
HOW TO GROW A MULTI-MILLION DOLLAR PROPERTY PORTFOLIO IN YOUR SPARE TIME

**TOTALLY UPDATED
12TH ANNIVERSARY EDITION**

MICHAEL YARDNEY





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WHAT READERS HAVE SAID ABOUT PREVIOUS EDITIONS...

Just a quick note to compliment you on your book, How to Grow a Multi-Million Dollar Property Portfolio. My wife and I have recently purchased two Investment properties, both were immediately tenanted which is awesome. I thought we had changed our mindset by doing that, in a small way yes, but now after reading your book we are even more focused on growing out portfolio and making the most of our money. I was so impressed I have ordered your book What Every Property Investor Needs to Know about Finance, Tax and the Law and am looking forward to reading it. Many thanks again.

John Grant

This book is an excellent companion and reference work for anyone who is a serious investor. I was particularly impressed by the section on negotiating and dealing with real estate agents and the chapter on the advanced strategies. Michael has raised the bar in terms of what is meant by putting something back into your industry. Congratulations.

Rob Balanda

Senior Partner, McDonald Balanda & Associates Solicitors, and author of the Made Simple Series of products

We couldn't have done it without Michael Yardney. Michael, through his company Metropole, has provided us with the advice and expertise to put into practice many of the property investment strategies he discusses in this book. From being wage earners trying to pay off our mortgage, we are now on our way to funding our retirement through passive income from our properties.

Helen and Davit Kennett

Victoria

ACKNOWLEDGEMENTS

In early 2006 I approached publisher Michael Wilkinson with the manuscript for my first book. He was initially courteous and polite, but not overly enthusiastic — until he read the manuscript. Then his gut-feel gave a new, and then unknown, author (me) a chance.

He initially did a print run of 4,000 copies of *How to Grow a Multi-Million Dollar Property Portfolio — in your spare time*, thinking that quantity would last for years. But we had to order a reprint within months and since then this book has become a property investment classic, on the bookshelf of tens of thousands of property investors, catapulting it to bestseller status, initially in hard copy and then on Amazon.

This is the fully updated sixth edition.

A lot has happened in the ensuing 13 years to my business and personal life with many new people influencing my life, my thoughts, my values and my business and property investment success. Creating wealth is never a solo effort. Similarly, this book would not have been possible without the support and encouragement of certain people who have contributed to my life in many ways.

In particular, my wife Pam for encouraging me, supporting me in every way and putting up with all my late nights and weekends on the computer. She endures my almost fanatical attitude to business and property investment and continually encourages me through all the good times and through all the things I still need to learn. I am humbled by her love and devotion, which I try hard but never quite succeed to match.

Special thanks go to my family, including our children and grandchildren for their love and encouragement.

Further thanks to my business partners, Ken Raiss, Mark Creedon, Brett Warren, Kate Forbes and Greg Hankinson and the whole team of property professionals at Metropole. And thanks also to our many clients whose collective inspiration has given me strength.

Over the years I have read almost every book about wealth creation and property investment ever written. I have learned a lot along the way and there are many ideas sprinkled throughout this book that I have learned from others. I guess I had to learn everything from someone at one stage, so I am sorry I cannot acknowledge everyone — I really can't remember where I first came across many of my strategies.

Where I recollect first hearing about an idea I try to give credit where it is due, but if I have omitted mentioning your name, please excuse me as I shamelessly acknowledge borrowing other people's good ideas picked up from observation or from conversation, books, CDs, DVDs, podcasts and seminars. As knowledge about becoming rich and successful investing isn't one

individual's sole domain and there are really no secrets, I can only assume that these people also learned from and copied other people's ideas, books, CDs, DVDs, podcasts and seminars.

I have also learned from the many successes, and also the failures, of the over 2,500 property investors I have personally mentored through my 12-month mentorship program over the last 13 years. I am very proud of your successes.

And finally to you, the reader — thank you for choosing to invest in this book. Please take advantage of the information I have to offer by using it to obtain the financial independence you deserve.

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INTRODUCTION

Whether you have yet to make your first investment or you already own a multi-million dollar property portfolio, there is something in this book is for you. It will give experienced investors the opportunity to re-evaluate and fine-tune their current approach for the new market reality and new investors will obtain a perspective that normally takes years and years to acquire.

I have been investing for over 45 years and have adapted and fine-tuned my investment strategies from the successes I've had and from the many failures I've endured. In fact I've often said I've become a real success at failure. I've just kept getting up one more time until I became successful and in that time I've grown my wealth substantially, as well as that of thousands of clients, and just as importantly many readers of my books and blogs and listeners to my podcast.

In that time recessions, fluctuating interest rates and changes in legislation have all taken their best swing at our property markets. Yet despite all these changes and in spite of regular predictions that our real estate markets will collapse, property prices and rentals have continued to increase. In fact, they've been doing so for more than 200 years.

Having said that I do see some, let's call them "*interesting*" times ahead considering that we've moved to the next stage of this particular property cycle — a time of slower property growth in some areas and falling property values in other.

One of the problems property investors face is that with the advent of the Internet and such easy access to almost unlimited information and instantaneous news, change seems more prevalent and economic cycles seem shorter. This has led to a band of fortune tellers trying to predict our property markets and property spruikers selling "get rich quick through property" schemes, suggesting new techniques for our changing market conditions.

While there's a lot of information out there, much of it is *misinformation*. That's one of the reasons why the majority of people who become involved in property investment are not successful in building the financial independence they are seeking.

The fact is most property investors fail.

Statistics show that about half of those who buy a property investment sell up within five years. And most (93%) of those who hang in only manage to buy one or two properties and less than one in one hundred investors ever buy six or more properties. In fact the latest ATO

statistics show there are only around 19,000 property investors in Australia who own six or more properties.

Of course owning one or two properties isn't really enough. To become financially free you need to own a multi-million dollar property portfolio.

This means that most Australian property investors won't achieve financial independence. It also means that if you do what most property investors do, if you invest the way most Australians invest and if you listen to who most investors listen to, then you will get the same results most Australian property investors get!

And you want better than that don't you?

That's why I wrote the first edition of this book way back in 2006. My aim was to give ordinary Australians a system to become wealthy through residential property investment — a strategy that would allow them to survive changes in the market. As you will discover, this book offers a different approach to property investing than is found in most writings about this topic. Interestingly since I wrote the first edition of this book a swag of "property gurus" have come and gone, leaving a wake of failed property investors behind them. In contrast my strategic approach has stood the test of time and while I embrace many of the classic methods used by professional investors, you'll find this book contains many ideas and techniques not widely used or understood, but which can dramatically affect your results.

While I don't know everything about real estate, having invested for decades I now have a clue about what works and what doesn't. And while I've been successful as an investor I would have given anything to have had the benefit of the information in this book earlier in my investing career. Getting the right ideas and then putting yourself in the right environment with the right mentors is a huge shortcut to success.

If you're like most readers you've bought this book because you have a dream. A dream about what your life could be like in the future if you were financially independent. And you're looking for a plan to fund your dream.

My aim in writing this book is to put down a strategy to help you achieve your dream. One that has not only worked for me but for many others who have read earlier editions of this book and the many clients of my company Metropole Property Strategists who've been involved in the over \$3 billion worth of property deals. This way all Australians can at least get some insight into a successful wealth-making property formula — one that is reproducible and has stood the test of time.

Over the years I've been humbled at how many people have approached me in the street, in shopping centres or at airports to specifically thank me for the information they have learned from this book and how it has given them a clear path to their own financial freedom.

The highlight of many of my business days is when I receive emails from people I've never met telling they have read this book and it takes pride of place on their bookshelf. They tell me that now they "get it" — how it all makes sense now that I've outlined a financial blueprint for them.

Remember — all the strategies in this book have been proven in real life. They actually work. They are not some theory a property "guru" preaches but does not practice. Of course the power of all this information is not in the information itself, it's in the implementation of the knowledge. It's in taking action.

Both my wife Pam and I remain active property investors and developers and we still use exactly the same techniques I will teach you to grow our already substantial property portfolio.

But back to this updated sixth edition ...

As I write this introduction in late 2018 we are living in interesting times. There are volatile social, political and economic issues all around the world. Australia has moved into a stage of lower economic growth, wages growth, inflation and interest rates. We are no longer a manufacturing country and in the future our growth will depend on our services sector.

And our property markets have moved from the boom stage to the next phase of the property cycle due to tighter lending criteria meaning many home buyers and property investors are having difficulty getting finance. The property pessimists are out in full swing and media is full of negative headlines and many investors (particularly those who've only know the good time we've experienced in the last five years) are worried.

Interestingly the current market reminds me of the times we experienced when I wrote the first edition of this book, a time when some ridiculed me for suggesting it was a great time to think long term and buy well located properties countercyclically.

It's the same today — those investors who head the lessons in this book, think long term and take advantage of the great property opportunities available today will look and smile at the naysayers.

However, we are in a new financial era — a time of change. Let's be honest: most of us don't like change — we'd rather have a nice predictable environment for our job security, our businesses and our investments. Unfortunately, all these are subject to the whims of the markets and the economy, and therefore are not predictable.

I felt compelled to update this book when I realised how much the property markets have moved in the couple of years since I penned the last edition. In this edition I clarify some strategies, expand on others and in fact completely change my opinion on one or two.

The game of property investing is a little like the game of chess. We all have the same pieces on the board. But those players who can see three or four steps ahead are the ones who are going to win.

As our markets move through the next property cycle and properties in Australia increase in value by millions of dollars, the properties themselves won't care who owns them. You should be one of these owners. Somebody is going to make money — so why not you, and I'm giving you the knowledge to do that.

I'm going to teach you my 6 Stranded Strategic Approach to property investment. This is a system that is well rooted in the real world of property and, while it is not a get rich quick scheme, it has helped me, hundreds of my clients and many readers of earlier editions of this book grow very substantial property portfolios.

While the majority of people will sit on the sidelines, strategic investors are looking for and buying investment opportunities created by our changing times. While this may seem difficult to believe given the amount of negative news bombarding us on a daily basis, the truth is fortunes are always made in times of change.

As you read this book I will be your property mentor and give you the perspective you will need to **build your own multi-million dollar property portfolio** — one property at a time. And don't worry, it will be easier than you think.

Why do I say that?

I'm glad you asked. Read on to find out ...

Michael Yardney

December 2018

LET ME BE YOUR MILLIONAIRE MENTOR

Would you like to become rich by investing in real estate — possibly very rich? Then this book is for you.

You should be aware from the outset that there is no safe way to get very rich from real estate quickly. It takes time, but most Australians who simply have owned their own home for more than a few years have made money. This rise in real estate values means that many home owners have seen their household wealth increase substantially.

But another group of Australians discovered how to profit in ways other than just owning their own home. They became real estate investors and bought additional properties.

Most investors recognise that the performance of real estate as a financial asset is astonishing.

Through this book I am going to be your property mentor and will argue that over the next decade almost every reader will be able to build themselves a multi-million dollar property portfolio because I am going to give you an insider's view of how the professionals invest in property. This means you will be able to grow your property portfolio faster, yet more securely, than most and in a way that will have the banks support you.

And the real benefit is that you will be able to become financially independent. You may be able to replace your day job with your property income and only go to work if and when you choose.

As your mentor I will show you how to get set for, and take advantage of, the next property cycle, which will create a new group of property multi-millionaires in Australia over the next decade.

You see, in Australia we are witnessing a confluence of a number of fundamental factors that will ensure that, in general, property values around Australia will increase significantly in the medium to long term. We have:

1. Robust **population growth** fuelled by immigration and to a lesser extent strong natural population growth. Australia's population increased rapidly over the past decade, lifting by 3.755 million, or 17.9%, according to the Australian Bureau of Statistics. There's now more than 25 million of us, and while population growth has slowed a little, our 1.6% growth rate is still high compared to other developed nations.

2. A **healthy economy** that will continue to perform at a level that is the envied by of much of the Western world and will create jobs for anyone who wants one.
3. A **sound banking system** with reasonable interest rates, tight lending practices and low default rate. Sure, the recent Haynes Royal Commission has found misconduct in the banking sector, but the long-term results of this should only give us a more robust financial system.
4. **Business confidence** and **consumer confidence** is positive but tends to fluctuate with the vagaries of our Federal and State governments.
5. A **healthy level of household debt**. While we are borrowing more, this debt tends to be in the hands of those who can afford it. Over the last few years the banks' responsible lending criteria have ensured that those taking on loans, and particularly property mortgages will be able to keep up their repayments even if interest rates rise a few points.
6. A **culture of home ownership** — just under 70% of us own or are paying off our homes. In contrast to some overseas markets Australians have high equity in their properties and a conservative debt position. In fact, half of all homes have no debt against them.

There's no sugar coating it... property values will keep falling in some locations and price growth will be slower in others. At the same time decreasing affordability, changing sentiment and oversupply in several sectors such as CBD and off the plan apartments will create a volatile mix that will fragment and slow our property markets — in many parts of Australia we've moved from a seller's to a buyer's market.

Yet there is still a large demand for housing — people are still getting married, having babies, getting divorced and coming from overseas. And if they can't afford to buy their homes they are going to rent and this will force rentals up.

I can see little impetus for wages growth over the next few years and I do see interest rates rising sometime in the future, but not for a while yet. Both these factors will affect some locations more than others. In other words, our property markets will be more fragmented than they ever were.

What I mean by this is that rising rates are likely to affect suburbs that are more interest-rate sensitive like blue-collar areas, regional locations and first-time buyer locations. On the other hand, property values are likely to increase in the more affluent, gentrifying inner and middle ring suburbs of our major capital cities where the locals' income is less dependent on CPI rises in wages and where rising interest rates are less likely to have an impact on disposable incomes.

So my top picks for locations that will outperform include suburbs where people have higher disposable incomes and are able to, and prepared to, pay a premium to live there the because of the amenities in the area.

As your mentor I want to persuade you to take advantage of the opportunities that will arise in Australia's property markets over the next few years.

AN INSIDER'S PERSPECTIVE INTO THE PROPERTY MARKET

Many years ago I made a decision about my future that I've never regretted. I decided to start exploring ways to become financially independent by investing in real estate.

As I write this today I've been at it for around 45 years. As a real estate investor and property developer I've personally bought, sold and developed close to 200 million dollars' worth of residential, commercial and industrial real estate transactions. So I am not a theorist — I have skin in the game as they say and I've either made or seen almost every mistake an investor can make, so in this book my aim is not only to teach you what to do, but to explain what not to do.

I am CEO of one of Australia's premier independent property groups — **Metropole Property Strategists** — and our team has been involved in over **three billion dollars' worth of property transactions** creating wealth for our clients. It's been an amazing journey and, while I don't claim to be the world's greatest real estate expert, I have a wealth of experience and knowledge that has created massive profits for thousands of clients.

Increasingly these days I'm dedicating a lot of my time to writing, podcasting, commentating for the media, speaking at seminars about property investment and the psychology of success throughout Australia and South-East Asia and helping others to find their own way on the path that I've taken.

As your mentor and as a property "insider", I'm ready to share this information with you, and have sprinkled this book with exclusive insider tips.

WHY DID YOU PICK THIS BOOK UP AND WHY SHOULD YOU READ IT?

I'm guessing that it's because you've made a decision too.

If you're ready to start a life-changing journey by exploring ways to invest in real estate over the long term then you will find that what you have in your hands is an invaluable guidebook that can help direct you as you take your first steps on what should be an incredible journey. I know this is true because of the successes so many other readers of the previous editions of this book have experienced.

For those of you who already own investment properties there are plenty of advanced property investment strategies in this book including a number of concepts I haven't seen written in property investment books before.

To help you I'm going to share some of my own story and lots of insights into how you can build a multi-million dollar property portfolio. Initially, you will be able to do it in your spare time, while you have a day job. Eventually, you will have a choice of whether you go to a day job at all.

If you don't invest wisely you'll run out of money before you run out of life, but remember that

this book is not only about the money. It's about giving you choices. It's about your lifestyle. Ultimately it's about your freedom.

IT'S A BRAVE NEW WORLD FOR PROPERTY INVESTORS

When I wrote the first edition of this book in 2006 there were a lot of people who were too scared to invest in real estate. One of the biggest property booms in recent memory had come off the boil and prices were slumping. Negative talk dominated the media and many investors were wondering how they could have been so stupid as to have believed in wealth creation through property, and wondered whether prices would ever increase again. Some commentators were suggesting that the property bubble had burst and that it was all over for many years.

At the time I had a clear response: there would be another property boom and it would be even stronger than the property boom of the late 1990s and early 2000s.

A brave call? Not at all!

At the time I'd been in this business for more than 30 years and I'd learned to appreciate the cyclical nature of markets and how to ride the peaks and troughs.

Looking back now, I was a lone voice in the media, predicting our property markets were about to turn. I have since been proven correct with most parts of Australia experiencing an amazing boom in 2006 and 2007. I was right not because I'm so smart, but because that's the way property cycles work. And throughout this book, I'm going to use the lessons of history as our teacher to pave your way for the future, giving you confidence to make your own investment decisions.

As I wrote the fourth edition of this book in 2012 the market was coming out of a two-year property slump commencing in 2010. Prior to this slump the price of the average home in some of our capital cities experienced two or three years of strong capital growth, some increasing in value by over 25%. Not long before we experienced the aftermath of world financial crisis and with concerns that the European financial markets could melt down, banks became more conservative and once again property fell out of favour as Australians stashed their cash, saving rather than spending.

It's interesting how the cycle repeats itself. Each property boom sets us up for the next downturn. Each property slump sets us up for the next boom.

Again at that time I encouraged readers to invest in property and many who followed my system and invested in the right properties have built their own multi-million dollar property portfolio.

If you want to become a successful investor you can't afford to wait until the next boom is evident. You should get set for it, because by the time the press and the general public becomes aware of the upward trends in our property markets, the big profits will already have been made.

THREE CARDINAL RULES OF PROPERTY

Here's three thoughts that I'd like to share with you before we start our journey together.

1. If you want to become financially independent through property investing you're going to have to do things differently to most property investors.
2. You will need to find others who've invested successfully over a number of property cycles, and achieved what you want to achieve and maintained their wealth, and then use them as your mentors. The road you want to travel on is one many people have travelled before you — find role models and learn how they think and what they do. Follow their footsteps and obey the rules they play by, because there is no need to reinvent the wheel.
3. Property investment is not a get rich quick scheme. To be successful you must treat it like a business using systems that are proven.

A WEALTH OF EXPERIENCE

As your mentor I want to share with you as much of my experience as I can. I've made a lot of money for myself, and others, and I've lost money too by making foolish decisions. In the past I've also been caught when economic circumstances changed unexpectedly. I know the terrain only too well, and the purpose of this book is to help point out a safe path and uncover some of the pitfalls for you.

I have personally used all the techniques you will read about — I'm not just spouting forth theory. I will show you the way I operate and share knowledge that can save you real money. But more importantly, I can empower you to start on the path to realising your own financial goals and financial freedom, if you're ready to make the same decision that I made myself many years ago.

After I finished writing this book there was still so much content left over, so I've decided to provide this to you as a bonus. You can access this now by registering your copy of this book at www.TheBookOnPropertyInvestment.com.au.

OK... are you ready and willing to get started?

PART 1

WHAT ARE WE TRYING TO ACHIEVE?

**MAN'S MIND, STRETCHED TO A NEW IDEA,
NEVER GOES BACK TO ITS ORIGINAL DIMENSIONS.**
OLIVER WENDELL HOLMES

WHO IS MICHAEL YARDNEY?

This section is really a second introduction. This time it's about me, but don't let that stop you from reading it!

I'm not writing it to impress you or because my life is so interesting. This section is to explain how I learned about wealth creation through investing in property and to show you that if I can do it, so can you.

If I'm going to show you how I got started on the road that **turned \$2,000 into a multi-million dollar property portfolio in my spare time**, first we need to flash back for a moment and look at where this journey started.

WORKING CLASS AND WORKING HARD

I was brought up in Melbourne, the son of working-class parents. It was many years before they gave me a baby sister who was born when i was nine. Some people say it was because it took my parents nine years to get over the shock of having me!

Personally, I think the reason it took so long for them to have another baby was that they were struggling financially to make ends meet and they needed both incomes to survive. My mother couldn't afford to give up her job as a clerk in a bank (this was in the days before computers, when you had to enter all the figures manually).

My recollections of my childhood include my parents arguing at the end of each month when it came time to pay the bills. I remember hearing them discussing who would get paid that month and who wouldn't. I remember them struggling to put a few shillings (this was before dollars and cents) aside each week to save up to have some money to spend at Christmas.

Interestingly, while both my parents worked as employees (my father was too afraid to take the "risk" of running his own business), almost all of their friends owned their own businesses and were considerably wealthier than we were. It seemed to me that we were the poorest family in the street and I definitely felt the poorest amongst our friends.

My friends' parents all owned cars — mine couldn't afford one for many years. My friends and their parents went on summer holidays; for many years we didn't. And my friend's parents owned investment properties; mine didn't when I was young.

So while my friend's parents owned their own businesses and invested in property to grow their wealth, I remember my father's financial plan. Every Saturday morning he would sit at the kitchen table smoking his cigarettes, drinking black coffee and daydreaming. He would make a list of how he would spend the winnings when his lottery numbers would come up. Of course he never won the big jackpot. But occasionally he won a small prize, just enough to encourage him to buy a few more lottery tickets in the hope of getting the big one the following weekend.

Clearly the lottery is not a financial plan... it's a tax on those who can't do maths! But it was the only way my father could see himself escaping the rat race.

I learned a lot of very beneficial things from my parents who tried to instil good moral values in me. They wanted me to have a better life than they did. They strongly encouraged me to get a good education, get a secure job, buy a house and pay it off.

On the other hand, when I visited my fiends I heard their parents give them very different advice. They said things like, "If you want to get on in Australia," (the "lucky country" as they would call it, as most were European migrants) "you need to go into business and earn money which you should then invest in property — that's the true path to real wealth."

Through my friend's parents I learned you couldn't count on the lottery or your boss to make you rich. I knew from an early age that I wanted to be rich and I soon realised that if I was going to get rich it was up to me!

WHAT MAKES PEOPLE RICH AND POWERFUL?

While I don't remember exactly when I decided that I wanted to become rich, I do know I was pretty young. I determined that I did not want to struggle when I grew up like my parents were. I didn't want to fight with my wife about money and which bills we could pay and which we couldn't.

Apart from seeing how my friend's parents did it and learning what I could from them by endlessly asking questions, I studied rich and successful people because I wanted to be like them. I read all I could to find out what it was that caused certain men and women to succeed in everything that they did, while others of equal intelligence failed. I wanted to know what it was that set the rich and super successful apart from the rest.

As I studied these people I found that they did not necessarily have a higher education — there were many examples of rich and successful people who did not go to university; in fact many did not finish school. They did not necessarily have more resources; many came from poor or migrant backgrounds.

So I looked for common threads. What I found was that many had made their fortunes in real estate. And those that had made their money in other industries seemed to have invested their money in property.

Now you may say that not all successful people are rich and not all rich people are successful, and you would be right. We've all read of rich people who lead miserable and lonely lives or don't lead a balanced life and enjoy the pleasures that family and friends can bring.

It took me many years to learn that to be rich people are really poor — all they have is money. To be truly wealthy you need to a lot more than money. But remember I was still young and naive and I wanted to have it all! This led to an unbalanced life and at times, more problems than I care to discuss.

Looking back now, I can see that because of my early childhood experiences I was tainted and angry that we were poor and I felt that I had missed out on many things my friends enjoyed. So for the first half of my life I chased money. I desperately wanted to be “rich” and I went about trying to “prove” myself to the world.

Interestingly, as the size of my property portfolio grew, it wasn't enough. The anger didn't really go away and I still wanted more. It was many years later that I realised that if what drives you to want money is fear or anger or the need to prove yourself, money won't help you. When you get the money, the fear doesn't go away. The anger doesn't disappear. The money doesn't make you a different person.

Chasing money in an unhealthy way led to a very unbalanced life and this, amongst other things, led to me sabotaging the first half of my life. When I was much younger I did some things that I am very ashamed of and this broke up my marriage and ruined my early career. I paid the price for my actions and it made me a very different and much better person.

I came to realise what was really important to me. Over time I realised that there has to be a more significant reason to have money. I then set about building the Metropole business and this became the focus of many years of hard work for my second wife Pam and me. But it wasn't until I found a real purpose for the money that I became truly wealthy.

I'm sorry to say that it took too many years to realise that the true purpose of money for me (and I accept that it will be different for every reader of this book) was contribution.

For many years now I have enjoyed giving back to the community in a number of ways. I have dedicated myself to educating property investors through my blogs, writings, podcasts and seminars. Pam and I donate to many charities — not only money, but also time and energy.

Yes, I've had my challenges in life (mostly self-inflicted) and I've hit rock-bottom, but I got up again, learned from my mistakes and moved forward.

I'm not telling you this because I'm looking for approval. I am explaining this because it highlights the point that a situation is what you make of it. For years I dreamed of giving up my day job, getting off the treadmill and enjoying the lifestyle that could come from being a full-time property investor and developer. I had the knowledge, the contacts and had built up the asset base with my property investments to be able to do this. But I did not have the courage to give up the security of my day job!

Then I was forced to. Losing my wife, my family and much more than half of my assets in a bitter divorce could have broken me. But what I still had was the mindset of success and the knowledge of how to make money investing in and developing real estate. Having the correct mindset was much more valuable than the millions of dollars' worth of properties I had to give up as a divorce settlement and all the money that I had to pay the solicitors.

It enabled me to start all over again. I set about making profits in the property market using the same techniques that I am going to share with you in this book. Now, over 25 years later, my property portfolio is substantially larger and financially sounder than ever. And as I said — I have a much more fulfilling life.

I have found that many of my clients want to copy what I have done and become financially free by owning a substantial property portfolio. They use the services of the property professionals who work with my partners and I at the Metropole Group of Companies — www.metropole.com.au — to create their own story of financial success.

Today I am CEO of the Metropole Group of Companies, with a team of property professionals across our offices in the three biggest capital cities in Australia — Melbourne, Sydney and Brisbane. Together we have bought, sold, negotiated and project managed over \$3 billion-worth of property transactions to create wealth for our clients (and ourselves).

I have often been called Australia's most trusted property commentator (probably due to the perspective I've gained over the years), I've been voted Australia's leading property investment educator and mentor on numerous occasions and my daily property newsletter www.PropertyUpdate.com.au has been independently ranked the **#1 real estate blog in the world** for the last two years in a row and has more than 100,000,000 subscribers.

Over the years the team at Metropole have won multiple industry awards and have helped clients from all over Australia and overseas, who trust us to guide them on their wealth creation journey through property. Some even use our services to research, negotiate for and acquire properties that they have never seen because they live on the other side of the country or the globe. Now that's trust!

I have a beautiful wife, Pam, my partner in life who was one of the significant partners in my business until she retired. I have six children (two inherited through Pam) and we have 10 grandchildren and two cute cats (Bentley and Harley). We own a very substantial property and share portfolio, live in a luxurious penthouse apartment, have many good friends and enjoy a life we could have only dreamed of as we were growing up.

I believe that information without real world context is ineffective at best and irrelevant at worst. So it should give you comfort that all you will read about in this book I have done myself. I am not just spouting forth theory, I'm sharing the system of my property success to assist you in creating your property success.

WHY AM I STILL WORKING?

Recently a prospective client asked me: “Michael, now that your candles cost more than your birthday cake, why are you still working?”

I know others have wondered — is this guy really financially independent? If so why is he sitting here across the table from me wanting to show me how to become financially independent?

I'd like to answer these questions for you because there are some instructive lessons in the answers for anyone who wants to develop financial freedom.

Firstly the answer to the second question is — yes, I am truly financially independent, having over the years built a very substantial investment portfolio of residential, commercial industrial and retail real estate.

But I think the biggest lesson for you will come out of my answer to the question of why I am still working.

Let me explain with a little story...

I recently read that Mick Jagger is on tour again, at the age of 75, turning up at one city performing, leaving, on to the next place. I repeat he's 75 years old and still on tour.

I suppose this should be reassuring — it suggests that years from now I might still somehow or other get on stage and deliver my seminars.

Over the years I've worked hard so that I now don't need to work for financial reasons, but I think I will still enjoy doing it when I'm 75 years old just like Mick does. As far as I know, Mick has no unmet financial needs — he's reportedly worth \$360 million. He's still touring largely because he has nothing better to do for which he has comparable enthusiasm.

Why successful people stay at it long after they need to reveals why they became so successful at it.

I guess what I'm trying to say is that what many people don't seem to understand is the reason so many business people, entrepreneurs and investors became so successful and rich is from the enthusiasm they had in their job in the first place.

This is the main reason why I'm still working.

I still get an intense buzz putting deals together, developing training programs, writing my blogs and books, educating investors and more importantly seeing clients become financially independent and successful.

You see... I spend all day talking about property while drinking coffee and dealing with nice people. Why wouldn't I still be working?

And to be honest I am still clearly, unashamedly, intensely enthusiastic about making and multiplying money. I enjoy passing it on and helping future generations including my children and grandchildren and also contributing significantly to charity.

I am very grateful for what I have and believe it's my obligation to repay the world and that's in part why I spend so much time writing and educating. These activities are clearly the least financially profitable of all that I do, but are the most rewarding.

THE FIRST PROPERTY I BOUGHT

Shortly after I purchased my first investment property in the early 1970s in Larch St Caulfield for \$18,000, in partnership with my parents, the Labor Party came into power in Australia and over the next few years inflation ramped up significantly. And so did property values and interest rates, but my investment grew so much in value that a few years later I was able to refinance against its new value and borrow the deposit for my second investment property.

When I got married a few years later I sold both these properties. The first of many investment mistakes I made — no one told me I could borrow against them for the deposit for my home.

When I sold my half share of Larch Street to my parents it was worth \$32,000. In 2001 I bought the same property back from my mother for \$250,000.

A few years later we pulled down the old house and built two two-storey townhouses on the site we still own today. So I still own my first investment property which cost \$18,000 but today is worth well over \$2 million. That's the power of strategic property investment.

WHAT IS REAL WEALTH?

When I speak with investors, I soon discover they all want similar things and it's not actually the properties they're after. Some want the financial security or financial freedom or the lifestyle that comes with wealth. Others want the toys such as imported European cars or holiday homes by the beach.

There is nothing wrong with that. The desire to obtain security and material things is basic to most humans. It's nothing we should feel bad about; it's a reality. These things make us happy.

Think back — as a child it was toys, dolls or bikes we wanted. As teenagers it was computers, mobile phones or the latest fashion clothes. Now as adults we're after new cars, bigger houses, longer vacations and security for our families, or maybe all of the above.

If the last few economically challenging years taught us anything, it's that we need to start taking a different approach to money and how we value it, procure it and use it. In the past many people felt their job was secure and their superannuation would see them through retirement.

But now many feel uncertain about their job security, realise they're going to have to work longer than they hoped and when they eventually retire they'll find their superannuation will give them a (very) modest living at best. In reality super was never enough; only about 1% of Australians become truly financially free. Most are trying to stretch their savings and superannuation so it won't run out before they die. Some end up taking a part-time job to supplement their pension and superannuation.

WHAT DOES WEALTH MEAN TO YOU?

Most people say wealth means a big salary with a lifestyle to match. Most people equate wealth to money, but that's not how wealth works.

You need a lot more than money to be truly wealthy. You need your health, your friends and family to share it with, you need personal growth, spirituality (this means different things to different people) and contribution.

As you can see, to me wealth is a product of the mind and no amount of money will make you wealthy. To be truly wealthy you have to be grateful for what you have in life and you have to be living a life where you know you are contributing or giving back.

Financial independence is different to wealth. It means you never have to work again to live your life. That's what you're really investing for, isn't it?

My suggestion is that you should be committed to being wealthy as well as financially independent.

Just to make things clear... income by itself does not make you financially free. In fact income is one of the worst predictors of financial freedom. You spend some, maybe you save some, and taxation takes away a portion of it. Most people in Australia never become wealthy; they never develop real financial independence.

For most people the bills keep mounting up and despite working more and more hours they can't make ends meet. So it's not income you are after. To secure your financial future you need to acquire assets that grow in value and bring in *passive recurring income*.

Having dealt with Australians from all walks of life I've developed a number of models to explain the progression most investors take in their path to developing financial freedom. These models allow you to know exactly where you are heading financially, what stage you are at along the way, and what the key focus areas and leverage points are that you can use to fast track your journey.

But I'm jumping ahead. Let me tell you about how I first started to become aware of these ideas.

Way back in the early 1980s my business partner Brian Larter said to me "Michael – I'd like a cash machine!"

"What?" I responded.

Brian explained, "You know a cash machine. I'd like to come to work in the morning, flick the switch and the machine would start working and churn out money. At the end of the day I'd flick off the switch and go home to my family and then come back tomorrow and flick on the switch once more. And the machine would again start working and churn out the money."

As you can imagine I replied: "Sure, I'd like a cash machine too."

Now that you have read about this concept I bet you'd also like a cash machine, wouldn't you?

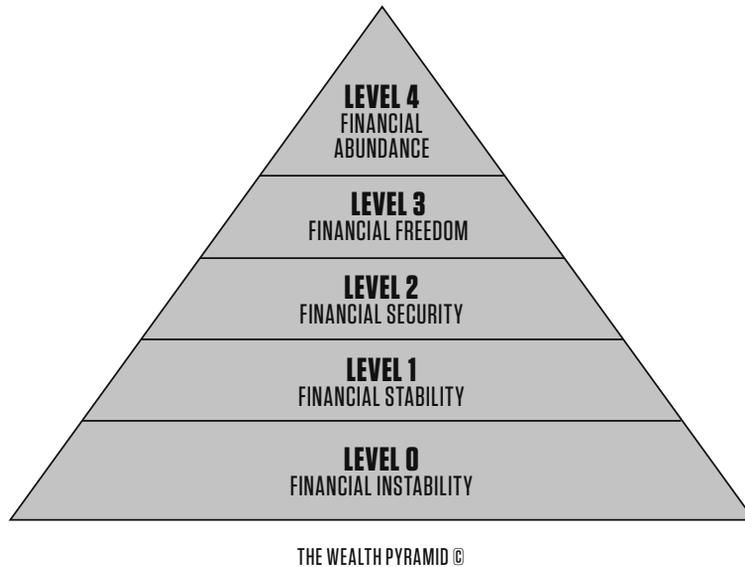
You know what? I now have a cash machine — my property investment business.

Twice a year Pam and I go overseas on vacation, sometimes for a month or more at a time, but our cash machine keeps churning out the money. Our rent comes in, the property managers look after our tenants and our properties keep increasing in value and we wake up richer in the morning than we went to bed the night before.

Yes, we truly have a cash machine and so can you if you build your own property investment business.

OK now back to my concept of the different levels of wealth. I call it...

THE WEALTH PYRAMID



My financial model — the *Wealth Pyramid* — shows what level you are at on your way to financial independence and what the key focus areas and leverage points are along the way to speed you on your journey.

Like all pyramids it has a wide base and tapers towards the top, in other words most people are at the lower levels of the wealth spectrum and fewer reach the top. Hopefully the knowledge and skills you'll learn from this book will help you work your way up the pyramid, but the solutions you'll need to move from one level to the next will vary depending where you are.

Unfortunately, most people don't really have any wealth and therefore are at...

WEALTH LEVEL 0 — FINANCIAL INSTABILITY

Since most people live from pay cheque to pay cheque, they are what I call Financially Unstable. If they lose their job, or if they have an emergency (you know how these keep cropping up — an illness, the car breaks down, the refrigerator packs up), they have no financial reserves to cope.

Since they have no spare financial capacity, the only way to cope with these burdens is for people at Level 0 to borrow more (and get further into debt) and this only creates more financial hardship. They live their lives with their heads buried in the sand, not really conscious about money and their spending habits.

If they have money they'll spend it, if they don't they'll borrow it because their favourite pastime is shopping and buying stuff they don't really need. This means much of what they own has debt attached to it. They keep doing this and fooling themselves that they'll just work harder and pay off their debt someday.

If you ask them what their problem is, they'll tell you they don't make enough money. They think more money will solve their problems. But that's not right.

Their biggest problem is their money habits, which has nothing to do with how much they earn. It's what they do with the money they earn. As they move on in their lives and earn more, they just spend more. Today, they can't survive on the type of income they would have only dreamed they could achieve five years ago.

There are many high-income earners who fall into this category because they spend as much, or more, than they make. Sure some people at Level 0 Wealth can look rich — they may even have big homes or fancy cars, but they also have huge loans that they struggle to repay.

Unfortunately, they often argue with their spouses about money, being in financial denial and justifying why they bought this or that.

Level 0 Wealth can really be divided into two subgroups:

1. **Casualties** — I call those at the lowest level this because they're casualties of the money game. Each month they seem to find themselves in a worse place than they were the month before — getting themselves deeper and deeper in debt, usually through credit card debt. They're paying high interest rates today to use tomorrow's money now. Of course they blame others for their problems — it's never their "fault". They've often read books about budgeting or been told the trick of cutting up credit cards, but that just doesn't work. They don't know how to "do" money. Then half a level up the pyramid are the...
2. **Survivors** — these are employees, self-employed or even business people who seem to make just enough money each month to have nothing. And if by accident they end up with some money in the bank they spend it or take a holiday. They are just surviving.

While the fact is that at Level 0 people simply live beyond their means, the real cause of their problems is denial of this. Unless they are prepared to change, their financial future is bleak.

The fundamental key to getting out of this level is mindset, education and taking financial responsibility. So first be honest with your personal cash flow position. Then stop the bleeding by changing your financial habits and at the same time get a financial mentor.

Fact is, when you're at Level 0 you can't get out of your problems on your own. You need someone to mentor you and you need to be part of a group — just like getting fit or losing weight — it's just too hard to do on your own. How many people sit on the couch watching diet videos while eating ice cream?

The next rung up is...

WEALTH LEVEL 1 — FINANCIAL STABILITY

This is the most basic level of wealth and gives you some level of financial security.

You have achieved Financial Stability when:

1. You have accumulated sufficient liquid assets (such as money in an offset account, line of credit or savings) to cover your current living expenses for a minimum of six months.
2. You have private medical insurance and some life insurance to protect you and your family's lifestyle should you become permanently ill, disabled, unable to work or if worst comes to worst — you suddenly die. I know that's an unpleasant thought, but in the last year two of our acquaintances died leaving their families in financial trouble.

At this level you will have the peace of mind that should any unexpected challenges come your way, such as retrenchment, a business failure, illness or disability, you and your family's lifestyle will not be unduly compromised. You will have adequate time to look for new sources of income to put you back on track.

The problem at this level is that your cash flow is being controlled by others — your boss who pays your salary or your clients who pay for your services. This means you're still on a treadmill and you don't have the ability to increase your cash flow without working more, and that has its limits. Sure you've got a bit of a financial buffer, but if you stop working for a while you slip back to Level 0.

If you're at Level 1 your goal should be to move more of your cash flow into assets and build that Cash Machine so your income does not depend on you putting in more effort.

At this level your biggest leverage comes from investing in yourself and becoming financially savvy building a solid base of financial and investment skills upon which you can grow your financial future, as well as beginning to build a network of peers you can make your journey with.

You'll also have to choose the first wealth vehicle you are committed to master and become a devoted student learning all you can about this niche wealth vehicle. In my opinion the best place for most people to start is residential real estate investing.

In making the decision on which wealth vehicle to go after, you must cultivate the discipline to say no to the pull of other "great opportunities" and vehicles. I've made more money by saying no to second-rate investment opportunities than I've made by saying yes to them.

Then carefully choose who you'll study with. Contrary to popular belief, the most expensive education isn't "graduate school" like an MBA. The most expensive education is one based on a flawed models and incorrect information. The hardest form of learning is UN-learning all the wrong, mistaken, and flawed things you "learned" from unqualified teachers. So choose to learn from the best. It will save you years of frustration following defective models.

Your aim should be to move up to...

WEALTH LEVEL 2 — FINANCIAL SECURITY

You achieve **Financial Security** when you have accumulated sufficient assets to generate enough passive income to cover your most basic expenses. These would include not more than the following:

- Your home mortgage and all home related expenses such as your utilities, rates and taxes.
- All your tax payments plus the interest payments on your loans and debts.
- Your car expenses.
- Your grocery bills and minimal living expenses.
- Any insurance premiums including medical, life, disability and your house.

When you reach this level of Financial Security you will be able to stop working and still be able to maintain a simple, basic lifestyle. Of course you'll want more than that.

At Level 2 you will be an investor focused on building your net worth by owning assets that appreciate in value and ideally you'll accelerate the process by "manufacturing" capital growth through renovating or developing residential real estate (I'll get into this in Section 4 of this book).

At the advanced stage of Level 2 you are beginning to make the transition from capital gains investing to investing for passive, residual cash flow. This means you've got to master a whole new skill set. You'll also have to radically upgrade your advisor network and peer group. Being the big fish in a small pond no longer serves you. You need to begin playing with people better than yourself, because you want to move up to...

WEALTH LEVEL 3 — FINANCIAL FREEDOM

You know you have achieved Financial Freedom when you have accumulated sufficient assets to generate enough passive income to pay for the lifestyle you desire (not necessarily your current lifestyle) and all of your expenses, without ever having to go to work again.

Having first built a substantial asset base (of properties, shares or businesses), now you are using your assets to create cash flow, which doesn't mean you won't go to work again, but you will now be able to make the choices you want because you have time freedom.

At Level 3 your focus should be on stabilising your passive income streams and fine-tuning your estate planning and asset protection. Now is also a great time to grow your service to the world by finding ways to expand your contribution.

Level 3 is NOT about "retirement", it's about regeneration and contribution.

WEALTH LEVEL 4 — FINANCIAL ABUNDANCE

A small group of people around the world achieves Financial Abundance when their Cash Machine works overtime. Not only are they free of financial pressures, but they have so much surplus income after paying for their lifestyle, all of their expenses and their contributions to the community (often through charity work or donations) that their asset base just keeps growing and growing.

A COUPLE OF THOUGHTS ABOUT THE WEALTH PYRAMID

There is nothing new about this hierarchy of wealth; it's always been there and we're all part of it. Complaining about where you are won't help, however your level of wealth is your choice. Despite that, most people get stuck at a particular level.

The good news is that everyone can move up the Wealth Pyramid. Understanding where you are empowers you to ensure you do what you need to do to get to the next level. But this never happens by accident, you have to earn your way up through personal development and upgrading your mindset. I discuss this in detail in my book *Michael Yardney's Guide to Getting Rich* (www.GuideToGettingRich.com).

However, in this book I'm going to show you how I created a Cash Machine so that I don't have to trade my time for money. I suggest you do the same — you should have a Cash Machine that feeds you.

And you can achieve this in 10 to 15 years or so by wisely investing in residential property. I will show you how, step-by-step, in this book. But first, I would like to introduce you to some of the important financial concepts that the wealthy have learned and used to make themselves rich.

THE 4-STEP FORMULA TO FINANCIAL INDEPENDENCE

Here are four timeless rules for achieving financial freedom. Please don't dismiss them because they sound so simple:

1. *Spend less than you earn.* This maxim may seem obvious, but many people have difficulty following it. If you're spending more than you earn, you will never become financially independent. You will be paying money to others for the rest of your life. The earlier you start living by this rule, the better. It is never too late to start.
2. *Invest the difference wisely.* It may surprise you but the average Australian, earning between \$60,000 and \$70,000 a year for 40 years will earn somewhere between \$2.5 and \$3 million during their working life. Yet most of them will retire poor. Clearly the level of your income has no bearing on the level of wealth you achieve, what is critical is the amount you save and invest wisely.

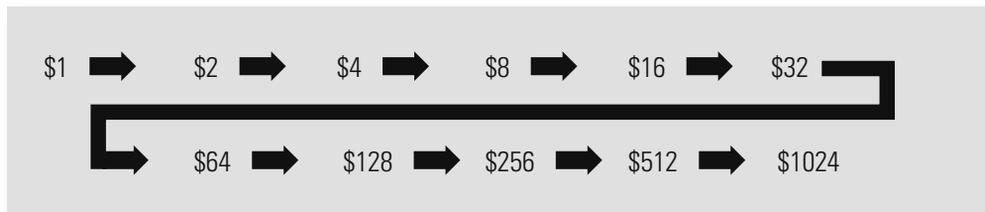
3. *Reinvest* your investment income so you get compounding growth. As you are beginning to understand, you will never become financially independent on your earnings alone. You need to keep reinvesting. In fact, by the time you become financially free almost all your assets will have come from compounding capital growth, not from your income, your savings or your rent.
4. *Keep doing steps 1 and 2* until your asset base reaches a critical mass so that you have the Cash Machine that gives you the income you desire.

If it's as simple as that why don't more people develop financial independence? Because it requires discipline and delayed gratification — sacrificing today in return for more choices later in life.

IT'S EASY TO BECOME A MILLIONAIRE

In step 3 above I talk about reinvesting. Here's why — it's simple to become a millionaire if you understand the principle of compounding. All you have to do is start with a dollar and double it 20 times.

Since you probably don't believe me, take a moment to figure it out.



That's 10 times.

See how it starts out slow and then begins to snowball? That's exactly the way your real estate portfolio grows. It starts out slowly and gradually begins to snowball until one day you wake up and realise that you really are a millionaire!

Let's keep going:



Simple isn't it? Just double a dollar 20 times and you'll have over a million dollars! That's the principle of compounding I was talking about a moment ago — it's the way you'll build your Cash Machine.

Now I said simple, I didn't say it was easy.

The reason that it's not easy to make a million dollars is that very few people know how to double a dollar on a regular basis.

One way to do this is to invest in a high growth asset and then reinvest your income using the magic of compounding. Well positioned residential real estate is such an asset and in the section on tax I'll explain more about why I've used it as my preferred investment vehicle for compounding.

INSIDER TIP

The wealthy understand how the power of compounding, leverage and multiple streams of income can grow their money.

THE WISDOM OF MULTIPLE STREAMS OF INCOME

The wealthy know that you need more than one stream or source of income to be rich today. If you think back to the 1950s when, in most families, only the husband worked, how many streams of income did a family need to survive?

Only one.

Yet today, very few families can survive on less than two streams of income, with both the husband and wife working. And the way things are going, that won't be enough in the future. It would be wise to have multiple streams of income flowing through your adult life.

Wealthy people have always known this. They generate income through wages or their businesses and also from their various investments such as property, shares and managed funds. If one stream dries up, they have many more to support them. If one of their businesses goes broke, they have other sources of income available.

But ordinary workers are much more vulnerable. If they lose their income stream, for example their job, it can wipe them out and it often takes them years to recover.

Imagine you have a portfolio of income streams — not just one or two, but many streams from completely different and diversified sources, perhaps from a portfolio of investment properties. If one stream of income dries up (for example a property becomes vacant), you'll barely feel the bump. You will be stable. You will have time to adjust. You will be safe.

Do you have multiple streams of income flowing into your life at this time?

Maybe it's time to add another one!

THE POWER OF RECURRING INCOME

So let's look at how you might add another stream of income to your life. You could always get another part-time job, but that's not the kind of income I'm suggesting.

What I am talking about is recurring income that you receive whether you are working or not. Another name for this is passive income because it is money you make when you are asleep.

So, first, it is important to understand that not all incomes are created equal. Some streams are linear and some are recurring. Now here's the question that will determine whether your income streams are linear or recurring: **how many times do you get paid for every hour you work?**

If you have answered only once, then your income is linear.

Income streams from your salary are linear — you get paid only once for your effort, and if you don't show up for work, you don't get paid.

With *recurring* income, you work hard once and you get paid over and over again for the same effort. It unleashes a steady flow of income for months or even years. Wouldn't it be nice to get paid hundreds of times for every hour that you work?

Let me explain...

When I sat down to write the first edition of this book, before I earned a cent, I put thousands of hours of hard work over a number of years into compiling it. Now it has been published and is a best-seller and I earn royalties every six months, the cheques flow in no matter where I am or what I am doing. And this has been going on for over 12 years.

That's the power of recurring income!

This is also the way that property investors make their income; they work hard to develop some capital to invest in property, which then goes on working for them, by bringing in rent and appreciating in value.

On the other hand, I see many people trying to obtain multiple streams of income the hard way. They either get themselves another job, or they try to make a go of network marketing or they make hard work out of property by attempting strategies such as managing their own properties or leasing out their properties room by room or on Airbnb in an attempt to increase their cash flow.

They are building the wrong sort of income — they're just getting themselves another job.

What you need is *passive* and *recurring* income – income that comes into your life whether you work or not. This is the type of income that can be deposited into your bank account while you are off holidaying on the other side of the world. The secret of the wealthy is not that they have more money, but that they have more time freedom, because their income is passive, and they can spend time on anything they want.

When you view people's lives through the filter of passively earned recurring income, you find that many people aren't as wealthy as they first appear. Doctors and dentists don't earn recurring income for their work; their income potential is capped by the number of patients they can see. They have to be there for every single one of them. That's linear income.

The same is true for most professionals. They don't enjoy the power of recurring income either. They may appear to be rich but they're on a treadmill just like other workers.

WHAT PERCENTAGE OF YOUR INCOME IS RECURRING?

If you're smart, you will start to develop some streams of passively earned recurring income. Eventually this will give you the time freedom to do what you want when you want.

One way you can do this is to buy an investment property. Whether you're working or not, the rental income will continue to come in and over the years your property's value will increase.

To become truly wealthy, and to have sufficient passive income to indefinitely pay for the lifestyle you enjoy, while covering all your debts, you'll obviously need to buy more than one property. You'll need to build a multi-million dollar property portfolio so that your passive income is substantial. (Luckily that's just what this book is all about!)

It is said that all long journeys start with one small step. You can start by absorbing the knowledge contained in this book, and then committing to putting that knowledge into action by buying your first property or growing your portfolio using the systems we explore.

INSIDER TIP

To become financially independent you are going to need to get another job – but not for yourself. You need to get a job for your money – you need to get it working hard for you making passive income.

ASSETS, NOT INCOME, CREATES WEALTH

While passive income (cash flow) is important in becoming financially free, what I'm trying to explain is that it's your assets that create real wealth; because, if invested wisely, your assets grow and income flows from them.

Unfortunately, most people don't get past the income stage. They don't manage to make their money work for them and quite simply, you can't save your way to wealth with income.

One of the reason most people don't get rich is they invest for cash flow — not asset (capital) growth. I know this message is very, very different to what you'll hear from others, yet it's the way the wealthy all around the world do it. Investing for cash flow is the reason most investors get stuck at Level 2 Wealth. Cash flow gets you through life, but asset growth gets you out of the rat race. You'll see this theme runs throughout this book and I know it will be hard for some to swallow, but the results speak for themselves.

INSIDER TIP

The rich think "Assets", the poor think "Cash Flow". Assets not cash flow creates real wealth.

TRUE WEALTH

Throughout this book I talk about wealth and money as if the two are much the same but, once again, I want to make it clear that I recognise this is not the case. When I went through my divorce and a number of other major challenges many years ago, I quickly realised the importance of all those things money can't buy.

So while this book is about making money, I want to remind you that true wealth is not measured in dollars. To be truly wealthy you need much more than money. As I've already said, you need your family, friends, time, health, your spirituality and the ability to contribute back to your community.

Money won't solve your all your problems — of course rich people still have problems, but I've heard it said that any problem money can solve isn't really a problem. That's interesting isn't it?

Now I think we're ready, so in the next chapters we'll take a closer look at the details of my philosophy and investing system.