REAL ESTATE INVESTING SECRETS HOW TO AVOID FINANCIAL DISASTERS

Who Else Wants Financial Freedom?

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Can you relate to these situations?

"I am a newbie. I have no investments and no mentors. All I have is a desire to learn and a willingness to be coachable. How can someone like myself get started?"

"I've been wanting to do real estate investing for a while now. There is so much information to learn. It can be overwhelming. Where should my first initial focus be to start investing?"

"I'm trying to get started and I'm feeling a bit overwhelmed. I've heard people talking about "chasing the shiny objects ", and that's exactly how I feel."

"I have read a lot of books over the past two years and read countless articles/stories on the internet about investing. I am looking for advice on investing in real estate as I do not want to be working my whole life."

"How do people start? Do you wake up one morning and say that's it, I'm doing this or that? I know I would be a good businessperson as I am thorough and particular and a hard worker. I just feel like it goes to waste working for other people who don't appreciate you."

"I don't really have an investment strategy as yet other than to hopefully have enough passive income through investments to one day not have to work myself. "

"I was mislead and told that buying positive cashflow and receiving equity increases every year would put me in my own home much sooner. In a nutshell, I paid a commission of 30 odd k to buy somewhere I really didn't want to because of the advice of a so called expert."

This manifesto may transform your financial destiny

First off, let's look at the number of real estate investors.

In June 2016, one in eight American adults considers themselves to be residential real estate investors or own residential investment property.[1] The Australian Tax Office taxation statistics shows that in 2013-14, 15.7% of all taxpayers (12.9 million) indicated that they owned a rental property.[2]

If you are thinking about investing in real estate, this manifesto is perfect for you. This manifesto can help you build a stronger foundation if you already have investment properties.

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[1] https://www.biggerpockets.com/renewsblog/2012/09/20/biggerpockets-memphisinvest-survey-investors-revealed/

[2] http://www.corelogic.com.au/news/a-profile-of-the-australian-investor-who-where-and-what

Assuming you have saved up some money for a deposit or can release equity from an existing real estate, you may be thinking about buying a real estate investment property to capture future capital growth, to get tax advantages, to create future wealth, to be financially free, and so on.

But wait!

This may seem remarkable but if you can sit down to read this manifesto; your entire financial destiny could be shifted because of it.

Let's face it, a lot of us do not think through the possible consequences of our decisions until it is too late. Better still, if we have not invested, but are still thinking about investing in real estate.

My personal desire is for you to be armed with the appropriate information BEFORE you invest your hard-earned money in real estate, to choose the right investment vehicle to enable you to achieve your financial freedom, to invest at the right time using the right knowledge, and to make the right investment decision to suit your personality, strengths and risk profile.

The first and most important thing about considering a vehicle for income generation is to look for something that's going to be long-lasting. If it's going to be long-lasting, it's going to have to work. The only way it can work is if it works with you; if it fits who you are.

Don't look for additional income opportunities. Look for something that suits who you are.

If the vehicle that you're trying to create an income from doesn't fit who you are, you will fail miserably. You will either do fairly well for a short time financially, and then you probably won't anymore because you won't like it and you'll look for something else, or you won't do well from the get-go.

Look for a vehicle that suits who you are.

Here is where my story begins.

Real estate spruikers or marketers managed to convince me that real estate investment is easy and I could live forever off the passive income generated by a portfolio of real estate investments, without reliance on government handouts or pension. In theory, this sounds good.

At that time, I was a 45-year-old, sole income earner feeding a family of seven. Yes, I have five beautiful children. I own the house I currently live in but had no investment properties to support my lifestyle after retirement, which was only 15 years' time, assuming I retire from full-time employment at age 60. This was my working assumption.

Unfortunately, the temptation was too great and I fell into the trap and bought an interstate investment property without any clue about real estate investing. The marketing ploy was slick, predatory and emotional.

Luckily for me, I came to my senses and terminated the sale within the 7-day cooling off period. Yes, I lost a couple of dollars to pay for the legal fees – it was worth it in hindsight. It was a lesson I learned and this insight was invaluable.

What is your horror story? The Internet is littered with war stories of people being taken for a ride by these slick real estate marketers or operators.

After this unpleasant event, I vowed to equip myself with more information and knowledge in real estate investing. I searched the Internet for FREE information sources and forums. I invested in a lot of real estate investing books and attended all the FREE seminars on real estate investing.

One thing I learned was that FREE information always has a catch. There is either a sell at the end or a promotion to buy their reports, services or real estate properties. I could see a range of sales and marketing techniques being employed to snare the unsuspecting or the ignorant (which was me, at that time).

It occurred to me that half-truths are often communicated where I am left to 'connect the dots' and to make sense of the information provided based on my acquired knowledge and readings.

The good outcome from the unpleasant experience was that I got many perspectives and I synthesized them logically to separate assertions and assumptions from the facts.

I took detailed notes and the information I gathered has been documented in my 160-page eBook titled, "*The Ultimate Read Me First Guide to Real Estate Investing: How to Strategically Get Started and Not Make Costly Financial Mistakes*."

More importantly to you, this manifesto is written to prevent you from making the same mistakes as I did. I really do want you to think carefully about real estate investing, as it is not as easy as it is made out to be.

This manifesto is about knowing your WHY in real estate investing and having the right mindset and financial thermostat for doing so. It is about strengthening your thoughts so that you can take the appropriate action that will enable you to become financially free.

This can be a challenge if your wife, partner or spouse does not have the same mindset or does not want to be financially free. When it comes to money, relationships can be strained. That's why it is so important for both of you to be on the same page when it comes to real estate investing (or even starting a business).

There are four must-answer questions before you invest in real estate:

1. What is your investing timeframe? That is, for how long do you plan to hold your investment property or properties?

2. Are you investing primarily for capital growth or cashflow? (It can't be both)

3. What is your appetite for risk? Are you looking for safer, set-and-forget type investments that will make you money over the long term? Are you looking to speculate and make money quickly? Are you planning to create or manufacture equity by renovating or developing properties?

4. What can you reasonably afford without compromising your current lifestyle?

The good news is that to be financially free, there are other options available (like starting an online business) apart from owning an investment in real estate, which I will touch on later in this manifesto.

So print this manifesto (if you haven't already), sit back and relax in your favourite chair. Read this document carefully as it may change your destiny and direction.

How I got into real estate investing

In my early 40s, I realised that I could not trade time for money. I don't want to use physical leverage or hard work to try and get ahead financially.

Let's face it, we get older by the day.

The busyness of life and family has kept my focus on other things.

Now, I want to take control over my reality and be smart about my future including my retirement.

All my life, I have been an employee to a number of employers like KPMG.

Being an employee has become riskier as the corporate ladder has become more of a dream than a reality; when older employees are being discriminated against or replaced with cheaper alternatives, when there is a limit as to how much an employee can earn, and when employees are taxed substantially when compared with business owners.

My situation is no different.

Education is important to me. I wanted to know as much about the topic of real estate investing as possible.

I bought many real estate investing books that I could get my hands on, attended free real estate seminars, signed up for free 'strategy' sessions (which feels more like a sales call), signed up for free newsletters offered by organisations selling real estate services and properties, and searched forums for free advice and information.

All these materials and information only provided part of the large information jigsaw puzzle. I quickly realised that people have different motives for communicating what they want me to know and that they are all tactical and sales-like in nature.

Marketing messages like “claim a loss to get a tax refund” and “invest in the next hotspot” are all enticing and emotional to first-timers like me where studies have shown that emotions can have a significant effect on the way we think, decide and solve problems.[3]

Months later, the redeeming feature for me was that I had developed a long-term financial goal and real estate investment strategy that helped me to avoid being an opportunity seeker who went from one tactic to another and got sucked into the tactical hell of real estate investing, which I will cover later.

My strategy is to firstly build my asset base through capital growth and only then, once I’d built a substantial asset base, to move to the cash flow stage of investing.

The next stage in growing my net worth was to slowly lower the loan-to-value ratio of my property portfolio and then to start living off my ‘cash machine’ of properties.

While cash flow management is important to keep me in the real estate investment game, it will really be capital growth (increase in net worth) that will get me out of the Rat Race of life and into financial freedom. Net worth is the amount by which my assets exceed my liabilities.

My personal real estate investment strategy should provide me with the right strategic guidance to achieve my long-term goals where I want to retire financially free.

My retirement contingency plan

As an accountant and a risk management professional, I was thinking in terms of risk and reward. If the rewards are great enough, I can come up with a strategy or plan that will increase my chances of success.

Most people, including employees who work for job security, do not have a retirement contingency plan especially if they can no longer work for whatever reason. This plan is my insurance policy if things or circumstances do change.

I wanted security by diversification through investing in real estate and starting an online business.

After the global financial crisis in 2009, the possibility of a severe stock market crash just before or after retirement age is so real that it can potentially wipe out my entire retirement savings.

During this time, there were significant value reductions of retirement funds around the world. People close to retirement had to continue working unexpectedly. They were left without a choice. I am assuming that their employers can still employ them or if they can still find employers who want to hire them.

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[3] http://www.ncbi.nlm.nih.gov/pmc/articles/PMC4050437/

If you think that job security is smart and building a business or investing in real estate is risky, please reconsider. I did not want to be in a position where I have no control over my job. My job can be taken from me.

The bottom line is that I wanted to take control of my own reality by changing or reframing my reality through the shifting of my mindset and point of view and to reset my subconscious financial thermostat.

I reframed by adopting a different point of view that says that building a business and investing in real estate is smart and job security is risky.

You too can reframe and learn the same things as I did in my 40s.

I found out that clinging to job security all my life is a lot riskier in today's environment than taking a well-considered risk to learn to invest in real estate and build an online business. One risk is short-term and the other risk lasts my lifetime.

Play to win or don't play at all

I enjoy swimming and my brother-in-law enjoys cycling.

Which game should I choose to win if I were to play a game for money? Which game will give me a better chance of winning?

Isn't it obvious that the decision will simply come down to the game I am good at, right?

What about business? Isn't business a game that you play to win too? Who starts a business with the aim of losing money? Certainly not me.

If you were wondering why I am using a business analogy in this manifesto, real estate investing is a business, whether you are doing it full time as a job or part-time as a regular wage earner. No one goes into real estate investing as a hobby or interest, not least the majority of us.

There is a key distinction between what I am 'interested in' and what I am 'excellent in'.

Let me explain.

I may be *interested* in the game of tennis. But certainly, I am not *excellent* in it to win the game, especially if it is a game for money.

No matter how interested I am in tennis, it does not make any financial sense for me to attempt to become a professional tennis player deriving my income primarily from any earnings I get from winning tournaments. Simply put, I will not enjoy the game. I do not have the passion for that game.

Here is something you must remember: Interest equals hobbies; strengths equal business profits.

You may be interested in hobbies, but it will be your strengths that will give you the money.

I took advantage of my strengths and worked on my weaknesses.

Focus on strengths in order to succeed

The first and biggest obstacle we will face when building our real estate investment portfolio around our strengths is figuring out what our strengths are in the first place.

To succeed in real estate investing, I must have strengths in various areas of real estate investing. Likewise, if you want to succeed in business, you require or acquire strengths in business.

In reality, if I started a business based on my interest rather than my strengths, I may be forcing myself to work harder and longer. There is no passion in the work I do. Worst still, I may not get the outcome I originally wanted.

In business, I know that I don't get an "A" for effort. Effort does not pay the bills, unlike strengths that convert actions into profits.

Unfortunately, most real estate investors focus on their weaknesses because they have been brainwashed or bought into the faulty assumption that anyone can successfully build a real estate portfolio. Media and to a large extent, real estate marketers, have a greater part to play in creating a false emotional response in wannabe real estate investors; that is, to own a million dollar real estate portfolio.

The message is clear: only start businesses (including real estate investing) when the core skill needed to win is a strength of yours.

What are your strengths? Do you have strengths that will give you a win in the game of real estate investing?

Our strengths are the direct result of the natural talents we were born with. These talents have been honed and sharpened through life experiences, education and the skills we've developed.

I'm sure as we went through school, we noticed that some people excelled at math, others excelled at English, and for some, they performed best at a gym.

The reason why people excel where they do is because they have inborn talents for these areas. So what they derived from their education has been determined by their natural talents.

Read the list below and think about your answers to uncover your strengths.

1. Think about or try to identify any time in your past that you were able to pick things up very fast. If you were with others, you 'got-it' much faster than all of the other people around you.

2. Are there any areas of your life where several different people (who do not know each other) come to you for the same type of advice?
3. Is there something that many people ask you to help them with?
4. What are you most productive doing?
5. Which activities come easily and naturally for you?
6. What have people praised you for throughout your life?
7. As a child, were there any activities that you loved doing and that you did better than all your friends?

There are many routes I can take (or real estate investment strategies I can adopt): rental properties, flipping (i.e., flip to hold or flip to sell), residential, commercial, real estate investment trusts (REITs), land development, renovations and the list goes on. Each of these avenues involves different types of skills and strengths to succeed.

For example, if I am thinking about flipping a real estate property as my real estate investment strategy, I will need knowledge and experience in financing, repairing, building, or developing properties. Even if I am not the primary person doing the work, I still need to have an understanding of those components. If a contractor tells me something, I should know if he is on par or off in left field.

What happens if I tried to flip a property? Can I do it? Absolutely. I have to take time off from my current employment and learn things quickly.

Am I interested in flipping? Am I going to accept the higher risk of flipping? Not sure about it.

When I am naturally skilled at something, I am bound to succeed if I try. I can't imagine 99% of people pulling off a profitable flip without the required skills and knowledge.

Why? Because I'd be fighting against my natural weaknesses and even more devastating than that, my strengths.

With my buy and hold real estate investment strategy, on the other hand, I have a better chance of succeeding because I am working in the same direction as my strengths (and my interests), my available time, my other commitments and circumstances, and my risk profile.

Some 'experts' may have different opinions about my strategy, but who cares. At least I have a strategy and I am sticking to it. It works for me, at least for now.

Don't swim upstream.

I love how much money I could have made as a real estate flipper if I was an opportunity seeker. I can think of various projects that would be a blast. It could be so much easier for me as an investor because it would give me additional capital to invest with in a shorter time. However, flipping doesn't align with my strengths, interest and risk profile.

Therefore, if I were to flip properties, I would be constantly battling the currents. I could do it but I would be so much slower at it and more stressed than someone who has more of a natural inclination towards that sort of work.

Because of that, I know my talents and strengths will get me further faster if I focus on the things I'm good at; and therefore the things I enjoy. Even if at first glance it seems to be the slower route to financial freedom.

You can choose any real estate investment strategy you want. You can study all day long, you can find mentors, you can learn by jumping in and you can eventually succeed.

Why force something unnatural? If you have no skills, knowledge and interest, don't flip properties. Similarly, do not renovate a house if you do not have the skills, knowledge and interest.

Figure out your strengths and then find a real estate investment strategy that compliments your personal strengths. You will have fewer headaches and you will only gain self-confidence rather than have it challenged every day.

Even if you wish you were good at a different real estate investment strategy, stick with your strong one first. Then once you are successful there, you can go play with other strategies and see what happens. Build your confidence first, put some money in the bank, then go play with what you may not be as good at.

If you're in business for yourself, you've got to play to win. If you are going to win, then you are going to have to focus on your strengths. This is the foundation of great business strategy and great wealth.

High failure rates for real estate investing

Wannabe real estate investors can muck up a real estate deal beyond all recognition while at the same time, wreaking financial havoc upon themselves. When this happens, it can take a very long time for them to recover from the effects of this type of financial whammy.

House prices don't always go up. In fact, if you invest in the wrong location (especially single industry towns), your investment can significantly reduce in value when the economy turns.

I remember attending an annual property investing conference and the speaker asked the audience, "How many of you are making losses on your real estate investments due to poor or insufficient due diligence?" A quarter of the room of about 1,200 people raised their hands.

That was a revelation for me.

Here are some real estate topics I recommend you focus on during your early education:

- General principles and strategies
- Financing
- Deal analysis
- Finding and negotiating deals
- Property management
- Legal and contracts

After talking to many wannabes in real estate investing, I found that their knowledge about investing in real estate is superficial, at best. They lack the in-depth nuts-and-bolts knowledge required to put a real estate deal together from start to finish.

Worse still, the majority did not have a personalised real estate investment strategy.

I attribute the high failure rate to the fact that real estate investing doesn't have any of the so-called barriers to entry that many other businesses have. It seems easy and anyone can invest in real estate. My friend did it, why can't I? Perhaps it is about trying to keep up with the Joneses.

Anyone can invest in real estate at any time, without the slightest clue as to how to find, analyse and manage a profitable real estate investment deal. I was once that person.

As such, most people usually fail to make it as real estate investors and the reasons for failure include:

- Inability to stay focused on a single objective and real estate investment strategy
- Failure to perform adequate due diligence
- Incompatibility with their personal financial thermostat (covered later)
- Lack of capital and credit worthiness
- Pay above market value for the property
- Lack of basic real estate investment knowledge
- Lack of persistence and patience
- Failure to act in a timely manner
- No defined exit strategy
- Unrealistic expectations
- Bad advice from unreliable sources or so called 'experts'
- Lack of planning and project management
- Lack of mental toughness for the long haul
- Inability to manage time

Then there are those who say that real estate investing is bad and you can make more money on the stock exchange buying equities or shares. The entry barriers are much lower for buying equities and anyone can do it.

Shares, commodities and futures tend to be 'when-to' investments.

Share prices are volatile, fluctuating up and down, and then down and up again. Sure, you can get your money out quickly, but you also run a bigger risk of making a loss. As a 'when-to' investment, you have to know when to buy and when to sell.

The problem is that timing is crucial with these investments. If you buy low and sell high, you do well. However, if you get your timing wrong, your money can be wiped out!

Most 'when-to' investment vehicles produce only a handful of large winners but there are many losers.

I am thinking about the number of people who lost money in a company I purchased shares in. I bought some initial public offering shares at $3.80. In two years, it went up to $5.40. Family circumstances forced me to sell the shares. Without much warning, the share price nose-dives to $3.60 over a period of two years. That company went private again and all shares were bought back at $3.40 per share. Whilst I made some 'unintended' profits, others weren't that lucky to get out in time.

I recall how my uncle had to liquidate his house to pay for the margin calls on his share portfolio.

I'd rather put my money into a 'how-to' investment such as established major capital city real estate, which generally increases steadily in value and doesn't have the wild variations in price. That's me. Yet it is still powerful enough to generate wealth-producing rates of return through the benefits of leverage.

While timing is still important for 'how-to' investments, it's nowhere near as important as how and where you buy them and how you add value.

Unfortunately, 'how-to' investments are rarely liquid.

Investing in well-located real estate properties produces many wealthy people (both homeowners and investors) and only a handful of losers.

Ultimately, it comes down to the return of your capital and your risk profile, which I will cover later.

Either way, the principles contained in this manifesto can be used for any investment activity. If nothing else, just educate yourself.

Start in the wrong place and time; get stuck in tactical hell

If you are wanting to start out in real estate investing, there will be a stream of never ending advice from family, friends and 'experts'; "Buy an investment property in this next hotspot location", "Buy a positive cashflow investment property" or "Buy and renovate an old investment property".

No wonder wannabe real estate investors are truly confused and do not know where to start.

I call this situation being stuck in 'tactical hell' and not strategically focusing on the end goal. Some refer to this as opportunistic behaviours or being an opportunistic seeker, getting distracted and constantly changing real estate investment strategies to chase the next shiny thing that promises money to be earned in the shortest possible time.

Distraction will be one of your enemies. Today, you might feel enthusiastic about saving and investing for your future. Along the way, other matters may occupy your mind. When you watch the news, someone will say something important. There's this, there's that. You will shift your attention to something other than what you have started. You need to stay focused on your goals and tune out distractions by having a personalised real estate investment strategy developed for you and your unique situation.

Given that we live in a society that demands instant gratification, people will tend to try the latest things or go after the latest, shiniest thing in the hope that they can strike it rich in the shortest possible time, with the least effort. They don't like the idea of thinking and working for the long-term.

The latest nationwide gambling figures show Australians lost almost $23 billion between 2014 and 2015, up nearly eight percent on the year before.[4]

Ever wondered why the number of gamblers is rising?

People are desperately seeking short-term gains to overcome problems caused by consumer debt and the lack of investments due to uncontrolled desires for immediate gratification. These opportunistic behaviours unfortunately often lead to long-term debt instead of long-term wealth and financial freedom.

People want the quick answer. Too many people are fixated upon the get-rich-quick philosophy of life, which real estate investing is not. Real estate investors must stick through the highs and lows of property investing.

Real estate investment is not for the faint-hearted!

Let's be clear about it.

Many people get into real estate investing hoping to become multi-millionaires overnight. Then when they don't make it, they all freak out and want to get out, especially within the first couple of years of investing. They lose heart, saying that real estate investing is just not for them. They liquidate their investments at the wrong time, crystallising the loss in property value.

Real estate investing is not a get-rich-quick scheme. Real estate is a proven commodity that we all need. It has the tried-and-tested ability to provide steady, long-term gains through the power of compounding. For the best results, add debt and tax minimisation to the strategy.

The Australian Taxation Statistics 2010-11 shows that of those who stay in the game: 73% of investors only own one investment property, 18% of investors own two investment properties, 5% of investors owned three investment properties, 2% of investors own four investment properties and 2% of investors own five or more investment properties.[5]

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[4] http://www.abc.net.au/news/2016-08-23/sports-betting-losses-on-the-rise/7777388

[5] www.ato.gov.au

Here's the rub. The overwhelming majority of real estate investors are nothing more than opportunity seekers, speculators or gamblers. They have no long-term real estate investment strategy. They hop from one idea to another. While they may have some arbitrary income goal, they have no vision about what they would need to create in order to achieve their goals.

Since they don't have a clear vision of the end game, they cannot follow any sort of real estate investment strategy. They end up buying anything and everything that comes with a big promise of easy money with the hope that this property deal is going to be it. It is their big chance to make it big, to be financially free. They pray and hope for the best.

Here's the way I see it. People aren't doing their homework. People aren't acquiring the right knowledge and skills. People aren't putting in the required time and effort to do the proper, detailed due diligence on the real estate investment deal and understanding the fundamentals of real estate investing and management.

Buyers beware

Many wannabe property investors procrastinate because they simply do not know where to start. In their quest to start, these people often end up as victims of real estate spruikers or marketers.

These marketers are predators who make about 200 to 500 cold calls every week. Because of our opportunistic behaviours, wannabe real estate investors easily fall prey to these predators.

The marketers' initial phone call is hard to resist; "Are you interested in saving tax while paying your house off faster?" Of course, the answer is going to be "Yes", which leads to the next question: "Are you free next week for one of our experts to show you how it works?"

The only purpose of the interview at the victim's home is to make an appointment for them to attend the marketers' office, where victims will be subjected to hours of hard sell.

I have been there and it was not a nice feeling. I had to make decisions on the spot and from hindsight, I should have just walked away. These guys were good and I do not want this to happen to anyone else.

Victims are given a long story about the pressure on government budgets caused by rising life expectancies, and then shown vivid illustrations of the life of poverty that will be faced by those who don't provide for themselves, playing on their vulnerable emotions.

Marketers have a great story, "Money in the bank earns nothing (especially with today's low interest rates), shares are risky, and you can't trust superannuation as the government is always changing the rules."

These marketers also ask whether you want to "achieve your financial and lifestyle goals through real estate investing, reduce your dependence on paid employment, and create a more financially secure future.” Who wouldn’t want these? Their well-rehearsed questions seek to bring out an emotional response from us.

Then comes the sting – the way to wealth is to negative gear into (or make losses with) real estate. This is followed by complex illustrations showing how quickly you can pay off the mortgage on your home by using the rental income from the investment to speed up the repayments. The cream on the cake is the huge amount of tax that is going to be saved.

Interestingly, the word “mortgage” comes from the French “mort-gage”, literally death-pledge. The French peasants were working until they died for the privilege of owning a house. Same game! Different time!

These marketers may also urge you to call them for a FREE real estate investment strategy session. Well, free comes with a cost. They say things like, “we want what is best for you and your investment portfolio. In taking this opportunity, you will be under no-obligation to participate in our programs, and the advice you receive may truly help you move forward.”

Some marketers will promote themselves as ‘independent’ because they do not sell real estate properties. However, they do sell real estate related services like buyer’s agent, mentoring programs and mortgage broking. I’m not sure how independent these folks are if they sell services related to real estate. Not sure how independent they are after all.

In my quest to learn more about real estate investing and the tricks of the trade, I did attend a number of free strategy sessions and one thing common about all of them was that they are designed to sell their services and properties.

The sting was that marketers will offer you a ‘substantial discount’ if you bought their services and programs for thousands of dollars by the end of the ‘FREE’ session. The discount was only valid for that call or session. This means that you must sign up and pay money before the end of the session to take advantage of the discount. What a pressurised marketing tactic!

If there were no consumer protection laws in place especially cooling off periods, then wannabe investors will be at a financial loss, especially when they do sign up and decide to change their mind and terminate the contract.

In one case, when I questioned the selling tactic, one real estate marketer proudly declared that he conditions his potential clients to take quick and decisive action by the end of the phone call. He claimed that this quick action trait would benefit them when they become a real estate investor. I am sure it will also benefit his wallet.

The bad news is that the real estate investment industry is largely regulation-free. In Australia, real estate investment is not recognised as a financial instrument and hence there is no legal requirement for licensing, professional qualifications or regulatory reporting.

There is also no legal requirement to inform the real estate investor of the potential commissions they will receive when they sell you a real estate property. Therefore, marketers can charge you a service fee and get secret commissions from the developer or seller.

Dangers of DIY real estate investing

You may think you have the strength and interest to take the DIY approach to real estate investing and property management.

Be aware that the DIY approach to buying and managing real estate can be both dangerous and lacking in rigour. My biggest concern is being ignorant to the risks associated with property selection, due diligence and management.

If you don't have experience with real estate investments, it's better to consult experts or professionals about it. Get educated and ask the right questions, as many as you can think about to give you the complete information and facts.

There are experts and there are experts. Pick the right expert whose strengths are in the same real estate investment strategy as you have selected and who are local geographical or market experts in the location you have selected to buy.

Please do not let the experts dictate which location or market you need to buy. Your real estate investment strategy would already have pre-determined the location you need to search, based on a number of criteria.

One of the biggest mistakes wannabe investors make is to think they can do everything themselves. They do a little bit of research, cross some numbers and suddenly they're industry experts.

There's nothing wrong with doing things on your own. It's when you think you know enough already when in reality you don't know what you don't know. They learn a little bit of this and a bit of that. Then they jump right into real estate investing. Often they end up stumbling along the way or not being able to maximise their returns.

While most real estate buyers acknowledge that they require lawyers for the legal aspects of the purchase and may even get a building inspection to ensure the structural integrity of the property, few buyers consult a qualified and experienced professional about the property and deal itself, the risks associated with it and how the deal stacks up as an investment to get you closer to your goals. These are all important factors for wealth creation and protection.

Like the lawyer and building inspector, an adviser protects the buyer's interests if structured correctly. In this case, protecting buyers from making a poor million-dollar investment decision and steering them, based on demonstrable evidence, towards an investment that not only avoids pitfalls but with the potential to perform better than most.

There are very few investment grade or blue chip properties around. Not all properties are created equal.

Two things prevent would-be buyers from engaging a professional from the outset.

First is their unwillingness to pay for professional advice in real estate investing.

Despite the fact that a property adviser (or coach, mentor) can save buyers both time and money, some view the additional outlay of a few thousand dollars as a deal breaker – even to avoid a million-dollar mistake that can take a lifetime to recover from.

Second, it's the DIY approach of many people buying real estate where they assume the role of the 'property expert'.

Like IT technicians, sales consultants, mechanics, doctors, hairdressers, chefs, lawyers, nurses and any other profession requiring study or on-the-job learning, experienced property advisers have developed and refined their trade over the years, making them the full-time experts in their chosen field.

The fact that most people balk at the idea of cutting their own hair and pay hundreds and even thousands of dollars a year for a professional to provide the service – yet spend hundreds of thousands of dollars on a property without the same hesitation – is particularly baffling to me.

When buying your next property, ask yourself; "Do I know property and real estate investing like I know my profession or trade?"

Most real estate 'investors' are speculators

Many wannabe real estate investors are really speculators because of our opportunistic behaviours.

Let me explain.

Personally, I define 'speculation' as the use of money to purchase real estate where the speculator is prepared to lose up to 100% of the asset value, even if such an outcome is not likely. Presumably, the speculator would only accept such a risk if the potential rewards are viewed as substantial and, in some sense, commensurate with the very real risk of a total loss.

An 'investor', in contrast, expects with a higher likelihood to preserve and enhance the overall value of the real estate over the relevant time horizon.

The difference between a speculator and an investor is, therefore, simple. For a speculator, investing is a game of chance. **For an investor, investing is a game of skill and knowledge.**

For people who turn their money over to someone else to invest, investing is often a game they don't want to learn but want to be involved in. The important thing for these individuals is to choose a financial advisor carefully.

Here is an example. I have two ten-year-olds, Pat and Kim, each with $100.

Pat uses his $100 to buy lemons, sugar, an old table, and some poster board and sets up a lemonade stand on a busy road. Business is brisk and he reinvests his profits by buying more supplies. By the end of three months, he has turned $100 into $500. Some days (rainy, cool days) business was slow, some days (the hot sunny ones) it was brisk. He is never discouraged. He did not throw up his hands on the first rainy day and say "no one is ever going to buy lemonade again - I'm going to sell my stand". He is an investor (and an entrepreneur).

Kim, on the other hand, goes and spends her entire $100 buying lemons, which she hopes (or prays) to sell to Pat next week at a higher price. She read from the newspapers that the price of lemons would go up because the forecast is calling for record heat and lemonade is popular in the hot weather. Lo and behold, the forecast is wrong and the price of lemons drops. Kim, the speculator, is wiped out.

Speculating is akin to gambling, which is the wagering of money or something of value on an event with an uncertain outcome with the primary intent of winning.

Real speculators are forever trying to be ‘smarter’ than the real estate market. Their only criteria is; “Can I make money from this deal?” So today it’s cashflow properties in location A, tomorrow is capital growth properties in location B, and yesterday it was buy and renovate properties in location C. Such opportunistic behaviours can side track someone from achieving their long-term goals.

The question they always ask themselves is, “What’s the easiest way for me to make money right now?”

A true investor, on the other hand, is a completely different animal altogether. An investor has a clear vision and long-term goal of what they want their real estate investments to become and how much asset and income the portfolio will generate over the long term. After meticulously reviewing the pros and cons of each real estate alternative, they pick the best deal that will bring them closer to their goal.

Real estate is just one class of investment asset or vehicle that will bring you closer to your end goals. Other investment vehicles include shares or equities, bonds and cash deposits.

Investment vehicles take us from point A to point B. By knowing our point B (which people usually don’t), investing is a plan that is unique to us as individuals. This is why we should never copy someone else’s real estate investment strategy. Their circumstances will be different from yours.

Here’s some inside information that any seasoned marketer will confirm. It’s about 100 times easier to sell real estate to an opportunity seeker or speculator than it is to an investor.

Why?

The opportunity seeker has no criteria, no real estate buying rules and no real estate investment strategy. If we can convince him or her that they can ‘make money with it’, you’ve made your sale.

Opportunity seekers do not differentiate between facts, assumptions, opinions and assertions because they do not have the knowledge to discern the information in the first place.

An investor, on the other hand, compares what the marketer is offering. They verify all information provided against their own due diligence, against their own research and against reliable third party information.

Investors will often ask this question, “Will this investment make it easier for me to achieve my goals?“ or “Will this investment bring me closer to my goals?“

If the answer is “No”, then the proposed real estate deal is off. There is no emotion.

Unlike investors, the opportunity seekers’ lack of due diligence and long term goals are compensated by their emotions, ignorance and self-justification. Marketers will play upon their emotions, ignorance and insecurity to make the real estate sale.

If you think education is expensive, try ignorance

Before I move on, I would like to briefly touch on the subject of knowledge acquisition.

Education is an attitude. If you have that kind of positive attitude toward self-learning, you will do well. Allocate sufficient time for self-education.

Get the knowledge you need BEFORE you step into the arena.

Think about it: if you were going to play Andre Agassi, the great tennis champion, for money, wouldn’t you start learning the game and practicing BEFORE you stepped on the court to play him?

It amazes me that so many people get into real estate investing without acquiring the specific knowledge necessary to win. Then they wonder why they’re struggling.

Like playing piano, golf or tennis, real estate investing is a learnable skill. No one comes out of the womb an expert. Everyone has to unlearn and relearn how to do it if they want to succeed.

There’s one caveat. If you are going to learn things, you have to make sure you learn the right things … the things that will make the difference between becoming rich and staying middle class or poor. You must learn the difference between having a successful, thriving, fun-filled business versus a struggling one that can make you miserable.

I attribute the lack of in-depth knowledge in real estate to the fact that, for whatever reason, many people rely solely on the real estate, legal, financial and accounting advice that they are able to get for FREE including those from Internet forums and message boards, friends, co-workers, next door neighbours, in-laws, soothsayers and real estate marketers. There is a high chance you’ll suffer severe financial consequences for being ignorant or just following the crowd.

My success as a real estate investor will be tied directly to the people I choose to hire where I seek professional advice from them. Yes, I paid money for professional advice. Most often, the problem with obtaining free information from dubious or inexperienced sources or professionals is that it’s almost always wrong or half-truths.

I have experienced that the most expensive advice is often free advice. It is this advice about money, investments, and business that you can get from your friends and relatives who are not investors themselves (and who are not financially free).

Talk to people who have done the things you are planning to do.

The reality is that free information is most likely not the complete information. It is biased with half-truths. Think about it. Which professional is going to give you good free advice without trying to get something in return from you? Unless you have great knowledgeable friends who are real estate investors themselves, this is going to be rare for most people.

When I asked for free advice, I only got part of the answer. It has been frustrating at times. This is dangerous if you are trying to rely on piecemeal half-truth information to make a lifetime decision on a $400K asset or investment.

Unfortunately, like any industry, there is a slew of incompetent real estate ‘experts’ working within the industry. Because most investors lack knowledge and usually do not know that they’re dealing with an incompetent person until it’s too late, the damage has already been done.

Manage your risk through proper education

People who are too negative avoid risk and miss all the income-earning opportunities because of their fears.

I needed to overcome my own fear of failure, took calculated risks and made some mistakes.

I reduced my fear through education and financial literacy, through understanding my personal income statement and balance sheet.

The average investor does not know the difference between investing for cash flow and investing for capital gains.

One of the major reasons people look to others for investing advice is that they fear risk. While wanting to avoid risk is human nature, investors understand that there is a major difference between ‘risk’ and ‘risky’.

Everything in life contains a certain degree of risk. From crossing the street to skydiving out of an airplane, every activity has risk associated with it. While risk can never be completely eliminated, a person’s lack of education or disregard for processes can make an activity riskier than it would otherwise seem.

Most people know they should invest or start a business to earn a passive income stream. However, the problem is that most people believe investing or starting a business is risky. Investing is risky if you lack financial education, experience and guidance.

If you want to unlock your wealth and become financially free, you must gain the required education AND experience in the game you intend to play well in. Remember, playing on your strengths will generate the required profits.

Knowledge gained in real estate has certainly helped me better understand the subject matter and know who can truly help me achieve my goals. There are no short cuts.

When it comes to investing, nothing will pay off more than educating yourself. Investing in myself is the most profitable investment I have ever made. It yields not only future returns, but often a current pay-off as well.

One reason financial education is necessary is to appreciate and understand the subtle shades of grey hiding behind all the investment half-truths you will hear. Do the necessary research, study and analysis before making any investment and business decisions.

I would highly recommend that you adopt this motto: "Assume nothing, verify everything, do your own due diligence and be prepared for anything."

However, do not go into analysis paralysis or paralysis by analysis. At some point, we have all found ourselves in the crushing grip of this dreaded condition where we simply can't make a decision no matter how much we want to get to in the end.

We convince ourselves that we don't have all the facts, the timing isn't quite right, something bad will happen if we take action, or we just haven't conjured up the right solution yet.

These feelings of uneasiness and unsteadiness can cause us to squander precious time and lose our peace of mind and financial freedom.

The most important step is to bust through analysis paralysis by adopting a trusting attitude. There are no mistakes, wrong turns or missed opportunities. Any outcome is far preferable to the physical, mental, and emotional price you pay when perpetually brewing in fear, doubt, and uncertainty.

I am not telling you these to discourage you. On the contrary, I am warning you about the consequences of investing in real estate without having your own eyes wide open, without having done your own homework, and without having your own long term goal and strategy that will guide your decisions to achieve your financial freedom.

Financial freedom is about having the freedom to work or not to work. It is the freedom to choose with whom we work with and what you work on. It is not about having more money. Money in itself does not make you happy.

The two most common regrets of dying[6], "I wish I had the courage to live a life true to myself, not the life others expect of me" and "I wish I hadn't worked so hard" reminds me that I must take control over my future and not spend so much time on the treadmill of a work as an employee.

We owe it to ourselves to put in place investments and business systems that will generate streams of different passive income for our families.

Money is an idea. If you think you are never going to be rich, most likely, that will happen to you. Alternatively, if you think that it is good to have too much money, then you will end up with too much money.

Your thoughts become your reality and your realities become your entire life.

Real estate is a numbers game. Being financially uneducated is risky. You need to have a grasp of basic math and scrutinise every investment dollar. What looks like a good real estate deal on paper may be a money pit once you factor in taxes, repairs and maintenance.

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[6] http://www.huffingtonpost.com/2013/08/03/top-5-regrets-of-the-dying_n_3640593.html

You can't blindly accept any financial advice from anyone. You must know the numbers. The numbers will tell you the facts.

My financial survival depends on facts, not some friend or advisor's opinions.

As I said before, real estate investing is a business. For most people, it is not a hobby. There is a lot at stake. Treat it that way and with respect.

A word of caution about experts who are just employees themselves.

People may blindly turn their money over to people they believe are financial experts (e.g., bankers, financial planners and stockbrokers). Unfortunately, most of these 'experts' are not real estate investors themselves. They are mostly employees working for a regular salary or are self-employed.

This is why I took control over my real estate investing destiny through investing in my education first, understanding the real estate investing fundamentals and knowing the pitfalls to avoid.

If people do not have sound financial education, they cannot tell if a financial advisor is a salesperson or a con man, a fool or a genius. When it comes to money, there are many people desperate enough to tell and sell you anything, just to get your money.

Here's your wakeup call

I hate to say this, but Henry David Thoreau was right when he said, "Most men (and women) lead lives of quiet desperation and go to the grave with the song still in them."

To put it more bluntly, most people's lives suck. I think to a large degree there are two reasons for this.

First, people trudge through life half-asleep, instead of expending the mental energy to really think things through. They simply operate on autopilot, choosing to live in this semi-conscious state and focusing their actions on immediate gratification instead of realising the importance of their current decisions and the impact it has on their future.

Look at the marriage and business failure statistics. If both of these numbers aren't depressing to you, I don't think you realise the pain and suffering that is attached to both of these statistics.

Don't get me wrong. I am not saying that all marriages should work or that no businesses should fail. These numbers are staggering and account for a lot more than the small percentage of inevitable mistakes.

The second reason is that people really do behave like sheep at times. They follow the herd or some authority figure without really questioning if their life experience and knowledge supports what they are being told or what everyone else is doing.

Financially literate people know that a mortgage doesn't show up as an asset on their personal balance sheet but as a liability on the owner's balance sheet. My mortgage actually shows up as an asset on my bank's balance sheet.

The common investment story centres around the notion that real estate investors are encouraged to take on more debt, to take all the risks associated with the investment and to lose up to $200 a week with the expectation that the price of real estate may go up because the government will give a tax break for losing money (assuming that the policy remains).

Then a real estate agent tells you to sign the rental papers because he can find a tenant who will pay you less than you're paying but, in his opinion, the value of the real estate will go up.

Granted that each situation and real estate market is different, you simply can't play this game with that mindset especially in the long term.

The story gets better. To reduce your taxes further, buy a bigger house or get more loss making real estate properties and get deeper into debt so that you can get more tax write-off.

When the government gives you a tax break for being in debt, it is not because they're concerned about your financial future. The government is concerned about its financial future as they are able to get perpetual tax revenues from you, the real estate owner.

What a brilliant strategy by the government if you think about it!

The fundamental problem exposed

Let's take a look at one fundamental problem wannabe real estate investor can experience.

- **Symptoms**: Buying anything that looks like it'll make money.
- **Cause**: Opportunistic seeking and experiencing tactical hell by trying something new that comes along every so often promising potential returns in the shortest possible time without consideration of the risk profile.
- **Problem**: Lack of long-term real estate investment strategy (preferably written down), and disciplined and persistent focus that will capitalise on the investor's strength, knowledge and mindset.

The very first obstacle you need to look at is yourself, and your thinking and mindset.

Speaking about mindsets, we all have our personal financial thermostat, or invisible scripts that dictate how we relate to money and wealth, ingrained in our subconscious minds. It is these blueprints, more than anything, which will determine our financial lives and dictate our future success in real estate investing.

Here are some possible considerations:

- If our financial thermostat is not set for a high level of success, we will never have a lot of money. If somehow we do, we will most likely lose it!

- If we are not doing as well financially as we would like, then we will have to change our financial thermostat.
- If we currently have outstanding credit card debts over many months, then most likely, this is an indication that we have to reframe or improve on our financial thermostat before thinking about real estate investing.
- If we want to change the fruits of a tree, we need to first change the tree. Likewise, if we want to change the visible, we need to change or renew the invisible scripts.

We must be aware of all those positive and negative statements we heard or experienced about money and wealth when we were young. Understand and write down how these statements have affected or impacted our view about money and our financial life.

Disassociate ourselves from these negative statements by declaring aloud that what we heard about money and wealth is not true and that we must constantly renew our minds to adopt new positive ways of thinking that support our happiness and financial freedom.

As my mindset dictates my personal success, I had to reset my financial thermostat to live in the present and in financial freedom.

If I do what everyone else does, I'll wind up having what everyone else has. For most people, what they have is years of hard work, unfair taxes and a lifetime of debt.

A person who has a negative financial thermostat will always lose no matter what stock, bond, real estate or mutual fund they buy. If they still had the thoughts, beliefs and ideas of a poor or middle-class person and did what the rich did, they would still wind up having what the poor and middle class have.

People think that working hard for money and then buying real estate will make them look rich. In most cases, it doesn't. It only makes them more tired, more in debt and more unhappy. We call it 'Keeping up with the Joneses.' The Joneses are exhausted.

The way I see things is that there are two different diametrically opposing ways of thinking when it comes to building a real estate investment portfolio and creating financial freedom in the long term.

There's the opportunistic thinking and there's the strategic thinking.

Opportunity seekers think opportunistically focusing on the short term (or get rich quick schemes) whilst investors think strategically focusing on the long term.

An opportunity seeker is always looking for the next big opportunity to make 'lots of money', possibly in the shortest time, from the hot opportunity of the moment.

Opportunity seekers chase the next hotspot real estate location in which to invest. They chase the next strategy that has made others money. They rely on the media and their friends to recommend the hottest location or property to buy instead of conducting their own independent analysis or due diligence of the financials and market to see whether the investment actually stacks up or not, and that this purchase will bring them closer to their long term goal.

I am amazed at how many questions and attitudes are based on misinformation. When it comes to real estate investing, we have an unerring ability to listen to the wrong people. We are greatly influenced by sensational newspaper headlines and spend a lot of time speaking to neighbours, relatives and others who knew as little as we did in real estate investing.

Here is a typical conversation: "My next door neighbour was talking to his brother last week and he reckons …". And this: "I was at the doctor's this week and he has a patient who works for a real estate agent and he was saying …"

By tapping into a range of unreliable sources, most of them second-hand or third-hand, wannabe real estate investors had cobbled together a thoroughly distorted view of the real estate investment world.

Financial freedom through strategic thinking and planning

Being strategic is a state of mind. It's a way of increasing the likelihood of winning the game of real estate investing.

Most people make the incorrect opportunistic choice right from the very get-go when they ask, "First investment property – City or Country? House or Unit?"

In one online real estate forum, I noticed that a participant wrote, "We have been finding it very difficult lately to find 'quick turn deals' – property that can be purchased, changed to add value and on sold for a quick cash profit e.g. subdivisions, renovations etc. After many months of frustration, I am turning to this forum for some assistance. Just wondering if anyone is generous enough to share info on locations or strategies that they are finding good for this type of investment at the moment."

Seriously, if I can find 'quick turn deals' and keep all the profits for myself, why should I tell you, a complete stranger, especially in an open online forum?

Let's face it. Making money does take effort and hard work and it does take time. There are no short cuts.

I see beneath the iceberg. There is a whole lot of effort, commitment and sacrifices that investors have to go through to generate the riches others only see on the surface. Rather than criticising the rich and the wealthy, admire them, and learn from them.

Know your WHY and be clear on what you want to accomplish

Once you have determined whether you have personal strengths in operating a real estate investing business part-time and implementing the chosen real estate investment strategy, determine your WHY in real estate investing.

People usually know what they 'don't want' rather than what they 'do want'.

They know that they don't want to work for someone else. They know that they don't want to live paycheck-to-paycheck. Moreover, they don't want to spend another day in the Rat Race of life.

Successful real estate investors, on the other hand, know exactly what they want to accomplish and how they are going to do it. They know how much money they need per month to cover their current expenses. They have developed a detailed plan to generate that amount over a definite timeframe.

In fact, they have determined the exact number of properties they will need to purchase. They also know when and how they will roll their real estate portfolio over into a larger cash flowing property that, according to their calculations, would produce enough passive cashflow in the future to cover all their expenses.

So, what is it EXACTLY that you want to accomplish by investing in real estate? Do you know how much money you need and how you will get it? How long will it take to get there?

Answers to these questions and a whole host of others are what you need to know beforehand if you are going to think like a successful real estate investor.

Staying focused on goals and strategies

Understanding your why will keep you strategically focused on and committed to your long-term goals by implementing a pre-defined real estate investment strategy.

My WHY was clear. Being a risk management professional who is in his 40s, I wanted to decrease my risk of being totally reliant on my employment for job and income security through the creation of diverse passive income streams generated from real estate investing and owning an online business system.

Where possible, I also wanted to leave behind a positive financial legacy for my five children.

Make sure you stay strategically focused throughout your investment timeframe and avoid the tactical hell by wasting time on short-term opportunistic behaviours that will only distract you from ultimately achieving your long-term goals.

Investing in real estate is a business decision, not an emotional reaction. You do this by:

- Getting clear about what you want to achieve, starting with the end in mind: What are you looking to achieve? What does success look like to you?
- Setting a date as to when you want to achieve your goals.
- Identifying milestones you need to do to get you to your goals.

- Determining the real estate investment strategy that will bring you closer to your goals.

In order for you to achieve your goals, you must first articulate what your goals are. More importantly, you need to set a deadline as to when you want to achieve these goals. Then you can work backwards.

A passage in Alice in Wonderland nicely captures the need to have goals clearly articulated.

"Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where –" said Alice.

"Then it doesn't matter which way you go," said the Cat.

"– so long as I get SOMEWHERE," Alice added as an explanation.

"Oh, you're sure to do that," said the Cat, "if you only walk long enough."

(Alice's Adventures in Wonderland, Chapter 6)

In my professional work, I have helped organisations articulate their strategies and developed their goals and key performance indicators. I also helped them develop frameworks and implementation plans to execute their strategies in order to reach their goals, including the identification of potential barriers or risks that may stop them from achieving their goals.

Individuals are no different. Each one of us has personal goals that we want to achieve even if they are unwritten. There will be barriers or risk associated with achieving those goals that we need to mitigate against.

For example, if you're looking to replace your income and retire on your investments within 15 years, you can start by creating a 15-year plan, broken down further into 5-yearly, yearly, bi-annual plans all the way down to a weekly timeline. This way you don't get overwhelmed by the enormity of the task, staying strategically focused to the end goal at all times and not becoming distracted.

To reach my own financial goals, I have purchased several real estate properties with the help of a professional team I assembled – a mentor, property consultant, a real estate agent, an accountant, a mortgage broker and a lawyer.

It is important to select the right professional team members who will help you get closer to your goals by implementing your personal real estate investment strategy. If your team member is not experienced and skilled in your chosen strategy or does not operate in the geographical area you are targeting, find one that does. Don't just hire any professional. Hire the right experienced professional to get the job done and move you closer to your goals.

There are multitudes of real estate investment strategies that you can choose from. You don't have to know all of them. Focus on what works for you best that is based on your own strengths, commitment and risk profile, and develop your skills and knowledge in those areas by investing in yourself first.

It is better to be an expert in your selected real estate investment strategy than know a little about a plethora of tactics and strategy. Worse still, you can get stuck and distracted in a tactical hell by trying to be opportunistic just to earn a quick profit, if at all.

Again, do your homework and due diligence. Study the real estate market and strategies used, and learn everything you can before you buy a property.

Many books and seminars can guide you as you begin your real estate investing journey. This will help build your knowledge base and teach you the lingo of the industry. Knowing the terminology used in the business is vital for communicating with others and understanding what's being communicated to you.

Understand also that strategy is only as important insofar as it informs execution.

Eventually, your strategy will need to be adapted and then executed. It's only when you set proper systems in motion that you will get your desired results.

Don't take on more than you can chew

What sort of risk can you tolerate? How much risk can you take?

Getting an understanding of your own attitude to risk will help you create a real estate investment strategy that truly reflects this. Your personal risk profile will dictate the type of real estate investment strategy you can pursue comfortably without losing sleep over it or sacrificing your current lifestyle.

Risk is the extent to which you are willing to expose yourself to a potential loss, in return for a particular gain, or reward.

Being trained as an accountant and being the sole income earner in his 40s, I am naturally cautious in the things I do.

Your risk profile can range from being conservative, cautious and prudent to assertive and aggressive. The more risk you take on, the higher potential are your gains, assuming you have mitigated the potential risks.

Unfortunately, most investors wouldn't consider risk as part of the process of buying real estate, be it a personal risk or even property risk.

Most people have a low-to-moderate risk profile. Being opportunistic, they also want to get into real estate development because there is a perception of quick profits. They don't understand that real estate development is a high risk strategy with potentially low margins if things do not go as planned. While the potential returns of real estate development appeals, the risk often doesn't, especially to the novice.

Given the different types of properties and different real estate investment strategies, and the fact that some risk levels aren't suitable for everyone, it is important to assess your own personal risk tolerance, just as you would when discussing investment in managed funds or shares with a financial planner.

Your desired level of involvement and commitment in the real estate buying process can also vary from passive to active. If your involvement level is passive due to time or knowledge constraints, then it is imperative that you hire the services of a professional who can provide evidence of their expertise in the area in which you need their assistance. If your involvement level is active, then you need to ensure that you do a lot of due diligence yourself when investing in mitigating the risks.

Risk is the factor

There's a lot of literature that talks about the factors that make up a successful real estate investor — but far too many of those books (and seminars and websites) don't ever really delve deeply into calculating risk.

They just avoid these things.

My personal tolerance for risk (or, as the case may be, intolerance to low reward) is the single most important factor in any real estate investment.

A personal risk profile is composed of three elements: risk tolerance, time commitment and monetary goal.

Firstly, risk tolerance varies from 'none' (i.e., when you can barely afford to invest in the first place or a loss would directly affect your lifestyle) to 'extreme' (i.e., when you have enough disposable income that you have trouble deciding what to do with it).

Most people fall around the 'low' category. They could manage if they suddenly lost a few thousand dollars, but that's about it.

What risk tolerance do you have for real estate investing?

In general, you shouldn't consider real estate as a viable form of investment unless your risk tolerance is at least on the upper edge of 'medium'.

Secondly, time commitment varies from 'single parent of three with a full time job' to 'I have got a lot of time on my hands'.

This is where real estate investing can get really hairy. It's totally viable for one person to single-handedly dedicate time to search for real estate, attend open inspections and perform a range of due diligence.

What's your time commitment to real estate investing? Do you have lots of free time? Or do you struggle with time management?

Thirdly, there are essentially two ways you can make money in real estate investing:

- Real estate market appreciation – This is when the real estate becomes more valuable due to a change in the market. Market appreciation is a tricky game and can be riskier than investing for cashflow income.
- Cashflow income – This type of real estate investment focuses on buying a real estate and operating it so that you can collect a stream of cash from the net rental income after paying all expenses.

Therefore, your monetary goals will break down into two essential types: You either want to invest because you're setting up for cashflow, or you want to invest because you want capital growth. Both kinds of investment outcomes are equally important and real estate investing can only lend itself primarily to either one when your real estate investment strategy is set up appropriately. The two cannot be your main investment outcomes.

The things I look for in an investment are:

- strong capital appreciation;
- steady cash flow;
- liquidity – ability to take my money out either by selling or borrowing against my investment;
- ease of management;
- a hedge against inflation (if possible); and
- good tax benefits.

Examining the major categories of investments, you'll recognise that not many fit the bill when it comes to all of these criteria.

To grow your wealth in the current uncertain economic environment you're going to have to invest in assets that have the ability to appreciate in value and grow in value steadily and surely without major fluctuations in value.

Prime residential real estate is one of the investment vehicles. Now that doesn't mean it's perfect because property is not as liquid as many other investment classes.

Your financial mindset is your foundation to success

The reality is that you cannot invest capital or money into real estate unless you already have it. You cannot get capital without earning or inheriting it and keeping it.

Having a full time job does help with the financial serviceability of your investment loan or mortgage, in most cases. Without a job, it is going to be difficult to start anything.

It's not sexy but financial budgeting is the only way to ensure you're able to balance your income and expenses and save enough to invest. It allows you to see where you've been spending your income and helps you plan for bigger expenses and investments down the line.

The key is to spend less than you earn. The value of your financial discipline should not be underestimated.

If you are just saving your money in a bank account, then savers are losers because the money saved is not working for them. Your bank is the winner because they can lend out your savings to others at the higher interest rate.

People who saved or have savings locked away in a bank account are then taxed.

In contrast, people who are in debt through investments and have business losses are offered tax breaks.

The reality is that we are living in a tax system that promotes debt and liabilities rather than savings and financial freedom.

The financial discipline to save and manage your money and cashflow is part of your personal financial thermostat ingrained in your subconscious and will determine your financial outcome.

Are you working hard for your money? Or does your money work hard for you?

Mentally, are you set for having a high income, a moderate income or low income? Are you programmed for saving money or for spending money? Are you programmed for managing your money well or mismanaging it?

Reframing your mind is your key to financial success, especially if you have poor financial literacy and financial management skills.

Have you ever wondered why some people seem to get rich easily, while others are destined for a life of financial struggle? Is the difference found in their education, intelligence, skills, timing, work habits, contacts, luck, or their choice of jobs, businesses or investments?

The shocking answer is none of the above!

Ever wondered why lottery winners most often lose it all.

If you go from living paycheck-to-paycheck, does it sound right that you will know the best things to invest in, and the best tax and asset protection strategies?

Looking at the statistics, 76% of Americans[7], 50% of Australians[8] and 31% of British[9] workers are living paycheck-to-paycheck.

Money arriving by luck or circumstance is simply easier to spend than money earned through hard work. It's like finding a $20 bill on the sidewalk and splurging at your favourite coffee shop.

The researchers found that lottery winners tended to have below-average education and income, which might translate into lower financial literacy than the average not-that-financially-savvy person.

No doubt, you've read other books, listened to tapes or CDs, gone to courses and learned about numerous money systems. What happened? For most people, not much! They get a short blast of energy and then it's back to the status quo.

Procrastination occurs when people put off critical tasks they need to complete, possibly forever.

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[7] http://money.cnn.com/2013/06/24/pf/emergency-savings/

[8] http://www.abc.net.au/news/2016-02-15/many-australians-living-payday-to-payday,-out-of/7168566

[9] http://www.onrec.com/news/statistics-and-trends/almost-one-third-of-british-workers-live-paycheck-to-paycheck-careerbuild

People tend to like instant gratification. Procrastination gives the instant gratification of doing what we want at that moment (such as watching a favourite TV show rather than reviewing the household budget).

Some argue that financial decisions are particularly prone to procrastination because they can be complex and daunting. Or it could be just a head in the sand approach, hoping that things will go away without confronting the reality.

There is a theory that people tend to pay less attention to their decisions if the consequences fall many years in the future. This makes it easy to put off retirement planning without paying heed in the current moment to the financial toll or consequences that will be felt in the distant future. Your future self may well regret that choice.

The reality is that if your subconscious financial thermostat is not set (or re-set) to a high level of success (especially for financial success and the achievement of goals), nothing you read, nothing you learn, nothing you know and nothing you do will ever make much of a difference. Not a bit!

What many people do not realise is that we are all taught and conditioned in how to deal with money by people who didn't have a lot of money in the first place. As such, the importance of having the right mentor and model is vital to your financial freedom.

We have developed our subconscious financial thermostat through what we heard about money, what we saw when we were growing up and when we were involved in specific negative incidents involving money (or the lack of money). It could also be living the life of frugality.

Poor people are focused on spending their money, living day-by-day, perhaps hoping that their government will give them their pension or financial handouts. Unfortunately, the decline in Government tax revenues and the raising of national debt levels have resulted in constant changes to pension eligibility rules and policy that will make reliance on taxpayer handouts more uncertain in the future.

A major problem facing governments and individuals is how to fund the retirement of an ageing population in a situation where there is a declining number in the workforce per retired individual.

With the ageing population, one of the problems is that too many people will be dependent upon the government to solve their individual problems. Today we're facing even bigger problems because the masses have delegated our personal financial responsibility to the government.

If you are not currently managing money well, it just means you were not programmed to.

Perhaps the greatest obstacle people have to become rich is that they 'think they already know' about money. Yet it is precisely our version of 'right' or 'correct' that has led us to our current financial status.

We are not born knowing how to manage money. There is nothing holding us back from wealth and financial freedom except our own ignorance or mindset.

My strengths and passion are not in real estate investing …. What's next?

What are the options available to you if you do not have the required cash deposit or equity to buy a real estate investment property? Do you have time to devote to real estate investing? Do you have sufficient knowledge to invest in real estate? Do you have any interest in real estate investing?

Let's understand the various sources of income.

We can generate personal income by becoming:

(1) an employee working for an employer, either part-time or full-time;

(2) a self-employed working in our own small or home-based business;

(3) a business owner managing a business, a business system or a network marketing system; or

(4) an investor living off the cashflow or capital growth generated from real estate investment, or paper assets like shares or bonds.

Employees can be presidents of companies or janitors. It's not so much what they do that matters, but the contractual agreement employees have with the organisation that hired them, which is the security of getting paid regularly.

I would argue that job security is getting rarer:

- when we move past the 'use-by date' of our professions (yes, each profession has a use-by date):
- when we move towards retirement or eligibility for retirement
- when there is a cost cutting organisational restructure that makes high paying jobs redundant
- when full-time jobs are slowly transitioning into part-time jobs
- when jobs move to lower cost countries
- when technology replaces jobs.

While full-time work has evaporated, older workers have been staying in the workforce in much greater numbers – both in full-time and very much so in part-time.

At the start of this century, just 3% of those over 65 were working part-time. Now 7.3% of those supposedly in the retirement age are working part-time.[10]

Therefore, job security is risky or becoming riskier in the current employment and economic situation.

[10] https://www.theguardian.com/business/grogonomics/2016/aug/22/why-unemployment-is-no-longer-the-best-indicator-of-the-economys-health

People working as an employee can also be a real estate investor if they have enough savings for the deposit or down payment for a real estate investment.

Alternatively, employees can own a part-time or home-based business that they could do after working hours.

Unfortunately, the old conventional wisdom, “Go to school, get good grades, get a good job, work hard and everything will be O.K.” doesn’t work anymore. Our school systems have focused on training our children to be employees rather than to be business owners, investors and entrepreneurs.

After leaving school, employees often end up with lots of expenses and may even fall into debt, especially university debts. This means that they must cling ever tighter to a secure employment or job just to pay their bills. They are essentially stuck in the Rat Race of life and will never be financially free.

I can’t imagine that this will happen to my children unless I take control of my family’s situation by changing my financial thermostat and encouraging and teaching them to be more entrepreneur.

By being employees, they can work only so hard and get paid only so much for their hard work. For most people, there is a limit as to how much money hard work can produce.

Self-employed, on the other hand, are people who want to ‘be their own boss’. They don’t like to have his or her income dependent on other people and they expect to get paid for their work. Their independence and the freedom to do things their way, and being respected as experts in their field are much more important than mere money. If they work hard, they expect to be paid well.

Unfortunately, employees and self-employed trade time for money. The bottom line is that they can only earn money when they work. This is a limit as to how much they can earn.

Worse still, most tax systems around the world do not favour employees and the self-employed. Tax expense is deducted from my salary or pay even before any money is deposited into my bank account. There are essentially no or very little tax advantages for employees and the self-employed.

Company tax, on the other hand, allows business owners to generate whatever level of income they want, claim all allowable tax deductions they want and pay as little tax as possible through aggressive tax minimisation strategies. None of these strategies are available to employees or the self-employed.

Debt and taxes are the main reasons most people will never feel financially secure or achieve financial freedom.

Governments continue to raid compulsory savings, pension or superannuation funds to pay for their budget deficits through constant policy changes. For example, you cannot withdraw your savings until 65 or 70 years old. Governments make it harder to withdraw with stricter qualification rules.

What many people don’t understand is that whatever you and your employer put into the superannuation fund is no longer guaranteed to exist when you decide to pull it out. These funds are subject to market forces.

In other words, one day I could have money in my superannuation account. If there is a stock-market crash, which every market occasionally has, my account balance could be cut in half or even wiped out. My 'guaranteed of lifelong income' is now gone.

The chance of this occurring is higher as we have experienced during the 2009 global financial crisis.

That's why self-managed superannuation funds are becoming more popular as it gives control back to the employees in terms of the type of investment vehicle their fund can invest in.

Besides employees and the self-employed, there are two other groups of people (business system owners and investors) who make their money work for them to generate passive income (hence financial freedom) rather than working for their money, trading time for money.

A business system is defined as a repeatable process that produces a profit.

Business system owners and investors are motivated by freedom; the freedom to choose and the freedom to earn as much as they want. They create business systems and invest in real estate or equities.

The reality for most of us employees is that we really need to keep our jobs for as long as we can. Of all assets, time is the most precious. It takes time to make money.

So decide how fast you want to get to where you want to be. This could be starting a home-based business, part-time, now. Work on building up your part-time business after office hours, at night and on weekends. Starting a business part-time will teach you priceless business skills such as communications, leadership, team building and taxation.

You cannot be a business owner if you don't know how to sell. Let's face it, we all sell in some form or another. We sell our skills at work as employees to get the promotion we are eyeing on and we sell an idea when we try to convince someone else about our point of view.

The key to starting a business is to figure out if my idea will ever make money before I invest tons of time in it. Ask whether my potential customers are willing and able to pay me for the service or product (demand question), and asking whether I am willing and able to provide the service or product to them (supply question).

Options for making money online include advertising, software development, sell physical products, affiliate marketing, coaching and online information products.

Generating multiple income streams for financial freedom

If you are wondering why am I telling you the different types of ways you can generate personal income so that you can potentially have multiple income streams, hang on further.

Like many of you, I work for my income as an employee. As a side business, I used to run my own professional consulting and training company as a self-employed. In both situations, I am still working for money. When I don't work, I do not generate any additional income.

Since graduating from university with accounting and law degrees, I have been busy with climbing the corporate ladder and starting a family.

Then reality hit me one day when I was 46. I realised that age is catching up and in no time, I will be 65, the official retirement age for most industrialised countries including United States, Australia and Britain.[11]

The official retirement age will slowly increase to 70[12] with 51% of people planning to keep working, at least part-time, in retirement and 18% of people are planning to not retire at all.[13]

With these sobering statistics, what will retirement look like for me? Do I have enough to live off my savings? Can I still do the things I enjoy?

During this time, I was also trying to change employment without much luck.

Then my colleague said something that turned on the lightbulb for me, "Let's face it, it is hard to find a job at our age. Nobody is going to hire us." She was 50.

I had another light bulb moment when I asked my colleague how old he was and why was he still working? He was 76 and said, "I'd rather work because my friends who retired all pass away after six months of retirement." Moreover, he still has a mortgage to pay off!

This has prompted me to start investing in real estate.

I have also evaluated three other types of business systems for the potential to generate passive income:

(1) develop my own business system;

(2) buy an existing system (e.g., franchises); and

(3) buy into and become part of an existing system (e.g., network marketing).

Each business system has its strengths and weaknesses, yet each ultimately does the same thing. If operated properly, each system will provide me with a steady stream of income. I

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[11] http://www.forbes.com/sites/jasonoberholtzer/2011/03/22/effective-retirement-age-vs-official-retirement-age/#12a4f1657a9d

[12] http://www.adelaidenow.com.au/news/south-australia/treasurer-joes-hockey-confirms-pension-age-rises-to-70-for-those-born-after-1965/story-fni6uo1m-1226903894804

[13] http://www.forbes.com/sites/laurashin/2015/05/05/why-the-new-retirement-involves-working-past-65/#581f4dfb4417

do not need to trade time for money. The problem is getting started and getting it up and running now.

When I retire as an employee, I can continue to keep my mind engaged in doing the work I am passionate about by managing the business I had already started and built up during my employment as an employee, which has also given me additional income.

However, be careful that you do not start something that will be in competition with the terms of your current employment contract.

Final words

If you are not lazy, have the right mindset and financial thermostat, and have the desire and motivation to make a positive change and become financially free, then you can certainly find something that matches your personal strengths to generate long-term passive income in a less risky environment.

The starting point will always be your WHY, or the reason for wanting to be financially free. Your why will determine your financial goals, which will then determine your long-term strategies to get you to your goals.

My why gave me the power and motivation to do the how.

The reason most people do not do what they can do is because they do not have a strong enough why.

Write down your dreams, goals and plans on becoming financially free. Review these frequently and be accountable to someone about your progress towards fulfilling them.

The key is to avoid the distractions of the tactical hell that only focuses on short-term opportunistic behaviours. I do not want to be distracted by becoming a short-term opportunity seeker. I rather want to be a strategic investor or business owner.

Most people look for the easy road to wealth. I want to be different. The problem with the easy road is that it usually ends in a dead end. I can be busy with nothing to show for it.

Stay focused on your why and your chosen long-term wealth-creation strategies to get you to your financial goals. You may need to regularly review these goals for currency.

There are many, many ways to be financially free, but there are only a few personal reasons why you want to be financially free.

Adopt Nike's 'Just do It' motto. Start with baby steps and don't chew on more than you can handle.

My passion has given me the energy and motivation to succeed.

Learn from your mistakes. I have made many. By making mistakes, you will be free from the fear of not doing anything.

I know that procrastination and analysis by paralysis can stop my financial freedom journey in its tracks.

If we are an employee working for someone else, our careers have a use-by date. The truth is that if we have not made it by the age of 40, we never will. Let's face it, we can all be technically obsolete by age 40. This effectively means that we will always be working toward our next career and devoting some time to retraining or networking towards a new career.

The key question is how teachable and flexible are we, at this age, to re-skill and retrain in new things?

From a financial literacy perspective, most working adults do not know the difference between an asset or a liability. Assets make money flow into our pockets whereas liabilities take money out of our pockets.

We work hard for job security and collect liabilities thinking that they are assets. We are then hammered monthly by paying bills to feed those liabilities we think are assets, like a mortgaged home.

Worst still, I could be out of a job by age 50, with no real survival skills for life outside my current career or employment. As an employee, you may have dedicated your soul to the job thinking that you have the security of income until you retire at age 70. It is no longer the case.

Here is the rub. People do not become obsolete. Their ideas can be obsolete.

Therefore, how fast you relearn, retrain and reinvent yourself will determine your road to financial freedom, to change the old way you used to do things, to invest in real estate or equities, or to start a business.

I had to go through this journey myself. It has been a struggle and I am still learning.

All I ask you to do is to stop, think and look into the future.

Come join me on this journey.

If we want to be financially free, we need to educate our brain to look for things that will make us financially free. We need to train our minds to look for business opportunities and investments.

Develop a retirement contingency plan by leveraging on our current employment income before it is too late.

People cling to job security rather than trust in their personal abilities and strengths. It is really hard to find true security when our survival is dependent upon someone else. Companies do go broke, move offshore, or restructure by terminating employees.

We do not really need to look at our financial situation until we lose our jobs, have an accident, think about retirement, or until it's too late.

Employees will often ask, "How much will you pay me if I do this job for you?"

The reality is that we cannot be financially free if we go around looking for people to pay us for what we do. There is an infinite amount of time we have in a day. This limited time and resource will be a constraint in terms of how much money we can make.

If we want to be financially free, we need to reframe to think in terms of how many people we can serve. The less we have to physically work, the more people we can serve. In exchange, the more money we can make. Money is the outcome of being financially free.

Three asset classes that can get us closer to our goals are real estate, paper assets and business.

Apart from being an employee or a self-employed, we have the option to be a business system owner or an investor. Within each of these, there are different strategies you can adopt, especially if you start now, way before retirement.

If you just want to be an employee all your life and not become an investor or business owner, then financial freedom will only be a dream. It is getting riskier by the day for employees. Granted, some people just want to not take the risk and depend fully on Government welfare or pension, if there is such thing in the future.

Success is the freedom to be who you are doing the things you are passionate about.

The million-dollar question is this, "How can I use my God-given strengths to serve more people with less work and for a better price?"

I wish you all the best in your income generating endeavours if you choose to accept this assignment!

Warm Regards,

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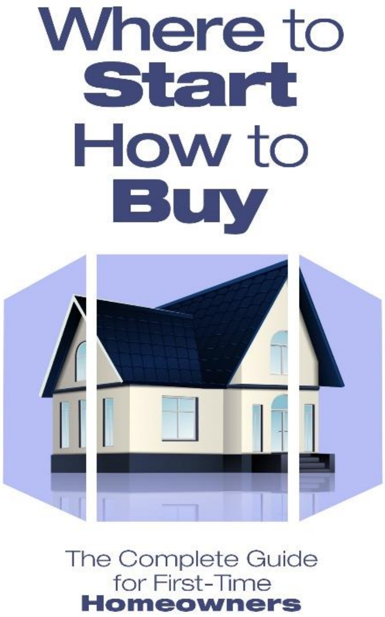
PS. If you found this document helpful and would like share your thoughts, I would greatly appreciate your feedback (patrick@howtobuyrealestate.com.au).

Resources available



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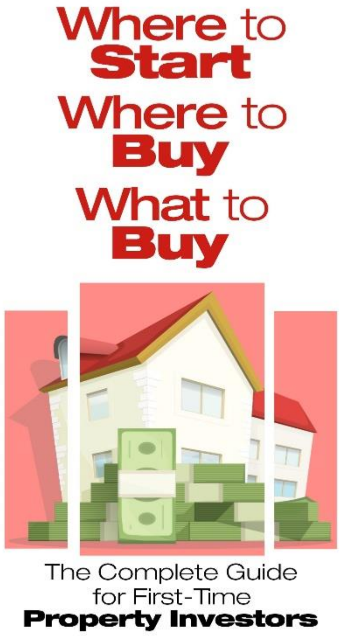

The Complete Guide for
First-time Property Investors

About Patrick

For the past 20 years, Patrick has helped many organisations achieve their objectives using contemporary risk management. Now, as a homeowner and property investor himself, he wants to help first-time homeowners and property investors achieve their objectives of owning their own property (and be financially free at the same time).