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PropertyInvesting.com Insider

Discover proven tips, strategies and techniques to dramatically increase your property investing profits.

By Steve McKnight

Hi and Welcome to your January 2003 edition of *'Insider'* - the PropertyInvesting.com e-bulletin for positive cashflow investors seeking a lifetime of passive income through real estate.

If you're receiving this newsletter for the first time, then I'd like to extend to you a warm welcome on behalf of the entire Property Investing.com community.

This month's topics are:

1. Your Free Gift Awaits...
2. The Unglamorous Way To Upsize Your Returns.
3. Attention: Special Offer For Bargain Hunters.

Let's get started.

Your Gift Awaits

I hope you enjoyed a wonderful holiday season and were able to take some time out to relax, refocus and review your plans for the upcoming months.

Just in case you missed the last newsletter, I'd like to remind you that your free gift of a financial calculator Excel spreadsheet is available for download at: http://www.PropertyInvesting.com/Xmas

I wrote it to help all members quickly crunch the numbers on a mortgage scenario. It's not sophisticated, but it's certainly effective. But best of all... **it's free**!

The Unglamorous Way To Upsize Your Profits

It's not sexy and it does not require you to negotiate the deal of the decade, but sometimes upsizing your profits can be as simple as making the most out of the investments that you already have.

And if you're yet to invest then taking the advice I'm about to give will put you in the prime position to maximise your profits when you're ready to take the plunge.

All that's required is that you maximise your spare cash that might be lying untapped in low interest bearing deposits.

To highlight how powerful maximising your spare cash can be I'll use a forum post made by Belladonna recently.

(By the way, I'm thrilled that the forum is turning out to be such a wealth of information for both visitors and community members. I'm particularly impressed by the range of issues being discussed, and the quality of the responses.)

> *Hi All, I'm new to the discussion board & new to property in general so I seek your collective advice on 'where to now'... here goes!*
>
> *I'm a 22yo female, last February I purchased a 3brm townhouse in a suburb ~ 4km north of Brisbane for just under $150K. An identical unit in the complex just sold for ~$170K and land value in the area has gone up $5K in the (almost) 12 months since purchase. I'm currently living in it myself (as I used the $7K FHOG to cover my legals & stamp duty & have to live there for 12 mths minimum) with longer term plans to rent it out. I have ~ $15K sitting in a saving acct earning ~3% interest (woo hoo!!! LOL). I have no other loans or major expenses and am on a salary (before tax) of $45K. My partner*

pays me a nominal $100 p.w. rent to help me out, but I'm told that up to $220 p.w. is possible in this complex.

My questions are as follows:

1) What can I do with the cash to earn some $$ without causing me major tax headaches & tying up the cash too much

2) My fixed interest period runs out soon - is now the time to lock it in to another fixed period or should I let it convert to variable?

3) What tax breaks should I be angling at when I rent it out? How does negative gearing work?

Ideally I really want to be able to afford to purchase a second property within the next 2 years as a principle home and rent out the unit... how can I do this effectively?

The long term goal is to set myself up for retirement but at the moment I have not paid much attention to my super... should I? I've heard it is better to invest elsewhere & just let your employer contributions mount up?

Thanks to anyone who replies... Bella

While you can ready my and other posters' replies in full on the website, I thought I'd expand my thoughts on Bella's first question in much more detail in this newsletter.

As I see it, Bella has three options available. Let's discuss them and see which might offer the best return.

Option One : Leave the money where it is.

Assuming Bella was to do nothing then she'd simply keep her $15,000 in the interest bearing account. This is what most people do with spare cash and even though the returns are low… you never know when you'll need the cash.

Ignoring any fees and the effect of compounding, if Bella left her money where it is she'd earn $450 ($15,000 * 3%) in interest per annum.

She would need to pay income tax on this, which at her income level of $45,000, would amount to a rate of 30%. As such her after-tax interest would be:

Interest: $450
Tax: $135
After-Tax Interest: $315

I regard this as her no / low-risk return. But let's see if there is an equally low-risk way to boost Bella's profits.

Option Two: Pay Off Debt

It's not sexy, but sometimes the quickest way to boost returns is to pay off debt. When you reduce debt you begin to lower your interest payments. When you have to repay less then over time you'll have more in your pocket.

A mistake that a lot of people make is to try and cover cash shortfalls in lifestyle expenses by seeking to earn passive income from property investing.

This very rarely works, and in times of no income, such as a property being vacant, it can easily cause a crisis.

An amazing thing is that small reductions off your principal can cause significant savings in interest.

Let's examine what would happen if Bella took her $15,000 and put it in a mortgage-offset account. This would not lock her money away, since most mortgage redraw accounts allow access to money with minimal fees.

Bella tells us that she has purchased a property for just under $150,000. Assuming that she borrowed 80% of the purchase price then her loan would be approximately $120,000. At the current variable interest rate of 6.5%, Bella would pay interest of $7,800 per annum, which would be tax-deductible as it relates to investment activities.

If Bella was to set up some kind of 100% offset redraw facility in which to park the $15,000, then that would have the effect of reducing the loan balance and accordingly the amount of interest payable too.

Interest on a loan of $105,000 ($120,000 - $15,000) and 6.5% would be $6,825. This is $975 less than the earlier interest figure.

Loan: $120,000
Mortgage Offset: $15,000
Interest Bearing Balance: $105,000
Interest: $6,825

Old Interest (No Offset): $7,800
Saving: $975

However, the saving figure above must be adjusted for taxation in order to make a fair comparison with Option One.

This may be a little confusing, but if Bella did not use the mortgage offset account, then she would have a higher tax deduction since she would be paying more interest.

If she went with the mortgage offset, then she'd lose the tax benefit of the interest saving, which is why we need to adjust the saving as follows:

Saving: $975
Tax Benefit Foregone: $292.50
After-Tax Saving: $682.50 (or 4.55% on original $15,000)
Option One: $315

What we find is that Bella would be able to double her return by simply establishing a mortgage offset account, which is nothing more than effective use of her available funds.

Option Three: Invest Elsewhere

Bella might have other possible investing options. But in order for her to choose this option, three conditions must be satisfied:

Condition 1: There is actually another investment to invest in

The problem some investors encounter is that they hold out for a great deal for months, which results in leaving their money earning next to nothing.

Condition 2: The after-tax return on the new investment would need to be higher than $682.50 per annum.

$682.50 is the no-brainer return. Other investing options would have to offer a return higher than this before they were attractive.

Condition 3: The return for the new investment would have to be commensurate with the risk involved.

4.55% is a risk-free return, so any investment that involved risk would need to see the return increase too.

What Should Bella Do?

If Bella has no other investments pending then it makes good sense to allocate her spare cash to a mortgage-offset account provided the fees weren't too restrictive.

Should Bella have another investment opportunity then she needs to weigh up the risk vs. the return.

The advice I'm offering here is no different to what I do in practice. My investing business has very little spare cash. Every available cent is allocated to mortgage offset accounts to bring down the interest.

But I don't vary the repayment, so my interest saving comes directly off the principal allowing for an accelerated repayment of debt. And when you owe less, your cashflow return increases.

The motto of this story is to avoid having surplus cash lying dormant in low interest accounts. Take some time now to add up the bits and pieces of money you have earning next to nothing and see if you can't, with some straightforward planning, upsize your returns by repaying debt.

Sure, it's not sexy, but it works.

Special Offer... While Stocks Last

To help you kick-start your property investing success early in 2003 I've created a special combo offer that combines two powerful investing resources.

While stocks last, which won't be too long, I invite you to profit from...

Resource #1 - Property Secrets Revealed

Property Secrets Revealed is a tool focused on outlining how to effectively build a positive cashflow property. It comes with over 4 hours of audio together with a step-by-step 60-page manual. This product has sold out previously for $495, but I'm just about giving it away in this combo. Find out more about Property Secrets Revealed...

Resource #2 - Buyer Beware

Protect yourself from buying a property lemon using five easy templates.

- Find out about the easy way to crunch numbers!
- Know what to look out for when doing property inspections.
- Discover the questions to ask to ensure you don't end up buying more than you bargained for by inheriting a tenant from hell. Includes 15 'must-know' Investor Alerts to flag a potential investing hazard!

- Qualify potential tenants using a form that leaves real estate rental application forms for dead.
- Learn how to write effective offers that also allow for a 'get out' clause if you change your mind.

Find out more about Buyer Beware...

I'm not going to mince words here… this offer is certain to sell out quickly.

Here's the deal… save a packet and pick up both of these resources for the bargain total price of just $117 (inc. GST + postage & handling). No gimmicks or hard sell needed… just take advantage quickly or you'll miss out.

Please note that to take advantage you must order online and the offer is only available while stocks last.

If you have previously purchased BuyerBeware or Property Secrets Revealed as individual products, and you'd like to upgrade, please e-mail Brent at brent@propertyinvesting.com for upgrade pricing options.

Summary

As the first month of 2003 draws to a close it is timely to receive some advice about maximising your returns.

The easiest way to upsize your profits may not necessarily be to go forth and conquer new investments. Rather it might be to better organise your finances so that debt is repaid, which has the effect of increasing your cashflow with lower interest payments.

This simple philosophy is often overlooked in favour of focusing on finding new deals. Never lose sight that sometimes great positive cashflow opportunities, however unglamorous, sit right under your nose.

Until next time remember that success comes from doing things differently.

Regards,

Steve McKnight

P.S. Don't forget to check out the forums.