PropertyInvesting.com 'Insider'

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

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Welcome to your November 2004 edition of Insider - Australia's #1 e-zine outlining tips and strategies for successful real estate investing, especially for those looking for positive cashflow returns.

Here's what's on offer in this month's information-packed Insider:

Don't forget that, in addition to this newsletter, there's plenty of great information available on the PropertyInvesting.com forum boards; see: <http://www.propertyinvesting.com/forum>

As always, there's plenty to discuss - so let's get straight into it!

Beware the Property Investing Rip

When I was younger, my family would regularly head away for a few weeks over the summer vacation, and, as dad liked to bodysurf, he'd usually select somewhere near a surf beach. For many years we went to a place called Venus Bay, situated on a stretch of beach that isn't the safest place to go swimming because you're paddling in Bass Strait. If you've ever watched the Sydney to Hobart yacht race, you'll have seen how rough the Strait can be.

I distinctly remember the first time we went there. It was a stinking hot day and at the end of a long drive we were desperate to cool off. After unpacking the car we headed to the nearest swimming hole - which happened to be an unpatrolled back beach.

The waves were steadily rolling in and the surf appeared gentle. The sea was calm and an inviting turquoise. We stripped down to our bathers and waded out until the water was about waist deep.

Dad was an experienced sea-goer, yet, despite looking for danger signs before entering the water, the circumstances of that day nearly ended in tragedy. Our problem started with the deceptively calm appearance of the ocean, as, once we'd swum out a little way, we found that there was a very strong undertow (caused by water travelling under the surface back away from the beach and out to sea).

Then, Dad was faced with having to look after three children who all started to struggle at the same time. One minute you were standing in waist deep water and the next it was above your head.

Perhaps the only thing that saved me that day was my father's awareness that the circumstance was getting out of control a few minutes (or perhaps seconds) prior to disaster unfolding. While there was still time, he urgently yelled at us to swim for the shore. As I was young, he forcefully grabbed me by the arm and hurled me forward so I could regain my footing.

The sea sensed we were trying to escape and seemingly turned even more hostile, making us fight for every metre until, safe but in a state of exhaustion, we collapsed back on the foreshore.

Looking back at the ocean, it continued to appear peaceful and inviting, yet this illusion was nearly our downfall.

No doubt there are several lessons you can glean from this experience, including the importance of beach safety and only swimming in patrolled waters, however I feel that my experience can also be used in an investing context.

First up though, while we were in trouble that day, we weren't actually caught in a rip. Rips are caused by shifting currents as water is channelled back out to sea. This creates a strong drag which is virtually impossible to fight against as the current is too strong. Rips are the predominant cause of most surf-rescues and are very dangerous for weak and inexperienced swimmers.

Because rips are caused by currents, which in turn can be caused by wave action originating hundreds of kilometres away, they can literally form at the drop of a hat. That's why you'll sometimes read about 30+ people being swept out to sea. They weren't necessarily doing anything dangerous, they were just caught up in mother nature.

I feel that the current conditions in the property market are creating the perfect setting for an investing rip that is going to sweep many novice investors into extreme danger.

Just last night I was watching a show on 'Insight', an SBS TV program about the crisis associated with people borrowing too much money. Once it becomes available, you would do well to read a copy of the transcript of the show at: http://www6.sbs.com.au/insight).

What really caught my eye was the story of someone who lived in outback NSW, (seemingly with little or no financial training), who decided to buy a property in Western Australia. This came about as a result of attending an investor's meeting where the organisers recommended deals from which they earned a commission.

I must have had a strong emotional reaction, because I said 'No, no, no', at which my wife came to ask what was wrong. Pointing at the screen I said "This guy's ignorance is about to cost him his life savings."

Now, more than at any time in the past four years, it's absolutely essential that all investors retrain and skill-up in order to be able to profit in uncertain and turbulent conditions. That is to say, you may have made money in a boom, but will your strategy be as effective in changing market conditions (most notably the absence of sustained capital gains)?

The real estate market has changed, and it will change further. The world climate of interest rates (which is based on the US economy) is now increasing. Here in Australia we've moved through a downwards cycle, and, after two increases in late 2003, we've moved into a neutral cycle that has lasted for the past 12 months.

Despite noises to the contrary, Australia is NOT a global market-maker, we are a market-taker, and there will be increased pressure for us to follow the US interest rate trend irrespective of our own national economic situation.

Oil prices are up, the US dollar is weaker, home loan affordability is at a point where first homebuyers are being forced to rent. These are just some of the current market conditions that have me worried.

Please don't misunderstand me, I'm not trying to scare you or be a prophet of doom and gloom. No, I'm just pointing out the existence of what I feel to be seemingly calm waters that are enticing many novice swimmers to jump in. Yet the economic conditions on the other side of the world are now releasing financial currents that, in conjunction with the situation here, indicate enough cause to be concerned.

While a certain way to avoid being caught in a rip is to stay out of the water, this is a rather drastic and perhaps overly-cautious approach to managing risk. The message I'd like to leave you with is two-fold, namely:

1. Rarely are the investment beaches patrolled and I very much doubt whether now is the right time for inexperienced investors to venture too deep into uncertain financial waters. If you feel like you're currently out of your depth then get back in control while there is still time.

2. Strategies that worked well yesterday need to be re-thought, given the new market we find ourselves in. Relying on uncontrollable capital growth is now a redundant plan, and instead investors need to rely on skill rather than luck to be able to find and profit from the opportunities they unearth.

If you have a question or opinion about this topic, such as wanting to know more about the financial indicators that affect the property market, then please make a post at http://www.propertyinvesting.com/forum/topic/14087.html.

Insights from the Inside

One of the popular topics I presented at the recent Property Masterclass was how I use cash to act as a buffer to market uncertainty.

In my opinion, cash is a very poor way to hold long-term wealth because you can only earn an income return (i.e. no capital gains), and because inflation erodes the true return on your investment. For example, Reserve Bank of Australia data has inflation in Australia running at about 2% per annum, so anyone holding cash and earning less than 2% (after tax) is actually experiencing a decline in their wealth.

Having said that, holding cash for the short-term in uncertain times is a great way of leaving your options open, as you have liquid funds at your disposal. For example, you could pay off debt as needed, or you could fund a purchase without relying as much on lenders.

As I've mentioned, strategies for using cash to protect and even expand your current wealth position was one of the many topics discussed at my recent Property Masterclass. These events offer intensive training for investors seeking to gain the edge on the market through comprehensive and structured learning. It's a no-hype approach; just the facts presented in a practical and informative way so as to provide participants with exceptional value for money.

Other topics discussed included:

1. The new '11 Second Solution' and how you can use it to consistently make profits in a sideways or down market
2. How to transform your property investing from a job into an automated business and in doing so create multiple sources of income to fund financial independence
3. Four insights into how you can acquire the winning-mindset needed to achieve sustained investing success
4. How to understand the property market to identify the signs of when to buy, hold and sell
5. The importance of applying the four-seasons approach to investing to ensure you maintain momentum
6. Why the old-thinking of refinancing equity is a time bomb that's due to explode
7. Practical strategies detailing how you can benefit from the unfolding redistribution of wealth away from those who are 'lucky' and to those who are skilled
8. And much more

Here's some of the feedback from the last Masterclass:

> "It is well worth attending. The knowledge gained from the experience of the presenters and other professional investors is far in excess of the cost of attending."
>
> **- Kingsley Jefford**

> "If you are serious about property investing and wealth creation, do this seminar. It is a shocking jolt back to reality."
>
> **- Eric Gonzalez**

> "If you're interested in your financial future, this is a great system for practical application, ideas and stimulus."
>
> **- Brin Pritchard**

Perhaps the best news about the seminar is that it is very affordable - just $550 and that includes eight hours of practical training, full catering, course materials and GST. If you're at all worried about whether or not you'll benefit, then you have up until morning tea to ask for (and receive) a full refund. This provides you with a great chance to sample the information. Even if you decide to leave, you can keep the notes and compendium they come in, with our compliments.

While they do fill quickly, at the time of writing there are still places available for the following Property Masterclasses:

Sydney:	**12 December 2004 (be quick, seats very limited)**
Melbourne:	**19 March 2005**
Brisbane:	**7 May 2005**
Perth:	**12 June 2005**

Also, the first 50 online bookings made prior to 15 December 2004 will receive a fantastic free bonus item - a special 20-page report I'm currently finishing called 'The 10 Principles of Successful Investing'.

You can book or find out more information by visiting http://www.propertyinvesting.com/sima/click.php?id=27. Note that a discount applies for group bookings of three or more, email admin@propertyinvesting.com for more info.

Forum Post of the Month - Managed Complexes

This month's forum post comes from Tools: http://www.propertyinvesting.com/forum/topic/14012.html

> Hi everyone,
>
> I'm looking at Brisbane and Queensland and have found MANY properties that are in a "managed complex". I am not aware of anything like this in Victoria, so can someone tell me just what they are?
>
> They are all individual houses, as opposed to apartments, and I get the impression that they may be something like they have in the United States, where hundreds of similar properties are built on acres as a distinct development rather than an estate. Is this right? And does anyone have any experience with this type of property?
>
> Thanks, Tools

Thanks for your question Tools. A managed property complex would usually have a full-time caretaker who resides onsite and / or there would be a manned reception area. Perhaps Queensland lends itself to it because of the number of resorts that also offer casual tenancies (usually for holiday makers).

The managed complex may or may not be serviced (usually yes), meaning that the beds are made each day, towels replaced etc.

Managed complexes certainly exist in Victoria, albeit they may be a little different. For example, we own a block of 27 one-bedroom units that are managed by one government agency and then they sublet to the individual tenants.

I'd be careful about buying a property that was managed by a professional organisation as part of the purchase contract. My analysis of the numbers in such a deal suggests that they are primed for capital growth rather than income. As always though, you need to do your own due diligence.

Summary

The way to avoid being caught in a rip is not to avoid ever going into the water - it's a combination of education to be able to identify the conditions that lead to a rip forming and then taking action prior to being swept out to sea.

In an investing sense this means taking a look at your current position and forming an opinion about whether or not you are at risk of suffering badly from an adverse shift in market conditions.

Specifically, if you're investing on the basis of profiting from general widespread capital gains, then I urge you to reconsider your strategy to ensure your success is not reliant on luck or other non-controllable factors.

One of the ways I manage the risk associated with a market downturn is to increase the amount of cash I hold and focus on realised rather than unrealised gains. If you'd like to know more about how to protect your wealth while also building a strong financial position then I suggest you attend the next Property Masterclass (see: http://www.propertyinvesting.com/sima/click.php?id=27) in your area.

'Tools.' asked the question about managed complexes. These are dwellings that have a full-time manager or caretaker. They may or may not be serviced depending on whether the clientele are permanent or casual.

Well - that's it for the November 2004 edition of Insider. Christmas is not too far away and be careful not to suffer a credit card blow out! Until next month remember... success comes from doing things differently!

Sincerely,

Steve McKnight

P.S. While you can call 1800 660 630, it's $10 cheaper to book your Property Masterclass tickets online, plus the first 50 bookings will also receive my special report titled 'The Ten Principles of Investing Success' (valued at $14.95) absolutely free. I urge you to sign up now while there are seats remaining by going to http://www.propertyinvesting.com/sima/click.php?id=27.

P.P.S. I expect the free report to be finished and sent out by mid-December 2004.