Wealth *for* Life

The 7 INVESTMENT AND WEALTH CREATION LAWS TO LIVE BY

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This information has been prepared to provide general information only. It is not intended to take the place of professional advice and you should not take action on specific issues relying solely on this information. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any individual person. Before making an investment decision, you need to consider (with or without the assistance of an adviser) whether this information is appropriate to your needs, objectives and circumstances.

The
7 Investment And Wealth Creation Laws To Live By

Dear Investor,

If your money could talk, what would it say to you?

Would it say that you don't enjoy its company very much or would it ask you how on earth could it do any work for you if you're holding onto it so tight?

There are many laws and formulae that govern our universe and our economy and there have also been many different and innovative formulae created for the attainment of wealth and financial security.

Some were created by academics, making grim speculations that exist only in a 'perfect world'. And yet others have been formulated and applied in the real world.

The **Wealth Creation Formula** that I formulated whilst studying a group of wealthy people … most who had started with 'next to nothing' … and then later by applying and testing these principles in my very own life, is the formula that I have adopted as my own and this is the formula that I'd like to share with you today.

Let me make it clear right up front that I do not believe a person's wealth is defined by the car they drive, by the home in which they live nor by how much income they bring home.

To me, wealth is defined as:

" How many days, weeks, months or years a person could live to the level of their dreams … if they were to stop working! "

In other words, let's assume that you're going to stop working tomorrow … and you weren't relying on receiving your pay packet next Wednesday or next Thursday; how long could you live on what you've already built up?

To me, that represents real wealth … real security.

I endeavoured to find that *one* thing that wealthy people do that enables them to achieve more financial success than others; that one common thread.

And guess what …. there was no one thing!

THE WEALTH CREATION FORMULA

I did however manage to discover *four* key elements they all did have in some way form or another … a common denominator if you like ... and from that formulated my own wealth creation formula.

It became:

WEALTH CREATION = P + S + I + C

P = Plan S = Save I = Invest C = Compound

That was it.

It's not hard and it's not complicated … In fact, it's really simple.

This basic four point formulae has generated much wealth for those that are not disappointed by its simplicity. Since I first presented this formula back in 2006, I have added another three elements, making the *7 Wealth Creation Laws To Live By*.

Throughout this booklet, we will be exploring each one of these seven elements (including the first four) in greater detail.

My goal is to educate, guide and motivate Australians to start taking control of their financial futures by implementing simple, yet effective, wealth creation strategies.

I want YOU to start discovering the subtle differences between the thinking of the rich and the thinking of the poor and learn why it's essential for you to start 'thinking rich' from this very moment!

> The story goes that the great French General Lyautey once asked his gardener to plant a tree. The gardener objected that the tree was slow growing and would not reach maturity for 100 years to which the General replied: *"In that case, there is no time to lose ... plant it this afternoon!"*

I do wish all you the very best with your financial futures and be sure to enjoy the journey!

Anthony Peluso
Founder

INTRODUCTION TO THE 7 LAWS

Success is a habit and it's a discipline. It leaves clues and it's simple.

It's not easy and yet ... it's simple.

Success is not an accident. It's a skill, it's predictable and it can be learnt. It can be learnt by you and it can be learnt by anyone - and the sooner you learn the skills and the sooner you become an expert in wealth creation … the sooner you'll achieve the great things you were born to accomplish.

Many people believe that you have to be very intelligent to be wealthy in life. Exhaustive research, including that of my own, shows that many self-made millionaires have only average intelligence. The reason this helps them is because they never become impressed with how smart they are - they're always trying to learn more.

If you follow a *success system* you'd be far more successful than if you don't … and any system based on sound investment principles is certainly better than no system at all.

Do what wealthy people do and you will create wealth, do what the common person does and you'll stay common.

In the words of American entrepreneur Jim Rohn:

" The philosophy of the rich versus
the philosophy of the poor is this:

the rich invest their money and spend what is left;
the poor spend their money and invest what is left. "

Here are the ***7 Investment and Wealth Creation Laws*** for YOU to live by …

LAW NUMBER 1

IF IT IS TO BE ... IT IS UP TO ME

Many of us believe that becoming wealthy is for the ‘other guy’ … for us - it’s just out of reach.

The first law of creating wealth is developing a ***Wealthy Mindset***. You need to believe two things:

1. That becoming wealthy is feasible, and

2. That becoming wealthy is feasible for YOU.

At least 80% of millionaires are self-made. That is, they started with nothing more than the ambition and desire to become wealthy.

Many of them never went to university, many only got average grades at school, many started with no advantages at all, some were orphans and many were immigrants that could barely speak English.

Anybody can attain more success and wealth in their lives if they simply do three things.

Firstly, **make the decision** to become wealthy.

Most people never truly decide to be wealthy and that’s why they retire poor. Sure, everybody you ask would probably say that they would like to be wealthy. But at the same time, they never sat down and really made the mental decision to become wealthy.

Every single wealthy or successful person has always made the decision to become wealthy long before. Nobody tripped over success or came across wealth by chance or merely by accident.

The second requirement is simply to ***learn from the experts***.

If you wanted to be a great cook, then you’d study cooking. You don’t try to figure it out for yourself, you’d firstly make the decision that you’d like to be a better cook, then you’d find out what good cooks do; you’d buy cook books and maybe even take some cooking classes or lessons.

If you want to be wealthy, then you must study wealth. Study wealthy men and women and do what they do and chances are that you’ll be wealthy too.

The final requirement is to ***take action.***

There’s no use in making the decision to become wealthy, finding out exactly how to do it and then doing nothing.

Don’t procrastinate all your life and then regret your decision to do nothing when it’s too late. Remember, the one thing that is always in your favour is time; and time is the fuel for compounding as we will see later on.

LAW NUMBER 1

IF IT IS TO BE ... IT IS UP TO ME

And it really all boils down to one word - ***attitude***.

The psychologist, William James, once said, *"a person can alter his life, by altering his attitude "* and Henry Ford understood this when he said, *"If you believe you can do a thing or you believe that you cannot - you are right."*

The sad truth is that the vast majority of people are living their lives with the wrong attitude and, as a result they are hindering their greatest potential to accumulate wealth and achieving what they are truly capable of.

Start taking responsibility for your future and invest in the greatest asset you possess; and that is the space between your ears.

And Benjamin Franklin agrees"

" The very best return you're ever going to get on your money invested, is in the form of education "

The one human quality that must be developed for success is self-discipline. The 'will-power' to force yourself to do what you know you should do, when you should do it - whether you like it or not, whether you feel like it or not.

Napoleon Hill, the author of *Think and Grow Rich*, after a lifetime of studying some of the most successful men and women in the world, came to the conclusion that the ability to exert self-discipline on ones self was the master key to riches.

A famous study, spanning 12 years, concluded that successful people are simply those that make a habit of doing what unsuccessful people don't like to do - and what are the things that unsuccessful people don't like to do? They're exactly the same things that successful people don't like to do, **but** successful people do it because they know that that is the price of success.

That is why, the No. 1 Law to Wealth Creation is about YOU.

Change the man, and you'll change the world.

LAW NUMBER 2

HAVE A WRITTEN FINANCIAL PLAN

Now that you've made the decision that you really want to become wealthy, the second Law you need to abide by is: Have a **Written Financial Plan**.

We've all heard the saying:

" People Don't Plan to Fail, They Just Fail to Plan. "

A plan is *absolutely* essential.

When building a house, you don't go down to your local hardware store, buy a whole heap of building materials and then call in a builder on your vacant block of land and say, *"build me a house."*

Because, we know that the first thing the builder will ask is: *"Where are the plans?"*

In exactly the same way, you need to plan your financial future.

There is a famous scene in the movie *Alice in Wonderland* where Alice asks the Cat,

" Would you tell me, please, which way I ought to go from here? "
"That depends a good deal on where you want to get to," said the Cat.
" I don't much care where, " said Alice.
" Then it doesn't matter which way you go, " replied the Cat.

You must have a written financial plan … a *yellow brick road* that will map out your destination.

In my educational wealth creation seminars, the audience is often asked to put their hands up in the air if they believe in "planning for their future", and just about every hand in the room goes up. The audience is then asked to keep their hands in the air if they have a written financial plan right *now*, a plan that tells them what they're going to do, how they're going to do it and what outcome they expect to receive.

LAW NUMBER 2

HAVE A WRITTEN FINANCIAL PLAN

I think it's needless to say, but just about every hand in the room goes straight down. The few people (probably about 4-5%) that keep their hands up in the air deserve to be congratulated.

Please do not underestimate the importance of written goals.

There are many great books written entirely on the importance of goal-setting and are a 'must read' for anybody serious about controlling their financial future.

One story that deserves to be repeated was about a study that was done at Yale University back in 1953. It was the results of this study that has made all the difference to my views on goal setting and by sharing it with you I hope that it does the same for you.

You see, I had understood the importance of planning and for many years, it was something I was going to do once I got around to it. Unfortunately, I never did until its absolute importance was identified to me in this 1953 study:

> The graduating class of 1953 at Yale University was asked a series of questions. One of the questions that was asked of the thousand odd students was whether they had clear, specific financial goals written down with a plan for achieving those goals.
>
> Only 3% had in fact answered 'yes' to this question. In 1973, twenty years later, the researchers went back and interviewed the surviving members of the 1953 class. What they had discovered is that the 3% that had written their personal goals and plans were worth more than the entire remaining 97% *put together*!

Do we really need proof on the value of having written goals?

It is a sad but true fact, that the average person will spend more time sitting down to plan for a wedding, a holiday or even a shopping trip than they do with their financial future. So here are a few simple tips to goal setting:

1. What do I really want?

Sometimes you have to make the time to sit down and really think about what it is that you are trying to achieve and what you really want. When asked this question, try to avoid listing all the things that you do not want and simply focus on those things that you do.

2. Write down your goals

For some unknown reason, goals are more powerful when written down on paper. You may even want to go as far as carrying them around with you in your wallet or your purse. Quite frankly, the more serious you are about your goals, the greater the likelihood of achieving them becomes.

LAW NUMBER 2

HAVE A WRITTEN FINANCIAL PLAN

3. Be specific

Your goals must be specific and not general. If, for example, you were asked what you wanted and your reply was that you wanted 'more money', you need to explain how much more? Do you want $10 more or $100,000 more. Maybe your goal is to earn a passive income stream of $1,000 every week.

4. Goals should be measurable

In order to keep on track it is important that your goals be measurable. If they weren't, how would you know when you have achieved them? For example; if you wanted to earn an extra $50,000, two things that you need to determine are when (i.e 6 months or 6 years) and how (i.e what do you need to do each week, each month in order to achieve that goal?).

5. Review your goals

It is important for you to review your written goals on a regular basis. Even if you just read them every day. This will give your goals greater clarity as well as keep you on track.

And remember; that there is no such thing as an unrealistic goal, only unrealistic timeframes. Some texts that I have found invaluable in my own personal development include:

Think and Grow Rich - Napoleon Hill
How to Win Friends and Influence People - Dale Carnegie
Unlimited Power - Anthony Robbins
Dianetics - The Modern Science of Mental Health - L. Ron Hubbard
Rich Dad, Poor Dad - Robert Kiyosaki
The 7 Habits of Highly Effective People - Stephen R. Covey
The Richest Man in Babylon - George S. Clason
Awaken The Giant Within - Anthony Robbins
Success Through A Positive Mental Attitude - Napoleon Hill and W. Clement Stone
Psycho-Cybernetics - Dr. Maxwell Maltz
Your Erroneous Zone - Dr. Wayne W. Dyer
You'll See It When You Believe It - Dr. Wayne W. Dyer
The Greatest Salesman in the World - Og Mandino
The Millionaire Mind - T. Harv Eker.
Problems of Work - L. Ron Hubbard.
The 10X Rule - Grant Cardone.

" People are not lazy. They simply have impotent goals - that is goals that do not inspire them. "
- Anthony Robbins

LAW NUMBER 3

SAVE THE MAGIC 10%

If you've followed Law No.1 and Law No. 2 then by now, you would have made the decision to become wealthy by altering your attitude and deciding to take positive action, and you would also have put together a clear financial plan that shows you exactly what you'd like to achieve and how you plan on achieving it.

The next Law to creating wealth simply states that you will put aside and *Save 10%* of your salary and use that 10% to help you accumulate future wealth.

It's difficult to get started in this day and age, and the hardest task of all is building your nest egg from nothing. Yet, if you were to put aside and save just 10% of your gross salary each week or month, then you will be on the road to wealth and heading in the right direction.

Most people make the effort and save enough money to buy a new car, boat or caravan, usually just to keep up with the Jones' and find that they never have enough money to make for a viable investment.

It is always most enjoyable and often requires the least amount of resistance to spend your entire weekly wage. However, once you have a written plan you will begin to understand the importance of saving and know exactly how much you can afford to spend.

The word 'save' here does not just mean putting money aside in your bank account. Whilst all wealth is accumulated originally with the ability to put aside a certain percentage of your income, paying off your own home, and effectively increasing your equity may also be a viable form of saving.

Law 3 is relatively simple yet difficult for many people to follow. Let's elaborate on this Law and expand it into two interrelated sections:

Firstly, you must save and **put aside at least 10%** of your gross earnings.

Many people I speak to say that this is impossible for them to do, at the moment and they will start saving 10% once they start earning more money; understand that you will never earn more money if you don't put aside 10% today!

There's an ancient belief that your expenses will always increase to your level of income. People earning $100,000 a year or more find it just as hard to save as do people earning $25,000 a year.

Let's put this into perspective. If your boss approached you tomorrow and said that the company is in trouble and everybody, including you, will have to take a 10% reduction in wages. Would you still be able to live? Of course you would.

Sit down and work out your budget. Analyse where you're spending your money and see what you can minimise or eliminate completely,
even if it's just for the time being.

LAW NUMBER 3

SAVE THE MAGIC 10%

Remember, ‘the philosophy of the rich versus the philosophy of the poor is that the rich invest their money and spend what is left, and the poor spend their money and invest what is left.’

Lack of money could also be an incredible inspiration. You must learn to pay yourself first.

Have you ever had to come up with your rent or risk being kicked out of your home and then somehow you found the money? Have you ever had to make a car payment by a certain date or they take your car away? And somehow, someway you came up with the cash?

You’ve probably noticed that your expenses always expand to meet your income and that your income tends to expand to accommodate your expenses. If you’re this type of person that seems to always just barely get by and barely pay your bills each month, you’re probably the kind of person who waited until the last minute to finish your assignments at school too.

So instead of fighting this habit, use it to make you more money. If you’re the kind of person that just barely pays your bills, then simply increase your bills! In addition to your car payment or your rent, create a new monthly bill called ‘savings’.

Write down the figure equivalent to 10% of your income on a piece of paper and put it into your bills file (the place you go to once a month, if you’re lucky, to pay your bills), and every month pay that bill called ‘savings’. Instead of ignoring it and deciding that you just don’t have the money to save, treat it just like any other bill that won’t go away.

No matter what stage of life you are in, there are bound to be many good reasons why you cannot save money at that particular time. The following chart, produced by Elvic & Company Pty Ltd sums it up perfectly:

Age 18 - 25	I CAN’T SAVE NOW. I’m just getting my start in life. I don’t make a lot yet and I’m entitled to a little fun while I’m young. Plus, I’m saving for a new car. There is plenty of time. I’ll wait until I start making a little more. Then I’ll save.
Age 25 - 35	I CAN’T SAVE NOW. I’m just getting my start in life. I don’t make a lot yet and I’m entitled to a little fun while I’m young. Plus, I’m saving for a new car. There is plenty of time. I’ll wait until I start making a little more. Then I’ll save.
Age 35 - 50	I CAN’T SAVE NOW. I’ve got two children in high school. It’s all I can do to pay for their expenses. In fact, I had to borrow for their tuition last year. This is the most expensive period in a person’s life. I can’t save a cent; and, the car needs new tyres!

LAW NUMBER 3

SAVE THE MAGIC 10%

Age 50 - 55	I CAN'T SAVE NOW. I know I should but things aren't breaking like they were. My car is so old now that it costs a lot in maintenance. It's not easy for a person my age to step out and get a better job. I'll have to ride along where I am.
Age 65 -	I CAN'T SAVE NOW. We're living with my son and his wife. My pension doesn't go far. The only asset I have is my vintage car. I wish I had started saving twenty years ago, but it's too late now. You can't save when there's no income.

**" THE CONVENIENT TIME TO START SAVING NEVER COMES!
IT IS NOW LATER THAN YOU THINK! "**

Secondly, you must never, never, **never touch or spend your savings**.

Now, '*not spending*' is not the same as 'not investing'. You must not spend your savings on cars, boats, holidays, etc, but rather, invest that money.

Use the laws of compounding and leveraging to help you build up your nest egg (more on this later).

Understand that in the early days the amount of increase will be relatively small but will become larger and larger as time passes. Unfortunately, too many Australians save some money and are immediately tempted to spend that money on all those little 'goodies'. Self-discipline is, once again, the key.

**People fail because they do what is fun and easy,
rather than what is hard and necessary.**

Anybody that puts away just 10% of their earnings consistently and invests it wisely will eventually create an estate that will provide a future income for them and/or their family.

And the more money you put aside and invest, the more readily and consistently money will seem to come to you and in ever-increasing quantities. Money attracts Money! The money you put aside, save and then invest earns more money. And those earnings will then earn more and so on.

**" If you want to become really wealthy, you must have your money work for you.
The amount of money you get paid for your personal effort is small compared
with the amount you can earn by having your money make money. "**

- John D. Rockefeller (the richest American in history)

LAW NUMBER 4

SELECT THE RIGHT INVESTMENT

You have decided to take the appropriate action towards achieving your written plans. You've also managed to successfully save and put aside no less than 10% of your earnings and are now in a position to invest.

Your choice of investment is probably one of your most important choices as it is the engine of your wealth creation strategy.

If you could make up a 'wish list' of the attributes of the perfect investment, you would probably come up with something along the lines of:

1. High capital growth
2. Security
3. Tax-effective
4. Low maintenance
5. Finance-effective
6. Protection against inflation
7. Income-producing

I'm sure you'd agree that if you could find an investment vehicle that demonstrated all of the above attributes, then you would probably have a very good investment vehicle. I want you to know that these attributes are out there, they are achievable and as such you should not settle for anything less.

Aim to have your investment work for you; aim to have it multiply in value over the years and produce an income.

The first thing you should do is **get the right advice**.

Do not be misled or influenced by people who really don't know what they are talking about. Obtaining advice or opinions from well-meaning friends could also be very dangerous.

LAW NUMBER 4

SELECT THE RIGHT INVESTMENT

George Clason writes in his must read book, the Richest Man in Babylon:

> *"My own investment was a tragedy to me at the time. The guarded savings of a year I did entrust to a brick maker, named Azmur, who was travelling over the far seas in Tyre agreed to buy for me the rare jewels of the Phoenicians. These we would sell upon his return and divide the profits. The Phoenicians were scoundrels and sold him bits of glass. My treasure was lost. Today, my training would show to me at once the folly of entrusting a brick maker to buy jewels.*
>
> *Therefore, do I advise thee from the wisdom of my experiences: be not too confident of thine own wisdom in entrusting they treasures to the possible pitfalls of investments. Better by far to consult the wisdom of those experienced in handling money for profit. Such advise is freely given for the asking and may readily possess a value equal in gold to the sum thou considerest investing. In truth, such is its actual value if it save thee from loss."*

This holds true, even though at times you may believe that you know exactly what you're doing, it is far better and far wiser to learn first and become a more astute investor. As the old carpenter's saying goes:

' Measure twice and cut once! '

And as far as investment vehicles go, select an investment that you understand.

Australian's are able to build considerable wealth using two major investment vehicles:

1. Shares; and

2. Property

Neither one is "better" than the other and every good investment portfolio has a good balance between both. However, residential property is more popular as an investment vehicle with 9 out of 10 millionaires creating their wealth through property. After all, they are as safe as … *houses*!

And do not make the mistake of assuming that all property and shares are the same; learn how to calculate rates of returns and learn what attributes will affect capital growth and tax effectiveness.

Do your homework and you'll reap the benefits of a good solid investment for many years.

LAW NUMBER 5

UTILSE THE LAWS OF COMPOUNDING

" If you should put even a little on a little, and do this often,
soon this would become big. "
- Hesoid

Compounding simply means the ability of earning money on your money or earning interest on your interest and it's probably one of (if not THE) most powerful of all wealth creation principles.

If you had the option of receiving $10,000 a day for 30 days (Option 1) or the option to receive 1 cent on the first day and then doubling every day for 30 days (Option 2) … which option would you take?

At least 80% of people, I'm sure, would take Option 1.

Now, if you have selected Option 1 then you would have $300,000 at the end of the month (Not bad for a months work!).

Undecided? Well, let's work through it together.

Figure 1.0

OPTION 1	
Day	$
1	$10,000
2	$10,000
3	$10,000
4	$10,000
5	$10,000
6	$10,000
7	$10,000
8	$10,000
9	$10,000
10	$10,000
Total	$100,000

OPTION 2	
Day	$
1	$0.01
2	$0.02
3	$0.04
4	$0.08
5	$0.16
6	$0.32
7	$0.64
8	$1.28
9	$2.56
10	$5.12
Total	$10.23

LAW NUMBER 5

UTILSE THE LAWS OF COMPOUNDING

Have you made a choice yet?

Would you take the guaranteed $300,000 or would you like to keep compounding your $10.23 at 100%?

Option 2 is not looking too good at this point … so let's continue.

Figure 2.0

OPTION 1	
Day	$
11	$10,000
12	$10,000
13	$10,000
14	$10,000
15	$10,000
16	$10,000
17	$10,000
18	$10,000
19	$10,000
20	$10,000
Total	$200,000

OPTION 2	
Day	$
11	$10.23
12	$20.46
13	$40.92
14	$81.84
15	$163.68
16	$327.36
17	$654.72
18	$1,309.44
19	$2,618.88
20	$5,237.76
Total	$10,475.52

20 days have passed and Option 2 is still only around 5% of the income of Option 1.

And with just 10 days to go … have you made your mind up yet?

Let's continue …

LAW NUMBER 5

UTILSE THE LAWS OF COMPOUNDING

Figure 3.0

OPTION 1	
Day	$
21	$10,000
22	$10,000
23	$10,000
24	$10,000
25	$10,000
26	$10,000
27	$10,000
28	$10,000
29	$10,000
30	$10,000
Total	$300,000

OPTION 2	
Day	$
21	$10,475
22	$20,951
23	$41,902
24	$83,804
25	$167,608
26	$335,216
27	$670,433
28	$1,340,866
29	$2,681,733
30	$5,363,466
Total	$10,726,932

It's not hard to decide which option to take now, is it?

Whilst I understand that it's practically impossible to compound your money at 100% a day, the above exaggerated example, clearly demonstrates the power of compounding - and that's why it is so often referred to the '*miracle of compound interest*'.

LAW NUMBER 5

UTILSE THE LAWS OF COMPOUNDING

Here's another good example that demonstrated a very similar phenomenon:

> There's a story about an Indian Rajah who wanted to reward one of his workers for a job well done, so the Rajah called his worker in and asked him what he asks of his Rajah.
>
> In reply, the worker pulled out a chess board and handed it to the Rajah: *"I ask that only one grain of rice be placed on the first square of the board, two grains of rice on the second, four grains of rice on the third and so on keep doubling until all 64 squares are covered."*
>
> The Rajah agreed (obviously unaware of the power and effects of compounding), but soon discovered that all the rice in India would not be enough to cover the final square. The Rajah was outraged and ordered his deceitful worker be beheaded!

Let's have a look at how compounding can help you.

The **Wealth Creation Formula** suggests that one **Plan, Save, Invest** and **Compound**. However, in order to have the capacity to invest, one must first Save. And this is often the hardest part.

Compounding cannot only help the growth of your investment, it can also help you save much more quickly.

Let's have a look at a young brother and sister, Kate and William, both 18 years of age.

> Kate begins to put aside and save $1,000 a year into an interest bearing account. 13 years later at the age of 30, Kate stops contributing her $1,000 so that she can use her savings to buy her home. However, she doesn't touch her savings and allows them to accumulate over the years.
>
> William on the other hand, hasn't really saved a dime. At age 30, William realises that he'll need to catch up to his sister and decides to contribute $2,000 a year into the same term deposit. Assuming that both Kate and William receive a net return of 10% on their investment, who would have the greatest amount of money at 65?
>
> Kate would have $690,000 (for an investment of $13,000) whilst William would have only $542,000 (but for an investment of $70,000!)
>
> This is only because time was in Kate's favour.

LAW NUMBER 5

UTILSE THE LAWS OF COMPOUNDING

By the time William decided to start saving, Kate's total savings (now $24,500) was already giving her an annual return of $2,450 - that's $450 more than William was contributing.

The key factor here is *time* … creating wealth is all about compounding.

Now that you have a better understanding of how compounding works, let's have a look at the two interrelated factors that help build your long-term assets. The two essential ingredients are:

1. **Time,** and
2. **Capital Growth**.

The problem with too many people is that they are not patient and everybody wants their savings to accumulate quickly. People start saving three or four thousand dollars a year and within three or four years, they have *just* $12,000.

Understand that compounding begins to shine later.

In the story about the Indian Rajah, one grain of rice in the first square was next to nothing. Even after 10 full squares had been completed, that was still only a spoon full of rice.

So the most important element for compounding to work is time.

You need to have the discipline to put your savings aside and let your interest earn interest. In George Clason's book *The Richest Man in Babylon*, a character by the name of Algamish had accumulated great wealth from humble beginnings and now teaches the people of Babylon how to do the same.

LAW NUMBER 5

UTILSE THE LAWS OF COMPOUNDING

The following extract highlights the value of compounding:

> *" 'I have paid myself faithfully', I replied, 'and my savings I have entrusted to Agger the shield maker, to buy bronze, and each fourth month he does pay me the rental.'*
>
> *'That is good. And what do you do with the rental?' questioned Algamish.*
>
> *'I do have a great feast with honey and fine wine and spiced cake. Also I have bought me a scarlet tunic. And some day, I shall buy me a young ass upon which to ride.'*
>
> *To which Algamish laughed, 'You do eat the children of your savings. Then how do you expect them to work for you? And how can they have children that will also work for you? First get thee an army of golden slaves and then many a rich banquet may you enjoy without regret.' "*

Remember the words of Algamish the next time you think about '*eating the children of your savings*.'

The second element, 'Capital Growth', also makes a significant difference over the years. This is often referred to as the '*rate of return*' on your investment.

Let's have a look at how a different growth rate can also affect your investment.

There's an old economic rule known as the **Rule of 72** that tells us how many years it would take for something to double in value.

72 / Growth Rate

Simply divide the growth rate or the interest rate into 72 and the answer will tell you how many years it would take for your investment to double in value.

Let's say you have $100,000 in fixed a fixed term deposit growing at 10%. What you do is divide 10% into 72 and this will give you 7.2 years. So in 7.2 years, ignoring any bank charges and the effect of taxation, your investment will grow to $200,000.

If the bank was only giving you a return of 7% rather than 10% then you would divide 7% into 72 and the answer would be 10.2 years.

The difference of just 3% compounded over the years will mean the difference of your investment growing to $196,715 in 10 years at 7% as opposed to $259,374 at 10%.

LAW NUMBER 5

UTILSE THE LAWS OF COMPOUNDING

The difference of $62,659, is the difference between the money you would have made … or lost … depending upon what rate of return you were receiving.

It is therefore important to not only aim at maximising your time by starting right away, but to also aim at maximising your returns. This is done by engaging in some research and study. Explore the various investment vehicles but also explore all the variable attributes of each investment vehicle.

> It is in this area that you should seek the services of a qualified professional
> so as to obtain additional information that you may have possibly overlooked or not considered.

By utilising the laws of compounding in your favour, you will accumulate wealth more quickly and easily.

LAW NUMBER 6

LEVERAGE YOUR INCOME AND YOUR ASSETS

The most powerful tool available to create wealth is undoubtedly the concept of 'leverage'.

Leverage, or 'gearing' as it is commonly known, is simply the principle of borrowing money for the purposes of investing. By adding borrowed funds to your own funds, you increase the total amount invested. So the returns, as a proportion of your original capital, are 'geared up' or magnified.

Australians have generally geared into property via their home or an investment property. But increasingly, more people are realising the benefits of gearing into the sharemarket. Not only is there an increased opportunity to create wealth, gearing also offers greater portfolio diversification and potential tax efficiencies.

Successful people have long recognised that by borrowing money and investing it wisely, they can grow their wealth faster than if they had used only their own funds. But just as importantly, are understanding the risks of gearing and how they can be managed.

Leverage can also be described as using something small to move something bigger. Here's what I mean:

> Let's say that you have $60 a week in surplus income and you're unsure as to whether you should save the $60 into an interest bearing account; or whether you should use the $60 a week to service the loan on an investment portfolio worth $100,000 (albeit shares or property).
>
> Let's also assume, for the purpose of this exercise, that both options are giving you a return of 10%.
>
> If you chose to save the money into an interest bearing account, at the end of the year you will have saved $3,120. At a return of 10%, you would have earned $312 by the end of the year.
>
> On the other hand, you could choose to borrow $100,000 and invest the full amount into a property or a portfolio shares. Of course, the cost of borrowing (i.e. interest) would be serviced by the returns from the investment (rent or dividends) and the shortfall of $60 would be your contribution (this is commonly referred to as 'negative gearing').
>
> Once again, at the end of the year you will be 'out-of-pocket' $3,120. With this investment giving you a return of 10% - the question is - what have you made 10% on?
>
> You've made 10% on the value of your investment, NOT on the amount of your contributions of $3,120.
>
> And that's $10,000 for a total investment of $3,120 …. a net return of 220%!!

LAW NUMBER 6

LEVERAGE YOUR INCOME AND YOUR ASSETS

So, for exactly the same weekly investment, you've increased your 'wealth' by $10,000 in the leveraged investment as opposed to a measly $312 in your non-leveraged investment. Of course you would then use the laws of compounding to increase your wealth even more in the future by having that money continue to grow.

Of course, we've ignored the effects of taxation and bank charges here for ease of calculation but, if you had allowed for any timing and taxation adjustments, then you would have actually ended up with less than half of the $312 - after tax!

Understand that it is much easier to accumulate $1,000,000 worth of growth assets than it is to save $1,000,000.

Leverage, **if used wisely**, can build your wealth more quickly. Saving money into a bank account, as a long-term investment vehicle, simply does not work.

Leveraging helps you obtain a big advantage by using a small amount of effort. In much the same way that the pedals on a bicycle, with a small rotation, enable you to turn the wheel, through gears, having a much larger rotation and hence moving the bicycle forward much more quickly.

Gearing does have its risks, but there are ways in which you can manage your investment to maximise the benefits while minimising the potential downsides:

Gearing Conservatively
Don't over extend your borrowings. Consider your ability to meet interest payments and possible interest rate changes.

Diversify Your Investment Portfolio
Never rely exclusively on one investment, or one type of investment. Aim for a balance across sectors - don't put all your eggs in one basket.

Invest For The Long Term
To ride out unpredictable characteristics of the sharemarket, invest for a minimum of five years, and preferably seven or more years.

Have a Reasonable Cashflow
A stable regular income is essential to meet your interest expenses. You should never rely solely on dividend income.

LAW NUMBER 6

LEVERAGE YOUR INCOME AND YOUR ASSETS

Build In Some Flexibility
Don't get forced into a position where you have to sell when you don't want to. Build in some flexibility to cope with unexpected personal or job-related changes.

Seek Professional Financial Advice
Gearing can be very effective, but you should always seek professional advice to help develop a plan that suits your individual circumstances.

The best way to further demonstrate the concept of leverage is to use the simple 'lever'. If you wanted to move a 1,200kg weight, you would use maybe 20kg of 'effort' with an appropriate length lever to move the weight.

The extent to how much leverage is required is measured in the engineering circles by the following formula:

Leverage = Load (kg) / Effort (kg)

So in the above example, the gearing ratio would be 1,200kg / 20kg = 60.

It was Archimedes, the Greek mathematician, that once said:

"Give me a place to stand, and a lever long enough and I will move the world."

From a financial point of view, the principle is exactly the same.

The only differences, of course, relate to the individual items concerned: the amount of your loan becomes the 'lever', the Load becomes the Asset Value and the Financial Commitment replaces the Effort.

The Financial Leveraging formula therefore becomes:

Financial Leverage = Asset Value ($) / Your Commitment ($)

One of the many problems that face many investors is their limited availability of cash. For instance, if you only had $20,000 to invest you really have two fundamental options:

LAW NUMBER 6

LEVERAGE YOUR INCOME AND YOUR ASSETS

1. You can use your $20,000 and invest in either shares or cash and maybe get a 10% return hence increasing your wealth by $2,000.

   or,

2. You can use your $20,000 to borrow $100,000 and invest in shares and still get the same 10% return. But how much have you increased your wealth by now? That's right, by $10,000.

That is leveraging.

It's the principle of using '*Other People's Money*' to increase your returns. By using borrowed funds you are combining your assets with that of a financial institution, hence giving you the ability to move and control a larger portfolio of assets than you could on your own.

Let's have a closer look at exactly how leverage can work for you and help you accumulate more wealth and security through shares by using our Financial Leverage Formula.

Let's assume you have $100,000 in the bank. Referring back to the two options available to us we could either:

1. Use the $100,000 to invest in a portfolio of managed funds which you would own outright, or

2. We could use the $100,000 to borrow (or leverage) $500,000 and with your now available funds of $500,000, you can buy $500,000 worth of the same managed funds.

If we divide the variables of the first option into our Financial Leverage Formula:

Financial Leverage = Asset Value / Your Commitment
= $100,000 / $100,000
= 1

Therefore this option has a leverage factor of 1; or a gearing ratio of 1:1 (which means no leverage).

For the second option:

Financial Leverage = Asset Value / Your Commitment
= $500,000 / $100,000
= 5

The gearing ratio now becomes 5:1.

LAW NUMBER 6

LEVERAGE YOUR INCOME AND YOUR ASSETS

For ease of calculation, let's assume that the managed funds increase by 10% each year and then let's compare your accumulated wealth over the next ten years on each one of your two options:

Figure 4.0

OPTION 1		
Years	Value	Growth
1	$100,000	$10,000
2	$110,000	$11,000
3	$121,000	$12,100
4	$133,100	$13,310
5	$146,410	$14,641
6	$161,051	$16,105
7	$177,156	$17,716
8	$194,872	$19,487
9	$214,359	$21,436
10	$235,795	$23,579
Total		$159,374

OPTION 2		
Years	Value	Growth
1	$500,000	$50,000
2	$550,000	$55,000
3	$605,000	$60,500
4	$665,500	$66,550
5	$732,050	$73,205
6	$805,255	$80,526
7	$885,781	$88,578
8	$974,359	$97,436
9	$1,071,794	$107,179
10	$1,178,974	$117,897
Total		$796,871

As you can clearly see, the returns you receive on Option 2 are much greater than the returns from Option 1 by a factor of five and from the same initial investment funds.

Please don't misunderstand this and automatically assume that a high gearing ratio is necessary. Other factors you will need to take into consideration are your other financial commitments and your income levels to establish proper serviceability.

You now have a basic understanding of how you can utilise the laws of compounding and leveraging to help you engage a true wealth creation process.

LAW NUMBER 7

AIM TO CREATE WEALTH SLOWLY

" To be successful you should find out what failures do and don't do it. "
- Jim Rohn

Why is it that some people fail?

Economists say that the inability to delay gratification, is a primary attribute of failure later in life.

The basic law of human nature is that people will always tend to seek the easiest way to get the things they want, and usually to get the things they want right now. Brian Tracy calls this '*The Expediency Factor*' or "The 'E' Factor" and it explains the reason why some people succeed and why others fail.

Because of the unwillingness to delay gratification, the vast majority of people immediately act to get the things they want now; even if the long term consequences of their actions would be under achievement and failure to reach their true financial potential.

A perfect example would be where a young man drops out of high school to take a job - to buy a car - to impress the girls. And the long-term price is possibly a life-time of low wages and frustrating work.

Another example would be 'fast food'. Rather than go to the effort of cooking a nice healthy meal, society in large have turned to the convenience of junk food. You eat to satisfy your hunger and fast food gives you instant gratification.

Criminals engage in robbery, burglary and theft to get immediate funds - at the price of a possible ruined life in society.

All these 'band-aid' solutions are called 'short-term gains for long-term pains'.

People do only what they have to do to earn a pay cheque and then spend their time socialising and watching television at the long-term price of failure.

We are all looking for a 'get-rich-quick' opportunity … a way to riches and financial security with the least amount of effort. Unfortunately, it often doesn't quite work like that in the real world.

Why is it that the average age of a millionaire in Australia is 51 years of age?

It is because when people are young, they believe that there is a fast way to wealth so they lose a great deal of money trying many different things. Yet, when they become older and much wiser, they realise that the surest way to wealth is, unfortunately, quite often the slower road.

LAW NUMBER 7

AIM TO CREATE WEALTH SLOWLY

Property investment and sharemarket investments are NOT get rich quick investment; they are, however, very viable 'get-rich-slow' investment vehicles.

Many people would argue that business is a faster way to wealth. This is sometimes true … and more often untrue. I'm sure you've heard the startling statistic that 80% of businesses fail in the first five years of operation!

Would you like your retirement income to be subject to something as risky?

George Clason wrote:

> *"Gold flees the man who would force it to impossible earnings or who followeth the alluring advice of tricksters and schemers or who trusts it to his own experience and romantic desires in investment.*
>
> *Fanciful propositions that thrill like adventure tales always come to the new owner of gold. These appear to endow his treasure with magic powers that will enable it to make impossible earnings.*
>
> *Yet heed ye the wise men for verily they know the risks that lurk behind every plan to make great wealth suddenly."*

Resist the temptation to do things the fast and easy way.

Stick to what you know to be right until you win through. Do not expect to receive impossible earnings but rather building your wealth on a good solid foundation will make you far wealthier in the future.

" When I was young I used to think that money was the most important thing in life.
Now that I am old, I know it is! "

- Oscar Wilde (famous playwright)

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The

7 INVESTMENT AND WEALTH CREATION LAWS TO LIVE BY

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