THE FUNDAMENTALS OF INVESTING SUCCESS

10 factors that influence your ability to make and keep wealth.

Written by best-selling author and investor,

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Assumed Level of Knowledge

Steve McKnight has written two books: *From 0 to 130 Properties in 3.5 Years* (released August 2003), and, *$1,000,000 in Property in One Year* (released September 2004). The author assumes that you have read at least one (and ideally both) of these texts prior to working through this document. Both are available from:

www.PropertyInvesting.com/resources

The Fundamentals of Investing Success

Author's Note

Investing is never easy, and sustained success can seem fleeting until you've spent many hours sourcing and establishing a wealth-creation methodology that suits your mindset and circumstances.

As the cost of refining a profitable system that works in the 'real world' is so great, many seek a short-cut, either trying to get rich quick, or else seeking to find advisers who will invest (i.e. do the bulk of the work) on their behalf.

This latter point is well demonstrated using an experience I had in early 1999 when I was required to attend a compulsory two-day workshop, run by the Institute of Chartered Accountants, in order to gain my Certificate of Public Practice.

The final exercise of the course required participants to gather in a large horseshoe, and then for each of us to share with the group what we thought our niche or competitive advantage in the marketplace might be.

As fate would have it I was one of the last ones asked, and by the time it was my turn to contribute, just about everyone else had said 'financial planning'. Being contrarian by nature I said 'anything but financial planning, because that's what everyone else is doing!'

This example illustrates two critical points:

1. Following the herd mentality may seem safe (as there is strength in numbers) but the best opportunities come from doing things differently; and

2. Outsourcing the task of managing your money usually requires that you assign control, and responsibility, to another person. Accountants and other advisers may be genuine in their attempts to assist, but YOU will always be the person with the greatest interest in your own financial success.

This special report is not designed to be a comprehensive or exhaustive list of all the attributes needed to be an investing success. However, the fundamentals I mention come from my own 'A-ha!' moments experienced as I've grown as an investor and business owner.

No doubt you'll notice that each chapter begins with a case study. They are all based on actual people (although their names have been changed) who demonstrate common behaviour that contradicts the fundamental being discussed.

I encourage you to read what I've written slowly and in a reflective manner, pausing regularly to consider how you could apply the principles discussed. You might even go so far as to write down your insights or observations in relation to the 'think-time' questions.

Irrespective of whether you manage your wealth in-house or outsource it, I hope that by reading this report you'll become better equipped to control your financial destiny.

Enjoy!

Steve McKnight
January, 2005

Fundamental Rule #1

WHY is Far More Important than *HOW*

KEY QUESTIONS RAISED IN THIS CHAPTER

- Is there more to investing than just making money?
- How do you overcome a plateau?
- Why do only a few people achieve substantial success?
- Is an extreme low a good thing?
- Do you have to have it all figured out prior to beginning?

Case Study

Fast Money

Janice needs some quick cash to pay the bills. She sees the stock market as her saviour because a friend of hers has just made $1,000, in four days, on a share trade.

Cont'd...

Case Study *(cont'd)*

The Thrill of the Chase

John, a sought-after consultant who's an investing friend of Janice, isn't motivated by money as he's flush with funds from his high-paying job. Instead, John loves the thrill of the deal but regards the administration and the process of tying up loose ends as quite routine and even boring.

Insights

Janice and John are both at quite early stages of their investing journeys, characterised by having not yet looked beyond the initial outcomes of investing. To be successful investors, they will need to tap into their personal sources of drive and motivation. Without these they're likely to become despondent when the profits stop flowing or when the deals cease to be exciting.

In contrast, successful investors have the following two traits:

1. Identified purposes that give rise to their need to invest – and these will be more advanced than simply 'more money' or 'the thrill of the chase'.
2. An ability to ride through various market cycles, which will come from a 'stickiness' of resolve. The achievement of each goal will be considered a matter of *when* rather than *if*.

The struggle for direction is a difficulty that every investor should expect to encounter, and ultimately overcome, if he or she expects to achieve sustained success.

In the Millionaire Apprenticeship Program (MAP) that I ran between August 2003 and August 2004, I referred to the stalling of progress that every participant experienced as time spent stuck in the 'Waiting Place' – something I affectionately borrowed from an excellent Dr. Seuss book called *Oh the Places You'll Go*.

Here's how it happens. When you begin investing everything is new and interesting and the problems you encounter seem insignificant, yet as time goes on things gradually become harder. For example, you experience competing time priorities, or finance worries, or find deals that seem promising at first glance but turn out to be duds. Alternatively, you may max out (use up all your available capital), which suggests that your initial vision did not coincide with the forward planning you completed.

Sooner or later you cease seeing your problems as individual issues to be tackled or addressed on their merits and start perceiving them as compounding dilemmas that amount to a crisis situation – as though the sum of the parts is more than the total of the individual components. When this happens you're left feeling like the weight of the world is on your shoulders and this, in turn, causes you to become comfortable doing nothing.

When (not if) you reach this point you should celebrate your arrival at the crossroads of success. This is where most people give up, yet – and this is most important – a few find the inner strength to push on, and you can find it too.

Key Insight!

It is not until times are tough that your planning (or lack thereof) will truly shine through. When things seem to be taking care of themselves you can get away with a large amount of complacency (just look at times when easy profits were made during the tech-boom of the early 1990s or the property boom of the early 2000s). Yet in the long-term, it will be your skill rather than dumb luck that sustains your progress.

The reason I started investing was not just to make money, but to use that money to buy back my freedom from what I regarded as 21st century slavery – the need to work. Do you see the second-generation thought process here that took the reason for investing one step further than the usual profit-making motive?

Despite having a well-regarded career as an accountant – even recognised as a leader by the professional body of my industry – I nevertheless felt like there had to be so much more to life than just working until retirement age.

This gnawing feeling gradually built up over time to eventually became a major frustration, which resulted in stress and eventually impacted on my health. In 1999 I was at a career-low and on the verge of an early mid-life crisis.

I write this to introduce an essential ingredient that I've found is shared by all successful investors – the experiencing of an extreme low prior to a major success. This low is needed to truly gain the mental strength to work through problems, whatever they are, steadfast in the resolve to never return to feelings of despair.

Again, to share more of my own situation, I was living in a three-bedroom unit on a busy road where the trucks would keep me awake at night. My desire to change this situation, and to NEVER return, was a key driving force that provided the strength to attack my investing problems rather than allow them to compound further.

Key Insight!

When you begin, the *HOW* (i.e. the way you invest and a broad profit-making motive) is more important than the *WHY* (i.e. the non-monetary reason for choosing to invest in the first place). Until such time as the *HOW* becomes difficult, you won't really need to find your passion and reason for investing. This *WHY* will provide the strength you need to attack and overcome your problems.

Practically speaking, you don't really need to have a reason for investing when you begin, however sooner or later it will become critical that you identify a cause or vision that's enough of a priority (i.e. a 'must' rather than a 'maybe') to provide the mental reserves you need to continue. Otherwise, you can expect that your achievements will plateau – either because of the investing complications you will experience or, like John in the case study, because you will just become bored.

This explains why those who lack passion for their investing can become bogged down in the detail. Yes, not being able to access finance, or not being able to source deals may seem like reasons to give up, but those who stumble on these early hurdles in the investing journey suffer from a bigger problem – insufficient passion to be investing in the first place.

The first fundamental rule of investing success, therefore, is that your reason for investing in the first place (i.e. the *WHY*) is far more important than the wealth-creation strategy you employ to make money (i.e. the *HOW*).

Case Study Conclusions

Janice

Janice is not at a place where she would greatly benefit from a warm and fuzzy altruistic goal (such as financial independence). Instead, I'd suggest that she begins trying to understand *WHY* she always seems short of cash – this problem must be solved before she can expect to retain wealth from her investing. Having said that, without a *WHY*, Janice is destined to see her results plateau, but this isn't a reason to delay making a start.

John

John's current *WHY* (the thrill of the deal) is probably not a compelling enough reason to keep him investing – once the novelty wears off he's more than likely to look for another exciting experience.

Cont'd...

Case Study Conclusions *(cont'd)*

Applying the Principles:

The truth is that once you've mastered your investing strategy (i.e. the *HOW*) then you should expect it to be a little routine and system-like. This is necessary because money is derived from the investing process you follow, and the stronger and more reliable your process, the more guaranteed the profit result. Like Janice, John also needs to address his attitude or he is likely to experience a lot of little victories as opposed to any large-scale sustained success.

THINK TIME…

- Go back and answer the key questions on page 6.
- To what extent do you empathise with Janice and/or John?
- How mature are you as an investor? Does your maturity correspond to the types of deals you are trying to master?
- If you are experiencing a plateau in your investing results:
  - A. What are the symptoms (e.g. lack of time, money, etc.)?
  - B. What is the real cause (e.g. conflicting priorities)?
- Have you ceased viewing your problems in isolation and instead started seeing them as insurmountable obstacles? If this is the case, the way to find simple solutions is to break down complicated issues by dealing with one problem at a time.
- Have you identified a non-financial passion or reason for your investing? If not, when will you make it a priority to do so?
- How many strategies have you previously attempted in an effort to make money? Are you searching for a magical *HOW*, when in fact the real cause of your problem is that you haven't identified a compelling enough *WHY*?
- Will you be beaten by your difficulties, or will you find a way to triumph over them? Is achieving your goal a must or a maybe?
- What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Investing is Never Easy, But it Does Become Simpler

KEY QUESTIONS RAISED IN THIS CHAPTER

- How important are knowledge and psychology?
- What is it about some people that seems to make them repel wealth?
- Can investing success come without effort?
- How important is it to maintain control over the investing decision?
- Is there a perfect solution to every investing problem?

Case Study

Window Shopping

George is a busy man, but not too busy to realise that he doesn't want to work until compulsory retirement age. In the past three years he's been to a number of wealth-creation seminars that looked at shares, property and even network marketing.

Cont'd...

Case Study *(cont'd)*

Window Shopping

At one point he was interested in wrapping – an advanced property investing strategy – but he pulled out just as he was about to sign his first deal because he felt he didn't have the confidence to answer every question that might be asked of him.

Held Up in Red Tape

June has just seen four hot real estate deals amount to nothing while she waited for her accountant to finalise her investing structure before signing contracts.

Media Watching

Rodney is interested in shares but has just read that the balance of trade figures are cause for concern. He doesn't fully understand why, but he's apprehensive about the tone used in the journalist's article. Accordingly, he has just rolled over his term deposit when only last week he had earmarked the funds for buying a stock he'd been following for some time and thought to be a good prospect.

Insights

Despite appearances, George, June and Rodney are all experiencing a similar problem – fear is preventing them from taking action (which is the catalyst needed to create investing success). George is afraid that he doesn't know enough, June is afraid that she's not quite ready to take the plunge, and Rodney is fearful about whether or not his timing is right.

Ultimately, confusion is noise, and noise is a distraction from the clarity needed to make sensible investing decisions. Successful investors have the ability to filter (i.e. not eliminate but efficiently handle) the distractions and plough on regardless. Others become paralysed and find it easier to do nothing.

A common mistake many investors make is to underestimate the difficulty involved in investing, and the skill required to be successful with their chosen money-making strategies.

Knowledge and psychology are the two ingredients used by savvy investors to derive profits from any markets. That's why, over time, there will always be a redistribution of wealth *away* from those who are weak in these two areas and *towards* those who are strong.

Trading derivatives like options is a classic example of this principle. To start with, it's a zero-sum game, which means for every winner there must be a loser. On the one hand you have mum-and-dad investors – who are traditionally poorly equipped from a knowledge and psychology perspective and who invest with their livelihoods – and on the other you have major trading investment houses, whose employees have access to significantly more information and training and who trade with other people's livelihoods.

In many cases, the mum-and-dad punters buy and sell the options whereas the investment houses write the options knowing that 99% of them will become useless as they will expire worthless.

Key Insight!

While you can certainly buy knowledge, if in trying to apply your methodology you have to compete with others who are more knowledgeable and have access to better resources, then you're probably making life unnecessarily difficult for yourself.

Don't be fooled – investing is hard work that never becomes easy. Inevitably (and particularly when it comes to property) your profits will be made by sourcing opportunities that require solving many potential problems in order to realise profits.

Dave Bradley, my business partner and a fantastic source of inspiration, has a great saying that encapsulates this point.

People often confuse passive income with getting paid to do nothing.

This, in turn, raises one of the core non-negotiable rules of wealth creation:

Before you can have a reward, you must first contribute effort.

While you should expect difficulties, there is always light at the end of the tunnel, because hand-in-hand with experience comes wisdom. Perhaps you'll suffer a loss or two, but an investing misfortune is only a mistake if it:

1. Wipes you out; and/or

2. Is repeated.

Therefore, it's reasonable to conclude that, after you've taken enough consistent action, you'll refine your process to an extent where spotting opportunities *must* become simpler.

It's important to distinguish between *easier* and *simpler*. Here's what came up from a quick search of www.dictionary.com:

- **Easier:** More capable of being accomplished or acquired with ease; posing little difficulty.

- **Simpler:** Not as involved or complicated.

Do you see the difference? In essence it's this – investing becomes less complicated with experience (i.e. simpler) but it's never without difficulty!

To put it another way – setbacks are inevitable, but it's how you handle your challenges that determines whether or not you achieve sustained success.

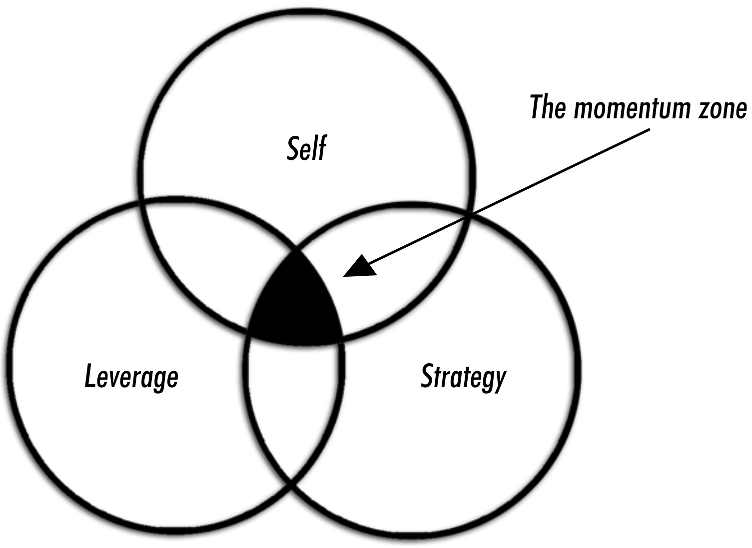
In practice, the simplification of your investing process is achieved when you develop momentum, which in turn is accomplished when the following three factors are in balance:

1. Self (your internal psychology and how you think about money)

2. Leverage (your ability to access and prioritise time and money)

3. Strategy (the appropriateness of your chosen money-making technique).

A graphical representation of this idea is shown below.



Key Insight!

It's difficult to remain in the momentum zone as the three criteria need to be created in unison. It's critical to remember that you must always retain control over your psychology, leverage and strategy.

If you delegate this responsibility then you become reliant on a third party, and my experience is that this makes the momentum zone even harder to achieve.

Don't get me wrong – use other people (such as accountants, mortgage brokers, stock brokers, etc.) to help you, but don't look to them to do the investing for you as you then introduce more variables (i.e. the psychology, strategy and leverage of your advisers) into your investing equation.

The second fundamental rule of investing success is to accept and expect that difficulties are par for the investing course, and that it will never be easy but, with experience gained through taking action, it will become simpler.

Case Study Conclusions

George

George is searching for the perfect investment opportunity, which unfortunately doesn't exist. There's always risk of financial loss, so in applying an investing strategy to an opportunity it's a matter of selecting a 'best fit' rather than finding a 'perfect fit'. Sometimes, having done a thorough due diligence to eliminate the serious risks, you have to confront your fears by backing your judgement and actually investing. Remember, you have to be 'in the market' to profit from it.

June

Many times I've heard people say that they can't start investing until they have their accounting structures set up, or until they have found financing, or until they have sourced good real estate agents (etc. etc.). In reality though, these are just excuses used to actually defer, delay or delegate the investing decision.

Good deals won't wait, so you have to be ready to take action or else risk losing opportunities. June needs to make a decision – put the hard word on her accountant to send through the paperwork (it should normally take less than a week to set up a structure), or else put in a tailored offer to buy that will allow her the flexibility to substitute or replace the purchaser's name once her structure is established.

Cont'd...

Case Study Conclusions

Applying the Principles:

It's essential for June to look for ways to get the deal moving ahead rather than be burdened by delays that will cripple her momentum.

Rodney

Rodney lacks the confidence to 'pull the trigger' and I'd encourage him to be more discerning in distinguishing facts from opinions. As an investor he needed clarity, and while a journalist's opinions might have been useful, it was not unique to or specifically related to the investing opportunity he had before him. Furthermore, there will always be risk, but that risk needs to be mitigated rather than feared.

THINK TIME:

- Go back and answer the key questions on page 11.
- Are you being unrealistic in expecting only good times when it comes to investing? If not, then what are your identified contingency plans (I call them 'Plan Bs') for when unexpected events occur, as they inevitably will?
- Do you consider and plan for potential problems prior to purchasing investments?
- Are your psychology, leverage and strategy in balance? If not, what do you need to change or improve?
- What's been your biggest insight after reading this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Fundamental Rule #3

No Es Lo Mismo Hablar De Torosque Estar En El Redondel

Just in case your Spanish isn't up to scratch (grin), the English translation of the proverb above is:

Talking About Bulls is Not the Same as Getting in the Bullring.

KEY QUESTIONS RAISED IN THIS CHAPTER

- What's needed to transform talk into results?
- Why are good intentions not enough to guarantee success?
- How can you overcome uncertainty?

Case Study

The Academic Investor

Brett's been interested in investing for many years. He's done the seminar rounds and, having forked out nearly $40,000 on his education, is now highly knowledgable – so much so that he fully understands many of the most complex strategies to the point where he could teach others.

Cont'd...

Case Study *(cont'd)*

The Academic Investor

In fact, he does just that on internet forum boards where he's a well-respected contributor.

There's only one problem though… despite knowing what to do, Brett's been unable to use his knowledge in a practical context. He finds this extremely frustrating because, looking back, he sees how much money he could (or would or should) have made if only he'd taken action and implemented the advice he'd given to others.

I know Brett is not alone because at a recent seminar I met two people just like him. During one of the breaks two ladies approached me and explained that they'd been at the same 1999 Kiyosaki seminar as me, and thus had the same basic training I had when I began. But instead of taking action they watched the property boom come and go around them.

When it comes to wealth creation, talk is certainly cheap. Those that achieve great success do much more than theorise – they let their investing accomplishments do the talking. The Latin motto of my high school says it all: 'Spectemur Agendo'. It means: 'By their deeds they shall be known'.

It's one thing to talk, and dream, about wealth creation, but it's an entirely different matter to be able to find the courage to fully embrace (through taking action) the idea of investing as a legitimate and achievable alternative to working in an established job or career.

There are two self-focused components to sustainable wealth creation:

1. *Vision* – the ability to see past the *NOW* and conceptualise the possible effects of change; and

2. *Action* – the follow-through from vision, which occurs when you take physical (rather than mental) action.

TALKING ABOUT BULLS

I was overweight for most of my adolescent years and on many occasions I'd go to bed at night and lie awake making a deal with myself that from the next day onwards things were *really* going to change. Content with the belief that making a mental decision actually amounted to a new beginning, I'd go to sleep expecting that things were really going to be different in the morning.

Sadly, my frequent and feeble attempts at new resolutions really provided nothing more than temporary satisfaction for my conscience and didn't force me to change my behaviour. In my case, the next day (or soon after) my resolve would always crumble at the prospect of gobbling down a steaming bucket of hot chips.

I use my own experience to highlight an important point – it's easy to be enthusiastic about visions, but half-hearted in their application. Why? Because it costs nothing to dream; talk is cheap.

Key Insight!

Having the vision is like talking about the bulls. It's NOT the same to talk (or think) about change, as it is to actually change your behaviour.

BEING IN THE BULLRING

My top weight was 99.7 kilos, I know this because that's what the scales said at my first Weight Watchers meeting.

I'm not sure what the trigger was, but finally I came to the realisation that the internal program I was following just wasn't working, and that I needed to use someone else's system.

It's not easy to swallow your pride and to accept your failings, but to do so allows you to seek help, which in turn provides the possibility of a new outcome.

In my case then, what I'd done in the past was just talk about the bulls (i.e. losing weight) but it wasn't until I entered the bullring (i.e. took action and began a structured weight-loss program) that results really started to occur.

Key Insight!

Taking action means entering the bullring.

THE WEALTH-CREATION BULLRING

From a wealth-creation perspective, almost all money problems are caused by spending too much rather than by earning too little. Yet instead of tackling the difficult problem of modifying spending behaviour to match income, it's far easier to think, or theorise, about simply earning more money.

Looking again at the momentum zone (discussed on page 14), you can certainly enter 'the zone' based on theory, but you can only maintain your position through taking continual and consistent action.

The final point I'd like to make borrows from a stock market euphemism – it is much easier to back-trade than it is to take a position. Hindsight can be wonderful, but it won't ever make a missed opportunity more profitable. Uncertainty is part of the nature of the bullring, but the glory goes to the matador rather than the spectator.

In summary then, successful investors do more than just talk – they take action and are known by their investing results rather than their academic training.

Case Study Conclusions

Applying the Principles:

Brett runs the risk of becoming an academic investor – he is well versed in the theory but has no practical experience. Sadly, by their nature, academics generally make better educators and theorists than the trailblazers do. On the other hand, successful investors know that while they can purchase knowledge, there is no substitute for taking action in the marketplace.

Sometimes what happens is that people with a lot of knowledge turn simple decisions into complex multifaceted conundrums. If I were Brett I'd pick an investing strategy that fitted my psychological profile best, and then follow through by acquiring one small deal as the first tentative step to profiting from the theory.

THINK TIME:

- Go back and answer the key questions on page 17.
- How much time do you spend talking about bulls, compared with being in the bullring?
- Do you lie awake at night and make promises that things are going to change in the morning? Is this behaviour generating successful results?
- What have you been talking about doing for some time now but just haven't found time for? Be as specific as possible.
- Does your wealth creation plan combine both vision *and* action?
- Are you earning too little, or spending too much?
- If you were to be known by your deeds, what would they honestly say about you?
- What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Fundamental Rule #4

You Don't Find Success... Success Finds You

KEY QUESTIONS RAISED IN THIS CHAPTER

- How important is it to have a mentor?
- Why doesn't success always come when you want it to?
- Where is the real value obtained as a result of attending a wealth-creation seminar?
- How important is luck?
- What do ongoing unrealised losses really represent?

Case Study

Paul's Problem

Paul has attempted several real estate and stock market investments but to date he's lost a lot more money than he's made. In fact on one deal Paul bought a share as a result of a hot tip, which started off well but the growth began to slow before turning negative.

Cont'd...

Case Study *(cont'd)*

Paul's Problem

Today his investment is actually worth less than when he originally purchased it. The conclusion Paul has come to is that he needs a mentor – someone to guide him through the pitfalls of investing by taking him by the hand and showing him how to determine the good deals from the bad, and to guarantee that he won't lose his shirt.

Mentoring

'Mentor' has become a buzz word in recent times as people search for official guides to navigate safe passages through often-treacherous investing waters. The problem is that a good mentor won't take on the job of finding deals. Instead, he or she will help you identify the issues and then step back and leave the decision-making process entirely up to you.

In Paul's case, an effective mentor wouldn't actually provide the service that he was after, so a better approach would be for him to sit Paul down and spend a few hours looking at the learning opportunities provided by his past failures, to see which common lessons kept reappearing.

It's unreasonable to expect that investing success will occur overnight or without significant sacrifice, yet by the same token you should expect consistent progress to be made – in an appropriate timeframe – as determined by your combined vision and ongoing action.

One of the frustrating things about success is that it doesn't necessarily arrive when you want it to. That's why it's important to distinguish between a satisfactory investing result and a learning experience.

Two sayings that I'm fond of are:

1. The teacher comes when the student is ready; and
2. Life's lessons keep repeating until you finally learn them.

If we combine these two sayings and apply them in an investing context, they suggest that you can be confident the skills you need to progress along your investing journey will be made available to you as, and when, you need them. Having said that, the actual speed at which you progress becomes a matter of not just identifying the lessons (from the noise), but also learning them too.

Thinking through what I've written... what you need to be an investing success is available in abundance (especially through seminars and real-life lessons), all that could be missing is:

- Your attention to the learning opportunities on offer; and / or
- The courage to tackle and learn from these opportunities.

Key Insight!

Experience has shown that the greatest 'A-ha!' moments gleaned from attending seminars are not derived from new information. Rather they come from hearing principles that you already know (i.e. life's past lessons) and that you finally realise are critical to overcoming current obstacles.

THE SUCCESS EQUATION

Another way to explain success is by using the mathematical formula for compounding returns, which is a matter of multiplying the initial investment by a compounding factor. That is:

$$\text{Investment} = \text{Deposit} \times \text{Compounding factor}$$

The compounding factor is determined by:

1. The interest rate; and
2. The length of time invested.

That is:

$$\text{Compounding factor} = (1 + \text{Interest rate})^{\text{time}}$$

For example, $1,000 invested for 10 years (compounding annually) at an interest rate of 10% would be expressed as:

$$\text{Future value of investment} = (\$1{,}000 \times (1 + 0.1)^{10})$$

The answer to this equation would be: $2,593.74.

From a philosophical point of view, the equation for your success could be expressed with a similar compounding formula:

Success = Vision x Action

where

Action = (Physical effort) ^{time}

Understanding Compounding

Table 1, below, summarises compounding from both a mathematical and philosophical perspective.

Table 1 – Compounding From Two Different Perspectives	
Mathematically	**Philosophically**
Initial deposit: The price of the original deposit	***Vision:*** The vision (mental effort) contributed to your wealth-creation plan
Interest rate: Self-explanatory	***Physical effort:*** The action (physical effort) contributed to your wealth-creation plan.
Time: The length of time you invest.	

Applying this formula then, it's fair to say that the measure of the success you attract is a direct result of:

- The size of your initial vision (the bigger the better)
- The amount of physical effort you contribute (the more the better)
- The length of time you stick with it (the longer the better).

YOUR SUCCESS IS NO FLUKE

Hopefully it's now becoming more apparent that your success won't just happen, it will be the result of 'why', 'how' and 'how long' you invest.

Understanding this will help you to properly place investment seminars (mine included) in their proper place – that is, as tools to help you take action and to increase your ability to attract success, rather than events that provide you with success if you simply attend. Seminars are never substitutes for taking action, as knowing what to do is not the same as actually doing it.

The words of golfing great Gary Player provide a great summary to this fundamental rule of investing – '...the harder I practice the luckier I get'. Investing is certainly one of those activities where the more you put in (and I'm talking about taking action rather than theorising) the more you'll get back – perhaps not immediately, but definitely in time.

Don't make the mistake of thinking that you can buy success, or that it will come when you contribute vision, physical effort or time in isolation. All are needed and all are important parts of the investing success equation.

Case Study Conclusions

Applying the Principles:

If I was Paul's mentor I'd immediately try to help him understand that his stock purchase that went up, sideways and eventually down in price was a fair reflection of his own investing approach.

Sadly, he may be thinking that an easy hot tip is more valuable than a hard-found and carefully evaluated deal that will produce results based on his own skill. Perhaps that's why he's seeking a mentor – to provide ongoing 'hot tips'.

The first step to get Paul back on the right investing track would be to start investing more in himself, which he can do by identifying the lessons of past failures, devising a plan to prevent making the same mistakes, and then backing his own judgement rather than relying on the opinions of others.

Finally, I'd be encouraging Paul to think through whether it would be appropriate to sell his poorly performing stock as losing money is the best way to crystallise and accentuate a learning opportunity. Ongoing losses represent lessons that remain unlearned.

THINK TIME

- ➡ Go back and answer the key questions on page 22.
- ➡ To what degree can you empathise with Paul?
- ➡ Looking at the success equation, if you had a value of zero for your initial vision, what would be the result irrespective of the interest rate or time? What does this tell you about the importance of vision?
- ➡ What would be the impact of a low interest rate in your compounding equation? In your answer include some discussion about how 'effort contributed' is similar to interest rates.
- ➡ When it comes to compounding, the more compounding periods the better as they increase the rate at which your money multiplies. Can you use this observation to explain why 'time' is so important to the investing success equation?
- ➡ What lessons keep repeating in your investing that you haven't yet learned?
- ➡ What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Fundamental Rule #5

The Price You Pay is the Value You Place on an Experience

KEY QUESTIONS RAISED IN THIS CHAPTER

- Are books and seminars a good way to become educated about wealth creation? If so, are there any shortcomings?
- Why is a sacrifice needed to become an investing success?
- How much work is involved to become financially independent?

Case Study

Richard Loves Books

Richard is interested in wealth creation and believes the best way to get started is to read a book. Accordingly, he walks into his local bookstore and heads to the business section. Instead of finding an answer though, Richard becomes confused with the number and variety of books available on using shares and property to make money.

Cont'd...

Case Study *(cont'd)*

Richard Loves Books

Not wanting to walk away empty handed, he picks up a title with an attractive cover that is reduced to $19.95. Tucking it under his arm, he pays on his way out and begins reading it that night.

It's a good read and within a few days Richard's gone from cover to cover. As he puts it on the shelf in his loungeroom bookcase he promises himself that he'll buy another book from the same author next time he's in the bookshop.

Cheap Inspiration

Richard's just had what I call a '$19.95 experience'. Don't get me wrong… most books are excellent sources of information at bargain prices, however the low cost also creates an interesting problem – you can't help but attribute an equivalent value to the knowledge acquired.

When it comes to wealth creation, '$19.95 experiences' usually provide poorer quality learning opportunities. Instead, the biggest lessons come when you have more money invested and you are implementing the knowledge acquired from books and seminars.

Have you ever heard the phrase 'To know the value of a dollar'? You'll often hear it from people who have had to pay a high financial and/or emotional price for their success as they describe how they bleed every last cent to gain the maximum possible purchasing power from their money.

The practical investing application of this saying is that the higher the price you pay for success, the more determined you'll be that your efforts won't be in vain.

Key Insight!

The best way to value an experience is to pay for it out of your own money.

Similarly, if the cost is low then it's easy to undervalue the experience. For example, my first car was a 1964 Ford Cortina that my Dad bought for me for the budget price of $1,000. Despite being an awesome gift (which I'll forever remember him fondly for), I would have appreciated the car a lot more if I was required to pay (or repay) some, or all, of the $1,000.

Dave and I have had to pay a high price to acquire our wealth as it certainly hasn't come easily. For many years we ploughed all of our business profits (derived from working as accountants) back into funding the deposits on our investment properties. At the same time we lived off an allowance (in my case just $400 per month) derived from our wives' salaries.

It wasn't just a financial sacrifice though. Dave and I also regularly worked back late, went on house-buying trips that required us to be away from home for several days, faced ongoing frustrations associated with being let down by financiers and real estate agents and so on. Dave also had to keep working to crunch out tax returns and to bring in enough money to pay the business overhead on his own, as I was investing full-time and building a start-up business that would later become PropertyInvesting.com.

Key Insight!

A part-time effort will generate a part-time result.

While I didn't fully appreciate it at the time (mind you, investing was definitely more enjoyable than doing accounting work), looking back it's apparent that the time and money sacrifices that we made were necessities that gave value to our achievements. That is, if the cost hadn't been quite so high then perhaps we'd have been tempted to go back to accounting when major difficulties arose.

Given that Dave and I have a policy that we only borrow 80% of the purchase price, a difficulty that we constantly faced during the early days was coming up with the cash on settlement day to pay 20% deposits plus closing costs on our investment properties.

Around each settlement day our bank account would be drained to almost zero, and then we'd work like squirrels in winter to gather enough funds to meet our next purchase obligation.

Specifically, on one occasion we had $352.95 left in the bank with looming property settlements worth about $200,000. It would have been tempting to call for 'all hands on deck' and have me complete some accounting work to increase fees, yet this would have taken away from the momentum of our investing.

It was a hard decision, but we decided that returning to work was not the best option and instead staggered the settlement dates so that we could on-sell using the wrap technique and then use the purchaser's deposit to fund the cash needed on the next settlement. We also sold one of our better performing buy and hold properties to turn the equity into cash that could fund any shortfall.

PERCEIVING YOUR COST

To gain an idea of what your cost might be, you need to consider the benefit that you'll be obtaining. A good way to do this is to work through the questions in Table 2, below.

Table 2 – The Cost of Freedom
Question 1. How old are you (in years) now?
Question 2. How many years are there between now and when you turn 65 (anticipated compulsory retirement age)? That is, how many more years will you have to work for?
Question 3. At what age (in years) do you plan be financially free?
Question 4. How many more years are there between now and when you'll be financially free? (The difference between Question 3 and Question 1.)
Question 5. How many years of work will you be 'saving' by achieving your financial freedom? (The difference between Question 2 and Question 4.)

In my case, at age 27, I wanted to achieve financial freedom (i.e. I never wanted to *have* to do accounting work again) by the time of my 32nd birthday. That's like saying I wanted to bundle up 38 years worth of work and earnings (assuming I would have retired at 65) into the next five years!

Naturally, such an ambitious goal wasn't going to be easy, and although the profits from our chosen positive cashflow property strategy started from day one, it did take the full five years to earn enough investment income to fully replace the salaries that Julie and I earned as professionals.

It's clear – the bigger the reward, the higher the cost you'll have to pay. Be careful not to underestimate, or fail to pay, the true cost of successful investing. I'm a big believer that nothing is the only result that comes without effort.

Case Study Conclusions

Applying the Principles

If the bulk of your expertise is on the back of '$19.95 experiences' then you may find that you haven't yet invested enough money in yourself to justify the sacrifices associated with investing success. If this is the case then, like Richard, you may go from book to book without actually implementing the knowledge that you acquire.

It's important to combine and balance the processes of:

1. Acquiring knowledge; and
2. The act of investing.

In practice both feed off each other to form an overall picture of sustained success.

THINK TIME:

- Go back and answer the key questions on page 28.
- Put financial independence into perspective… how many years do you give yourself to earn enough investment income to live off, and how many years of having to work will you save if you achieve your goal?
- How much are you currently 'paying' (in time and money sacrifices) for your current investment results? Is there a correlation between your cost and your results?
- What's been your biggest insight after reading about this fundamental? What's something you can immediately change or implement to take action on that insight?

Fundamental Rule #6

Risk is Relative to the Skill of the Investor

KEY QUESTIONS RAISED IN THIS CHAPTER

- What is risk? How can it be measured?
- Why are fools parted from their money?
- How does the market work to redistribute wealth?

Case Study

Too Good To Be True?

Recently an opportunity arose whereby, for an investment of $50,000 over a period of three years, the investor could earn a return of 24% per annum PLUS receive a fully maintained new car.

In many ways it seemed too good to be true and my initial reaction was that it would probably be a scam. Instead of dismissing it out of hand though, Dave completed some further due diligence and found that the business model behind the investment was sound and that, in all likelihood, the investment had merit.

When it comes to investing the word *risky* means the likelihood of financial (i.e. monetary) loss.

A common catchcry in the financial industry is 'the bigger the return, the bigger the risk', which means that an investment offering significant profits must, by nature, be likely to lose money.

Assuming this is the case, which of the following three investors appears to have the riskiest investment?

Table 3 – Comparing Risks			
	Investor A	Investor B	Investor C
Return on investment per annum	50%	20%	10%

Based on this information you'd have to conclude Investor A, but what if you also discovered the following additional data:

Table 3 – Comparing Risks (cont'd)			
	Investor A	Investor B	Investor C
Actual investment	$1,000	$10,000	$1,000,000
Potential return after one year	$500	$2,000	$100,000

In my opinion, Investment C is now the most risky as it requires the most capital for the least return.

Surely though, any discussion about risk based on percentage return is very one-dimensional as it ignores the skill of the investor. Using this example again, how would your answer change if we said that all three investors were investing on the stock market, and we summarised their skill as:

Table 3 – Comparing Risks (cont'd)			
	Investor A	Investor B	Investor C
Skill with strategy	Fair	Poor	Excellent

Wouldn't it be now reasonable to conclude that Investor B seemed the riskiest proposition, not because of the return, but because Investor B lacked the necessary skill?

Key Insight!

What looks risky at first glace may not actually be dangerous if an investor has enough skill to mitigate the risks. Investing is most risky when speculators don't have the ability to manage their situations should things go wrong.

The lesson to learn is that it would be much more accurate to link the potential for financial loss back to the skill of the investor, rather than to arbitrarily allocate risk solely to the nature of the investment (or investment strategy).

FOOLS, MONEY AND THE REDISTRIBUTION OF WEALTH

Have you heard the saying 'a fool and his money are soon parted'? This saying is a fundamental of wealth creation because while it's possible to achieve good short-term results through luck, skill will always outperform in the long term.

When it comes to investing fools, it doesn't really matter which asset classes they invest in as, sooner or later, their very nature will cause them to buy into schemes that are prone to losing money.

Remember that like attracts like, so fools can't help but attract other fools.

A question to ponder is – when a fool is parted from his or her money, to whom does it go? Seeking a solution introduces the idea of a continual redistribution of wealth away from those with less skill when it comes to handling money and towards those who know how to make their funds multiply.

This is happening in all financial markets right now. Take property for example, at the time of writing, on one hand you have fools hoping for a return to the boom times when they could make a profit (i.e. wanting the general market to drive their profits) while on the other you have astute investors buying into selective deals and using their skills to solve problems.

Key Insight!

There is a constant redistribution of wealth away from those who rely on luck to those who demonstrate skill.

Make sure your chosen investment strategy has more to do with skill than luck, and that you understand the real risk in any investment has three components:

1. The return offered
2. The amount of money invested; and
3. The ability of the investor.

Case Study Conclusions

Applying the Principles:

Risk is a multi-layered phenomenon that exists in every deal. Based on the case study, it's reasonable to expect that most people would think a 24% return and a new car was too good to be true and very risky. However, when the nature of the investment was assessed in light of the amount of capital required and the skill of management, the truth was an entirely different picture.

THINK TIME:

- Go back and answer the key questions on page 33.
- You're reading through the paper and come across the following ad:

> **Private Investor Needed!**
> Funds needed for guaranteed investment opportunity.
> I need $30,000 for two years and am willing to provide
> a 20% return per annum. Phone now on 1234 5678.

If you called up, what are five questions you'd ask the person placing the ad?

- How are you currently assessing the risk on:
  1. New opportunities?
  2. Existing investments?
- What do you think is more important when assessing likely future performance – the skill of the current management team behind the venture, or the average of the previous three of years audited results? Explain your answer.
- What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

It's Better to Have 10% of $10 Million than 100% of $1 Million

KEY QUESTIONS RAISED IN THIS CHAPTER

- How can being a control freak potentially hold you back?
- What sort of leverage is gained from being an employee?
- What is important – time or money?
- Is it better to own more of less, or less of more?

Case Study

Control Takes Time

Barbara is a self-confessed control freak. In terms of the properties she owns, she likes to manage everything herself for two reasons – firstly, she can ensure that as much as possible is done her way, and second, she saves on rental management fees.

Currently Barbara owns three properties and has aspirations to acquire more, however, at present she doesn't have enough free time to look for new deals because of her full-time work commitments and having to manage her existing deals.

Cont'd...

Case Study *(cont'd)*

Control Takes Time

Barbara is certainly not alone, and in the early days of investing it is advisable to try to do much of the hack work yourself to assist with your education. However, sooner rather than later, professional investors begin to pull back and use their money to buy other people's time (for completing routine tasks) while they allocate precious hours and minutes to finding and harvesting new opportunities.

Being able to effectively leverage your time and money is a skill that all successful investors eagerly seek to refine and master.

Conversely, those who seek to control (as opposed to delegate) the bulk of the tasks place a glass ceiling on their achievements because available time is limited.

TIME LEVERAGE

We only have a finite amount of time here on planet earth, and we must wisely decide how to use it because once spent it is gone forever. It's a myth to think that you have to do everything yourself though – you can pay someone else to do most tasks for you, which will free up your time.

The Job of Investing

Working in a job in which you get paid by the hour is an example of poor time leverage, as it essentially involves trading your finite time for a once-only payment. That is, when you stop contributing the time then you also stop receiving payment. (What I've just written is an illustration of zero leverage).

On the other hand, with some types of investing you may only receive a small return, but you are paid on an ongoing basis without having to continue to work. This illustrates the time-leverage model that I've used to become financially independent.

For example, imagine you find a positive cashflow property under a buy and hold (normal rental situation). Once you have acquired the property, and assuming it's rented, you will continue to receive an income until the tenant leaves. This means you do the work of finding the deal once, but you get paid on an ongoing basis.

One of the first property investments that Dave and I undertook was a renovation project. We purchased a lovely Federation home on the outskirts of Ballarat that, we believed, just needed a little TLC to spruce it up to its former glory. Our plan was to buy, renovate and then quickly on-sell for a moderate profit.

The mistake we made though was that we decided to do all the work ourselves, and every weekend for several months we drove to Ballarat and renovated until we dropped. Being accountants, and lacking previous experience, we weren't terribly skilled and our progress was often two steps forward and one step back… like the time we had to paint a large room twice as we ran out of paint and couldn't match the tint.

Irrespective of the outcome of the investment, I hate to think of the number of investing opportunities we missed while Dave and I had our heads in paint tins. What we should have been doing was looking for deals that we could project manage by employing others to do the work on our behalf.

Expanding on the points made so far, there's no doubt that Dave and I could earn more profits if we managed all of our properties ourselves. However, if we did this then we'd sacrifice the time that we currently use to find more deals so, to do this would be a step backwards given that we value time above money. Instead we are happy to pay managers to do the work for us and pay them out of our profits. Yes, it means we have less profit overall, but the flip side is we have more time.

Don't fall into the trap of trading one job for another. The ideal situation to aim for is to find deals that continue to pay without requiring you to be a full-time caretaker.

MONEY LEVERAGE

Money leverage is your ability to drive your dollar further. In practice it is achieved through taking advantage of other people's money and using it to help pay for the bulk of your investments, in return for a charge for access to those funds.

There is definitely an optimal point of money leverage, however this figure is unique for each investor and depends on his or her risk profile and current asset portfolio.

Let's look at an example to illustrate how money leverage works. Say you have $100,000 to invest and you have the choice between the following investments:

1. Buy a $95,000 property that has associated closing costs of $5,000. As you've paid cash, there is no loan and the nett annual cashflow return is $8,000.

2. Buy four $95,000 properties leaving a 20% deposit and borrowing 80%. You also have to pay $20,000 in closing costs. After interest, your cashflow per property falls to $3,000 per annum.

In the this example, paying 100% of the purchase price rather than borrowing money provides a higher cashflow on a property-by-property basis ($8,000 vs $3,000), but it provides the lowest return overall ($12,000 [4 × $3,000] vs. $8,000).

What's Better… 100% of $1 Million or 10% of $10 Million?

In answering this question you need to weigh up whether it would be better to own more of less, or less of more. I believe it is generally better to own 10% of $10 million and use leverage to access the power of other people's money to increase the value of your portfolio (rather than solely using your own funds).

Effective money leverage means that your gains will compound to increase the speed at which you build wealth. Having said that, leverage can also multiply the losses too. Furthermore, it's useful to remember that the more you borrow, the greater your exposure to possible adverse movements in interest rates.

Case Study Conclusions

Applying the Principles:

In order to achieve financial independence you'll need to create an empire that other people can run. The more you make yourself indispensable, the harder it will be for you to step away from the investing business that you build.

It's good to retain executive control of your investments, but don't make the mistake of trying to control everything (right down to the day-to-day management issues) at the expense of missing out on new opportunities because you're so busy.

To be a long-term success, Barbara needs to find an internal control system that she can implement so she can control her investment, rather than have it control her.

THINK TIME:

- Go back and answer the key questions on page 37.
- Are you currently in the job of investing? If the idea behind financial independence is not having a job, what do you need to change to make this possible?
- What is it that you do that you can outsource to others? How much would that cost and is it a workable alternative to allow you to free up your time?
- What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Let Facts Speak Louder than Opinions

KEY QUESTIONS RAISED IN THIS CHAPTER

- What is the difference between a fact and an opinion?
- When is it appropriate to use an opinion to evaluate an investing opportunity?
- How should you react when you receive advice from someone who will earn a commission when/if you purchase an investment?

Case Study

The Investment Seminar

Dean is interested in property investing and is happily surprised when he receives a free invitation to attend a briefing about trends in the current real estate market.

The seminar is sponsored by AAA Developers, which offers to provide a complementary wealth assessment identifying opportunities to invest in real estate with 'no money down'.

Cont'd...

Case Study *(cont'd)*

Vested Interests

Dean signs up and a week later Laurie, an employee of AAA Developers, comes over after work to conduct the interview.

Over the course of an hour Laurie uses his laptop to present a compelling and professional slideshow outlining how property prices rise every seven to ten years and how negative gearing can be used to offset tax paid on other income, resulting in net tax advantages.

Laurie also offers Dean the opportunity to buy into a limited property development that had nearly sold out at the previous seminar.

Best of all, Dean is offered a chance to buy in for just a $10,000 deposit (to be redrawn against the equity in his home) with settlement in three years time when the development will be finished. All the while he will, says Laurie, benefit from expected capital appreciation.

Dean signs on the dotted line, believing he has found a good investment.

Over the past five years many property investors have acquired real estate in situations similar to Dean's. Putting to one side all comments about whether or not predictions for potential capital growth will come true, the reality is that Dean has purchased on the strength of a series of opinions given by someone with a vested interest in profiting from the sale.

Looking behind this transaction though, it is the developer (and sales agent) who will profit when Dean buys. Dean, on the other hand, must rely on the validity of the opinions becoming facts before he can profit – a most precarious position given property prices, like all markets, go up and down.

The biggest factor that distinguishes naïve investors from savvy investors is that the former buy on emotion and sell on fact, while the latter buy on fact and sell on emotion.

As such, a key skill that every investor should endeavour to acquire is the ability to distinguish a fact from an opinion.

EMOTION

Fear and greed are the two most powerful emotions associated with investing. They work equally as effectively and create wild frenzies in both boom *and* bust markets.

For example, in a boom market, investors become fearful that they'll miss out on a golden opportunity and this stimulates their greed glands (mythically located somewhere deep inside their brains) to secrete hormones that override commonsense.

Because emotion is intangible it is very hard to 'price'. For example, when tech stocks were booming, investors valued some companies' shares at 100 times more than their earnings, which meant that it would have taken 100 years of similar earnings to recoup their costs let alone profit. When the logic behind this was questioned, the justification given by analysts was the emotion associated with trying to quantify the lifetime value of a new customer in a new market (i.e. these companies had the potential to capture entire new markets via the internet).

Put simply, emotion is used to sell overpriced assets to those who know no better. You don't have to look very hard to see it occurring – just scan through some of the glossy (advertising) material in annual reports and property spiels and highlight the adjectives.

FACTS AND OPINIONS

Facts are pieces of information that can be independently verified as being certain, which means by their very nature they must deal with past events.

Opinions, on the other hand, might be based on facts, but by their nature they are speculative and deal with uncertain events – as such they are more emotive.

Confusing the Two

Don't misunderstand me – opinions are certainly useful. However, someone's opinion can be dangerous if you confuse it for a fact and rely on it.

For example, a year or so ago I attended an auction where the agent's representative outlined how he thought that, based on the boom price trends of the time, the property would be worth tens of thousands more in only a matter of months. Despite being generally sceptical about such comments, I must confess that my greed gland started to secrete at the thought of some easy money, and with this change of mindset, I began looking for reasons to dismiss the problems I'd found with the property rather than properly heeding the warning signs.

In summary, what the agent was offering was his opinion, yet if you misinterpreted his comments and thought they were facts (i.e. 'Honey, the agent said…') and decided to buy based on his presentation, then you'd be feeling sorely done by if hindsight revealed that the property values hardly moved over the next five years.

It's generally very wise to be alert to any claim in which past results are used as the basis for future expectations.

Successful investing is about making discerning decisions that are likely to result in a profitable outcome. When you rely on poor quality information (such as unfounded opinions) or when you guess, you set yourself up for significant potential financial losses.

It's okay to seek other peoples' input when it comes to investing, but you must always be on guard to distinguish between facts and opinions. If you are dealing with facts then be sure to check that you're comparing like data. If you're seeking opinions, then it pays to complete further research before fully relying on them.

The eighth fundamental rule of investing success is to let the facts speak louder than the opinions.

Case Study Conclusions

Applying the Principles:

Dean shouldn't necessarily be considered a fool for believing what he was told, however he ought to have been more diligent and done some research to independently confirm Laurie's opinions.

In many such meetings (and I've been through a few of them myself), where a financial analysis is provided, the assumptions behind the model are listed in the fine print. It's always wise to have a financial adviser look over the numbers in a deal, and verify projections about future growth and possible income against historical results.

In your investing, be sure to test opinions or else understand that your investment outcome will become reliant on the often shaky assumptions behind the financial model that hooked you in with projected profits.

THINK TIME:

- Go back and answer the key questions on page 41.
- What can you do to protect yourself from relying on opinions when making an investment decision?
- When it comes to acquiring assets, do you buy on emotion and sell on fact, or buy on fact and sell on emotion? Which do you think is the more profitable approach?
- What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Fundamental Rule #9

The Market is Not, and Never Will Be, Perfect

KEY QUESTIONS RAISED IN THIS CHAPTER

- Why isn't the market ever perfect?
- What happens if interest rates rise?
- Why is procrastination the enemy of every investor?

Case Study

The Right Time to Invest

Phillip always seems to have the worst possible timing, so much so that he ends up doing nothing.

For instance, during the tech stock boom he was convinced a crash was coming. Feeling like he'd missed the boat, he waited and waited as prices went up and up only to find that when the correction did come, he was too scared to invest for fear that the market might go down further.

If that wasn't bad enough, Phillip has just experienced the same thing all over again in the real estate market!

Cont'd...

Case Study *(cont'd)*

You Can Only Live for Today

Sure, prices have cooled off, but he's convinced that interest rates are due to rise again soon and that he may lose the little money that he's managed to save.

It seems that there's always just enough uncertainty to ensure that Phillip ends up doing nothing but watch others make fortunes around him.

A mistake made by many is to look for perfect investing conditions prior to taking action. The problem is, even when perfect conditions present (such as low interest rates, low inflation and good economic growth), the Phillip's of the world are unable to act for fear that the situation might eventually change.

Successful investors know that you can only invest in today's market, and change approach as conditions vary. For example, a question that I am regularly asked is 'Aren't you worried about what a rise in interest rates could do to your positive cashflow?'.

Sure, I'm concerned about the possibility that interest rates might increase soon, and I can certainly take preventative action (such as selling to release profits, fixing rates, etc.) when they start to go up, but you can only transact in the market as it presents itself on any given day.

Savvy investors invest in the present market. Less sophisticated punters invest for markets that they hope may exist tomorrow.

The investing market was anything but perfect in May 1999 when Dave and I started investing. House prices had already increased substantially, and, try as we might, we couldn't find any positive cashflow deals in metropolitan Melbourne. The stock market was in the midst of a huge boom, and interest rates were higher, which increased the cost of borrowing money. On top of all this, Dave and I had to break out of the mentality of working in jobs and embrace uncertain futures to try to forge an income from investing.

It would actually have been much easier for us to adopt a 'wait and see approach' while we continued to build our savings. In fact, that would have been the safe or cautious thing to do.

However, the market didn't become any more hospitable as time went on. Sure, interest rates fell, but on the flip side, values rose, so that what you saved in interest from the lower rate you lost in interest because you had to borrow more. Furthermore, as the market steadily increased, more and more experts predicted that it had reached its ceiling, and this created more fear – lending even more credence to the ideas of would-be investors who were happy to sit out and do nothing.

At the time of writing, the market is just as uncertain as it was in 1999, but for opposite reasons – in my *opinion*, interest rates are likely to go up and values down. The lesson then is this: the market will never offer perfect conditions to invest – rather it will only ever deliver varying degrees of uncertainty.

If you can't handle the uncertainty then your chance of success is very low, for the only factor you can rely on is that investing carries with it the opportunity to both make *and* to lose money. There are no sure-things, no absolute certainties – remember, even the unsinkable Titanic sank. As such, a key skill to master is the ability to accept (and perhaps even embrace) risk as necessary for profits to be made.

No, I'm not talking about 'Roulette Investing' where you bet the house on a fluke…. I'm suggesting that you should not expect something for nothing, nor should you expect nothing for something either. More than that though, I'm encouraging you to avoid looking for perfect investing conditions, for such expectations are unrealistic and may lead to procrastination.

The ninth fundamental rule indicates that there is never a perfect time to buy or sell, yet buy and sell you must if you ever want to earn and bank a profit from your investments.

Case Study Conclusions

Applying the Principles:

Procrastination is the biggest enemy of not just Phillip, but every investor. It's better to try and to fail (because at least you're learning) than to sit confused on the sidelines while it all happens around you.

Financial markets are, by their nature, reflections of human behaviour. And as we all know, the behaviour of humans is rarely perfect.

THINK TIME:

- Go back and answer the key questions on page 45.
- What market conditions are you waiting for before you decide to either buy and / or sell your investments?
- What opportunities have you missed out on waiting for a perfect time?
- What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Fundamental Rule #10

To Cease Moving Forward is to Backslide

KEY QUESTIONS RAISED IN THIS CHAPTER

- Why does having time away from investing make it difficult to maintain momentum?
- Why is it so hard to maintain momentum?
- Why is wealth creation like walking up an escalator the wrong way?
- How do you beat backsliding?

Case Study

Jumping in 'Boots and All'

Several years ago Tom began investing in real estate 'boots and all' – he purchased five dwellings in quick time before running out of capital.

Rather than exploring ways of investing using other people's money though, Tom returned to his full-time job and left his real estate assets to happily appreciate in the background.

Cont'd...

Case Study *(cont'd)*

Jumping in 'Boots and All'

Only today has he decided to think about whether his properties are maximising his wealth-creation possibilities, however, because he hasn't been following the market for some time, he feels a little out of touch and uncertain about what to do.

In the end it becomes easier to just do nothing. 'And what's wrong with that?', he thinks. 'I've made a good profit so it's okay if I give some back should the market go down.'

In Tom's case, he ceased moving forward when he stopped investing, and ceased maintaining his existing momentum when he stopped monitoring the market.

The less you do, the harder it becomes to re-establish your success after a period on the investing sidelines. As such, the best approach is to always stay in touch with the market, even if you experience times when you're not actively investing.

Expect an ongoing battle to find the courage to continue making the time and money sacrifices needed to first achieve, and then later maintain, investing success.

If you're wondering why it is so difficult to maintain investing momentum then the answer is because the mindset needed does not conform to society's normal values, and this constant 'clashing of cultures' can easily erode your confidence. The idea of achieving financial independence prior to the government determined (and ever increasing) compulsory retirement age is quite a new concept. Today our society is very much geared to working hard, spending hard and relying on regulated superannuation rather than investing skill to raise enough capital to deliver a sustainable income for life after work.

To fight for a different outcome from the majority of the population is a constant grind; a force will forever seek to pull you out and away from your investment momentum zone.

For example, we are all busy people, yet this busy-ness is in conflict with the time needed to find, evaluate and properly manage our investments.

Swimming against a slight but noticeable tide is a good visual image that represents the struggle you'll face. It's realistic then to expect times when you'll feel like you need a rest, yet during these moments the tide of society will actually carry you away from your wealth-creation goals.

BACKSLIDING

Wealth creation is like walking up an escalator the wrong way – provided you move faster than the escalator then you make progress, but when you stop the natural tendency is to be carried downward.

'Backsliding' is the term I use to characterise this situation. You should expect backsliding to occur from time to time because you can't always maintain your peak investing performance. However, rather than stopping altogether, the idea is to keep pace with the escalator of life so that you don't slip too far.

The way to beat the potential for backsliding is to build a team around you, so that while you may rest from time to time, your team continues to work around you and you maintain your momentum. Conversely, when your team members rest you must pick up the slack.

If you choose not to participate in a team then you must realise that you are choosing a limiting model for success, for you cannot always fight the tide, which means that your progress won't always be forward.

The final fundamental rule of investing success is that to cease moving forward is to backslide. This should provide a timely wake-up call should you be resting, or perhaps waiting, by reminding you that, in the absence of taking action, you may actually be losing ground.

Case Study Conclusions

Applying the Principles:

An uninformed decision to choose to do nothing is Tom's worst possible outcome as he risks backsliding. It's never okay to lose money, and if he anticipates giving some of his profits back, then he is also choosing not to maximise his wealth.

Knowledge is the foundation of a successful investor's decision making, so Tom would be well advised to re-familiarise himself with the property market in order to decide whether his current strategy is still relevant for the changing conditions.

THINK TIME:

- Go back and answer the key questions on page 48.
- Are you currently backsliding? If so, what areas of your investing are slipping while your attention is focused elsewhere?
- What's been your biggest insight after reading about this fundamental rule? What's something you can immediately change or implement to take action on that insight?

Final Thoughts

Well, we've now come to the end of *The Fundamentals of Investing Success*. Of course, the ideas discussed are by no means an exhaustive list of everything you need to know to be a successful investor. The purpose behind writing this report was to get you thinking, for thinking is what ultimately drives your ability to harness new opportunities.

Please note that the fundamentals are not mutually exclusive. Instead they're interrelated so that one builds upon the other to provide a comprehensive overview of what's needed to achieve sustained investing success.

Not all of the fundamentals may appear relevant to your current situation, just as one medication does not cure all ills. However, when you find your progress has stalled it would be wise to read back over this document to pinpoint which of the principles are not being properly applied.

WHAT NEXT?

If you're wondering what to do next then the answer is ***take action!***

Even if all you do is re-evaluate your existing assets against your wealth-creation goals, or spend time planning what you want to achieve, or allocating an hour to look for new opportunities... once you've finished reading, make it a must to go and do something different.

In closing, I urge you to remember that the ultimate benchmark of any investing success is how well it provides a means to your desired end.

Sincerely,

Steve McKnight.

Steve McKnight

YOUR FINAL CHALLENGE...

As a way to help you get started, I challenge you to write me an email (send it to feedback@propertyinvesting.com) that completes this sentence:

'By reading The Fundamentals of Investing Success, I have now realised...'

Try to be as detailed as possible in your response, and please also include some feedback about how you have benefited from this resource.