

5 steps to financial freedom

Step 1> Spend less than you earn

The only way to save is to spend less than you earn. To spend less than you earn, you must understand how much you spend each month and what you spend it on. Yes! It's the ghastly B word – Budget. And it's not enough to spend less occasionally, you have to spend less every month. Do you know your current net worth? You can calculate that by adding the value of all your non-depreciating assets (eg: cash, shares, property, the value of your own business – not cars, clothes, personal items) and subtracting it from your debt (eg: home loans, car loans, credit card debt, margin loans). When you start spending less than you earn, you begin to increase your net worth, every month

Further Reading

The Richest Man in Babylon, By George S. Clason

Step 2> Understand your psychology

To become wealthy you must understand your own self-talk. Do you think “money is the root of all evil”, or were you brought up to believe “rich people are greedy and mean”? If you do, being wealthy is in conflict with your core values or beliefs. It's going to be difficult to achieve financial freedom unless you're prepared to reframe your self talk. For example, “Money allows me the freedom to pursue higher goals and time with my family”. It's no good investing your hard saved dollars into emu farming, only to spend your nights worrying about whether you'll ever get your money back!

It is also important to understand your tolerance to risk. There is a relationship between risk and reward. Generally speaking, the higher the reward the higher the risk, but not always, which is where education and good research comes in (see below).

If taking on debt makes you feel uncomfortable, then manage your risk through insurance, by purchasing income protection insurance, or life and total and permanent disability insurance. They may seem expensive, but in the early stages of building wealth, your ability to earn an income is key to leveraging your investments.

Next, set yourself an outcome. Make it realistic, something that you are comfortable with. Building wealth is a long term venture. You are very unlikely to “get rich quick”, and chasing the quick buck is fraught with danger.

Further Reading

Think and Grow Rich – By Napoleon Hill

Step 3> Educate yourself

You are your most important asset. Spend time and money educating yourself.

When you have savings, what should you do with them? You know you should invest, but how, and in what? Most people invest in one or more of:

- Property
- Shares
- Business

Depending on where you are in life and what you want to achieve, all of these are great investments and usually provide a better return than money in the bank, if you know how to invest wisely.

Creating financial freedom is not rocket science, many people achieve it. Ask successful people direct questions about how they achieve their wealth. Chances are, they have a generous and open attitude to wealth management and are willing to share it. Then, build a wealth creation plan, taking their ideas and moulding them to suit your situation. It's far more expedient than learning from your own experience.

There are lots of knockers out there. Find an investment buddy, so you don't have to discuss your plans with the knockers.

Once you understand what is involved in your wealth creation plan, decide which parts you would rather outsource to others, such as a recommended stock broker or financial planner. Remember, it's never wise to outsource your plan entirely, or your commitment to it. You still need to know enough to drive the direction and manage your advisors. If you absolve yourself of all responsibility, others will potentially make money at your expense.

Further Reading

More Wealth Through Property – By Jan Somers

Buffettology (on shares) – By Mary Buffet



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Step 4> Do your research

When you know what you want, it's time to hit the street and find the properties or shares that fulfil your criteria. Spend good time researching your investment opportunities but don't allow yourself to become a victim of analysis paralysis.

Remember the old saying: "The deal of the century comes along about once a week". You'll know you're ready to pounce when you begin to recognise "the deal of century"!

If you don't have the time to do the research, employ others who understand your strategy to assist you in particular areas. If you don't want to spend your weekends searching for property, employ a buyer's advocate. Give them a very specific brief about your parameters. If you don't have time to research the share market, buy into a managed fund that uses your criteria. If you want help in your strategy, see a financial planner who understands your wealth-creation goal.

Whenever you find an "expert" to help you, ask them what their investment strategies have been and currently are. You need to know that they understand you and support your strategy.

Creating a share club is a great, low-risk way to learn about investing in shares with a group of friends. Feel free to contact us to get some ideas and information about how to do this.

See our Useful Links page for the Valuer Generals Report, Residex reports, real estate.com.au and Australian Property Monitors.

Step 5> Invest for the long term

So you've saved some money, understood your attitude to and relationship with money, set your goals, made your plans, researched your investment and put your plans into action. Now, wait for time to work its magic. Don't expect things to happen overnight.

Whether you invest in property or shares, the effects of compounding are profound. And they take time. History shows that property has doubled in value every 7 to 10 years, and equities tend to grow even faster.

How many people have you heard say: "Oh yes, I bought it 10 years ago and I only paid \$150,000". And \$150,000 was a lot of money back then. And now it's worth over \$400,000.

Understand your strategy and its time frames.

Then, when you've built more equity and/or saved more money, you can start over. Re-write your goals and make new plans, research new ideas and bigger investments, check in with your self talk and implement your new plans.

One day, you will wake up, do the maths, and realise... "Wow - I'm rich". And you will have created the choices, the freedom, to decide to work at doing what you love, regardless of the pay, or to spend more time with your family, and to have more time for yourself. You will have the time and freedom to fulfil your destiny and live your dream.

Further Reading

Rich Dad Poor Dad – By Robert Kiyosaki

How to be a Billionaire – By Martin Frisson



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