Your Wealth Bulletin

Did You Know?

There is a free government website that is handy to use when reviewing your private health insurance. It is very comprehensive and easy to use.

Many advertised health cover websites (eg. iSelect) are limited in their choice of insurers.

We highly recommend this:
www.privatehealth.gov.au

Money Links

Fridge Buyback

Free NRMA roadside(For 16-20 year olds)

Child Care Estimator
Education Rebates

Environment Rebates

NSW Hot Water & Toilet Rebates

Private Health Comparitor

Office Contact

Ph: (02) 9525 0777

Dear David,

Hi and welcome to the April edition of Your Wealth Bulletin.

"The four most expensive words in the English language are...'This time it's different.' " - *Sir John Templeton*

Building a 'Walkaway Fund'

Recently, I read two books that did an outstanding job of simplifying their message very well.

The first was authored by Dan Sullivan. Dan specialises in working with wealth management businesses in the United States.

Dan wrote an article about the benefit of building a portfolio that allows people to have a 'Walkaway Fund'.

By this, he explains that people can have their retirement funds set aside for a specific age (eg. our superannuation system), however it is ideal if they can develop a strategic plan around the concept that they can take some time off.

This may be for a variety of reasons, for example, if their work becomes tiresome, they need a career change that may mean a lower salary, they would like to become self employed or they simply need to take a break from work for awhile.

It's a simple concept, and something worth considering even as a safety net. Building it outside of superannuation, as a complement to your existing strategies for retirement, mortgage reduction and so on.

So what options are available to do this?

Email:
enquiries@reedfinancial.com.au

Social Site links:

Find us on Facebook

Follow us on twitter

Well there's plenty of investment opportunities to consider.

They can range from investment property speculation to geared share portfolios and a host of others definitely worth exploring.

In the next article, I will discuss an option focusing upon the development of positive cashflow portfolio's using the sharemarket, and allowing that dividend growth to provide you with the potential option to walk-away sometime in the future.

Borrow & Build

The second book complements the Walkaway Fund phrase. And it does so with great simplicity.

The book is called "Borrow & Build" recently released in Australia. It was co-authored by Hans Kuunen (a former Chief Economist with Colonial & University Lectuer) and Bina Brown (writer & journalist).

In a nutshell, the book explains the potential of using equity in your own home, to borrow and then invest that money into a portfolio of high yielding Australian shares or managed funds.

Rather than focusing upon the capital growth potential of the portfolio, the attention is drawn purely to the cashflow or dividend yield from the assets.

Viewed in this manner, you can determine what your 'holding cost' is to retain the assets each year.

Over the long term, using history as a guide and taking a view of 10 years plus, then the portfolio of diversified indexed assets has a good potential to be worth more meaning that the dividends paid to you will have compounded and be worth considerably more.

In the 'Borrow & Build' book, a table in the appendices highlights the power of compounding dividends.

In December 1972, a $100,000 loan was drawn from the home equity. The standard variable mortgage rate is then shown in a seperate column, as well as another column for the All Ordinaries Index Dividend yield.

In 1972, the cashflow showed that $1,900 was needed by the investor to make up the difference between dividends received, and the interest paid.

By 1980 however, the yield from the index was $11,512 while interest only payments on the loan was $9,180. This represents positive cashflow of $2,332.

During the 1980's interest rates went sky high, but from 1985 onwards, it was the case whereby dividend yields comfortably exceeded the borrowing costs.

As of December 2010, the yield on the Index would have been a staggering $64,443 while the borrowing cost was $6,650 (interest only).

So the long term result was an attractive positively geared investment that provided $57,793 in income (with tax credits as well).

In this scenario, the timeframe is quite long. But there are other alternatives available that can be worth considering to implement this strategy, such as high yield funds or a boost to ongoing leverage so as to maximise the potential for compounding dividends.

It's a simple but deceptively effective strategy. It is reliant upon taking a very long term view, as well as focusing upon cashflow and delivering positive income rather than the bottom line capital value each year.

We would expect this type of strategy to be worth considering for both wealth accumulators (eg. a Walkaway Fund type investment) as well as for Retirees whom are considering building a platform for generational wealth.

If you would like to discuss this strategy in more details, then feel welcome to email me on david@reedfinancial.com.au or phone 9525-0777.

If you'd like to read more from the Borrow & Build book, feel welcome order one from Hans directly click here

If you would like to discuss any of these issues further with us, please feel welcome to ring me on 9525 0777 or emailenquiries@reedfinancial.com.au

Warm Regards!

David Reed

REED Financial

Phone: (02) 9525 - 0777