

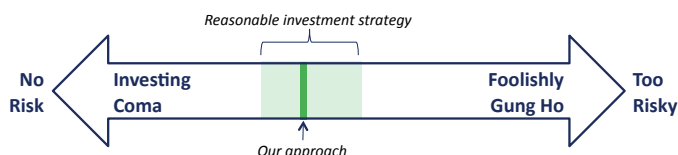


Compiled by
Stuart Wemyss

The story of GOLDILOCKS AND THE THREE BEARS

A **credit advisory** client, 'Keith' [not his real name] called last week. Keith was excited and needed some urgent assistance because he just signed a contract to purchase his first investment property for \$670,000 and settlement is less than four weeks away. He admitted that it "all happened really quickly" and hadn't considered how he'll finance the property, the ownership structure and so forth. That's a lot of money to invest off the back of zero planning.

Confusingly, other clients in positions 100 times better than Keith's seem to never have the courage to make a start. So it got me thinking. Why is it that many people seem to operate at either end of the risk scale? They are either in some sort of investing coma (i.e., wasting opportunities by doing nothing for many years) or foolishly gung ho – both make me scratch my head in utter confusion.



IS LOVE YOUR DRUG?

What do you call it when seemingly intelligent, risk-averse, hard-working people make insanely foolish and speculative investment decisions without realising it? I'd like to invent a word because I see it all the time, e.g., a first-time investor buying three investment properties in as many months, choosing to invest in USA property instead of blue-chip Australian property as the foundation of a strategy, holding all wealth in (physical) gold bullion and (sadly) the list goes on (some of these are extreme examples but you get my point). I liken it to trying to travel to Europe in a hot air balloon...theoretically you could probably make it but your chances of success are wafer thin so you'd better hold off on booking accommodation for your arrival! So, why isn't the level of risk they're taking more obvious to these schizophrenic investors (schizophrenic because they say they are risk-averse investors but act otherwise)? Not only do they believe they'll get to Europe but they think it will be an uneventful trip. I guess the answer could be different for everyone but I'd like to propose that these investors are overcome with love...in fact, love has taken over and it's drowning out any logical thoughts that might be trying to

get some airtime. They are in love with the potential outcome. In love with the outcome of making lots of money quickly and feeling successful – the fast track – money in the bank, a nice holiday, the feeling of security and so on. Their love struck demeanour doesn't allow them to acknowledge that the probability of achieving the desired outcome is tiny. Frankly, there's a higher probability of Arnold Schwarzenegger winning 'husband of the year'!

You should never leave these investors alone in a room with their money. High on love, they'll blow the lot! These sorts of people are in desperate need of a 'councillor' (aka financial planner) but like most people with addictions, they don't realise they urgently need help.

COME ON! JUST DO SOMETHING!

I have always regarded the definition of success as 'taking full advantage of your skills and opportunity'. Recently, I heard another definition which I found interesting. It was suggested that success is simply 'being satisfied (at peace) with your achievements'. How do you fare according to these definitions (in respect to your investing success)? There are plenty of people reading this article that probably aren't making the most of their opportunities. I see people with lots of equity in their property(s) with large incomes doing nothing. "The market is weak and I think prices will fall"; "the market is too hot"; "I just want to see how high interest rates go"; "I just want to repay a little extra off the home loan"; "it's on my list"...and the procrastination goes on. One day these people will wake up, the kids have finally left home and they now realise that there's only ten years left until retirement (hopefully). In fact, wasting time could be the largest and most costly risk there is when it comes to wealth accumulation.

Whilst we are all good at making excuses, most people don't realise they are wasting so much time. Put it this way, can you believe its June already? We say it every year but time really does seem to move faster. The days, weeks, months and years fly by at an increasing pace. Together with a bit of excuse making and it can sneakily result in complete underutilisation of your opportunities.

Also, intelligence isn't a necessity advantage when it comes to investing. Smart people tend to make things more complicated than they need to be. They take a simple, yet fundamentally sound (and proven) investment strategy and add their own 'fine

Are your loans weighing you down?...

“Learn how we saved a dentist over \$125,000 in 5 years by restructuring his loan portfolio!”



Watch this online presentation now to learn how we saved our dentist over \$125,000 in 5 years... Including 7 loan structure strategies specifically for dentists that will save you tax, repay your home loan faster and make building wealth simple and easy.

Everything you need to know about loans is in this presentation.

Smart dentists realise that mortgages can be assets (not a liability) because if used wisely and safely, it will set you on the fast-track to financial freedom.

Are your mortgages working hard for you?

This online presentation is available for 2 weeks only so download it today at **www.prosolution.com.au/save**

DOWNLOAD THIS ONLINE PRESENTATION NOW!

FREE iPad2!!! LIMITED OFFER TO KICK START THE NEW FINANCIAL YEAR

Our Credit Advisory team are keen to start the new financial year with a bang. They are offering a free Apple iPad2 to any ADA member that borrows more than \$1 million before 30 September 2011. Conditions apply (see website). Not only will you receive our award winning loan structure advice and benefit from our independent negotiation skills, but you'll enjoy hours of fun playing with the thousands of apps available on the iPad2.



Address: Level 8, 51 Queen Street, Melbourne | Level 57, MLC Centre, Martin Place, Sydney
Phone: 1300 880 224 | **Email:** advice@prosolution.com.au | **Web:** www.prosolution.com.au

* ProSolution Wealth Advisory Pty Ltd is an authorised representative of Dover Financial Advisers Pty Ltd



business perspectives

tuning'...consequently ruining the strategy. Smart people tend to have more options so they get paralysed picking the best choice. Smart people think they are smart enough to figure it all out for themselves and don't let others help. Typically, the consequence of all these factors is inaction.

THE GOLDILOCKS APPROACH

Maybe we all need to reread the story of *Goldilocks and the Three Bears*. We don't need to invest like a bull in a china shop and we don't want to sit at home twiddling our thumbs doing nothing. Surely a balanced approach makes sense? Moderation is the key – enjoy a bit of greed tempered with a healthy dose of fear. This means you invest in a timely fashion but ensure you do your homework first to mitigate any risks....a little bit like Goldilocks' porridge. Not too hot and not too cold. Just right!

So what is the right amount of preparation? Let's return to our friend Keith (who invested \$670k without doing any homework). What do I think Keith should have done?

- Keith should have prepared a cash flow budget. Okay. I know your eyes are glazing over at the thought of preparing a budget. "It's the typical ranting I expect from a nerd accountant like you, Stuart" I hear you think. Firstly, I'm not a nerd! Secondly, the goal of preparing a budget is to know where your money is going. That's it. The goal of a budget isn't necessarily to cut spending and stop going out and having fun. You need to prepare a budget* to ensure that you can afford to make an investment.
- Keith should have organised his finance and ensured the acquisition was doable including arranging access to a deposit.

- The ownership structure of the property is the next thing to sort out. Will it be owned tenants-in-common, in a trust, SMSF...there are many options.

- The type and location of the property is the final consideration. For example, Keith already owned a single-fronted, two-bedroom house so a wise second acquisition would have been a one or two bedroom apartment.

- Once Keith identified a suitable property, he needed to complete some due-diligence (more on this later).

This is the most prudent approach and will ensure you avoid many mistakes. It's fine if you can complete all these steps in a few weeks. However, don't skip these steps just so you can invest sooner because it's not worth the risk. As I have said previously, the best time to invest is when it's right for you. Therefore, go through the five steps above and complete them with a sense of urgency. Taking a *considered and regular* approach to investing will win, hands down, in 99% of cases. In fact, it is the guaranteed road to wealth.

MEET YOU IN THE CENTRE

Are you a robot? If not, then the number one thing that will stop you from achieving financial freedom is you...and your pesky human emotions. Acknowledging this, the only way you'll be able to successfully build wealth is if you set measurable goals in writing (a financial plan) and have someone to hold you accountable, on a regular basis, to achieving that plan. Academic studies have shown that people that have their goals in writing and regularly meet with someone that holds them accountable have a 77.5% greater chance of achieving their goals. It's a pretty simple thing to do: write down your goals and meet with someone. The advantage of having a written plan is you are more likely to stick to it. You won't waste time and hopefully you won't make any of those emotional and schizophrenic investment decisions mentioned above. If you are a robot (?), then put this article down...robots don't need to invest!

*To access a useful budgeting tool go to: www.moneysmart.gov.au and follow the links.

DENTALBOOKINGS

Use the power of the internet to attract new patients and increase bookings



Register now for free

www.dentalbookings.com.au

For more information please email
info@dentalbookings.com.au



Stuart Wemyss is a qualified chartered accountant, financial planner and mortgage broker. Stuart founded financial advisory firm ProSolution Private Clients which helps dentists maximise their net worth by providing financial and mortgage advice. Contact: swemyss@prosolution.com.au