contrarian view to the wider marketplace, similar to my overall view that negatively geared property (that is, the way that almost every guru property investor advocates) leads to financial frustration.

3. Confused

The final category will take no action one way or another but will sit on the sidelines and watch the carnage happen around them. If you fall into this category then you are unlikely to have done anything since I started writing this newsletter expect dabble in shares and theorise about buying country property.

The great news is you can still position yourself to capitalise whatever category you fall into because interest rates rise slowly like the Titanic trying to turn. In fact, interest rates rise so slowly that most people don't see the impact until it's too late.

My advice is to jump off the Titanic before it hits the iceberg. You stand to make a lot of money plucking people from the water and rescuing them from financial ruin by buying when everyone else sells.

Our Latest Positive Cashflow Deal

Sometimes great deals are advertised to the general public, like when David spied a block of 27 units under a two line classified ad in the Melbourne Sunday Age.

With Hannah (Dave's 18 month old child) on one knee and juggling the paper on the other, Dave read a tiny ad that in his words 'you would have missed them unless you were looking for a deal.'

The story of these units reinforces that great deals still exist, you just have to look hard and know where and how to find them. Sometimes it is as simple as allocating time to read through the classified sections of the paper.

As it turns out that the vendor has ill health and a marriage split up and just wants to flog them off to the extent that they were previously sold for \$610,000 (deal fell through when the purchaser failed to provide money at settlement) but were now available for \$540,000.

Using a simple negotiation strategy called 'so what is the lowest price you'd take?', the price fell by another \$30,000 to \$510,000. I could tell that the vendor just wanted to sell so I signed the contract last Thursday at 6:30pm with a subject to finance clause.

Having now seen the complex I understand why he is selling. The exterior of the units are excellent - brick and in good condition. However the interior of most properties and the calibre of tenant leave a lot to be desired.

Once again it just underpins that the real ability of a property to unlock ongoing wealth creation in the form of positive cashflow is by having quality tenants.

It wasn't so much shocking, but confronting to see that some of the units had squatters in them and there were needles scattered around some of the vacant units.

This might be enough to frighten off the average property investor, but I am well aware that a lot of money can be made in real estate when you solve someone's problem. In this case it is a matter of gradually recycling the tenants and providing a general upgrade to the interior.

The 11 second solution on the property is rent per week \$70, divided by 2 is \$35 multiplied by \$1,000 is \$35,000 a door or \$945,000 for the complex. Each unit is on a separate title.

My overall strategy is to split off 11 units (which are bunched together on one part of the property) and sell them to an investor as a 10% return opportunity. I'll take the profit from the deal and then reinvest it by paying off the mortgage on the remaining 16 units which I'll keep. Here's a quick analysis of the numbers:

Here's my strategy in the first year:

Purchase price: \$510,000

Deposit: \$102,000

Stamp duty: \$21,920

Mortgage fees: \$4,000

Repair & Maintenance: \$30,000

Total Cash In: \$157,920

Nett Rent on 16 units 75% occupied: \$43,680

Nett Proceeds from sale of 11 units: \$385,000

Mortgage Payments: -\$34,575

Ownership Costs (10% of rent): -\$4,368

Total Cash Back: \$389,737

This will be split return of investment of \$157,920 and profit of \$231,817 which will be paid off the mortgage reducing it to \$176,183 on the remaining 16.

Year Two onwards (16 units remaining):

Nett Rent: (80% occupied) per week: \$53,248

Mortgage Payments: -\$14,930

Ownership costs: -\$5,325

Annual Cashflow: \$32,993

Cash on cash return: infinity since I have no cash in the deal.

The two questions I always ask myself are:

1. Is this activity or investment opportunity going to bring me closer or push me further away from my wealth creation goal?

I believe it will push me closer to my goal. Under the worse case scenario I'll have to keep all the units which will have a budgeted cash-on-cash return of 20.11%.

But under the scenario I've worked through here I'll create **an annual cashflow of over \$30,000 forever with none of my own money left at risk in the deal.**

2. What's my cash in and how soon will I get my cash out?

The cash in is \$157,920 and I expect to recoup this within a year of buying the property by selling off 11 of the units to an investor under a win-win outcome where we both make money.

Remember, if you only did things that made money then you'd have to make money!

I've covered a lot of material in this newsletter, much of it details that I wouldn't discuss with anyone outside of the Inner Circle. As a summary:

- Property Investing.Com as a business model is in the phase of accumulating opt-in names. It is an exchange of information for contact details in a win-win relationship. The target is 10,000 names by 31 December 2002, which means I need to attract 30 names per day from now on!

When I have a customer base I'll ask them what products should be supplied and have demand create supply.

The most profound topic I covered on my speaking tour had nothing to do with real estate. It was the importance of having two dots and establishing a path of least resistance. If you are yet to complete this simple exercise then nothing I ever write in these newsletters will ever be of more importance to you.

- There will be carnage on the streets *when* interest rates rise to about 8.5%. The real question is not if it will occur, but whether you will be in a position to take action. As an individual the most critical thing to eliminate is lifestyle-related debt. Great deals will be on offer but you must be able to qualify to leverage off other people's money to take full advantage.
- The type of deal that I outlined in this newsletter is a big deal and not one to start with. But as someone on the inside, I wanted to share with you my strategy for making money, which illustrates that much of your success comes by having a plan.

I will only be completing this deal because it stacks up with the plan to have \$250,000 passive income by 9 May 2004 - which is just 770 days away!

I hope that you've enjoyed this special edition of Financial Independence for 2002.

Be sure to watch the letterbox for the recording I've just completed with Nivia Pryor and always remember that success comes from doing things differently.

Regards

Steve McKnight