HOW TO

CONTROL YOUR FINANCIAL DESTINY

JENNIFER LANCASTER

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www.jenniferlancaster.com.au

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About the Author

Jennifer Lancaster spent fifteen years of her adult life working, travelling, studying, and shopping. Then she met the man of her dreams, had a baby, got married, stayed home, and had to stop spending... well, mostly! Not to let an opportunity slip by, she wrote of her tricks to save money in a little book, *'How to Kick Bad Spending Habits'*.

In 2006 the Lancaster family moved to Redcliffe, Queensland, to find an affordable home near the beach. While getting organised and saving, house prices moved up 20%. What a great time to buy (not!).

After purchasing a mortgage, the GFC hit, taking the regular business income away. The couple worked hard in new service businesses. Money kept in their offset account home loan came in handy in the down times, as did their built-in 'granny flat'.

Now, with three businesses between them, the stability of having multiple sources of income has helped even out the bumps of life.

"Like many, becoming financially independent is our goal".

Other titles by Jennifer Lancaster:
Power Marketing: An Aussie Guide to Business Growth
Kick Bad Spending Habits, and Save for what you Really Want
How to Start a Freelance Business (ebook)

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Introduction: The Right Mindset

Most of us would like to be financially independent on retirement, yet few retirees achieve it. In fact, only about 6% of Australians are financially independent or wealthy. On retirement, the majority of seniors go from being independent to being financially dependent in some way.

While some retirees are proudly self-funded, most cannot sustain their former standard of living, surviving on a meagre portion of their previous salary. Because it is difficult to achieve ongoing passive income, we come to accept such a poor standard. Here are some startling statistics:

* 1 in 3 senior Australians live under the poverty line[1].
* Average superannuation balances at the time of retirement in 2011-12 were around $197,000 for men and only $105,000 for women, meaning many will substantially rely on the Age Pension (ASFA).

Whereas wealth can be measured by net worth (assets minus debts), financial independence means not only money, but also freedom and control. We would probably all like to have the ability to control our financial destiny!

So how rich are we? As individuals, a 2014 report stated the median Aussie adult has a pot of gold of $258,0003[2]. (Americans only have a

1 Oct 2014, The Australian, Global Age Watch index.

2 2014 Global Wealth Report, Credit Suisse.

median of US$54,000). But… 43 percent of household wealth is tied up in the family home (3).

> *Households that owned their home outright (2.7 million households) had an average net worth of $1,237,000* (3).

So what is financial independence? I believe it is enough income to meet all of your needs – and some of your wants – without any assistance, be it from employer, government or family. It could be less than what you needed when you were working or it could even be more, if you have grand plans.

It's obvious that many people want to improve their wealth, or at least their outlook. Millions have read the bestsellers, "Rich Dad, Poor Dad", "Think and Grow Rich", "Automatic Millionaire", etc… So why don't more people invest for the future?

It's probably because they're too busy spending it, thinking that they just cannot affect their own wealth. It seems shocking to me that many individuals who earn well over $80,000 per year admit that they *can't save anything*. In fact, many are loaded with personal debt in their peak earning years. It's almost like they have given up on allocating portions of their income to their various goals. This is reflective of a particular attitude to money – one author calls it a 'money personality'.

> *"If you understand the why, the how (of money) is much, much easier. You need to consider your core motivations, psychology and general approach to money – and how that differs to your partner."*
> *– Greg Smith, author of Unlock Secrets of your Money Personality*

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3 ABS Household Wealth & Wealth Distribution, 2011-2012.

Even though you may either be a spender personality, or have a spender telling you to “lighten up, have fun and don’t worry about saving”, if your goal is to invest for the future it’s important to make the necessary adjustment. Sorting out your wants from your needs is imperative to keep on financial track. If, after finetuning your monthly budget, you still feel that your regular pay is simply too low to put aside some, then why not offer your own talents and knowledge in your after-hours by writing, designing, or training / coaching others.

> *“Immediate gratification cost you your wealth, but long-term, methodical, strategic vision builds wealth” – John Demartini*

Excuses, Excuses!

What other common excuses are used to avoid starting to invest? “I don’t have time for all that research”, “it’s risky”, “I’m too in debt”, “my wife/hubby is in charge of that department”, “I’m going to win Lotto”, “I’ll die before retirement”, etc. We’re going to refer to Lotto winners in a moment, but let’s cover some of those other excuses now.

Investing is risky

Compared with buying furniture or cars on credit (a sure-fire way to lose money), investing in growth assets is much safer: at least there is a good chance that the money will still be there next year!

The risks are more to do with the investor’s ignorance or greed (or combination of all three), than with the investment. Some people make money no matter which way the market swings!

I'm too in debt to invest

Much of the middle class in Australia use credit for consumer goods, whereas the rich use loans to build assets that will continue to grow, in order to support their lifestyle. Some families spend **110%** of their total household income!

Accepting consumer debt as the norm, a lot of people just go get another loan or credit card transfer when they don't have enough money for what they want. It takes a paradigm shift to start to see debt as leverage to build wealth, rather than as 'lifestyle' money.

If you are motivated to get on track, then once you commit to the discipline of paying off as much as possible, you'll find it's easy to continue the habit of automatically putting aside that amount each month.

I'll talk more about debt later, since the pressure of housing and personal debt keeps many families from getting started.

It is not how much you earn, but what you do with it that counts.

I'll die before I retire

In all probability, you will most likely survive to face retirement. Life expectancy improves with age, so for example, a man born in 1960 who has reached 45, can expect to live to 72.4(4). But a female born in 2010 has a life expectancy at birth of age 84.3!

4 Life Expectancy tables, Australian Bureau of Statistics, 2013a

Even before normal retirement age, an unforeseen event may make you realise that you've neglected financial planning for too long… you and your family must struggle just to sustain your usual standard of living. Health should be a number one reason for financial planning. Suffering early-onset heart disease and cancer is a reality for many people, and it pays to plan ahead so you don't have to rely on always working hard.

The Right Mindset

Belief in your investing abilities comes from small successes… experimental forays, not giant leaps. Expand your comfort zone slowly. Reading or hearing about similar people to us helps us believe we can do it too. We don't learn as well if we think the teacher is far beyond us; they must be grounded. That said, ensure you are paying the teacher for education and not being led into any particular investment.

Start to bring people around you that are positive and enhance your self-worth. They will recognise your efforts to change.

*A **poverty mindset** seeks problems. A **wealth mindset** seeks solutions.*

An example is, a poor mind worries about the damage tenants could do so avoids investing, and a rich mind finds ways to minimise the risk, like landlord's insurance, building insurance, and ensuring thorough checking of tenants' history.

Some people believe that there are *secrets to wealth* that can only be learned in seminars or workshops led by 'gurus', or by buying a 'trading system’. Sure, you can learn some honed tactics from them that may or may not work for you, but overarching ‘secrets’ – probably not. Secondly, even if you spend thousands on wealth creation courses, you may still fail because your mind was not prepared for success.

Learning is best done in stages, with some practical experience, and this usually takes time. Think of when you started learning to drive. It was not like you were a formula one champion after the first lesson; you had to master some unfamiliar skills, learn the road rules, and get experience... just like investing!

You’ll want to get your financial tuition from the most independent sources you can find. Local libraries offer some book choices, and others that delve into various investing areas can be sought online. The Australian Stock Exchange also offers free online courses (http://www.asx.com.au).

When learning, keep in mind the Chinese proverb:

“He who asks is a fool for five minutes, he who doesn’t ask remains a fool forever”.

The Dangers of Being Led

Gaining wealth is mostly a slow process for those patient and dedicated enough to delay gratification. Seeking riches quickly and without planning will normally ensure reversion to poverty just as quickly. A prime example is Lotto winners. It’s generally reported that 90 percent of winners revert to their prior lifestyle five years later.

One of our biggest human weaknesses is the desire for easy riches. ACCC reports an estimated $89 million was lost to scammers in 2013, based on victim reports. ($24.9 million was advanced fee fraud and $9 million in investment scams). It’s around the same amount every year, even though the media often tells us not to fall for those email scams and cold calls.

It doesn’t have to be a scam either; there are many dangers in investing without education and self-determination. Retirees lose their life savings in failed mortgage debenture schemes, novices are lured into buying off the plan in a boom without their own research… These are examples of how women and men give their power away, believing that a financial spruiker knows better than they do about where to invest their money.

Hidden traps, credit pitfalls, and unfair practices are costing every hard worker many thousands of dollars as well. Ordinary Australians wishing to do all the good things like save for retirement, enjoy some passive income, and manage well financially, are being driven to the brink of financial disaster by simply being uninformed.

There are many reasons behind personal financial disaster. Over-borrowing without a contingency plan plays the second largest role in financial hardship. (Unemployment or loss of income plays the largest role). In 2013-14, overall total personal insolvencies numbered 29,514; consisting of 18,601 bankruptcies, 10,705 part IX debt agreements, and 208 Personal Insolvency Agreements.(5)

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5 Australian Financial Security Authority AFSA.gov.au, Annual Statistics 2013-14

It never pays to invest in something you don't understand. In 2007-09, tens of thousands of fixed interest investors did not understand the risk they carried. Mortgage fund/unsecured debentures investors in Provident Capital, City Pacific, Allco Finance, EquityTrust, IM Investment International, were all promised high returns that disappeared in their collapses. Many lost 30 to 90 per cent of their capital... and with gearing, some lost it all. (Borrowing can compound losses).

A fund reliant on borrowings and in-flows (as in mezzanine finance) is way too complex for the average or even the above-average person to calculate the risks adequately. In assessing a new investment, always question why this fund offers higher rates of interest than the banks.

The Two Sides of Housing Debt

Over the past 25 years, household debt has increased nearly twice as fast as the value of household assets (ABS, 2013). Recently, Barclays found that the household debt to disposable income ratio made new highs, at 177 percent on average. Our house prices are well above the US and the UK, at 4.3 times annual income, making it hard to afford a first home.

These two measures mean that the working Australians are leveraged to the hilt, recently fuelled by investor speculation in housing (SMH, April 2014). Although the debt level is now really high, apparently it doesn't mean anything in itself:

> *"There does not appear to be a level at which bad things start to happen" – Ian MacFarlane, Governor, Reserve Bank of Australia*

For those with good income, this high leverage worked well for many years. Those who invested in a holiday house, residential investment or commercial property, vacant land, or a farm, had their increase in overall real wealth grow faster than their debt over the years 2003 to 2012. Those with another property besides their own residence benefited from a steady increase in equity, contributing 27 percent of the real increase in their overall wealth between 2003-04 and 2011-12 (from $1.03 million up to $1.32 million in 2011-12 dollars)[6]. It was a good time to hold property, regardless of any particular location knowledge.

It would be folly to think that these capital gains will be as easy to achieve as they were. As they always say in disclaimers: "Past performance is no guarantee of future performance."

Yet you can't sit back in fear either, because nobody achieved his or her desired financial destiny without taking a risk of any kind. But if you're dedicated to work, you seek a basic personal finance education, and a clear strategy, with targeted goals, that considers the risks, then you will soon be on your way to financial freedom.

Learning Points:

* While some just give up, if you want to retire financially independent then you must make a strategic plan!

* Success with investing depends a lot on the investor's mindset. Wealthy people keep risks down rather than letting fears stop them, so you must do this too.

* Get your financial education from independent sources, not spruikers.

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6 ABS Trends in Household Debt, 2013

* Investing in anything without knowledge of what it is can prove risky; but you can get personal finance and investing knowledge for free at your library or online at the Stock Exchange.

* In the past two decades, Aussies have wielded the weapon of debt (for real estate) to build personal wealth.

* The patient will grow their net wealth and passive income; those seeking instant riches will lose much of their savings in one way or another.