

Background info (Growing up, family, studies, work history, etc.)

- Grew up in Melbourne. Youngest of three children. Parents predominately middle class - father a director (sales) of a truck dealership, mother full time home duties.
- Completed a Bachelor of Business (Accounting) at Uni (RMIT – Melbourne) and was then employed by Deloitte – an international accounting firm in their audit division. Suffered a massive career burnout after becoming a chartered accountant (post grad study) and moved to Mackay on a mission chasing a woman who'd later become my wife. Was sacked after nine months and returned to Melbourne, engaged.
- Tried to resurrect my career by working as an audit manager in a small accounting firm only to suffer stress related health problems, which is when I became interested in the concept of 'financial independence'. Decided to work from home and set up my own small accounting practice in partnership with David Bradley, but soon realised that I was invisibly handcuffed to my clients.
- Today, at age 32, totally financially independent after building a passive income of more than \$200,000 per annum after buying 180 positive cashflow properties in around five years.
- Now mentor / help others, which is how the MAP came about – a small group of protégés following my strategies in the attempt to create a property portfolio worth \$1m in twelve months.

What was the turning point that made you want to walk away from a successful career an turn to full time property investing?

One day I went to the doctors after developing ulcers on... well, let's just say unusual body parts. The doctor wasn't sure what it was and needed to refer to the 'medical journals'! Later he dropped off a photocopy of a textbook showing a photo of the condition and an explanation that it was caused by stress. I knew then that if I didn't change my life then I was going to be dead by 40.

Also, I came to value time more than money, which is why I have consciously looked to build cashflow investments rather than focusing on capital gains. I knew that to buy back my life I needed to find a regenerating source of cashflow.

How many properties do you have now and where are they?

Although we (my business partner and I) have purchased over 180 properties, we currently (at September 2004) own around 100 income producing dwellings as we have recently sold to take profits under the belief that the real estate market is likely to fall and hence now is a good time to hold cash.

The properties are located in major regional areas where the yields are high - Ballarat, La Trobe Valley, Albury, Tasmania, and more recently New Zealand.

While I'm interested in capital gains, in order to stop working I needed a regular cashflow income to live off. That's why I believe that investors who want to work less need to rethink their approach to property investing as you can't use your capital gains EFTPOS card to buy your groceries - you need continual regenerating cashflow!

How much are they worth?

Hmmm - because I don't invest for capital gains I'm not too concerned with what they are worth because I'm unlikely to sell unless I get a super offer. As a ballpark though - I currently control about \$6million in real estate.

How do you find positive cashflow deals?

This would have to be hands-down the most common question I'm asked.

In the end, you can't buy positive cashflow – instead it's an outcome that's created when you solve problems, usually via a process of adding value.

For example, a developer makes a profit by taking a problem block of land and adding value by creating units and then onselling it as a solution to homebuyers or investors.

In my case I look for problems that are within my ability and resources to solve and, because problems exist everywhere and all the time, this is how I make positive cashflow returns in all markets.

What should you look for when investing in a property?

First off you need to clarify the reason why you are investing, because your needs will dictate what type of property you want to buy. While it's not my cup of tea, if you wanted to keep working in a job then perhaps capital gains could be your focus, in which case it's important to focus on factors where there is limited supply but unlimited demand - eg. Beach or water view properties.

On the other hand, if you want to work less and gain control of your time, you will need to focus on positive cashflow properties first and then capital gains second. In this case buy properties in regional areas that will always be in demand - 3 bedroom homes in working class areas that are near to shops and schools.

What sort of things should you look for when inspecting a property?

Unless you know what you are doing, pay someone else to do an inspection for you and then have them show you where all the issues are. That way you'll become educated about the pitfalls. Some general guidelines to look out for include:

- old-style wiring (easy to tell by whether or not the fuse box has been rewired)
- the condition of the floor boards under the carpet (pull up a corner of the carpet)
- illegal sheds out the back (if they don't have downpipes then they're probably illegal)
- the age of the hot water service (see the compliance plate on the unit)

What tips do you have for those people who are looking to invest in property?

First, know why you want to invest. If it's just to make money then you are unlikely to be a long-term success. Like everything in life, the more focused you are the more likely you are to be successful - so it is with real estate too.

Sadly ignorance costs most property investors dearly - they make a hundred thousand dollar plus investing decision based on little or know information other than a gut feel. This type of approach is more like gambling than investing.

The rule - let the outcome dictate the investment, not the other way around!

Second, if you don't know what you are doing then recognise this fact and seek expert independent help. Never, ever, ever believe the hype at free seminars where the best case scenario is outlined like it's a fact. Make your success a matter of choice, not a matter of chance!

Third, no matter how complicated you feel investing needs to be - it's the simple things that make the most sense. In property, ask just two questions:

1. Will owning this property bring me closer to or push me further away from my investing goal? and
2. How many of these properties do I have to own to never work again?

What are your thoughts on negative gearing?

As an accountant I'd say that it was a legitimate way to invest at the same time as lowering your tax bill. But as a successful investor I'd say that it was an absolute disaster.

Negative gearing is a strategy designed to lose money (hence the term negative). Since when has losing money ever been a good idea?

In truth, for negative gearing to work you are betting that your certain loss today will be less than the profit you might make tomorrow.

Negative gearing only works when prices are rising and furthermore, to fund the negative cashflow you must continue working in a job.

In my opinion, negative gearing - a strategy designed to lose money that only works in a booming market, is a flawed long-term investing technique.

You ran a free twelve-month mentoring program called the MAP. What were the results of the protégés you mentored?

At the beginning of the MAP there were 13 parties (23 people) selected to be included in the program. At the conclusion in August 2004 only eight parties (13 people) remained, of which six parties achieved the goal of acquiring \$1 million worth of property. Overall the eight remaining parties achieved the following results:

- Property acquired (at cost): \$10,461,515
- Property acquired (at est. market value): \$12,646,325
- Est. (gross) capital appreciation: \$2,184,810
- Est. (gross) annual positive cashflow: \$922,024
- Number of deals bought: 86

In addition to these figures, a further \$8,050,200 worth of real estate (at contract price) was sourced and then on-sold under bird-dogging arrangements for once-off finders' fees totalling \$201,400.

I think making over \$2m in capital gains and acquiring property delivering gross annual cashflow of \$922k was a very pleasing result, especially when you consider the minimum amount made by a protégé (who stayed in the program) during the twelve months was around \$150,000.

While I'm proud of the Mappers' financial achievements, I'm more delighted at the massive personal growth I've witnessed in each individual. My sincerest hope in running the MAP was to show that money may start off as the focus, yet it soon becomes incidental to a journey of personal and financial development.

When should you start investing in property? How little do you need to really start?

Property is a proven way of investing that's stood the test of time - yet statistics show that a massive 92% of investors only own 1 or 2 properties. This being the case, you have to start wondering, if owning property translated into creating wealth, wouldn't you want to own as much as possible?

The answer is that you need to do something different.

Under the system that I follow - positive cashflow - it's possible to earn an immediate profit from day one, but only if you buy a property that has a high-yield. This means that you will be investing in either commercial real estate or else residential real estate in regional areas.

It is certainly possible to buy a property with 'no money down', but I would say that you would need a starting capital of \$10,000 to get going.

As for when to start, the answer is as soon as possible once you've clarified why you want to invest.

If making money from property is easy why aren't more people doing it?

Well, first up – successful investment in positive cashflow property isn't easy, in fact, it requires skill and expertise.

Nevertheless, you don't need to be a rocket scientist to understand the basics, just commonsense like only investing in deals that make money from day one.

What I would say is that people need to think differently as if you do what the majority of people do, then you will get the same results they do, which, given 92% of investors only own 1 or 2 properties, isn't anything too exciting.

In the end I let the results speak for themselves... the way I invest has ended with massive success, an income of \$200,000+ for life and financial independence.

Other people I know who started at the same time and chose negatively geared property have bought one or two properties, have still made money - some up to \$300,000, but this is a once off gain and all the while they still need to work in a job.

Which outcome would you prefer?

Note: If you have further questions then please schedule an interview with Steve through his publicist:

Anabel Pandiella
Senior Publicist
John Wiley & Sons Australia
02 9856 0214
Email: apandiel@johnwiley.com.au