

Hi and welcome to your November edition of Financial Independence.

The exciting news I'd like to report is that Dave's wife Michelle has given birth to a beautiful baby girl whom they've named - Kate Eliza Bradley. I'm sure that I speak for all Inner Circle members as I offer them congratulations and good health.

Sadly Dave wasn't able to be by Michelle's side for the birth. He was away on business in Tasmania, missed his flight home and was delayed in Launceston overnight. By the time he'd landed in Melbourne and rushed to the hospital, all the action was well and truly over.

I caught up with Dave and Michelle at the hospital and I'm happy to advise that Michelle and baby Kate are well. As for Dave - he's been wearing a grin from ear to ear for a few days now.

While my wife Julie and Michelle were talking Dave pulled me aside to say, "Oh and by the way, we've just purchased another half a million dollars worth of real estate."

That'll make for a great story on Kate's 21st birthday!

(In case you're wondering, Michelle was two weeks early so Dave can be reasonably forgiven for missing the birth.)

Investing Status

Earlier on this year I stated that Dave's and my plan for 2001 was to accumulate cash. This was a result of the worsening economy and I believe(d) that there were going to be exceptional deals in the near future as people who over committed in the good times need to sell urgently (remember that bargains are found where there are motivated sellers).

That's still the strategy, although these unit apartments we've just acquired have put a dent in our cash reserves, but the deal on offer was exceptional. As far as our existing property investments go, we continue to repay debt as fast as possible to increase yields.

Watch out for the first case study that will be available in early December where I'll outline the full details of one of the blocks of units we've just acquired.

Your November Financial Independence includes:

- **Personal Wealth:** With Christmas just around the corner, now is a good time to review the W.E.A.L.T.H. technique and help you remain in control of your spending.
 - **Business Wealth:** Let's progress to Step Four of my business planning model, which will help you to achieve success through setting goals and identifying targets the special 'Steve McKnight' way.
 - **Real Estate:** I'm a little worried that with so much hype in the market that surrounds how to make money in real estate, it's easy to suffer from 'analysis paralysis'. This month I'd like to go back to basics and identify how to kick-start your real estate investing empire.
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Personal Wealth: Christmas Celebrations Or Christmas Bust?

We are about to enter a treacherous financial period for many consumers - Christmas.

Each year thousands of shoppers overspend on presents and festivities on the notion of 'buy now and pay later'.

Yet when the New Year begins and the bills roll in, holiday cheer soon turns to dismay.

It's understandable to be caught off-guard. Christmas is in the middle of a holiday season. Also, a perfectly reasonable opportunity to forgive mistakes (New Year's Resolutions) is just weeks away - so why not spend now and just commit to turning a new leaf and starting afresh in 2002?

Retailers and debt providers often prey on the festive spirit of unwary buyers. Just look through any Christmas brochure and you're sure to see *emotion* used to sell products. Look for happy families around the tree, or holiday shots down by the beach and the old favourite - children hugging their parents after receiving the latest toy.

Consumer debt that's funded from a salary rather than passive income is a strategy proven to keep us working hard to pay off a lifestyle.

I recommend that you use the upcoming holiday period to test the control you have over spending money. This is your perfect opportunity to test your resolve today by deciding how much you can afford to spend rather than how much you can spend.

I challenge you to take the 'Christmas Challenge', which I've outlined below:

The Christmas Challenge

In the modern Western World, Christmas seems more about family reunions, receiving presents, eating too much food and spending too much money.

If you haven't already done so, then I recommend reading my second secret to Creating Massive Personal Wealth - Stay In Control Of Expenditure.

It's here that I outline my WEALTH™ technique. WEALTH stands for **W**ise, **E**conomical, **A**ccountable, **L**iable, **T**horough and **H**onest.

My Christmas Challenge is simply committing to completing all your Christmas shopping without overspending. It's not that difficult. Here's how you can do it:

Step One - Working Out What You Can Afford To Spend

The key to avoiding blowing the Christmas Challenge is to limit the amount that you can spend and then firmly commit to it. At this stage don't think about the presents you're going to buy, just set a total spending figure that you feel you can afford to spend.

The total amount that I can afford to spend on Christmas presents this year is:	\$
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Step Two - Allocate Your Budget

Now that you have a total figure, the next step is to allocate amounts that you are happy to spend per person you have to buy for. Again, don't think of actual presents at this stage, just set spending limits per person.

Complete the name of the person and the amount you have allocated to spend out of your total below:

Person	Budget
	\$
	\$
	\$
	\$
	\$
	\$
	\$
TOTAL	\$

Step Three - Choose A Present Category

I know that when I go shopping without an idea of what I am going to buy I'm prone to buying on impulse. Yet when I know what I'm buying and how much I have to spend, I'm able to quickly get what I'm looking for.

Once you've completed Steps One and Two you'll know how much you have determined the total amount you can afford to spend and then allocated a figure to each person you have to buy for. Now it's time to select a category of present.

I recognise that it's difficult to select a category when you don't know what to buy - but try!

Categories are usually broad and you will have to be moderately specific to avoid wasting time.

For example, think about the word toy. Toys can be anything from bicycles to computer games. But if I said 'soft toy', then I can go straight to the soft toys section rather than aimlessly wandering around shopping centres.

Use the table below to select a category of gift. Remember to write in the right hand column how much your budget was (as calculated in Step Two).

Person	Gift Category	Budget
		\$
		\$
		\$
		\$
		\$
		\$
		\$
		\$
TOTAL		\$

Step Four - Go Shopping The Smart Way

You now have just about everything you need to ensure you don't overspend on presents this Christmas. Now all you need to do now is shop.

Ideally you'd compare the prices of the gifts you've selected to ensure you aren't being overcharged or paying a 'brand premium' (ie. paying extra for buying a gift that's sold at both Myer and K-Mart).

I believe that if you've set an affordable total budget and can stick to it, you're well and truly on the way to controlling your expenditure.

Christmas time means different things for different people. For many it's a time of reflection and giving, but be careful you only give what is affordable within your broader goal of financial independence.

The time to shower friends and family is when you arrive at your money goal. Don't lose your momentum by giving up the gains you've made to retailers who are banking on too much Christmas Spirit.

Business Wealth: Goal Setting And Success

If you've followed the first three steps in the Better Basic Business Plan (as outlined in previous editions of Financial Independence) then you'd have already analysed:

- The reasons why you're in business and the specific customer needs that your products exist to meet.
- The business's Strength's, Weaknesses, Opportunities and Threats and an action plan to lock in strengths, turn opportunities into strengths, turn weaknesses into opportunities and to mitigate threats.
- How your business can create and sustain a long-term competitive advantage.

Now it's time to set business objectives, which is a process of identifying objectives and then isolating performance measures and quantitative (financial and non financial) targets.

I'm a big fan of setting objectives because I've seen the wealth-building outcomes that result from effective goal setting time and time again.

***Sadly most people drift through life without identifying goals,
which results in the consistent outcome of moderate success or worse - failure.***

Many businesses plateau out. This means that the enterprise only operates within a comfortable capacity but cannot sustain a higher level of activity for long periods of time. In my experience, the best way to break through a plateau is by setting goals just above the point that you cannot seem to achieve.

Before I outline the way that I set business goals, I feel that some 'honest time' is appropriate.

On the diagram below, place a cross (X) next to level of success (based on your definition of success) that you have currently achieved in your business:

	Poor Success	0 - 20%
	Low Success	21% - 40%
	Average Success	41% - 60%
	Good Success	61% - 80%
	Massive Success	81% - 100%

Is the current level of success providing you with the results you deserve from owning a business?	YES	NO
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Do you want to take your business to the next level of success?	YES	NO
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How To Set Objectives That Lock In Your Sustainable Competitive Advantage

Your objectives must be linked back to your strategy for a sustainable competitive advantage (as outlined in Issue #6, September 2001), otherwise you face the prospect of losing direction.

The objectives I set are split into five categories:

- Value Based Objectives
- Rolling Ten Year Objectives
- Annual Objectives
- Weekly Objectives
- Daily Objectives

In this edition I'll outline the first two categories of objectives. The remainder will be analysed in the December edition of Financial Independence.

Category One: Value-Based Objectives

These objectives form the philosophy of your business and summarise what your business stands for.

Sometimes value-based objectives are called a mission statement, but this term is now cliched after years of abuse by well-meaning but inept managers.

If you haven't ever previously set the values of your business then they're likely to be an extension of your own personal beliefs.

I haven't found a set of business values that leads to massive success, except to say that I believe creating a win-win outcome seems to be a fruitful philosophy that businesses I've worked on (and in) have used to achieve positive results.

Some time ago I came across a set of values. If you don't already have a set of value-based objectives for your business, then I recommend allocating the time to read through the list and choose four values that will form the character of your business. Access it, together with a page that'll assist you with developing value-based objectives, by see the attached resource.

Values or business philosophy is the soul of a business.

Value-based objectives are difficult to measure, however, you can usually find a non-financial indicator to gauge results. For example, if you chose 'respect', then you could measure that by the number of referrals your business receives or by the brand loyalty for your products.

Category Two: Rolling Ten-Year Objectives

Find a photo of yourself ten years ago and note the changes between how you looked then compared to now. Consider all the experience you've accumulated in that period and I'd expect that you've been through a process of massive change.

You can expect the same for your business in the next ten years and beyond. I can't see any point in being overly specific in terms of trying to pinpoint where you'll be in ten years time. However, I do suggest that you need to commit to a direction.

For example, my goal between the age of 18 and 28 was to finish University, become an accountant, find a successful job and then work hard to be promoted up the corporate ladder. When I set the goal I didn't know what job I'd get or how I'd be promoted - but I'd at least set a destination and a decided upon direction for my career.

It's direction that is the difference between a business that stagnates and a business that over-achieves.

When studying management accounting at University I found a case study that outlined how some Japanese companies work on a 100-year plan that crosses many family generations. I don't think this degree of planning is necessarily needed in your business.

I prefer to use a concept known as a 'Rolling Ten-Year Goal', which breaks your business future into a series of ten-year plans.

While it can be conceptually difficult, setting a ten-year plan involves a degree of vision. To assist you I've developed a ten-year objective template, which you can access by clicking on the attached resource link.

Complete this template by working through the following steps:

1. Close your eyes and take your business ten years into the future on the basis that you continue to work the way you are at the moment. What does your business look like? What involvement do you have? How successful is it compared with the reasons of why you went into business? What, if anything, has changed?
2. Now change the vision and go ten years into the future and imagine the best case scenario for your business. What is happening? What is your involvement? What has changed from the way you do business at the moment?
3. Next, identify the differences between the first and second vision. Try to identify key areas or sections of difference, such as the hours you work, the people around you, the type of work you do etc.
4. The final step is to ask, "In general terms, what direction must I take to alter my destiny from the first vision to the more successful version?"

The ten-year goals that you set to begin with will seem a long way off. That's why you'll need to develop short term targets that when completed will provide you with the momentum to carry on.

Your homework for this month is to use the templates I've published with this e-mail to:

- Consider and set the values your business stands for, and
- Complete a ten-year plan.

Once you've set a direction in the form of rolling ten-year goals, you'll have identified a start (where you are now), and a destination (your vision) and the basis for the way you will travel the distance between them (your values).

In the December edition I'll outline the remaining Goal Setting and Success Components of the Better Basic Business Plan.

**Real Estate Wealth:
Pinpointing How To Begin Investing In Real Estate**

When it comes to investing it's critical to select or commit to a strategy that's right for you.

The investing technique that works best for some is the stockmarket. And within stocks there is the popular strategy of buy for the long-term or more creative alternatives such as trading shares, options and / or futures.

When it comes to property investing, you also have a choice between basic and creative styles. You can have a normal rental property that underpins the buy and hold strategy, or you can choose a creative alternative such as lease-options, wraps or flips.

When Dave and I started investing all we knew was that we wanted to make money and that real estate seemed like the best alternative for us and our investing skill set.

What I'm trying to say is that the first step in any investing plan is to decide why you are investing and what form of vehicle you are going to use to be successful.

Avoid specialising in many forms of investment where you might end up as a jack of all trades and master of none.

Assuming that you choose real estate, you'll also have to decide what type of real estate investing strategy best meets your investing objectives.

Generally there are two property investing alternatives - positive or negative gearing.

Positive gearing focuses on earning cashflow first and capital gains second.

Negative gearing focuses on earning capital gains and accessing tax benefits at the expense of cashflow.

In my old days as an accountant I used to think that negative gearing was a great strategy. However since I started investing for myself I realised that in order to stop working I needed a reliable source of cashflow and not irregular movements in market value.

Accordingly, I switched my focus to finding investments that provided high yields at the expense of glamour properties in city or city fringe locations.

Changing my focus away from capital gains meant that the only property investing strategies that met my cashflow criteria were high yielding buy and hold deals, lease-options and wraps. Accordingly I eliminated the low-yield buy and hold opportunities and flips strategy, since they have a capital gains focus.

Having decided to invest in property and focus on positive cashflow deals that would earn cashflow to replace my salary (and as such work less), the next hurdle to jump was finding real-life deals.

If Dave and I did one thing that has turned our investing dream into reality it was taking action. We set aside a day to drive to Ballarat and look for these illusive positive cashflow properties.

If you are afraid to take action then remember, if you don't look you won't find.

The other day someone asked me whether searching on the Internet counts. Sure it does, but there is no substitute for allocating the time *in the field* looking for deals.

The really great opportunities must be unearthed - they don't fall from the sky. The truth is that positive cashflow deals are like parking spots at shopping centres. When you actually start looking for them, you begin to notice them everywhere. The key is to start looking... everywhere to start off with to convince yourself they **do** exist.

Don't be put off if the properties are a three-hour drive or if they are run down or not something you'd like to live in. Just establish for yourself that it **IS** possible for a house priced at less than \$50,000 to exist.

Once you start looking for properties you'll find more deals that you could ever hope to physically look through. What's needed is a filter to assist you to distinguish between the properties that might be worth examining and the deals that just don't cut it.

In doing this you'll bust through all the hype and concentrate solely on the numbers.

The technique I use is the 'Eleven Second Solution', where I take the rent per week, divide it by two and multiply the result by 1000.

For example, in order for me to complete further due diligence on a property that rents for \$100 per week, the asking price **must** be \$50,000 or less.

When we find deals that pass the '11 Second Solution', we begin to investigate further by completing a due diligence on the underlying property. You already have access to the forms I use, which are available in the Online Tools area.

The due diligence I complete is:

1. I begin with a thorough analysis of the numbers to determine how much cash I need to put down and how much cash I'll receive back (PATTERN™ Property Financial Analysis Template).
2. Provided the numbers work then I (or my building inspector depending on the location) will inspect the property and complete the PATTERN™ Property Analysis Template. If there is a tenant then I'll complete the PATTERN™ Tenant Due Diligence Template.
3. Finally, if I'm satisfied that I have the knowledge to make a sensible investing decision and I want to make an offer then I'll implement the PATTERN™ Offer Template.

I also encourage you to remember:

- Buy to make a guaranteed profit now, not the possibility of gains tomorrow
- The real asset is the person, not the property
- Avoid becoming emotionally attached when buying property - it's really just bricks and sticks
- Let the numbers in the deal decide, not the sales agent

To provide a practical context, I'd like to share the checklist Dave and I completed before we signed to buy two six-unit apartment blocks for half a million dollars.

Question	Answer
1. What is my chosen investment?	Real estate.
2. What is my chosen area of expertise?	Positive cashflow Buy and Hold and wraps.
3. What is my investing objective?	To purchase <i>properties</i> that provide positive cashflow returns that I will use to substitute for working for wages.
4. How will I find deals that meet my investing objective?	Research the Internet for an area where deals exist and then allocate one week in the field unearthing deals. In this case we're looking for blocks of units.
5. What are the results?	Many opportunities found, but after applying the 'Eleven Second Solution' and our other due diligence process, only two deals were satisfactory.
6. What action is needed to buy them?	Offer submitted using the 'fair middle ground' approach and both offers were accepted.

I suggest that you kick-start your own real estate investing empire by working through these six questions for yourself.

In summary, if you're interested in beginning an investing career in real estate but don't know where to begin, you must start by selecting a strategy that best meets your investing objective.

Once you've done this and become educated about the investing pitfalls, your next task is to start looking for opportunities and gain momentum.

As you discover more and more deals you'll need to filter them to avoid wasting time on unprofitable opportunities. That's why I've provided you with the PATTERN™ templates developed after buying millions of dollars of real estate.

Of most importance is the vital step of taking action. You might have a strategy and find a deal, but if you delay in making an offer then someone else will snatch the deal from your fingertips. Always include a clause that allows you to walk away (such as subject to finance etc.), but don't be afraid to make an offer in the first place.

To entice you into action, your real estate homework this month is to search the countryside (or the Internet) for properties that meet the '11 Second Solution'. Don't mention the location, but post the numbers of the deal on the 'General Wealth Creation' forum. Your input will be an inspiration to all Inner Circle members.

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

To recap on this edition:

- We are entering a dangerous financial period for the unwary. Be sure to remain in control of your Christmas spending. See the upcoming festivities as a test on your resolve to becoming financially independent... don't give in!
- Businesses that set objectives are more successful than businesses that don't. The objectives I set are value and time based, since I want my business to succeed but not at the expense of my integrity. You now have the tools to assist you in setting value based and rolling ten-year plans.
- Investing is about selecting a strategy and then using it to build wealth. Before beginning in real estate you must decide whether you have a preference for positive cashflow or capital gains. Making this choice will assist you in deciding what sort of properties to search for. When you find deals you must filter them to sort out the good from the bad. Use the templates I've already provided you with. Finally don't be afraid of making an offer on a qualified property so long as you leave an opportunity to walk away from the deal if you change your mind.

I hope you've enjoyed this edition. Until next time remember, success comes from doing things differently.

Regards,

Steve McKnight