

First steps: rising above your fears about investing

If you are thinking of investing, but too afraid to make the first move, read on as Margaret Lomas reveals practical strategies to reduce your fears – or eradicate them completely

The market seems right and the indicators are all there, telling you that now might be a good time to start – or to continue – building your investment portfolio. You're feeling financially quite secure, but would like to improve your potential future income. You know that the government's capacity to provide for your retirement needs is limited and that you must do something for yourself.

But you can't do it. Something inside you is throwing up all manner of challenges, and you simply can't bring yourself to take that leap. And, as you procrastinate, the years roll on and you know, without a doubt, that you'll look back and regret that you didn't act sooner.

The biggest obstacles to investing
Many years ago, we had a couple who came to consult us about their future.

They had paid off their own modest home, and both had jobs, albeit quite low-paying ones. Many of their friends had begun to work on a wealth-accumulation plan to afford them a better retirement, and so they felt compelled to follow the crowd.

We structured a personal strategy for them, and all that was left was for them to begin making the property selection they felt most comfortable with. On no less than four occasions, however, a property was found and negotiated on – and contracts were even drawn up – when they'd suddenly pull out of the deal after a weekend of angst, headaches and endless questioning about 'what if'.

After a long session with them, I ascertained two things were at work. Firstly, they were attempting to embrace a strategy that was foreign to them because other people said they should – not because they were, themselves, committed. Secondly, they were in a 'comfort zone' of being debt-free – and even had a fear of debt – and this was blocking their vision for the future.

We addressed these issues firstly by establishing what the future might look like if they did nothing, and then working out if this version of it fulfilled all their goals.

We then discovered that, in fact, their present course of action wouldn't even allow them to enjoy one of the dreams they'd always hoped would come true – to buy a caravan and tour the country.

In formulating this goal and then painting the picture of it, the couple were able to see that taking no action now would actually result in it becoming an impossibility – and also that the action to be taken wasn't such a risky one. They didn't need to build a portfolio of dozens of properties – which was definitely outside their comfort zone because of the level of debt required – as a few well chosen, inexpensive ones would probably be enough. We also established that, since going into debt again was another of their problems, they should start small with a very cheap property, and build from there.

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This couple now holds nine properties in their portfolio and they are looking for more. Once they started the process and subsequently discovered that none of their fears materialised, they gained confidence. Now, they even enjoy it – and their dream of the caravan is well and truly back on the agenda.

In all the years I've been helping people buy property, I've discovered that all



the knowledge in the world can still do very little for most people – it's the psychological factors that become the barriers which prevent many investing. But knowing what these factors are, and then identifying your own personal psychological barriers so that you can get rid of them, is

the most important first step to take as an investor.

Fear factor

Fear is usually the first thing that stops people moving ahead with their property portfolio – and it comes in a range of disguises. Here are the main ones, along with some strategies for overcoming them:

Fear of losing your own home

If you've already achieved a comfortable debt level, and have gained considerable equity in your own home, you may worry that making the wrong choice may lead to financial ruin. In fact, the likelihood of this is very small and this is a fear that must be put into perspective.

Imagine you own a home that's worth \$300,000 and you owe \$150,000. You

then buy a property for \$200,000 using a debt of \$210,000 secured across your own home and the new property. Your debt is now \$360,000 and your equity is reduced by \$10,000 – for now – to \$140,000.

For any number of reasons, it all goes horribly wrong and you're forced to sell the new property. To do this quickly you must reduce the price, and you only get \$180,000 for it. Now you have a debt of \$180,000 which is \$30,000 more than you had when you started.

This is less than ideal, it's true, but it is also unlikely that an extra \$30,000 in debt (which would cost you \$34 a week net) would cause you to lose the home you already have.

To deal with this fear, work out the worst-case scenario and ask yourself if you could afford that outcome. If the answer is no, you shouldn't buy, but it's more likely that the worst thing to come out of a failed property investment is increased personal debt that you can probably manage. And remember, the actual likelihood of this result is very small anyway.

Fear that you won't be able to afford to repay the debt if the property is vacant

When people first begin to consider this possibility, they imagine that there could be months with no income and they would be required to meet the mortgage repayments out of their own pocket. If this is your fear, you must face it.



The reason I developed the *20 Must Ask Questions®* when buying a property was to provide a benchmark for the minimum criteria a property and area must satisfy before it is judged likely to perform well. If your fear is that you'll choose badly, leave your emotions at home, learn how to invest well and arm yourself with solid research. Then, commit to buying only property that satisfies these criteria.

Procrastination

Every year I attend property expos held all over the country. And, every year it seems, the same people approach me to say that they heard me speak the year before and felt inspired, but after they got home they simply couldn't bring themselves to get started. They admit to thinking about it a lot, but the action never seems to happen.

If you know that you have the capacity to buy property, and you also have a desire somewhere deep inside to do so, you must recognise that you're a procrastinator. The worst thing for these people is that they usually experience very deep feelings of regret when they miss the boat and realise at a later date that they had the chance to get ahead, but blew it.

Fear of making the wrong choice

Buying a property involves a huge purchase. Even if you borrow all the money and use little or none of your own, your commitment is a big one. Why is it, then, that people choose property so carelessly, citing all manner of emotional reasons to buy?

Investors seem to believe – mistakenly – that they can go with a

Buying a property with positive cash flow gives you extra income which can help pay for periods of vacancy. A property with a positive cash flow of \$20 a week gives you a total of \$1,040 a year which, for a property renting at \$200 a week, provides five weeks of allowable vacancy before you have to even think about reaching into your pocket.

Tax deductions, too, reduce your shortfall. So, technically, for every \$200 a week that you don't receive in rent, a taxpayer in the 30% bracket gets an additional \$60 tax break, reducing your commitment to \$140, or affording more weeks of vacancy.

In reality, if a property is vacant for a week or two, you can take action by reducing the rent. Even if you reduced a rent of \$200 a week to \$180, you'd only be losing \$20 a week (\$14 after tax breaks) and you have boosted your chances of attracting a tenant, as you're more competitive.

For vacancy caused by difficulty to rent out the property due to damage, you should take out landlord's insurance – an after-tax cost of around \$7 a week, this is vital.

From this you can see that there are many ways to deal with vacancy issues, and it's highly unlikely that your property will be vacant long enough to cause you real financial stress.

You can never take away all the risk when you invest in property, but you can manage it – and increase the chances that what you buy works out well

'gut feeling' about property, or base their choices around what they'd personally like to live in. Or, worse still, they follow the crowd, take advice from their unqualified friends, buy a property in their dream location near the beach and largely put faith in people who have a vested interest in their purchase – such as the person selling them the property! It's no wonder so many bad choices are made.

You can never take away all the risk when you invest in property, but you can manage it – and increase the chances that what you buy works out well. However, you can only do this by becoming educated first.

If you're a procrastinator, you must develop the habit of putting your goals down in writing, developing the steps required and then jotting them on the calendar as a 'must do'. Devise penalties for yourself if you don't meet the date set – and rewards if you do. Start to take control of your life by scheduling the tasks that must be completed in this way, and soon you'll own an investment property.

Lacking motivation and time

So, you go to a seminar, read a book and you're buzzing with excitement about the property portfolio you're about to build.

You go home and, when you wake up next day, the kids are sick, the boss wants you to do overtime and your mother-in-law has come for a two-week visit. Suddenly it all becomes too hard and, as each day passes, buying property slips way down on your list of priorities. Regardless of how much education or desire you have, life easily gets in the way and, before you know it, another year has passed and you're that much closer to retirement.

People are amazed at the number of properties I own – and figure it's because I have special knowledge or skills, but the truth is that I eat, breathe and sleep property. I'm also lucky in that every day, from the moment I arrive at my desk, I'm working with it – I'm answering questions, motivating others and even if I wanted to, I couldn't get away from it. It's no wonder that all I ever want to do is buy more!

Two years ago, I examined our clients' histories with us to work out why some were more successful than others. They all had access to the same

information from us and were equally able to succeed financially. So, why did some do amazingly well while others either plodded along or didn't buy any property at all?

It seemed to come down to one simple thing – the successful ones put themselves consistently in what I call the 'property head-space' – a place where the motivation keeps going on an almost daily basis and, as a result, their constant attention is on the goal at the end! It could be attending focus group sessions, using all the property tracking tools we provided them with or simply doing the things we suggested. When you live in that space, you can't help but buy property!

Allowing life to get in the way is no excuse. I have five children, a national business and a TV show – and I write books – but still I make time to work on my portfolio. You must allow psychological space to work on your portfolio every day. You must find qualified people to help you, and associate with those who have the same goals as you so that the support you

receive doesn't stop. You'll be amazed at how your capacity to achieve more increases when you do these things.

Get your psychological house in order from the outset, and the problems that arise along the way can be dealt with easily – and overcome. Recognise what your own particular 'fear' issues might be and develop strategies for dealing with them before you start.

And never stop working towards your financial future – the road is long and tough, but staying positive and committed, and dealing with your fears, is the only way you'll ever start the journey! ■

Margaret Lomas, director of Destiny Financial Solutions, is a qualified financial adviser and author of a number of books about property investing. She is also the host of Monday Night Money Makers, a property show airing on SkyNews Business at 8.30pm each Monday. Visit: www.destiny.net.au



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