Chapter five

Pillars of wealth

Now that you have a greater understanding of why most people never achieve wealth, it is time to start looking at how wealth can be achieved and what sort of vehicles you can use. Wealth needs to be built on four important pillars so that over the long term the structures you build will remain strong. The significance and interrelationship of these pillars cannot be overstated. Having really committed yourself to a decision to be wealthy, your journey to wealth must include an understanding of economic cycles, the art of finance, the miracle of compounding, and the skilful use of negotiation.

When I mention timing in terms of economic cycles I am really talking about the timing of asset classes and when to start focussing on them so that you maximise your opportunities for growth. This does not mean to say that, as investors, we should try to pick the bottoms or tops of markets, especially the share market, because, trying to pick lows for long term investors is really not so important and, more often than not, is disadvantageous in terms of missed opportunities.

I am also assuming that you are interested in all asset classes and not just biased towards one. Through timing your focus on each of the asset classes you will be able to compound the results between them and achieve wealth faster than simply relying on one asset class for long-term results.

Remember that long term is a relative concept. Some market commentators offer ten to fifteen years as a guide to long term. Some suggest five to ten years. Long term for me was four years. It all depends on what your needs are and how hard you are prepared to work towards achieving them. It also depends on your understanding of risk, your personal psychology, how efficiently you are prepared to work your money and how aggressive you are in terms of knowledge acquisition and skill development.

Some will choose to be more aggressive in terms of restructuring their financial default mechanisms, their knowledge acquisition and their application of that knowledge than others. Some may not be ready to restructure at this stage or they may not be as aggressive in the gaining of knowledge. Some will save time by purchasing their knowledge from others who are successful in their respective fields of endeavour, while others will be more circumspect, reinvent the wheel and learn by doing. Most will not learn at all. Everything you do has a choice associated with it. How fast you choose to travel towards wealth is really dependent on your own internal processes.

Most everything from the natural environment to human behaviour happens in cycles. When you stop to think about it humans evolve through a myriad of physiological, biological and social cycles from birth to death, a cycle within itself. History tends to repeat itself in cycles. Think of the natural cycles of nature such as Spring, Summer, Autumn and Winter. Or the natural cycles of sun up and sun down, or the social cycles of education, employment and retirement. Inclusive of world economic cycles, it is imperative to appreciate that people, families, businesses, companies, states and countries have their own economic cycles.

Economic cycles

You may have noticed that every so often real estate prices go through a boom period and then level off or even decline a little. You may also have noticed that the share market goes through a similar cycle of growth leading to a boom and then it corrects or crashes, hits a bottom, stays there for a while and then begins another cycle. And every so often interest rates seem to rise to a peak, stay there for a while then start falling away until they reach a low point and a similar cycle begins all over again.

Have you ever wondered why the economy seems to move in cycles? If you have noticed these things but never really understood why they happen, it is more than useful to have a reasonable understanding of how movements in economic cycles are created. Understanding how economic cycles work can help you make more effective choices and help put your investment decisions into context.

In market speak, it is often said that history repeats itself. However I prefer Mark Twain's comment, "History doesn't repeat itself, but it certainly rhymes." The main purpose of understanding economic cycles is in terms of probabilities based on previous performance, current circumstances and business forecasts.

In this current economic cycle interest rates peaked around February 2001, The economy was slowing and the country's leading economists, forecasters and speculators got busy predicting everything from an optimistic 'soft landing', through the nondescript 'bumpy landing' to the doom's day predictions of a 'full-blown recession'. During 2001/2, while most of the world's stock markets were significantly declining in value, the economic world basically held its breath waiting for the recovery. By comparison, the Australian share market fell slightly but moved more sideways than down.

The Reserve Bank sprang into action and started cutting interest rates and the banks started an interest rate battle for customers until interest rates reached a low point in the early part of 2002. Interest rates remained there for a while then, in anticipation of improving economic circumstances, the Reserve Bank began increasing interest rates. Speculation has it that interest rates will continue to increase throughout 2003.

We did not enter a full-blown recession during the low of this economic cycle. By comparison with the downturn in other leading economies, Australia had one of the best, if not the best, performing economies. Our economy grew at a healthy rate because it was supported by increases in building approvals, rents and housing prices in most major cities. Over the past twelve months residential real estate prices increased in Melbourne, Sydney, Canberra, Adelaide, Perth and Brisbane with Hobart experiencing growth towards the latter part of 2002. In terms of rental increases Perth led the way with an increase of 37% over the past five years with Sydney following at 34%.

Although currently there are increasing concerns about the possibility of going to war against Iraq, there is some sense of optimism for improving economic conditions over the next few years.

Movements in interest rates affect the performance of various investment vehicles so the astute investor needs to have some understanding of business and investment cycles in any

given national economic cycle. They also need to have an understanding of how national economies are affected by various international environments and world economies.

You may have already heard of something referred to as the economic clock, which is simply a graphic representation of economic cycles based on the model of a twelve-hour clock face. It is a tool that can assist with both long and short term investment decisions, especially in regard to timing and risk reward scenarios.

The economic clock is really an indicator of what is happening in various market places at any one time. Its usefulness is in terms of general timing of which asset class, shares, residential real estate and fixed interest, is likely to give you the highest probabilities of rewarding performance with the least probability of a downside movement in the near term. If you are more aggressive in nature there is much more to be gained in terms of market timing, but for now we shall stick to the basics. By near term I mean what is happening now and what might happen over the next few years. This is in no way an attempt to be predictive because in the market place everything is relative.

The economic clock is not an exact science. Depending on what is happening in the nation's micro and macroeconomics environments, it is possible to jump forwards and backwards at any one point on the clock. Not all economic cycles, be they national or international, are the same in duration or intensity. What follows is characteristic not categorical.

Timing on the clock can generally be applied to the world economy in a macro way, then to each country and then each state and their respective capital cities. However, not all cities, states and countries work at the same time. For example in Australia, especially in terms of real estate, Sydney and Melbourne tend to be the leaders in any change of direction in prices up or down. After a two-year time lag Brisbane and Perth tend to follow as they experience the ripple effect of price movements in the two major cities. Other States and Territories follow some time later. You need to be specific with regard to where you live and the economic conditions and drivers there.

This is the case at present. With real estate markets having peaked in cities such as Melbourne and Sydney, Brisbane and Perth are well placed for growth to continue throughout 2003 to 2005 and beyond. Many analysts are casting an increasingly interested eye over Perth real estate because of a belief that Perth will be the next boom city. This is because it has one of the lowest median prices for quality housing in any of the capital cities and because of Western Australia's resource rich economy.

As the world begins to move out of recession, demand for scarce natural resources, such as gas, iron ore, alumina, nickel, diamonds and gold will increase manifold. While other countries also produce such resources, Western Australia is a player on the world stage and is based in a politically and economically stable environment. As such we will be the preferred focus of international buyers.

Typically when the resource sector in Western Australia booms, it has a flow on effect throughout the Western Australian economy enabling wealth to be generated on a wide scale. Beneficiaries are inclusive of individuals and businesses through to the corporate arena. As individual wealth increases so too does demand for the limited supply of quality land and housing in Perth. With the anticipated demand in resources it is not difficult to understand why Perth will experience widespread housing price increases over the next few years.

It is essential to understand that there are also cycles within cycles. For example, when I talk about the share cycle or the real estate cycle I am actually talking about cycles within a larger cycle driven by the Australian economy as a whole, which, in turn, is influenced, by the world's economy.

As you work your way around the clock you will begin to understand that each of the asset classes are interest rate sensitive. An understanding of what is happening to interest rates can help you determine where you are likely to get your best returns over the short to medium term. However, this does not mean that the other two vehicles stop working. I am simply talking about the level of potential risk versus the level of potential reward.

We shall begin our journey around the clock at 4.30 where we are either heading into an economic slowdown or we are heading into a more serious recession. Technically, a recession is indicated by two consecutive quarters of negative growth. Although negative and growth seem to be a contradiction in terms to me, that is the yardstick the system uses. During such a slowdown unemployment is on the increase and there is a lot of uncertainty and insecurity around. The media tends to be full of gloom and doom stories and companies frequently report profit downgrades rather than profit increases.

Among other things, markets are driven by sentiment. The stronger the sentiment the more a market will move. If markets are driven by fear there will be a tendency for them to fall rapidly but if they are driven by greed, they will rise rapidly to the extent that price increases are unsustainable and the market will come back to a more realistic price level at some point. Sentiment comprises of little more than feelings based on perception and, as such, much of the price movements in various market places are based on sensitivity rather than fact. In a lot of cases it is not changes in the quality of the underlying fundamentals that drives prices so much as it is changes in perception and news of profit increases or decreases. In other words, the investing public's emotional response to news.

During economic slowdowns, bad news excites negative sentiment. Economic slowdowns are times when people curtail their spending patterns because, among other things, they feel vulnerable, the future looks bleak, they are afraid of losing jobs and money supply is tight. Because there is little money flowing into the economy, it slows and almost grinds to a halt. As production slows, profits decline and businesses generally have to cut costs by slashing their advertising budgets and as they do it becomes difficult for them to continue making profits. As a result they may undertake downsizing activities and lay off some of their workforce. If they cannot survive during economic slowdowns they go under.

By this time the Government and the Reserve Bank are reasonably concerned about the slowing economy so monetary policies are brought into play in an attempt to stimulate the economy back into growth. A strategy available to the Reserve Bank is to lower interest rates, which makes the costs of doing business less than they otherwise might be. It also gives those with mortgages on variable rates a little extra to spend as the costs of servicing mortgages come down.

With any interest rate movement, it generally takes about twelve months for the effects of those movements to affect economic activity. It may also take a number of successive interest rate cuts to really stimulate things back into a growth phase. If interest rate policy is correct,

eventually the economy starts moving into positive territory and by now we are at about 7.30 on our clock.

As the costs of borrowing money decrease, people start spending more and businesses begin to expand. They might increase sales and/or production, make more products or place more services and products into the community. As manufacturing increases they consume more raw materials and, as more raw materials are required, demand starts to drive commodity prices up.

As confidence returns to the economy and the market place, people begin spending money and consuming more products. Companies return to profitability and a small stream of active investors begin returning to the market place. They are in search of better profits, more dividends and higher returns than they can get from other investment vehicles. The more company products and/or services that are consumed, well-managed companies begin to increase their profits. The more profits that are made, the more investors chase the shares of these companies and the whole cycle of supply and demand begins to take effect.

This takes place while we are moving from around 7.30 to about 8.30 on our clock. If by now the Reserve Bank's perception of the economy is that it is moving ahead at a sustainable rate, they will leave interest rates alone for the foreseeable future. On the other hand if they think the economy is moving too fast for their liking, it may tinker with interest rates again, by raising them slightly, until they feel they have gained control of the economy and control of inflationary pressures. Although there is a constant move in one direction when interest rates move, there is a constant tug of war going on between the controllers of interest rates, economic forces and the general well being of the economy. All this fits within the wider context of what is happening around the world.

By around 9.00 to 9.30 on our clock things are generally moving along fairly well and companies begin reporting increased or record profits. A second wave of investors, those a little more conservative in nature, enter the market in earnest and begin seeking out well credentialed companies.

By around 10.00 or 11.00 on our clock, the economy is growing strongly and novice investors begin to enter the market with the perception that making money must be easy. The media is full of good news stories, the share market tipsters are working overtime, magazines about shares and other financial products are full of their 'experts' buy recommendations, and share newsletters abound with secret formulas and share recommendations. As this stage of market acceleration everybody is an expert and novice investors notice other investors making larger returns than they are so they quickly attempt to get onto the bandwagon.

Around this time confidence is high to overly exuberant and greed becomes the sentiment that drives the market. The media is full of record profit stories, huge salaries and more than attractive CEO bonuses. Many new companies wishing to raise funds offer perspective shareholders an opportunity to invest in them via initial public offerings, or company floats. In this way they can get in on a wave of strong, positive market sentiment.

Speculators are active during times of strong market sentiment and enter the market in an attempt to stag floats and chase quick returns. A stag is where speculators, with very short-term financial horizons, buy large parcels of shares in public floats and if the share price lists

at a premium to the original float price, as the company lists on the stock exchange, speculators take quick profits.

During times of euphoria, the market races ahead to unsustainable highs and the environment is such that companies simply cannot keep up with the demand for continued record profits. As the economy heats up, the Reserve Bank keeps tinkering with interest rates by raising them in an attempt to apply the economic brakes and slow the economy to more manageable levels. As interest rates are raised the costs of doing business increase and ultimately things start to fall over. Fear and panic become the dominant sentiments and the market eventually 'crashes' or 'corrects' depending on your view of things. Novice investors are driven by panic at this stage and sell their holdings. As more panic and selling sets in, negative sentiment saturates the market place and the market takes a nosedive, which promotes more panic and selling activity. Large losses are incurred and, as a result, much pain is felt.

Prior to these events happening, professional and shrewd investors are busy reading the signs. They read the market and take appropriate defensive action. When the market is driven by greed and people are overconfident to highly exuberant, professional traders and astute investors know the end of the market cycle is near, it maybe a matter of months or it maybe a year. However they are certain in the knowledge that it will correct. Some sell down their holdings and move to other asset classes such residential real estate. Some employ defensive asset protection strategies while others cash up and wait for more effective buying opportunities. Professional traders look for opportunities to short sell shares into the market place or they take advantage of market falls by using various forms of derivatives

Canny investors and traders understand market cycles because chances are they have seen it all before. Active investors with medium term horizons are aware that after the market corrects, often the next investment vehicle to give the best returns for the least downside risk is residential real estate. Although the nature of cycles may change in the future because of the wash of money entering the market place via superannuation funds, history has demonstrated that when the market corrects and investors panic, they head for the safety of bricks and mortar.

During a real estate cycle, prices in the share market generally continue their downward spiral until they plateau and start moving sideways following a series of short-term rallies and declines. Managed funds products of varying types are showing little if any return. For the year ending September 2002, Australian Bureau of Statistics figures indicated that Australia's 8.8 million superannuation account holders lost a combined total of $11,000,000,000. It was the second year in a row that national savings had dropped.

Market action can spend years in this sort of pattern and looking back to the previous major crash of 1987, positive market action did not substantially pass its previous highest peak, set in October of 1987, until 1994. The market then rallied until the current cycle decline began in 1999. At time of writing, Jan 2003, the market has not significantly moved off its lows.

Given this kind of market action, there are still plenty of opportunities to make money by trading price movements. However, trading is a more aggressive activity and, to be successful, you need more specific knowledge supported by increased levels of skill. For the buy and hold investor it is a slow process of waiting for circumstances to change and become more favourable for increased values. There is little else they can do other than cash in on the current round of real estate price increases.

As astute investors begin moving out of an overheating share market and begin investing in real estate, prices begin to move in an upward direction. At first these price increases are almost unnoticed because most people are still concentrating on the share market. They are still in the clutches of greed and exuberance. Their perceptions are partially based on the concept of ever increasing prices.

In real estate, prices generally do not peak until after a crash in the share market because it needs the weight of investors coming out of the share market to really drive prices to all time highs. A crash does not have to be as dramatic as 1987 and can be a slow and gradual process as witnessed by the 1999 - 2003 decline. Again, at time of writing, Jan 2003, real estate markets around Australia are experiencing near boom conditions as more money comes out of the share market looking for better returns. At some point this flow of money will turn around and head back into the share market. If we look at the last share market crash in 1987, in Western Australia, prices of some Perth suburbs increased by between 50 and 100% during the height of the real estate boom in 1988/89.

On our clock the market crash happens at 12.00 o'clock and interest rates continue their upward spiral in an attempt to slow exuberant economic growth. After the crash we witness a lag time of approximately six to nine months before real estate prices begin moving again. By now we are between 1.30 and 2.00 and the economy is still continuing to grow. Interest rates are still on the increase, as are prices for residential real estate. By around 3.00 interest rates have peaked, and real estate activity slows down. The costs of borrowing money and buying houses become prohibitive and real estate prices slow to a grind at this stage.

If interest rates have not moved substantially over this period, and the share market is still producing negative returns, after an initial slowdown, money will continue to trickle into various real estate markets causing another spurt in growth. In low interest rate, slow economic growth environments, housing is generally the preferred investment vehicle.

However if interest rates have moved substantially over this period some investors now switch their attention to fixed interest rate products, especially Government Bonds, or they cash up and wait for buying opportunities in the share market. If you know what you are doing, and you can get your timing right, Government Bonds number among the safest of investment vehicles at this time because to lose all of your capital the Government would need to collapse.

If your timing is right you can make a capital gain from Government bonds. On the other hand if your timing is wrong you can make a capital loss. It is important to understand the risks. By knowing how the cycles work and being able to read the economy you can dramatically increase your investment returns over time through the processes of compounding.

Let us say the Government wants to conduct some form of economic activity but does not have the necessary funds. It can raise capital by issuing a series of bonds, lets say 10year bonds, at a specific interest rate, known as the coupon rate. In the past you had to tear off your coupons and present them before you got your interest payments.

For ease of description I will assume a particular issue is at 10% and fully subscribed. The Government conducts its activity and uses all the funds available. There maybe some long-

term gain for the Government but in the short-term the funds are expended. As time moves on and the Government of the day finds that it needs to undertake another project somewhere. To acquire the funds they might decide to raise taxes, not a popular move, or they might seek to raise more funds through the market place. For the investors who got the direction right on interest rates, as they peaked at around 3.00 o'clock, they are in for some pretty interesting times. Let us say that it is now about 4.30 on our clock and the Government needs more money. It will issue another series of bonds but by this time the economy is slowing and we are heading for a recession unless the economy can be stimulated back into growth.

Because of the slowing economy, the Reserve Bank lowers interest rates to around 8%. At around the same time the Government issues new series of bonds, which come into the market place, but this time the coupon rate has been lowered to 8%. So the best any investor can do at the moment is 8% until you re-enter the market place with your bonds at 10%. Investors will purchase your bonds because they have a better coupon rate and they may have a further eight and a half years to run so they will pay a premium, over and above the face value, to get them. As a result, you sell them, take your capital gain and go on holiday because nothing much happens during a recession or economic slowdown. You then wait until the cycles start all over again and you get back into action by following the particular investment vehicles you are interested in.

Since records have been kept the clock has never failed to cycle. The quickest time around the clock has been approximately six and a half years. The longest cycle has been twelve and three-quarter years.

By knowing how economic cycles work, and being able to read the economy, you can dramatically increase your investment returns over time through the practices of compounding. You could invest in the share market when it was appropriate to do so, then you could switch your attention to real estate and then onto bonds if it was appropriate for you. Prior to this happening, a great deal of further learning needs to be undertaken so that you can develop the necessary skills to take advantage of each and every economic condition. If you wish to lessen your time frame to wealth, you may need to embrace the notion of more aggressive strategies such as trading. Anybody can trade, and many people do, but successful trading is a different matter altogether. It is not easy and it is something that needs to be learned from professional traders. It is a skill that needs to be developed over a number of years and there are simply no short cuts.

Used to advantage the information supplied by economic cycles can greatly enhance your investment returns. During a seminar where I was explaining the characteristics of the economic clock, I used some figures based on historical returns, which indicated the power of compounding $25 over a period of 24 years and becoming a net millionaire. A gentleman raised his voice in complaint and said; "Hang on a minute, that's going to take me too long. If I follow this plan I won't make a million dollars until I'm 68." My reply was, "With all due respect sir, how old will you be if you do not make your million dollars? I mean there is every chance you are going to be 68 anyway so you may as well be 68 and wealthy instead of 68 and still complaining."

One of the problems with a slow compounding model is that they are so simple that people just do not follow them. They are too impatient, have no discipline and end up getting nowhere. Just think if you had started your compounding journey 24 years ago, more than likely you would now have all the wealth you want now. The first thing to do is make a start.

When you have a simple compounding strategy underway it will form the basis of a good safety net or fall back position. Then you can get on with more advanced strategies.

A common misconception about wealth is that money can only be made in various rising markets. However, in reality, there is more money to be made during periods of economic downturn than at other times. We have all heard of the money to be made on boom stocks, fads and fashions but few people make this money. In boom times there is tremendous competition for few opportunities.

In a period of economic downturn most people tighten their grip on what little economic resources they have. For opportunity seekers and budding entrepreneurs there is less competition, a fact not lost on John Paul Getty III, the richest man in the world during his time. In terms of wealth John Paul Getty's wisdom was that, "When the economy is bad and property values are falling, and everyone wants to be a seller, buy well located real estate and hold on to it. Don't sell, whatever the critics, the cynics and losers might say. That way you will end up very wealthy."

Some say that if you compare apples with apples he would have done better than Bill Gates. He continually tried to educate people by maintaining that if you follow the herd you will always do what the herd does and you always get what the herd gets. Those that follow the herd are always stepping in what the herd leaves behind, it cannot happen any other way.

It is important to remember that we are attempting to concentrate on the active processes of wealth creation, not just simply taking a conservative path to retirement. In other words, I am assuming you want to work your money reasonably hard rather than placing it in fixed interest rate, or managed products, in order to derive an ongoing income stream during your retirement years. If you simply wish to protect what you have and obtain some sort of annuity from it then it is best to talk to any number of conventional financial planners. By definition wealth creation is more active than passive. You can determine your level of aggression based on your risk profile and after you have all the information you need on how things work.

Finance

When it comes to the subjects of finance and wealth creation there are so many myths around that it is pretty hard to sort fact from fiction. That banks are a 'safe place to put your money'; that 'bank managers are on your side'; that 'banks are loyal' and that bank staff know best, are examples of modern day financial myths.

While I do not mean to be disrespectful here, I do think it is important to keep one thing in the back of your mind. Whenever you are talking to 'professional people', be they bank managers, advisors, planners or whoever, and they have not created their own wealth and are not themselves financially independent, what is it that you think they can teach you about the many facets of wealth creation?

If the 'professionals' you are talking to are employed by an organisation, or subcontract themselves to organisations, surely they must only be able to convey to you information regarding the products they want to push or have permission to speak on. And of course the 'right' thing for you to do is 'place your money with them'. Now if such processes were effective in terms of wealth creation, you would think that more than a few percent of the

population would achieve financial freedom over their lifetimes, but clearly this is not the case.

Given a choice, whom would you rather seek learning and understanding from? Somebody who is employed and given permission to say exactly what their controllers want them to say, somebody who is working for commissions by recommending particular products to you, somebody who is in the business of promoting schemes that 'save' taxes or someone who has genuinely achieved wealth and financial freedom by successfully using what the market place has to offer in terms of wealth creation strategies?

The age-old saying that you get what you pay for is as true today as it was when it was first coined. If you are paying nothing for your financial guidance then chances are that is exactly what you are getting. It is ironic that people pay for quality in terms of houses, shares, holidays, cars, clothes and the list goes on. But when it comes to their financial future they prefer free, cheap or inexpensive advice. Such is the power of conventional wisdom's conditioning processes. It is a crazy system when you consider that people are prepared to pay thousands of dollars for quality in terms of consumer items that will not add one cent of value to their bottom lines, but when it comes to knowledge acquisition, skills expansion, personal growth and the development of effective financial skills, it seems that most people are happy seeking guidance from those personally struggling in their own financial swamplands. They prefer the wisdom of convention rather than the wisdom that could lead to a lifetime of financial freedom.

Ultimately, the advice that most people receive, when considered in terms of the long-term surrendering of their financial potential, is the most expensive information for which they never pay. If you are considering accessing a body of knowledge and skills that can lead to an abundant life of wealth and peace of mind, let your guiding light be, 'you get what you pay for.' If someone wants to talk to you about wealth, make sure they are wealthy themselves. Otherwise, in the big scheme of things, they will not have a clue about how wealth is really created, but they will know everything about certain products to which they will be more than happy to introduce you to.

If you want to be wealthy and somebody sells wealth knowledge, and they have a good reputation, then buy it. If they have a product that goes along with that knowledge, then question it. If you feel uncomfortable with them, then forget it. When it comes to the knowledge industry one of the first things you must do is empower yourself and challenge the conventional wisdom that says those standing behind financial products know best.

In terms of banks, and the general finance industry, their primary interests are protecting market share, protecting fees and charges, protecting financial commissions, protecting financial trails, inventing more products, developing new markets, cutting costs and increasing market dominance. In essence their interests are squarely focused on increasing their own nest eggs. This means that whenever you are dealing with the finance industry, despite the rhetoric they use, their real interests are in placing you into products that give them the greatest returns.

In order to challenge conventional wisdom you must do your research and make absolutely sure you know exactly what the product is that you are committing yourself to. You must push advisors hard to tell you about all the products they have on offer and not just the ones they want you to see. Sometimes the best product for you is not the one on display. If you are

after a loan, continually ask for information on other ways of arranging loans such as a no frills credit line, or interest only loans and a host of others that are available. Do not get sucked in by 'honeymoon rates' and 'no entry fees', they will end up costing you more in the long run. Make sure you do your research and always be prepared to walk away if the person you are talking to is not prepared to meet your requests. They will give ground if they know you will take your business elsewhere. If they do not you are probably right to walk away.

If you are thinking of borrowing in the future then do your homework now so you will not be in a rush and emotionally engaged because you absolutely must buy ***'that house'***.

If you currently have a standard home loan, it is possible to decrease the period you normally use to pay off your standard home loan from 25 years to approximately 8 years. On average it takes around 8 years to pay off a standard home loan and around 17 years to pay off the interest. There are several books available on the subject but you might like to start with *How to be Mortgage Free in Four Easy Steps,* by Mortgage Free Australia and another with the title, *How to Pay off Your House in Five Years by Someone Who Did it in Three*.

Most banks have a version of a revolving line of credit but initially they may not explain how their use can save you tens of thousands of dollars on your house payments. They are much more interested in your 17 years worth of interest payments. However what they will promote to you in is an 'equity loan'. Currently, one of the major banks is advertising equity lines aggressively, and encouraging you to buy a 'new four wheel drive vehicle', or take that 'fantastic holiday', or buy the 'yacht of your dreams'. And where do you get the money, 'equity loan' of course! In other words, the banks do not encourage you to use equity lines to lessen your debt and pay off your house quicker, but to use them to increase your debt by buying lifestyle or liabilities that decrease in value. Such is the bank's ever increasing need for profit they are willing to encourage people to spend beyond their means and spend money they have yet to earn on things that will not add one cent of value to their net worth.

Interest rates on lines of credit, or equity lines, tend to be slightly higher than standard variable rates but if you consider that when used effectively, they can literally save you tens of thousands of dollars on interest payments, the small additional amount is immaterial.

Basically the way a line of credit works is that, depending on your assets and borrowing capacity, the banks will advance you a loan against the equity you have in your house or other assets. You set up a cheque facility on the account and the amount of your loan sits there in much the same way as an overdraft does, but it does not cost you anything until you draw down on the account. You are then charged interest on the amount you have used or drawn down.

By learning about 'revolving lines of credit' type products, you might find that you can dramatically decrease the interest period and save tens of thousands of dollars without increasing your monthly repayments. This is especially so if you have excess cash that you can leave sitting in your account longer so that you pay off your loan faster. If you are a little more entrepreneurial you can pay off your loans faster still. You need to seek guidance from independent sources that understand how credit lines work. They can be powerful in terms of decreasing loan periods or they can be destructive if not managed correctly.

Make sure that it is the type of loan where interest is calculated daily and added in once a month. Do not be fooled by anything else. As you are only charged interest on the

outstanding amount, it makes sense to be continually placing money back into the account by having all forms of income directed into it and left there for as long as possible. The longer you can leave it there the less interest you are being charged for that period of time.

In terms of your living expenses, use a 45 to 55 day interest free credit card for as many of them as you can. Always clear the card before the due date by getting the lender to automatically draw the money from your credit line and transferring it to your credit card. Alternatively you can simply write a cheque from your credit line to pay off your credit card. By having as much income directed back into your credit line as possible you are continually decreasing the outstanding amount on which you are charged interest. Use the bank's money free of interest for your living expenses and you get the best of both worlds.

If you find that you have an account where interest is calculated in other ways, such as monthly or every time you make a payment, it may be costing you money. Some lenders calculate their interest each time you make a payment on your account. When you make a payment, instead of that payment coming off the outstanding amount first, the interest is calculated on the outstanding amount then added on before your payment comes off. You really need to be aware of these practices and get unbiased information because they could end up costing you tens of thousands of dollars in extra payments over the life of a loan.

A word of caution. With a credit line, you are being given the equivalent of a huge credit card and basically you can spend as you like, just so long as you keep up the interest payments. However you need to be extremely disciplined in its use and only use it for the investment for which it is intended. So many people are tempted by the extra funds they have available only to end up in financial difficulty. If you cannot be extremely disciplined, simply do not use them. In the right hands they are powerful. However, in the wrong hands they can be disastrous.

Just imagine that you have existing equity in your home. It can be anything but let us say you have $100,000 worth of equity. What if it were possible to borrow 80% of the available equity you had, say $80,000 at 7%, and invest that $80,000 into a product that was returning somewhere around 20% per annum, and protected via a capital guarantee. The returns on the borrowed money would be far greater than the costs of borrowing that money and you can use these returns after a few years to further drive down the outstanding amount of your loans and discharge them relatively quickly. There are a number of products available that might fit these criteria but you have to do your homework. While the returns are not guaranteed, your capital is.

Banks are there to serve you; it is not the other way around. Always use competitiveness between lenders to get what you want. A happy investor sent the following description of using the competitiveness of lenders to get what he wanted. "Hi everyone thanks for the replies from my last posting on valuations. As a result I have now moved my business to another bank as the original valuation made it impossible to do the deal. The new bank has valued the property and the valuation came in right on the figure that I had said all along and 13% higher than the first valuation. I guess the lesson is to never accept no for an answer, keep trying until you get the deal you want. It caused a bit of stress and for a while it seemed that the whole deal would fall over but in the end I got the deal and I can take a lot of knowledge and experience into my next property purchase. All in all a very worthwhile experience and great to work with such a knowledgeable team."

Normally people are swayed by what their banks say. However, if you keep seeking ways to get what you want the answers are always there. It is just a matter of knowing what questions to ask in the first place.

There are increasing numbers of non-traditional lenders in the market place who are not necessarily lenders themselves. They operate more like brokers who arrange loans. In some cases their loans are 'securitised' in that they have mortgage insurance taken out on the whole loan. However, you do not pay this insurance until your borrowings move above the 80% level. Because their loans are secured, investors are willing to lend money for lower returns in exchange for greater security. With more traditional lenders, such as banks, the asset secures the initial 80% of the loan and if you borrow more than the 80% against the same asset then you may incur mortgage insurance.

In general, if you borrow more than 80% of the value of an asset, and only have that one asset to secure the loan, the banks will request that you take out mortgage insurance to protect them and their loan. Mortgage insurance does not protect you so much as it protects the lender in case you default on your loan. If you default, the banks will endeavour to recover their loan by any means possible, inclusive of selling your house. If what they get is less than what they are owed, the mortgage insurer pays the outstanding amount and then comes tapping on your shoulder to recover their costs. Generally this only happens as a last resort.

Initially these loan arrangers could undercut the banks, and organisations such as Aussie Home Loans really drove the competitive wedge between themselves and the banks. However, banks have been forced to become more competitive now and I am not sure these other lenders still have the same competitive advantage as they once did. Proper research will reveal the answers you need. Do not accept anything on face value without checking out the details yourself. The Internet is full of sites that can compare the real rates of interest and costs between lenders. One you might start with is www.cannex.com.au

To finance loans, banks obtain their money from the financial markets and pay whatever rates currently prevail. Then they add on their costs in terms of administration and running costs and build in a profit margin. They also add on what I call their fruit baskets, such as extra fees, charges and penalties as ways of generating more profit. Banks do not generally shape basic loans so much as the lenders to the banks shape them. The banks shape the additional features that are included in their loans. If you pay out a fixed loan, and it is to the detriment of the bank, you will most likely have to pay a penalty because the banks may have to pay a penalty to their lenders.

In general banks are decreasing the standards of their services to their customers in the drive for increased profits. Staff tend to be over worked and over stressed. Most all banks are now outsourcing the writing up of loans to mortgage brokers because this strategy ultimately saves money for the lending institutions because they do not have to employ lending staff.

If you are going to get serious about creating wealth, you are going to need to build up a good relationship with a mortgage broker. Despite the banks' rhetoric about cheaper loans and better deals I prefer to use people who simply give good service. I am not particularly concerned with what interest rates I pay. I am more concerned with the service I get either from a lender directly or via a broker who can arrange things on my behalf. I am more interested in working with someone who knows exactly what type of a loan I need for any of

the particular strategies I am employing. Not all loans are the same and not all loans are suitable for what you might want to do.

When I started out I had nothing so I just kept shopping for somebody who was prepared to give me good service. I did not care if their interest rates were higher or lower, I just wanted the service. I wanted someone where I could pick up the phone and talk to them at any time of the day. It took me several attempts and eighteen months to find a person who offered good service. As a wealth creator I was not so much interested in the first or second loan, it was the flexibility of the tenth, fifteenth and twentieth loans, on which I had set my sights. That is why it is so important to deal with somebody who really knows what they are doing and is interested in what your goals are. Anyone can set up a loan but only a few special people will provide the service to get you where you want to go.

Actively creating wealth means getting access to money so the more you can get access to, the more you can use to control good quality assets and the faster you will attain your goals. As an active investor you need to be able to constantly speak with the person who is directly responsible for your loans. You need that person to take responsibility for a loan's journey through the application maze. If nobody takes direct responsibility for your loan you can often find yourself in a situation where paperwork is shoddy and settlement dates are compromised because of somebody's slack work in head office.

The thought of borrowing money scares some people because of the old school of thought, 'buy a house, pay it off and never go back into debt'. For a long time this statement had currency and I must admit it still has currency for many people today. But few people understand where this type of thinking came from. And even fewer people understand that this concept does not necessarily lead to independent wealth. Witness the number of people living in houses they own but are relatively unable to support themselves financially. Granted it will give you security and peace of mind but more likely than not it will not make you wealthy. Consequently few people ever question this school of thought and its beginnings remain buried in the cultural baggage of past generations. It has been suggested that such thoughts originated as a result of the 1929 stock market crash and the ensuing Great Depression.

My grandfather used to tell me stories about the times in which he lived. The following story is one that described the euphoria of the 1920's as he remembered them.

Basically the 1920's, especially the later years, were euphoric times and beliefs were such that people thought the sentiments of the Roaring Twenties would last for a very long time. However such euphoria was not to last past 1929 when one of the greatest stock market crashes of all time took place. Many investors lost everything, including their houses, when the market ran out of steam and descended into the greatest Depression of all time.

Prior to the crash the market was booming and broking houses were lending up to 95% of existing value of share portfolios so that investors could purchase more shares. One of the borrowing conditions was that if the value of their new portfolios dipped below the 95% lending rate, investors had to supply additional funds or shares in order to bring their accounts back to parity. In market terms this is referred to as a margin call.

When the market finally crashed several events took place, the first being that investors were asked to top up their accounts as portfolio values dropped. As many investors were heavily

geared, in that they had borrowed large amounts to invest in shares, there was a rush to get cash from the banks. After the initial rush, the markets kept falling, investors wanted more money and the bank's supplies of cash quickly dried up. So they asked the Government of the day to give them more money. The Government refused.

Related to this drying up of supply was a clause in mortgage documents, which allowed banks to request that mortgages be paid out in full upon demand. In the event of the crash banks tried to get their money from home mortgages and, as people could not pay their loans, their homes were reprocessed. Of course this caused great hardship for people as the banks flooded the market with houses that few could afford to buy. In the end the bottom fell out of everything.

The only people to economically survive the tough times of the market crash and the following depression were people who owned their own homes and were not in debt. Hence the birth of the statement, 'buy a house, pay it off and never go back into debt'.

Several important changes have been made since then, one of the major ones being to the lending ratios. For the majority of shares that can be margined, or borrowed against, the ratios are around 50 to 60%. If they are rock solid, blue chip companies some brokerage firms may go as high as 75% against a particular company. Nowadays if the market does correct there is a bit of a buffer before margin calls are made. However, this safety net does not mean that margin loans do not have to be treated with caution. They do!!! If the value of your shares dips below your maximum loan to security ratio, lenders will make margin calls. If you have not got extra cash or extra shares to give them within 24 hours, they can start selling your shares into a falling market.

Changes have also taken place in mortgage arrangements. If the property markets crash, and you keep up the payments, lenders will not come tapping on your door to ask for the repayment of your mortgage. Most people enter into a contract to repay the loan over a number of years and so long as you maintain regular repayments and keep to your side of the contract all remains well.

Used wisely the use of other people's money can dramatically increase your investment returns. The two terms generally associated with borrowing are leverage and gearing. Gearing has to do with the relationship between borrowed funds and the amount of funds supplied by investors. Leverage is the American term for gearing.

Just as gears in a car transform the engine's energy to the wheels as speed or power, gearing, or borrowing money against assets, has the ability to magnify the effects of price movements both up and down. So if you are going to use other people's money you must make sure that you understand your strategy and that you understand the risks involved. Timing is an important consideration for gearing strategies whether they are for houses or shares. A mortgage is generally borrowings for residential real estate and a margin loan is generally borrowings for shares.

Credit, or other people's money, is a primary tool in the kits of wealth creators. Without the ability to borrow, investment returns are generally limited to the natural growth of capital gains. With borrowed money these natural growth gains can be magnified, but again this magnification works both up and down. As mentioned earlier, most people use credit, especially credit cards, extremely ineffectively.

To be effective you must learn all you can about the use of credit and borrowed funds. The captains of consciousness in the banking industry have very cleverly shifted the meaning of the word credit to mean something good. Psychologically they have shifted the connotation of credit from its debt implications of borrowed money, to the 'in credit' implications of savings. This shift has been so subtle that we can now witness a shift in the deep psychological underpinning of the ownership of money that is available on credit cards. Whether they are conscious of it or not, most people now psychologically believe that the money that is available on credit cards is 'their money' and they have the 'right' to use it how they like.

Other types of cards, where the savings are really yours, are referred to as debit cards and are not as popular. Perhaps this is because of the shift in the psychological underpinning to 'debt'. Credit is a much more 'positive' term isn't it? When times are good and there is a lack of discipline, the incessant offering of increased credit limits, and the ease of which you can get multiple credit cards, combine to form a powerful cocktail that gets many borrowers deep into financial trouble.

Although lending institutions are in the business of lending money, it is becoming increasingly difficult for many potential borrowers to borrow money. This has to do with people's mobility, the changing nature of the workforce, an aging population, increased defaulting behaviour and changing social living arrangements.

It is also progressively more difficult for people who are artists, or self employed, or in small business, or recently divorced, or advanced in years, or legitimately change jobs a lot, or work on short term contracts, or trade the stock market to borrow money from banks. In short, anyone who falls outside the picture of stable employment, stable residence, good credit repayment history and sufficient life years left to repay a loan will find it difficult to borrow money via standard bank criteria. A good relationship with a mortgage broker who is interested in you and your investment needs is invaluable because they know all the different criteria the banks use to assess loan applications and are able to present you to the banks in ways that are advantageous to you. Different banks have different lending criteria so while you might be able to borrow $250,000 from one bank, under the same criteria, it might be possible to borrow $300,000 from another bank.

If you are having trouble borrowing money for a worthwhile investment opportunity, begin asking questions of an extremely professional mortgage broker. You may be surprised what they can come up with. It is popular to think that mortgage brokers put you where the highest commissions are but this is a bit of a falsehood. Most commissions are the same and the bank with one of the highest commissions is the most difficult bank to deal with so they shy away from it.

Like any industry, there are lots of very ordinary brokers vying for your business and they will do what is easiest for them. However there are some extremely good ones around who know the game inside out. You need to get access to these people and word of mouth from people with multiple investment loans is the best place to start. If they have only one loan, they will not have had enough experience yet.

As a rule of thumb there are a number of important criteria you need to meet in order to satisfy the requirements of banks. Like the identification points system for new financial

accounts, most lenders use a points system when assessing the risks involved in lending you money. All loan applications have points assigned to the answers you provide. This system allows statistical comparisons to be made over large numbers of people. In theory the attainment of a certain number of points indicates to lenders whether or not you are a good financial risk.

It is important to know what lenders are looking for so that you can present yourself in the best possible manner. It is equally important that you do not try to fabricate answers because lenders will cross check anything that appears unusual on application forms. Always be honest in your dealings with them. Even if things have not worked out well in the past, it is best to explain the circumstances and work through issues so that both the lenders' and your needs are met.

Generally lenders want to see that you are steady, reliable and of good character. They need to see that you have confidence and know what you are doing and that you have the ability to service borrowings, and so, it is a good idea to prepare income and expenditure statements in advance.

Anything that establishes the sort of image that lenders are looking for will work well in your favour and anything that detracts from this will work against you. If you are constantly changing residences, changing jobs, or types of jobs, then it will be hard for you to establish a pattern of reliability and good character. While you may have perfectly good reasons for moving about so much, i.e. short-term contracts, it is the pattern in which most lenders are interested. Even if you do not intend borrowing in the near future it is important to do the work now and establish a good track record so that you can present yourself to lenders in a manner which makes them comfortable about lending money to you.

The best way to convey confidence is to demonstrate to the lender that you understand what you are doing, that you understand the risks associated with borrowing money and that you understand your responsibilities with regard to paying it back. Remember, you have to play the game according to the way their rules are written, not, as some behaviour suggests, according to the way you want the rules to be written. Do not just go to them cap in hand and say, "Please sir can I have some more!" Approach things with confidence and a degree of professionalism. Instead of asking how much can you borrow, work it out yourself after some research and ask to borrow the exact amount you need. Have things itemised and present the lenders with a distribution summary of the way you intend using the money. If you present them with a well-considered plan of action, it certainly gets their attention.

They like to see that you know and understand what you are doing as this will give them confidence that you are worth the risks involved in lending. Their aim is to make money while minimising their risk of losing money. Go to them with a clear understanding of how much you want and what you want to borrow the money against. If you are borrowing for an investment property, document all the costs to you such as stamp duty, settlement costs, repayment schedules, water and council rates, management fees, maintenance costs and vacancy rates. Use simple line graphs to show the differences between rental returns and mortgage repayments and how much of your money you have to put in on a monthly basis. You can use graphs to demonstrate that rental increases over time will diminish the amount you personally need to service loans. This is especially so if your loans are fixed, interest only for 5 or 10 years. As such your repayments will remain the same. However your investment income should increase over the duration of the loan.

Do you think most people do this? Of course not! So if you do it, lenders will be impressed.

It is important to be very clear about how much you want to borrow. You need to have done all your calculations for repayments on that amount. For things like mortgages most lenders will lend up to 35% of your gross earnings. However, under certain circumstances, and for people who know what they are doing, some lenders will increase this to 50%. It is worth doing anything you can to present a positive image of yourself to lenders. Things like having copies of all relevant documents ready in a file to give to lenders are a terrific starting point. Copies of the past two years taxation records, current pay statements and loan repayment records. If you have not had a loan before it is useful to have copies of bank or cash management statements, which indicate disciplined savings routines.

If you are renting then it is useful to have copies of rental payments for the past twelve months. This shows that you can meet regular financial commitments. It is also a good idea to have a statement from your employer saying how long you have been in the job. Lenders are especially interested in people who have job security. If you have a credit card then its constant use and clearing the balance at the end of every month will convey an image of disciplined financial management. In fact copies of any forms of regular payments, such as Christmas clubs, target savings plans, holiday savings plans etc., will demonstrate a willingness and history of making regular payments.

It is also useful to have worked out your current household and personal expenditure budget. Include things like car maintenance and running costs, food and household costs, entertainment costs.

Prepare a statement of all insurances such as income protection, building and contents insurance, trauma insurance, life insurance and land lord's protection insurance. They like to know that you have planned for things in the event of a worst-case scenario. As all lenders need some form of security to lend against, a current statement of assets and liabilities is useful and it should be included in your file.

Having said this, not all things are considered assets in the eyes of lenders. Many people consider cars, boats, jewellery, antiques, caravans, motorbikes and art as assets. However, banks have different ideas. While a list of the above may look impressive banks have a strong tendency not to lend against them and tend to view them as liabilities. They are really only interested in real estate assets or good quality share portfolios, assets that can be liquidated quickly with values that can be readily assessed. It is important to do your research and find out what the lending criteria of various financial institutions are and what they will actually lend against. This will save any disappointment when you eventually approach a lender.

Just a note about credit cards. A credit card is considered a liability even though you may not have any borrowings on it. If you are not disciplined in the use of credit cards they can count against you. However, they can also count against you even if you are particularly disciplined in their use. Let us say you have a credit card with a $10,000 limit and you use it in an extremely disciplined way so that the outstanding balance is cleared every month. When it comes to ascertaining your liabilities, banks will include the $10,000 limit as existing borrowings, even though you may never borrow the full amount. The banks position is that if you have $10,000 available credit then they treat it as existing borrowings and debt. This is one of the problems people face when credit card providers send you a letter saying,

“Congratulations! You have been approved for an increased credit limit to $7,500.”

Dear Mr/Mrs Bloggs

In recognition of your status and excellent record with us, we are pleased to approve your limit increase to $7,500. With a higher credit limit you have the security of knowing you will have extra funds when you really need them. You will also have greater purchasing power at home and overseas and you will be able to take advantage of all the ‘sales’ at Christmas time. Not to mention those fantastic after Christmas ‘specials’.

There will be another three or four paragraphs extolling the virtues of what you could do with the extra funds in an emergency and so on. I could go into the semiotics of the language they use, the images they promote and the emotions they tap. They almost make you guilty for not increasing your limit. You must be on your guard and understand that they are not so much doing you a favour as they are doing you a disservice. Suffice to say that if you have a credit card with a limit of $7,500 lenders will calculate the limit as already borrowed funds. If, as most people seem to do these days, have more than one credit card, they may severely limit your borrowing capacity. This may affect your ability to borrow the amount you are looking for when attempting to buy your first investment property.

Anecdotally it has been reported that many Australians have been so seduced by credit card providers and the ease of which they can be obtained that financial counsellors are now seeking to unwind the financial misfortunes of people living off in excess of 100 credit cards. Financial counsellors almost breathe a sigh of relief when those in financial distress report that they only have 30 to 40 cards in present use.

If, after having done all your homework and presented yourself in the best possible way to a lender, you are refused credit, it is important to follow things through with the lender to discover the reasons for refusal. It may simply have been something you forgot about, or that you did not meet lending ratios or the points did not add up. If you can talk things through with lenders you will know what areas you need to improve upon before applying for another loan, perhaps somewhere else.

Before you start it is useful to know what sort of a credit profile you have. Lenders have the ability to access a range of information contained in your credit file, which is usually held by a credit-reporting agency. You need to know what is on your file so you are aware of the image lenders are receiving. If there is information contained within your file that is either wrong, should not be there or just needs adjusting, you have the ability to get these matters clarified so that you present a positive image to lenders. If you do this before you intend borrowing money, or establishing a line of credit, then there will be few unwelcome surprises in store for you.

Your credit record will show when you have applied for loans before, if you have paid off loans, or defaulted on debts, or been a bankrupt.

The biggest credit agency in Australia at the moment is Credit Advantage Ltd which manages approximately 98% of all individual credit files. Individuals can request a copy of their credit files by writing to Credit Advantage Ltd, PO Box 964, North Sydney 2059. Ph (02) 9464 6000

You need to supply them with your full name and address for the last five years. If you have moved recently it is best to also supply the last address. They will also require your date of birth, your driver's license number, a daytime phone number and your signature.

Theoretically the more you can borrow and service the greater capacity you have to create wealth. However, you still need to act cautiously and within the guidelines of safety. Always have a financial buffer and fall back position and never over commit yourself. It is just not worth the stress and worry.

If you borrow money for good quality assets, you will normally find that time becomes your most important ally in terms of value growth. Through the natural movement of supply and demand forces, market values have a habit of increasing at a faster rate the longer you hold onto them.

After you have your finances in place it is time to move on to an understanding of compounding. Compounding is one of those subjects often spoken about but generally not well understood. Like all wealth creation strategies the key to success in compounding is discipline. Einstein was once asked if there was anything in the world he still did not understand and he replied with, "Yes, the miracle of compounding."

Compounding

Once you have put your funds to work you must leave them alone. The only action permissible is to continue adding to them until you are wealthy. The whole idea behind compounding is to get to a critical mass as quickly as you can. Critical mass is achieved when the amount of cash flow, interest and dividends replaces your income so that your investments continue to grow in value and sustain your lifestyle. This stage is true financial freedom and after that you can harvest as much as you like. The level of critical mass will be different for different people as it really depends on where you have set your wealth goals.

But how do you work out how much you might need for critical mass? Let us say you want $100,000 of completely disposable income per annum to support your lifestyle of choice. And let us say that on this amount your tax rate is 50% so in order to get your $100,000 you will have to generate $200,000 per year. So how much would you need to have invested and what return would you need to be generating for you to hit critical mass?

Try this formula and see if it works for your needs. $100,000 X 2 (for tax purposes) ⁄ (by return on investment). So if you wanted $200,000 per annum you would need to have $2,000,000 invested at 11%, to get you what you need for critical mass. Alternatively you can have $2,500,000 invested at 9%, or $3,333,333 invested at 7% to return the sort of income you are interested in receiving. This is a rough rule of thumb calculation and is not meant to be a complex calculation based on beneficial taxation or other sophisticated arrangements. The calculations I have used are actually 1% over what you actually need to generate your return so that your nest egg continues to grow in value.

There are countless other ways you can go to achieve critical mass and the above simply represents the most passive of them. It would be great if you could learn to work your nest egg at 20% return but only harvest at a rate of 10% per annum.

However without discipline you may be tempted to harvest your growth before the power of compounding has had a chance to kick in. Harvesting is by far the easier of the two actions, which is why everybody does it, and why the majority of people end up broke in retirement. If you wish to achieve wealth relatively quickly, successful compounding requires the continual feeding of what I call your wealth curve.

If you are not going to continually feed your wealth curve then the only gains you will receive are subject to market forces and sometimes that just takes too long. Remember everything in present day society is stacked against you, so discipline is the key to success here.

In order to understand the power of compounding let us consider the following. A person on a salary of $35,000 per year needs to work on average 154 days before they start earning money for themselves. A person on $50,000 needs to work approximately 173 days before they can start earning money for themselves and perhaps direct it towards lifestyle pursuits. In other words nearly 6 months per year is spent raising funds for others, before a person on $50,000 can begin to spend the first dollar on themselves. Most of this money is then channelled into surviving the next six months and so the cycle continues. As a rule of thumb, a modern day lifestyle sees 9 out of every 10 dollars earned in the normal course of a working week already committed in one form or another. This leaves 1 out of every 10 dollars available for personal rewards or wealth creation. If you fit into this scenario, and most do, another way to think of it is that, in the normal course of events, you surrender 90% of the power of every dollar you earn.

To follow through on this a little further, every extra dollar earned over and above your annual income can be described, as being totally uncommitted, that is, there are no outgoings allocated against it. This means that every dollar you get over and above what you would normally receive has 10 times more power than every dollar earned in the normal course of events. However, because of most people's default wealth switch, they do not put these extra dollars to work so much as they employ decompensating behaviours to rid themselves of excess.

There is a market truism, which suggests that 'those who understand the power of compound interest, earn the interest and those who don't understand the power of compound interest, pay the interest'. Compounding literally means to pay interest on the accrued interest as well as on the principle invested. It has been described as one of the greatest mysteries of the modern world.

Compounding is turning time into real wealth. If $1 per week was securely invested every week, and the interest was reinvested and left alone, based on historical returns for cash and fixed interest type investments, the sum invested would grow to $55,800 over a 24-year period. Your contribution would have been $1248. If $25 were invested in the same way, the amount of funds invested would grow to approximately $1,400,000 in 24 years. Your contribution would have been $31,200.

Investment advisor Noel Whittaker tells a story that describes the power of compounding beautifully. Imagine a magic train that pulls into the station when a baby is born; let's call him James. His parents start planning ahead and they recognise that the magic train is really an investment train that will look after the long-term financial needs of baby James. They work out that they could board this train immediately by paying $1,000 and then by saving

$2.73 every day they could pay for its running costs. They didn't need to pay the running costs on a daily basis because the train was designed in such a way that it would pull into the station and collect the $1,000 running costs every year, 365 x $2.73 plus interest. The train would carry this money in one of its carriages and it would pay interest for as long as it carried the money.

Let us look at what happened by the time James reached the age of 60. Through the miracle of compounding, when James was 2, the load of the train was worth $2,440. By age 5 the load was worth $7,537. When James was 21 the load was worth $131,876 and on his 31st birthday the load was worth $510,937. By the time James reached 37 the load was worth $1,130,221. At this stage contributions to the load were $37,000 but nobody had to contribute any more because James was now free to ride the train for the rest of his life. When James was 50 the load was worth $6,000,000. By age 55 it was $12,000,000 and by age 60 it had grown to $24,000,000.

If this strategy is followed, the larger the base from which an investor starts, the greater the amount invested and the greater the frequency of investments, the less time to critical mass. Remember that critical mass is where you can take whatever you like from your investments to support whatever lifestyle you want and your investment portfolio continues to grow in value. If you were disciplined enough and were willing to make short-term gratification sacrifices you could be financially independent in relatively few years.

If you examine a compound curve closely you will notice that it takes roughly 90% of time to achieve the first 50% of gain. The other 50% of gain comes in the last 10% of time. The easiest way to examine a compound curve is to ask your bank for a print out, or a graphical representation of a standard 25-year principle and interest home loan. You will notice that starting from the x-axis the descending curve pretty much flat lines and then dips dramatically at the end of the 24-year period to meet the y-axis.

If you invert this curve through 180 degrees so that it begins near the junction of the xy-axis and the curve initially flat lines along the y-axis before it shoots upwards along the x axis, you now have what I call your wealth curve. In other words, the same shape, turned upside down, can be achieved by investing wisely.

In terms of wealth creation everything you do must be geared towards getting the business end of the curve closer towards the x-axis. The more wealth strategies you can employ and the more you can ramp them up, the faster you will achieve financial freedom.

Another way of looking at the power of compounding is to take the following scenario. Jack and Jill are both 20 and wish to invest some money for their future needs. They each have the capacity to invest $2,000 per year for an expected 8% per annum return. Jill decides to start investing from day one and invests her $2,000 every year for the next ten years. At the age of 30 Jill's circumstances change and she directs her $2,000 into other uses. However, she decides to leave her original savings alone.

Jack on the other hand was a bit of a traveller who wanted to hit the road, climb a few hills and explore yonder landscapes, so he sets out at age 20 and explores life until age 30. After his adventures he settles down and starts a savings regime. He works hard and invests his $2000 every year until he reaches the age of 60.

By the age of 60 Jill had only contributed $20,000 yet her savings had grown to $340,060. By the age of 60 Jack had contributed $60,000 and yet his savings had only grown to $266,427. Which would you prefer?

How many times have you heard that working overtime is not worth it because of the taxes involved? Just remember that every dollar earned over and above what you normally earn has 10 times more power than those earned in the normal course of events. If you earn these dollars through successful investing, all the better. But so many people will not work overtime because of increased taxes or they will not commit to capital growth strategies because of the spectre of 'capital gains tax'. The only reason people pay more tax is because they earn more money. The only reason they pay capital gains tax is because they have made a capital gain. More money and capital gains are the language of wealth, taxes is the language of financial underachievers.

Financial achievers use the power of compounding by putting themselves in positions where extra income can be generated so that they can leap frog their way to financial freedom.

Financial underachievers worry about tax and capital gains so they reward themselves with whatever goods or expenses they perceive to be immediately necessary. They lock themselves in the hamster's wheel and create a pattern of borrowing to afford the things they like. Their ultimate reward is to lock themselves in a never-ending struggle of having to make financial ends meet and a never-ending consumption of energies directed towards survival.

Financial underachievers create a future for themselves based on liabilities rather than assets, a future of financial insecurity rather than security. They firmly locate themselves within the 96.9% of Australia's population of wealth spectators.

Financial achievers know that the number one rule of compounding is leaving their investments alone.

The power that compounding offers investors in actively working their money is enormous. Not only can you compound your money by earning interest on interest, you can further compound the returns you are receiving by compounding the vehicles you are using. By following the economic cycles mentioned earlier, you can compound the effects between the wealth vehicles of real estate, interest and shares.

Negotiating

The final pillar to be set in place, if your investing structures are to become strong, is the development of successful negotiation skills. The extent to which you can negotiate anything for a favourable outcome is, in essence, the extent to which you are in control of any given situation. Negotiation is a skill and, like any skill, it needs to be thought of as such and it needs to be learned and perfected through practice. There are no skills to my mind that can be gained without practice. When entering the real estate market your skills will determine whether or not you get an indifferent, an advantageous or an excellent deal on what you purchase.

It is the same when negotiating broker commissions, banking fees, business deals, contracts, and a multitude of other things to do with wealth. Wealth creation is about maximising every opportunity you have to create a favourable environment for your own financial outcomes.

Often large profits in real estate can be made on the purchase price as opposed to the selling price. In every situation there are a number of variables you can use to your advantage. You need to examine these variables and determine which ones to use in order to achieve your desired result.

The secret of any successful negotiation is having a pre-established outcome before you enter the negotiation situation. Negotiation then becomes a process of using your skills to negotiate towards the fulfilment of that outcome. The most common mistake people make in a negotiation is not to set a predetermined outcome and, as such, they just barter for the best deal they can get. Not setting outcomes, and sticking to them, is to allow the other side to control the process.

Herb Cohen, recognised as one of the world's leading negotiators, believes the world to be a giant negotiating table, and, "Like it or not, everybody is a negotiator." In *You Can Negotiate Anything*, he maintains that if you examine the concepts and processes involved, you will realise that negotiating is a field of knowledge and endeavour that focuses on gaining the favour of people from whom you want things.

Negotiation starts early in life when a newborn begins to negotiate for food. From that time on we are either in a situation where we are trying to gain favour or we are in a situation where favour is being gained from us. According to Cohen, "Negotiation is the use of information and power to affect behaviour within a web of tension." If you think of a newborn baby, tension is created through crying and visual discomfort. Tension arises through expectations of the satisfaction of needs. The greater the tension the greater the need for satiation and the more urgently a mother will satisfy that need.

A moment's reflection will reveal that people negotiate all the time in their jobs, in social interactions, in sport and in their personal lives. Persuasion is a form of negotiation and almost all forms of communication is based on some form of persuasion. Much of the subtext is based on 'can you see things my way', or 'will you do this for me'. Whether it is subtle or overt, whether it is verbal or visual, whether it is restrained or deliberately used body language, whether it is through the use of clothes, personal appearance, fancy cars, big houses, flashy boats or overt and subtle behaviours, in one form or another, consciously or unconsciously people are seeking to gain favour, or establish rapport with their likeness, all the time.

Many people use 'looks' as a way of attracting a favourable response from other people. Often it is the first appearance of anything that determines the response of people towards it. Some people attempt to elicit fear as a favourable response, while others seek connection and empathy. This initial response is generally an emotional one, which causes favourable or unfavourable reactions depending on which side of the response you are on. Some of the most common negotiations happen between partners and within families.

Traditionally we might think that rewards go to those possessing the greatest amount of talent, or to those who have undying dedication, or to those who attain the highest qualifications that formal education can bestow. But, as Cohen points out, life disillusions those who hold that virtue and hard work triumph in the end. Effort does not equal rewards. Winners, he says, "Are those who are competent and have the ability to negotiate their way to whatever they want."

Negotiation is not about confrontation. And most negotiations are never conducted in a formal manner. The time you get up in the morning is a negotiation between you, your daily needs and the needs of your economic circumstances. It is about taking responsibility for the outcomes you get in life. Remember that you are either in control or you are being controlled. Negotiation is really about control and ownership of processes. In every negotiating situation, and almost everything is a negotiation situation, someone will be in control and have ownership of that process. If it is not you then it is the other party.

The ideal is to both get what you want or at least enough of what you want to keep things moving forward. It stands to reason that success on your wealth journey includes an ability to negotiate your way to favourable outcomes. Although we negotiate all the time and we basically use the same skills as top negotiators, to be a good negotiator you must understand the component parts of a negotiating process. You must understand and be able to use the anatomy of a negotiation if you want favourable outcomes.

As a person who seriously wants to create wealth it is your job to understand what elements you can begin to take control of in any negotiation situation and then use these to your best advantage. In a buying and selling process it is a mistake to think the only variable worth negotiating on is price. To a successful negotiator, price should be the last consideration as there are many variables that can be considered before price becomes an issue. However to the untrained negotiator it is either a take it or leave it situation where price is often the first and last issue discussed, especially in real estate transactions.

In every negotiation process three crucial variables of time, information and power are ever present. Whether you are playing poker with a group of friends or attempting to buy a fridge at a considerably reduced price, successful negotiation must be centred on these three variables.

Information is the key to almost every successful decision we make in life. It affects our perceptions, our reality and the way we choose to view the world. Most ineffective decisions, especially if they are financial ones, are caused through a lack of information and are generally made when emotions are engaged. If you think back to every ineffective decision you have ever made, you might conclude that during the decision making process had you access to more information, your decisions may well have been different. If you recognise this, ask yourself the question, "If my decision turned out to be ineffective, why did I fail to get more information before I made my decision?"

People have a habit of feeling as though they need more information when it is generally too late to get that information. 'Too late' is an emotion engaging situation and when the emotions are engaged vision tends to be blurred because the information that is needed is generally unavailable or out of reach.

Part of the complexity of negotiation lays in the fact that most people tend to see their negotiations as a limited happening, or an event that happens at a particular time, rather than a continuing series of processes. By thinking in terms of events, making an offer on a house for example, people seldom anticipate the need for more information until something happens and they realise they do not have enough information. Without appropriate and adequate information, a cascade of dysfunctional consequences can result. If there has been a lack of preparation, the most immediate of these consequences is that as soon as they recognise things are not working for them, people begin to lose confidence during a

negotiating processes. People who can take advantage of these dysfunctional circumstances are people who have more skills, people who have planned well and people who are better prepared. Those who ultimately hold the upper hand obtain success.

The more you know, the better prepared you are and the more potential you have for taking control of any given situation. The more you understand who you are as a person and what your basic needs are, the more you will understand other people and their basic needs. If you can understand 'self' you can understand others.

In any negotiation you have an opponent and while it may be difficult for you to think in terms of opponents, especially if you are negotiating with your life partner, you must realise that they ***'are'*** opponents in the sense that your desired outcomes are often the opposite of theirs. The more you recognise what your opponent knows and wants, the more you know about their desires and needs, the more you know about what is driving them, the more perceived power you have in any situation. The more skill you have in applying your knowledge and the more personal flexibility you have, the more you will be able to control that situation and the more ultimate power you will have. In any negotiating process it is important to never let the other side know more about you and your needs than you know about them and their needs.

If you know you will be entering a formal negotiation at some stage you can position yourself long before you enter the direct negotiating process. If you know that something will take place in the future it is relatively easy to get information in the present. The further out from the negotiation the easier it is to get information. This is because, generally speaking, people like to display their knowledge about things and people generally like to be helpful.

When seeking information from strangers, the more your appearance is appropriately non-threatening, the more comfortable people will be with you and the more they will assign you a non-threatening status. This happens because of a wonderful process called stereotyping and pigeon holing. Most people hate being stereotyped, but I love it because it allows me to quietly and consistently probe for information.

To be effective you must employ active listening skills and listen much more than you speak. Even if you think you know the answers, ask questions rather than give answers. That way you can test the credibility of the other side. This is one of the most difficult things for people to do. People always want to give answers to questions to which they feel they know the answer. It makes them feel good. Remember, your task is to probe for information that may be useful to you when you are negotiating. If you are busy giving answers you cannot be listening and you will be locked into a position of wanting to be right.

You can get information from just about anybody. If you are out to buy a house the best source of information is the neighbours. Knock on the doors across the road and either side of the house in which you are interested. Introduce yourself as someone who is interested in purchasing the house that is for sale. Ask general questions about the neighbourhood, public transport, security, neighbourhood watch, access to shops and other facilities. Then lead into specific questions about the vendor's need to sell. It is amazing what they will tell you. Once you have discovered the vendor's reason for selling you are in an advantageous position.

You do not have to do these things if you are uncomfortable with them. If research and negotiating are not for you then you do not have to employ these strategies. You are fully

entitled to pay the vendor whatever price they ask. The thing to remember is that you must be prepared to take one hundred percent responsibility for your own actions and your emotions.

What you want to know in any negotiating process are the real limits on the other side. You want to know the limits beyond which they will not go. The more information you have about their costs, their needs, their financial situation, their organisational pressures, their priorities and their deadlines, the better off you will be. The sooner you start to acquire this information before any negotiating process the easier it is to get.

When you arrive at the negotiating process, you must discipline yourself in active listening techniques. Always attempt to mirror body language and quickly establish rapport. Of course you do not do this overtly but you need to be conscious of how they are sitting or standing, what some of their gestures are and you need to subtly mirror these. Gaining rapport like this is an extremely powerful thing to do. While they may not be conscious of it, who you are negotiating with will see themselves reflected in your body language and they will take a degree of comfort in that. Adopt their posture but you must do it ever so cleverly and never let them catch on.

If you are carefully concentrating on what is going on you can learn a great deal about the other side's feelings, motivation and real needs. Attentive listening is a must and you can catch cues such as Freudian Slips that transmit inadvertent messages, or voice intonations that send messages, which seem to contradict the words being spoken. You can listen for upward inflections at the end of sentences, which signal insecurity. These upward inflections represent a way for the sender of the message to check with the receiver of the message if their message has been received and understood. Constantly wanting to check with the receiver might represent a sign of insecurity on behalf of the sender.

As it is displayed in posture, facial expressions, eye contact and hand gestures you can observe and decode the language of the body. You can observe where a person sits at a conference table or meeting, who nudges whom or who pats whom. Patting is a power play, a subtle reminder of ownership and control. The person doing the controlling pat has more power than the person receiving the pat.

Although most are consciously under-aware of these cues, they are read at a level that is just outside conscious awareness. Take somebody you are meeting for the first time. As soon as you make contact with them you will know just how close you can get in terms of physical distance. It may only be a matter of one or two feet, and while you may not be conscious of it, there will be a distance with which you are immediately comfortable or you will back off until you find that distance.

In relationships you can know instantly whether the reception is warm or cold, whether it has been a good day or bad day, whether romance with your partner is a good idea or out of the question.

Although you may not be consciously aware at first, you can train yourself to perceive such things. Next time you catch yourself consciously recognising an instant awareness of something, ask yourself how is it that you became aware or what triggered your awareness? Ask yourself what were the signs you have just read to cause this consciousness? When you are able to identify these signals consciously, you can begin to use this awareness to your

advantage. However, in a negotiation situation do not stare and do not be too obvious, you might be up against somebody who is better than you.

We live in a world where nonverbal cues are constantly being transmitted. As a negotiator you must become sensitive to the non-verbal factors in any communication. An intelligent reading of these gives the skilled negotiator a distinct advantage.

Time is the second crucial variable in any negotiating process. People are often proud of the fact that they 'save' time! Time is a strange entity when you think about it. We live in a society which seems fixated with 'saving' time. Think of all the things you can do to 'save' time and all the products you can buy that 'save' you time. When you buy all these things that 'save' time you then become trapped into fund raising exercises that consume time just so that you can find the money to buy the things that 'save' time. Think of all the ways people express the fact that they have 'saved' time. "I took the train the other day and 'saved' ten minutes, I took a different way to work yesterday and 'saved' fifteen minutes." Have you ever wanted to ask where these 'saved' minutes go?

It is almost as though you are sitting down flicking through a photo album of 'saved' time. "See that's when I was fifteen and I saved so much time that year by laying the fishing net out the night before" or maybe it would be something like, "Have a look at this beauty, I saved an hour that day which meant I only used twenty three!" We hear about cost cutting and time 'saving' activities of organisations and industry. Every year we hear about daylight 'saving'. What a strange term it is, how do you 'save' daylight? If I 'save' today's daylight can I use it tomorrow? Even though people say they save so much time, they also say they never have enough time.

By attempting to 'save' time, people get themselves so busy depleting time that they never notice what is happening for them until the ineffective use of time rings alarm bells as people run out of life's time. The whole notion of wealth creation is to learn how to effectively make up for lost time. I do not know how to save time; I only know how to deplete it. If time is a resource then life is a journey in its depletion. You cannot save time, you cannot hoard time and you cannot store time. You can only use it wisely or unwisely. You can redistribute your use of time so that you do things in different sequences or do things more efficiently. Time can be used effectively or ineffectively for your own purposes or you can allow someone else to use your time effectively or ineffectively for their purposes.

James Waller once said, "As long as you get there before it's over, you're never late." However, 'too late' can mean missing a lifetime or, in fact, the deal of a lifetime. Opportunities are forever coming and going and yet so many people never avail themselves of them. They are 'too busy', 'too late' or 'too preoccupied'. All of these involve the use of time and it appears that there is simply not enough of it.

In reality time is the same for us all, but how many times have you wished for more hours in a day? How many times have you heard people say, "I don't have any time" or "There's just never enough time?" Pause for a moment and think about these statements. In a literal sense they are absurd. You always have time. The only time you are ever without time is when you are dead! Time is the same for everybody. Sixty seconds in a minute, sixty minutes in an hour, twenty four hours in a day, seven days in a week and fifty two weeks in a year.

If one were more honest one would make statements about their use of time. Instead of saying they do not have any time, they could say, “I am really inefficient in the use of my time and as a consequence I am less productive than I could be.” Once a statement like this is made, a problem is recognised and once a problem is recognised a solution can be found.

In a task-orientated society such as ours, time and tasks are intrinsically linked. Tasks completed equal time passing. We live time according to an external series of events. We live according to time that is dictated to us rather than our own internal time. As players in the game of the ‘Twenty First Century’ most people are out of touch with internal time and internal processes. This is why most people relate to things as a series of events rather than as a series of processes.

If we understand what time means for us, and if we understand what time means for others, we can use this understanding to our advantage during an negotiation. If we understand that all negotiations are processes rather than events, then it is true to say that, completed or not, all negotiations are framed by time. They have a beginning and an end. However, if you are not aware of processes, beginnings and ends are difficult to identify because most people choose to see negotiations as events rather than processes.

Herb Cohen talks about representing a negotiating process as a time line from A→ to → G. Along this time line are various other points which we shall name B→ C→ D→ E→ F. During any negotiation process, in theory and in practice, negotiated concessions or settlements could be made at any point after A, or at any point after B or C or D or E or F. However, in practice virtually all negotiated concessions are made between points F and G and as close to the perceived deadline as possible.

If concessions are made just prior to deadlines then deadlines are a powerful piece of information to know. If settlement of a particular negotiation is to be reached it must be made on or after the deadline represented by G. Cohen points out that in his experience, in nearly every negotiated process, settlements and agreements are not achieved until the deadline at G, or just after the deadline at H.

To demonstrate his point Cohen uses an example of a person wanting to negotiate a pay rise with their boss. He states that if you had a very good case for a pay rise and wanted to negotiate this with your boss, you could make an appointment to see him/her between 9 and 10 am on a day acceptable to both. Since you believe the meeting will end at 10 am, Cohen says, “You will do everything you can to put forward your case so that a decision could be made.”

However during the meeting, if you believe that you have a 10am deadline, you will perceive that you are running out of time as the time approaches 10am and you will begin making concessions with your request. The closer it gets to 10 am, although you may not necessarily get what you want, you will make concessions in order to achieve some advantage for yourself.

On the other hand, if you perceive that it is the boss’s time that is running out because you know he or she has an important appointment immediately after 10am, you could remain patient and just continue to present the merits of your case. If the boss was in a frame of mind to acknowledge the merits of your case, and decided to grant you a pay rise, the decision would more than likely to be made at around 9.55 am. This is because in our Western society

all action generally takes place at the eleventh hour, and this holds true for almost every single negotiation.

Just think of all the things you do in life that are left to the last minute. Most people leave the attainment of financial security to the last minute. Most laws are passed in Parliament just before the recess period. Most tax returns are left to the last possible moment and in many cases, after the last moment. As a university academic it never ceased to amaze me that despite the amount of time you gave students for their assignments nearly every student would not turn up for class the week prior to the assignment's due date. Despite the threat of grade penalties almost one third of assignments would be handed in on or just after the due date.

The message here is that in any negotiation process, expect the most significant concessions to be made just before the deadline. If you know your opponent's deadline and they do not know yours then you have a powerful advantage. Even though your deadline might be just after theirs, if you appear to be more flexible with time than the other side, you have a powerful edge.

As the process moves closer to the perceived deadline of the other side, their stress and anxiety levels will increase to the point where they begin to make concessions. If you do not know the deadline of the other side, you can be assured that, in one way or another, there is one. The longer you keep a person locked into a negotiating process, the sooner you will discover their deadline. If you look for these signs and continue to hold out, more than likely settlements will be in your favour.

When you were at school did you ever play the game where you locked eye contact with someone and then tried to stare each other out? Remember it was the first one to blink who was out. You might also remember that the closer the other person felt they were to blinking the more they tried to make you blink by squirming, pulling faces, fiddling and fidgeting in an attempt to distract you. If you played the game, what tactics did you employ when you felt yourself fading? If you look for similar signs in other people as you negotiate with them you will know they are getting close to 'blinking'.

In investment real estate, never be in a rush to settle until you have the concessions and the price you want. If a negotiation is not going your way, always give the impression you will walk away from it. Remember it is never the vendor who sets the price it is the purchaser. The vendor always has to sell to you and you need never place yourself in a position where you 'have to buy'. If you 'have to buy' you lose your power. Initially agents will do everything at their disposal to rush you through the purchasing process, but if you slow things down, the more advantage you will obtain. Effective negotiations can literally wipe off tens of thousands of dollars on a purchase price.

Effective negotiations are partially to do with the thorough research that goes into every process and partially to do with widening the negotiating field. Depending on what your research reveals you can use time to your best advantage. If you find that the best tactic in a particular situation is to slow down the negotiating process and consume time, then you must consume time by any means you can. The more time you consume, the closer you are to getting what you want. You either get what you want or you walk away from the deal if you do not get your price. The longer a dwelling remains under offer the more in control of that process you can be. The more time you can consume in a negotiating process, the more likely

it is that the agent will apply subtle pressure on the vendor to lower their prices and the closer the vendor is to capitulation. Agents are generally only interested in their commissions, not holding out for the best price for the vendor Three percent commission on a $280,000 sale is only marginally better than 3% commission on a $250,000 sale. Most agents much prefer their commissions in 'the bag' than watching a drawn out negotiating process.

Remember, if a vendor is selling there is always a 'need' to fulfill. The more research you do, the more information you gain, the more you will know what the vendor's needs are. The more time you consume, the longer a property remains on the market, the longer both the vendor and the agent have to wait until they get what they want, the more urgent the fulfilment of their needs become, and the more control you will have.

In a bit of a strange twist, unless you are in a hot property market where things are sold as quickly as the sign goes up, the longer a property remains on the market the more potential buyers pass it by because they will perceive there is something wrong with it. This is especially so if the real estate sign has graffiti on it. It gets back to the herd behaviour, "If everybody else isn't doing it, it must be no good."

The number one rule of using time is that 'time consumption applies pressure'. The longer you can remain in control of a negotiation process, the less the agent and vendor are in control of that process. The longer a sales representative goes without a sale the more they will be in need of a commission and the more pressure, whether subtle or otherwise, they will apply to the vendor to accept your terms and conditions. The longer the vendor is held in the negotiating process the closer they are to lowering their price or granting a concession. However, this may not work in all cases. Some people do not actually 'need' to sell and they can just basically hang out until they get what they want. Your research should always discover the reason for selling. If you do not discover this you simply do not have enough information with which to successfully negotiate.

That is what a negotiation is really, it is a process, it is like a tug of war, sometimes you give a little ground to gain a little ground and sometimes you are just hanging on and 'resting' before exerting a little more pressure. Eventually someone is going to cross the line.

Most agents have a focus restricted to narrowing the gap between two prices. One is what they think they can sell a property for, and the other is the price the vendor wants. Often these prices are poles apart. In order to get their commissions, agents often subtly pressure vendors into lowering their prices to meet the offer the purchaser has on the table. Rarely are properties sold for what the vendor wants. In Perth, the average length of time a property is on the market is between 40 and 50 days. As a general rule of thumb, the longer it is on the market the more advantage there is to the purchaser.

The way you view time is critical to your success. Time can favour either side depending on the circumstances. Always endeavour to use time to your advantage and you can do this by using time well. Since you know most concessions and settlements will occur at the last possible moment a skill you must develop is patience. You also need to keep your automatic defence responses under control. When you do not know what to do, do nothing and seek guidance from those more experienced. Remember, the art of using time well is to use it effectively. The longer you can keep a sales person engaged in the sales process, the longer you keep a position open, the more emotions become involved, the more they will want to be

right and the more they will want to win. Winning for them is sales, commissions and file closure.

Because time is an extremely crucial variable, you must always be on guard and never reveal your deadline to the other side. If you are nearing your deadline in a negotiation never give the game away through the use of your body language. Always make some excuse to leave the process so that you can regroup and place pressure on the other side. Always give the impression that you are time rich. This is especially true in real estate purchasing. Never reveal your bottom line or your walk away price, and never reveal how much you are prepared to pay. Other than exactly what type of house you are looking for, the less an agent knows about your needs the better. It is extremely important to remember that even though the agent may reveal information that seems advantageous to you, they are always working for the vendor, not you.

At first it may seem a contradiction but, generally speaking, the more 'cool' and serene somebody appears to be, the closer they may be to their deadline. Remember that the graceful swan paddles like crazy underwater. One of the favourite tricks of top negotiators is to heighten anxiety levels by renegotiating a concession that has already been made or clarifying points that have already been conceded. In real estate terms this means you might renegotiate aspects of a contract that you have already negotiated on. Items such as settlement dates or time for financial approval can be lengthened or shortened depending on what you are attempting to achieve. The longer you can keep the process going the closer they are to having to make the sale. The power is in knowing the deadlines.

If you choose to observe people's behaviour in terms of negotiations you will see many styles. There is the bull at the gate approach, the egotistical take it or leave it approach, or the I don't know, what do you think approach. In all your negotiations you must develop an approach that is seen to be fair and reasonable. Given that we are talking about time here you want to make sure you are controlling the situation. You may give away concessions that are created out of thin air such as negotiating on contents, maintenance or repairs. Depending on what you have learned of the vendor's needs, you can negotiate on time for financial approval, time to financial settlement, final inspections and many other aspects. Depending on the vendor's needs, you can make the time line for these longer or shorter. If you do not get your price then lengthen the settlement date. If they want a shorter settlement, you lengthen it. If they want them longer, then you shorten them. Do the opposite of what they want initially and then you can give concessions as they give you concessions.

Always make your offers subject to finance and never ever make anything unconditional unless it is the absolute last card you play. You must always keep its power up your sleeve. If you play it too early you will be giving away too much. They will know you have the money and they may not be willing to budge on price. ('budge on price' is a technical term).

If the vendor needs to sell but they do not have another place to move in to, or they are unsure of when they might be able to find something suitable, you can take pressure off them by extending the time for settlement and indicate that they have plenty of time to find something else. You can extend settlement for twelve months if you like because once they accept your offer and everything is signed and processed it is a done deal. When the deal is done you must take responsibility for insurance and the like but you can invite them to stay on until things fall into place for them because settlement can be 'on or before' the due date. It is a powerful strategy in many circumstances, especially if you point out they will only

have to move once and they do not have to pay rent. You do not start loan interest payments until settlement, so in theory you can get twelve months capital growth without having to pay interest. The combinations are endless providing you expand the negotiating basket and the number of items on which you negotiate.

The only person who will be complaining about such an arrangement will be the real estate agent because they won't get their commission until settlement. But even agent's commissions can be negotiated with the banks. If it is to your advantage and the vendor's advantage to have a long settlement, in the normal course of events the agent will try to intervene in the process because all they will be focussing on is their commission. It is best to work in with the agent so they do not inadvertently say anything to undermine the negotiations with the vendor. Explain to the agent that you will negotiate with the bank to advance the commission to the vendor as soon as the offer is accepted. Either that or you provide the commission and deduct it from the agreed amount.

The only time you give on what you really want is when it will be to your advantage. If you give something away it is reasonable to expect something in return. Whatever your negotiation process is, always remember that the other side may not seem to be under the same kind of organisational or situational pressures, time constraints, and restrictive deadlines as you feel you are under, but you can rest assured that they are. In real estate the vendor always 'needs' to sell; you should never 'need' to buy.

Power is the third crucial variable in a negotiating process and, as such, it is another strange entity. Sometimes we can see it, such as physical power, and sometimes we can only feel a sense of it, such as the power of physical attraction or emotional blackmail. Power is something that is often given away because we perceive the other person has more knowledge, more right and more strength then we have. Sometimes we give away power because we feel we might be rejected if we are assertive.

By not understanding how contemporary society works, and how it increasingly encourages the surrendering of potential, far too many people disempower themselves. They give away their power far too easily and, as a result, the majority of people slowly but surely fall into the trap of increasingly disenfranchising themselves from their innate potential. That the majority never place themselves into a position where they can control their future and achieve financial freedom confirms the completeness of this process. While they may desire things to be different, they surrender their potential by thinking that other members of the human team are more powerful than they are. History continually demonstrates that most people struggle through life as disempowered fragments in the matrix of human potential.

It is part of the conditioning process that we all go through. 'Teachers know best, fathers know best, bank managers know best, doctors know best and the list goes on. It appears that everybody knows best except us and, while this remains the status quo, people will continue to surrender themselves to missed opportunities.

Most people are offended by the word ignorant because they consider it offensive. Ignorant simply means uninformed, unaware, or lacking in knowledge. The more you know the more you know how much you do not know so, in theory, the more ignorant you are. However, people choose to focus on the offensiveness and in so doing choose to give their power away to the person who uses that term. Nobody can hurt you unless you choose to give them permission to hurt you. In other words you choose to be the victim in the process.

Through conditioning so many people give away the power of their money, the power of their time, the power of their potential and the power of their future. I have heard many stories of aggressive real estate agents really chewing people out for submitting low offers and how most people have been offended by their behaviour. Now I know that such behaviour is not professional but there is absolutely no need to take things personally or be offended by their behaviour or what they say. They are just exercising their power over you and, if offended, you are choosing to be the victim in that process. You choose to disempower yourself and give control over to a complete stranger who, in all likelihood, you will never see again. It is a weird situation isn't it?

In all likelihood the real estate agent is probably just telling you what pressures he/she is under and if you were skilled you can begin to use this information to your advantage. The trick is to befriend the agent, find out what is chewing him/her up and design a way forward that not only addresses the needs of the vendor but the agent as well.

William Glasser asserts that when we actually begin to realise that we can control only our own behaviour, we can immediately start to define our personal freedom. When we can do this we usually find that we have much more freedom than we initially realised. This freedom is the power to be in control of ourselves and, in turn, any given situation. In other words, to be proactive rather than reactive.

Simply defined, power is the ability to get things done, to exercise control over people, events, situations and oneself. However, because of our filters the use of the word power has the potential to trigger all sorts of cringes, prejudices and preconceived ideas. Power is a means of getting from point A to B. Power enables people to change their beliefs, change their reality, change their present, achieve their goals and change their future. Power should never be a goal in and of itself but simply a means to an end.

Power has differing qualities. It can be the cooling winds of a sea breeze or the destructive forces of a cyclone. It can be electricity that fuels appliances of comfort or it can cause death through its misuse. It can be petrol that fuels our cars to provide us with comfort during travel or it could explode if ignited incorrectly. It can be the warming fires on a winter's day or it could be the destructive force of raging bush fires. Like the wind, rain, electricity or fire, power is neither good nor bad, it just is. It is how you use, or misuse, it that really counts. It is what you think about power that is important.

You have plenty of power if you choose to have it and no power if you choose not to have it. You can exercise power in order to avail yourself of opportunities to learn. You can decide to use power sensibly to bring about change and implement objectives that are important to you. You can exercise power to block out the cynical and negative voices you come across. You can exercise power in deciding to be responsible for your own economic future and you can exercise power in deciding not to live by what somebody else thinks you ought to do. In exercising this power you join a very small percentage of the population who actively choose to control their destiny. If you choose to learn about how wealth is created then you join an even smaller percentage of the population actively engaged in taking responsibility for their future financial well-being.

This small percentage puts you at the top of the tree but in the normal course of events you will choose not to think of yourself as more powerful than those who choose not to be

responsible for their financial future. To be so powerful is an enormous responsibility. In the normal course of events, because you choose not to think of yourself as being so special, you give power away. You see power is based in perception. If you perceive you have power then you do. On the other hand if you perceive you are powerless, then you are. Either way you are right. Perception and self-image are important components of power.

In essence, power is neutral. It is a means to an end, not an end in its self. It is indispensable for psychological health and non-aggressive survival. Imagine the state of your personal psychology if you perceived you were powerless in every situation you encountered. Imagine the sense of frustration, the unease, the unrest and the ensuing pathology if this sense of powerlessness occurred on a daily basis. The sad fact of the matter is that this sense of powerlessness does exist on a daily basis for more people than we would like to admit.

Powerless people give up, become apathetic and toss in the towel. They place barriers between themselves and where they want to be. Ultimately society must support them, which sometimes causes communities to divide. Perceived powerlessness often creates a frustration, which causes some people to become hostile and lash out. Such frustration may result in violence against the system, violence to themselves or violence against those they perceive to be better off than they are. This attitude pervades our world. Symptoms include declining productivity, social unrest, amplified violence, increased suicide, increased revenge killings and increased stress related diseases.

Remember it was Henry Ford who said, "If you think you can or you think you can't, either way you're right." If you believe you have power, then you have it and you are powerful. If you do not believe you have power, then you do not have it and you are powerless.

If you have never read the words spoken by Nelson Mandela in his Nobel Prize acceptance speech, it is a good idea to read and review them often.

"Our deepest fear is not that we are inadequate. Our deepest fear is that we are powerful beyond measure. It is our light, not our darkness, that most frightens us. We ask ourselves… who am I to be brilliant, gorgeous, talented, and fabulous? Actually, who are you not to be? You are a child of god. Your playing small does not serve the world. There is nothing enlightened about shrinking so that other people won't feel insecure around you. We are born to manifest the glory of god that is within us. It is not just in some of us, it's in everyone. And as we let our own light shine, we unconsciously give other people permission to do the same. As we are liberated from our own fear, our presence automatically liberates others."

It is pointless trying to negotiate from a position of low self-esteem. In the majority of cases someone with more perceived power and greater self-esteem than you will always out negotiate you.

Your ability to negotiate determines whether or not you can influence your environment. Think of the power that a letter from a legal firm possesses. In many cases it is just a letter and if you disregard its instructions little else may take place. The costs and time involved may negate opportunities for further action. But a well-worded legal letter, on sophisticated legal letterhead is, in the majority of cases, sufficient to cause a desirable response from the recipients of such letters.

Letters from debt collectors also have tremendous power for getting people to respond favourably to requests. Usually they attack the emotions of doom, gloom and worst-case scenarios. Part of their power is the power that is given to them through our perceptions and the fear arising from 'what will happen if I don't'.

To be a successful negotiator you must believe that in every situation the power rests with you. In real estate terms, it makes no difference whether the real estate agent or the vendor thinks you are an idiot or not. It is your money and you can spend it as you like. You are not an idiot just because you will not give them the price they are asking. Buy at the price with which you are happy. This price must be favourable to you after having crunched all the numbers. If the numbers do not add up, it does not matter one iota what the vendor wants or the agent thinks, you have the power to say no and walk away. Your emotions must never be engaged in the process.

Almost anything is negotiable. However information, time pressures, and perceived power often spell the difference between satisfaction and frustration. Whether or not you consciously negotiate anything should be based on the answers to three questions. Am I comfortable negotiating in this situation? Will negotiating meet my needs? Is the expenditure of time and energy on my part worth the benefits that I can receive as a result of this encounter? Cohen suggests your answers will determine whether or not you can achieve results favourable to you.

Earlier I mentioned that deadlines and the end of negotiations are more flexible than most people think. Similarly, the starting points of negotiations are flexible in that a lot of work can be done before the actual face-to-face meetings take place. Again it is important to think of negotiation not as an event so much as a process framed in time.

During any negotiation process the general rule of thumb is that both parties will conceal their true positions. Neither party will want the other side to know what the bottom line is for them. If you are a real estate buyer, this will mean the lowest price at which the vendor is prepared to sell. If you are a seller, it will mean the highest price at which a purchaser is prepared to buy. If you are attempting to get finance it will mean knowing what is the lowest a bank will go in terms of interest rates and fees.

A real estate agent would be happy to know the highest price you are prepared to pay, while you would love to know the lowest price at which the vendor will sell. The more information you have the better your negotiations will be.

It is important to stress that you are either in control of a negotiating process or you are not. The more information you have, the more research you have done, the more background you have on a situation and the more preparation you have put into your negotiating process, the more in control of that process you will be.

I do not use the word control to mean you should seek to beat the opposition into submission. It is not my intention to convey that being in control means that you should play dirty and strive to win at any cost. However, because there are people in society who will win at any cost, to my way of thinking, being in control of any given situation prevents you from being taken advantage of. If you are in control it will be very difficult for people to gain the upper hand. Being in control allows you to determine who does what to whom. It is taking a step up from amateur status and being professional in all your dealings.

Through your research, the moment you establish the vendor's reason for selling you might determine that a quick, no hassle cash sale is in the vendor's best interest. Remembering what I said previously about the 'unconditional' strategy, you might make your offer reflect that you are willing to make your offer unconditional, have a short settlement date and that you will take care of any repairs and maintenance. You might also point out that this will save them time and stress, it will save them holding costs if they do not own the property outright, it will save them advertising costs and the hassles of further home opens. If you are creative enough the list of savings can be endless.

The art of a good negotiator is creating situations that are not aggressive and not win at all cost situations. It is about being thoroughly prepared and creating conditions where each side will see the advantages of certain actions as opposed to alternative actions. It is about using strategies where each side of the negotiation eventually gets to a point in the process where they can see advantages for themselves. If you are in control of the process you can guide the negotiation to one of mutual benefit.

You must understand that if you are not employing research you are ceding power to competitors, real estate agents, vendors and other wealth creators. You are either in control of a process or you are being controlled in that process. You decide which it is to be.

If you are going to become serious in the accumulation of real estate assets, a game you must learn to play and read immediately is called the monetary increment game. This is provided you are buying through private treaty and not through auctions. Auctions are a different game and require a different set of skills altogether. There are advanced real estate investing courses you can attend that show you how to buy at auctions. If you intend to do a lot of bidding at auctions, these courses are a must.

Let us say you want to buy a house, via private treaty, that is advertised for $270,000 but you only have $250,000 in your budget. If you make a first offer of $220,000 followed by a second offer of $240,000, how much money will the vendor, and the real estate agent, assume you have in your bankroll? If they are on the ball it would be easy for the vendor, or the agent, to assume you have up to $300,000 in your budget because of the size of your initial increment. Even if you swear that at $240,000 you can go no further, it will be difficult for them to believe you. This is true because, in any competitive transaction, protestations of the other side are disbelieved.

In general the environment for negotiating is always a competitive one. Therefore you will always be seen as an adversary. In order to achieve a collaborative result, you have to play the competitive game. To be successful you must go one better. Slow the process down and remain in control.

You can let the other side know that your absolute budget is $250,000 in the following way. First make a written bid of $220,000. Of course you can expect it to be knocked back. In a lot of cases agents do not actually submit low offers and some say that low offers offend them. As a means of knocking them back they just say the vendor rejected it. To stop the 'game playing' just make sure you get a signed counter offer by asking the agent to return one to you. This way you will know whether the agent actually submitted your offer to the vendor. It should always be the vendor's decision to knock back an offer, never the agent's.

You then submit your next offer at $230,000. After a counter offer you use all the other variables above then reluctantly extend yourself to $238,500. Again negotiate on other variables then extend yourself to $241,750. The next advance could be to $243,358 and so on. During these exchanges you must also be negotiating on every other variable you can and consuming as much time as you can. Never be too eager to counter offer and always be in tune with the vendor's needs other than price. The closer you get to your target price the more negative you become, the longer you take to reply to an offer and the increments you make become lower. Never accept verbal offers and always ask for written counter offers. That way you will know whether or not you are playing against the agent, who is trying to bump the price up, or the vendor. If you accept verbal offers you might just be being bluffed.

Notice that I have also increased the use of numbers. Why people insist on only using zeros is beyond me. Psychologically zeros mean lots of money so if you are using lots of numbers its implied meaning is that you are running out of money. In some of my negotiations I have even got down to including cents in the numbers.

The point is that your increments have increasingly decreased way before your target price. You can practice this technique on a house in which you are definitely not interested in, or emotionally attached to, but make sure it will be a good buy if your negotiating skills are better than you thought and your offer is accepted. In this way you will be able to practice your techniques and increase your skills in a real situation. You will also be able to practice your walk away strategies and see how they feel. Remember, you are not obliged to purchase anything no matter what the agent calls you. You never know, you might also end up with an absolute bargain. If you are going to practice your strategies, always work with a good settlement agent so that they can tell you what conditions you can include on an Offer and Acceptance. This is important because if conditions, such as satisfactory rental appraisal to the purchaser, do not meet your requirements you can walk away from the deal.

I once did a negotiation on three properties from one vendor at the same time. After the offers went backwards and forwards a few times I started playing around with all the numbers and tacked 55 cents on to the end. These numbers confused the vendor and the agent, so much so that they rounded them off and in the end they came back with a counter offer that was lower than the offer I had made them. Naturally it was a done deal.

The closer you get to your walk away price start finding faults with the property and do a lot of 'umming and arring'. Never be too eager to return an offer and always try to include some concessions other than price. In offer and acceptance transactions I often send back time concessions or term concessions without varying the price at all.

At every stage of the process be aware that the three interrelated variables of time, power and information are in play. Time, because the greater the amount of time an agent and a vendor have been trying to sell the house and the greater the amount of time the agent and vendor invests in you, the more likely it is that concessions will be made. Power, because you can decide to purchase or not to purchase. "To be or not to be!" Information, because every time a vendor comes back with a counter offer, the closer you know they are to the point at which they will release the house or the closer they are to their bottom line and you can walk away if it is not what you are prepared to pay.

Never lose control of a negotiation process. Suppose that your negotiations extend over a weekend. In other words, you make a counter offer on Thursday or Friday and they do not

get back to you before the weekend. You must be active on the weekend and see if the home is again advertised as being open for inspection. If it is you must sit, unnoticed, outside the home and examine people as they enter and leave. Home buying is an emotional process so if people are in and out within ten minutes you know they are not interested. If they are there for half an hour or so then you know they are having a serious look.

Never get yourself into a situation where the agent applies pressure on you by saying there were three other interested parties prepared to make an offer as a result of the weekend home open. If this pressures you, you have lost control. But if you know how many people went in and out and the amount of time they took to inspect the house you will be able to call their bluff. Generally speaking the less time people spend in a home open the more negative they are about it. On average it takes 8 minutes to dismiss a house and it takes 28 minutes to become sufficiently emotionally engaged to seriously consider putting in an offer on a place.

Another reason for sitting unnoticed looking at people as they enter and exit home opens is so that you can match the type of dwelling with the type of people looking at it. As you read the section on buying real estate, you will notice that dwellings must suit the needs of people willing to buy them. If you understand the different needs of different types of purchasers you can observe their needs against the type of dwelling you are intending to purchase.

If after a weekend home open, you are pressured by an agent to lift the price because he/she has got 'three other interested' parties. You will be in a better position to call the bluff if you have done your research than if you have not. Never lose control of a negotiation process because you did not do your homework over the weekend.

Remember that the price you pay for an investment property must always be based on solid research and number crunching in terms of rental income, maintenance, vacancy rates, council rates, strata fees, settlement costs and interest repayments. Ultimately you are seeking wealth through capital growth, so the better performing the asset is, and the less you have to pay for it, the faster you will get to your desired destination.

Negotiating is a skill and please do not underestimate its importance to your success as a wealth creator. Negotiating has nothing to do with asking for a lower entry price just for the sake of asking. Remember, to be a good negotiator you must be seen to be giving something away. Something must be beneficial to the other side. Examine all the times you have asked for a discount or lower entry prices to something. How many times did you succeed? Chances are you did not succeed very often. Why? What were you prepared to give those from whom you wanted favour? It is simply not good enough to say, "Oh well, it was worth a try!"

In terms of quality assets the number one goal in investment property is to control the ownership of as much as you can. The more knowledgeable and skilled you become with negotiating the more good quality assets you will be able to acquire. Once you have got your head wrapped around the complexities of any negotiating process you might like to devise strategies that suit your knowledge base and skill level. The following strategy is one that professional investors use to buy owner occupied dwellings at favourable prices.

Understand that reasons for selling family homes are many and varied but most people do not sell them because it is a business decision and they have decided they can get top dollar. They generally sell because a significant event in their life has occurred which causes them to

sell. The selling price that people arrive at is usually a balance between what they would like to get, what agents tell them they can expect and their need to dispose of the dwelling in order to satisfy the reason for selling.

Most vendors have no idea what their house is actually worth because they do not use the services of professional valuers. They view such things as an added cost so they prefer to rely on the selling agent's appraisal. They fail to understand that agents compete for listings and as a result most use a mini auction technique and inflate prices a little in order to out bid other agents so that they can obtain the listing. As vendors are generally unaware of this process they place their houses with agents that promise the best price. The result of this inflationary process is that the majority of houses sell for well below what agents say they can get for them.

Once you have completed your research and your walk through inspections, which are usually done quickly on the weekends, arrange for a mid week inspection with the vendor present if you can get them there. This is important for two reasons. As real estate markets are generally very competitive environments, agents normally have to work very long hours and are always seeking ways to make life easier for themselves. Although they are retained by the vendor and should do everything to obtain the best price for them, in the majority of cases they are only interested in commissions and a fast turn around.

As a result, a situation develops where agents remain emotionally detached while vendors remain emotionally attached to the process. To get the best results you want to be dealing with the emotionally attached person because you can be observant of their needs and learn to fulfil them. Most agents will object to this process and say it is impossible, 'it is not the way things are done, they cannot arrange things with the vendor, they are too busy or they just flatly refuse'. You will have to use your discretion but my suggestion is never accept no for an answer.

Of course if you are buying a rental property, or the vendor is absent, then clearly it is not possible to negotiate directly with the vendor so you use the incremental strategy mentioned earlier. However, if you are buying a family home and the vendor is in residence then, if at all possible, you should do your negotiating directly with them. You still have to make sure the agent is present because you need to have everything witnessed. If the agent refuses to let you negotiate with the vendor, then contact the vendor directly and ask if you could discuss a few things with them. If you cannot do this then be prepared to walk away if you do not look like getting a favourable price.

The following process was taught to me by Peter Spann author of *Wealth Magic,* and is very effective given the right set of circumstances. Where possible always use the vendor to take you on an inspection of the property. Never use the agent if you can help it. You want to establish rapport with the vendor and you want them to identify all the special features and history of the dwelling. You must build as much rapport with the vendor as possible before you enter the negotiating process. Get them to tell you everything they consider to be important about the dwelling.

In negotiating situations it is better not to take the adversarial approach because selling a family home is generally an emotional process for vendors. Because houses are a 'site of memories' for most people, when inspecting houses you must be respectful of the fact that

for most people they are full of human emotions. It is these emotions that you must become aware of and be able to identify when negotiating with vendors.

As you inspect a property with the vendor you need to be able to identify what their dreams were, what is important to them in the house and what they would like to see happen to the house after they sell it. You need to build up rapport with vendors because it is much easier to give a better deal to someone you feel you know than it is to a complete stranger.

Understand that most vendors see things in terms of 't-h-e-i-r h-o-u-s-e' and, although they are selling it, they would like to think it was going to a good person. When negotiating, you need to know what is important for them in the sale. If you discover what is important, you will be able to use this knowledge to maximise your opportunities in the negotiating process at a later date.

For now, you need to find out as much about the history of the house as possible. How long the vendors have been there, what has been going on around the place? You need to identify what things in the house are important to them and what they would like to take with them. You need to find a way of accommodating their dreams into your plans.

The downside in having direct contact with the vendor is that they become 'real' people to you and you start to empathise or sympathise with them and go soft on your negotiations. The first strategy to employ when negotiating with vendors is to expand the horizons of the negotiating process. Most people make the mistake of only negotiating on price and this limits their ability to bring anything new into the process. From the outset you must be able to include everything imaginable into the negotiating smorgasbord. Think of including the following elements into your negotiating basket…

terms of settlement
time to settlement
terms of vacant possession
time to financial approval
access to the property before settlement
the amount of deposit
their option to lease back if it is appropriate
costs of general maintenance and rubbish removal
costs of repairs to ridge capping and broken tiles
costs of safety checks and repairs to all electrical wiring
whether they are prepared to vendor finance you for some of the costs and/or loan amount
items of interest in the house that you ascertain are important to the vendor
ground maintenance before settlement occurs
servicing of equipment such as air conditioners and water heaters prior to settlement
lack of security such as key locks on windows, screens and doors means added costs for you
payment of outstanding strata fees or rates if any
outcomes of building inspection reports and whether you or they carry out the repairs

If you understand this process and are empathic to the vendor's needs you will do extraordinarily well. For example you might discover some special features that are important to them so you might mentally include them in your smorgasbord of negotiable items. Others items you might consider including are special pieces of furniture, light fittings, garden features, or sideboards that just set off a room. You might decide that without these

the room just would not be the same, it would be characterless so to speak. If you know what is special for the vendor you can include these things in your mental negotiating basket.

When you have got a reasonably good picture of all the things that are important to the vendor, it is now time to sit down at the negotiating table. You must come to this table with the knowledge that most of the things you have included in your negotiating basket will be given away as concessions a little later. This strategy will work best when you have really identified what is important for the vendor.

If you become practiced at this you will be more likely to create a shift in the price the vendor is asking. Let's say the vendor is asking around $255,000 (houses are still relatively cheap in Perth) and you want to get a 15% discount on this price.

Strategic Dialogue

Create a list of things with which you can negotiate and be prepared to make concessions on them when and where necessary. You might notice old cars or pieces of furniture in the garage, electrical items they may not want to pack or rubbish you can have removed for them. Think of absolutely anything you can negotiate on and add it to your list.

Opening Statement "Look, I really like your house and I am prepared to pay you the full price for the property under the following conditions. As long as you are prepared to do the repairs and include the following items A, B, C, D, E, F, G, H." These are the items you have on your list. You have now just identified all the things that you have discovered are important to the vendor.

The strategy you have just entered into is termed 'delete negotiations' because after haggling a bit you can begin to give ground and start deleting items from your list. In this way you can give the appearance of being fair and reasonable. In order to do this successfully you must expand your negotiating horizons with as much as possible. Then you can negotiate the price without concentrating on price and without being disrespectful or confronting the vendors feelings.

Once you have made the offer above, you can expect some protestations and you empathetically listen to their concerns and, after they have sorted things out in their mind, you continue with…

Statement "Look I really understand that you may like these items but they really do suit the character of the house and it would lose some of its feel, character, charm and history if they were to go."

The idea is for you to negotiate on every separate item on your list and only make your concessions reluctantly one at a time. If they give in too easily then you have not done your research properly and limited your list to items that are meaningful for them. It is important to build up a discussion on each item so that you can create a pattern of concessions that show you to be fair and reasonable. Remember the three critical variables of time, information and power so use them to your advantage and work your way through the list. Be creative and be stubborn but do not be stupid.

When you have either worked or deleted your way through the list you can employ the following dialogue.

Statement "Given that these items will not come with the house, the value of the house has changed for me and I cannot pay you the price you are asking." You then studiously get your calculator and note pad out and run a few figures. It does not matter what the figures are but you attempt to give the impression you know exactly what you are doing and that you have calculated things down to the last dollar of value for you. Basically you already know the price you are prepared to pay because you have done your calculations on what you can afford based on interest rates, rental returns, vacancy factors, insurance costs, council rates, land taxes, maintenance costs, strata levies, management fees and settlement costs. When you include all these costs you come to a total where anything over that price becomes prohibitive to your purchase and ongoing holding costs. Taking everything into consideration in terms of your ability to service a loan together with all the other financial considerations you must have already calculated what the house is worth to you.

After you have recalculated everything you then say. "The most I can come up with is $216,751."

When you recalculate things always make an offer based on an obscure number. This may convince them that you really have done your sums and this is the best figure you can come up with. If they object in any way you can simply explain that…

Statement "I appreciate what you are saying but based on all my figures, this is what the house is worth to me."

Once you have made your offer you must remain quiet. You do not have to maintain eye contact but you do have to remain quiet. The most important thing to remember is that, '**he who speaks next loses!**'

If they come back to you with a counter offer you simply thank them for their time, restate that based on all your figures the best you can offer is $215,751. Wait in silence for 5 minutes then make movements to walk away. Get up, politely thank them and proceed straight to the door and then your car. If you get called back you have won, if you do not, you might get a phone call later when they have had a chance to digest things and the agent realises their commission has just walked out the door.

In negotiations you must always be prepared to walk away because you can usually walk back into them at an appropriate time. If you are prepared to walk away you will always be in control of the process and this will mean the difference between a successful business deal and an unsuccessful emotive deal.

The great Australian dream beckons