NEGOTIATOR eNEWS

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"Whether you think you can or think you can't, either way you are right"- Henry Ford

Welcome to the April issue of Negotiator eNews – the free newsletter with Tips, Strategies, Articles and News related to Wealth Creation.

Interest Rate News

Finally, a reprieve this month from rising interest rates. The reserve bank has decided to leave official interest rates on hold after their meeting this month. However, May is still the biggest hurdle to get over and if they are going to rise again in the short term the most likely time will be May, as some key economic data is due out early that month.

Let us hope though that they will remain stable and that maybe we have seen the worst of it.

Feature Article

The 7 Levels of Investing

In five years, John Burley became a multi-millionaire. He bought 133 properties using none of his own money. Currently, he has well over 100 properties which generate a positive cash flow in excess of $25,000 U.S. per month.

In John's book, he categorises seven types of investors and explains the traits that keep them at that level. What type of investor are you?

See where you fit in and where you have been over time and where you'd like to be.

Level Zero: The Non-Existent

This person lives their financial life with their head in the sand like an ostrich. They essentially have NO investments or savings. They are completely unconscious or oblivious in relation to money in general and their spending habits. Their financial lives are so completely mismanaged that they do not even qualify for the simplest credit products and so, ironically, though their financial outlook is bleak, they are often in a better financial position than the person for whom credit is all too easily available.

When asked what their problem is, they will invariably state that they just don't make enough money. That if they just made more money, they would be OK. The fact is that in many cases they are now "starving" on what they "dreamed" they could make 5 short years ago. This person fails to see that the problem is not necessarily their income (or lack of it) but rather their money habits.

Level One - The Borrower

This person solves their financial problems by borrowing money. The Borrower often has very high debt. They spend all that they make. What they know how to do best is consume. When they have money, it gets spent. At best, they "survive" on a month-to-month basis. Their solution to a money crisis is to either attempt to spend their way out of it or to take on more debt, oblivious to both the short and long-term consequences of their actions. Their idea of "financial planning" is to get a new Visa Card or MasterCard or to refinance their home in order to buy more things on credit. They like the idea of "low down, easy month payments" always kidding themselves that they'll work harder and pay off their bills some day.

The Borrower refuses to see that the problem is not necessarily their income (or lack of it) but rather their money habits. The Borrower often gets themselves caught in a vicious cycle of spiraling debt, coming to believe that their situation is hopeless, and as a result, giving up all hope. This person usually lives in complete financial denial. Unless they are willing to change, their financial future is bleak.

Level Two - The Saver

This person usually puts aside a "small" amount of money on a regular basis. The money is deposited into a very low-risk, low return vehicle such as a checking account, savings account or term deposit. If they have a retirement account they usually hold it with a bank or insurance company.

The Saver usually saves to consume rather than to invest (e.g. they save for a new TV, stereo, etc.). They are very afraid of financial matters and are unwilling to take any risks. Even when shown that in today's economic environment, cash investments give a negative return (after inflation and taxes), they are still unwilling to alter their investment habits.

Although the strategy of saving worked well for our Grandparents (when inflation was low and the temptation to consume was minimal), it no longer works in today's economic environment. We need to face the facts - the days of old are gone. No longer do we work for the same company all of our lives and then retire with a nice pension (as was commonplace throughout the 1950's, 1960's and 1970's). And unlike people retiring in the middle and towards the end of the twentieth century, few people working today will retire to live in the same home (mortgage free) that they've lived in for the majority of their working lives.

In addition, our grandparent's generation was able to receive full Social Security benefits (with nominal contributions) Thus, for them, the strategy of saving for the long term worked well. Over the course of their lives, by diligently saving (without having to invest) and only paying cash (except for modest borrowing to buy their home and possibly automobiles), they were able to live comfortably when they retired.

Would the same be true today? Very doubtful. Let's look at the six main reasons why:
1. Inflation
2. Consumption
3. Taxes are higher
4. It is predicted that Centrelink will meet its demise by the year 2010 - 2020

5. We’ll live longer
6. Higher cost of Housing

Level Three - The Passive Investor

These investors are aware of the need to invest Sometimes they even have outside investments in Mutual Funds, Stocks, and Bonds. Generally they are intelligent people. They make up the two-thirds of the population that we call the “Middle-Class.” However, when it comes to investing they are financially illiterate. The Passive Investor falls into three typical categories:

(1) The “Gone Into A Shell” category is comprised of people who have convinced themselves that they do not understand money and never will. They say things like: “No one ever taught me what to do”, “I’m just not very good with numbers” “It’s just too complicated etc. etc.”

They then follow up these comments with the following type of justifications: “But that’s okay because I have a great accountant”, “I have the best financial advisor in town I don’t need to understand everything that is going on, he is a great guy”, “The Government will take care of me in my old age.”

The excuses and justifications go on and on. All designed to relieve them from having to take responsibility for their own money and future. Due to their beliefs, they have very little idea where their money is invested or why. This type of investor blindly follows the market like a sheep.

(2) The “It Can’t Be Done” Passive Investor has determined that all investments involving more than the most basic research by the investor, that promise much more than bank interest rates of return are beyond them. They believe that higher rates of return “can’t be done” by other than the most “gifted,” “lucky” or “connected” business people, “corporate highfliers” or “shady wheeler dealers.”

They truly believe that high rates of return on investments are either impossible, probably illegal or available only to the chosen few. They believe that the knowledge and skills required to even recognize such investments are beyond THEM, in their present circumstances. Their usual defense to demonstrations of successful investing by friends or high profile investors is that the investor knew something that they could not have possibly known or had an opportunity or available money that they were not given in order to make the investment so profitable. What a convenient justification.

It is common for these people to whine and complain about missing out on an investment opportunity (after the fact), as if some barrier other than their own psychology (in regards to investing) was to blame for them missing out. Often vocal, they are quick to try to bring others down to their level. Because they are afraid and unwilling to gain the knowledge they need to invest successfully. They choose instead to “shoot down” and criticise others in an attempt to make themselves, and their beliefs about investing, right. The reason they do this? If the people around them become financially successful they believe that that makes them wrong. And thus in their minds it makes them losers. As a form of self-preservation they instinctively (at a conscious and sub-conscious level) strike out to pull down all who are trying to escape the “Rat Race.”

So avoid discussing matters of finance and investing with this person at all costs. Just go out there and be a successful investor. When you “Show them the Money”, maybe then they will begin to come around to your way of thinking. Again though, if positive results still fuel their negative fire, don’t waste your time and energy trying to put the fires out, you will probably only succeed in fanning them.

(3) The “Victim” is the third category of Passive Investor. They are intelligent people. However, these investors have no Principles or Rules for investing. They impulsively buy high and (in a panic) sell low. They look at the stock market about the same way as they look at a Las Vegas Craps table. It’s just luck. Throw the dice and hope. They are endlessly searching for the “secret” to investing.

Constantly looking for new and exciting ways to invest. With stars in their eyes distorting their view of investment opportunities, the “Victim” Passive Investors believes that finding the “Holy Grail” is all about striking gold somewhere in the outside world, through some amazing new investment that they were quick enough to recognize and jump into. They are always searching for the secret to investing outside themselves, rather than within by changing their unsuccessful behavior. Because they are not afraid of risk (far from it, they actually find risk exciting and often actively pursue it).

They often fall for investment telemarketing schemes, direct mail opportunities and the “hot” offerings in newspapers and magazines. They are quick to jump into: initial public offerings (IPOs or floats); commodities and futures trading, mining, gold, gas, and oil stocks (and other low probability/high-risk mining ventures); ostrich farms; wine growing; timber and tea tree plantations; and every other risky, trendy, exotic or ‘tax-effective’ investment known to mankind.

They love to use “sophisticated” investment techniques such as margins, short-sells, puts, calls, warrants and other options, without proper knowledge of exactly what it is they are committing to or the real investment risks.

These people are easily the worst investors the planet has ever known. They are always trying to “Hit a Home Run”; they usually “Strike Out” in a big way. When asked how they are doing, they will always state that they are “about even” or “a little bit up.” The truth is that they have lost money. Many times and often in huge amounts. “Victim” Passive Investors type of investor lose money over 90% of the time! They will never discuss their losses but will always brag about their big win. They believe that all they need is just one “Big One” to be on easy street.

Level Four – The Automatic Investor

When you reach the level of Automatic Investor, your investment success is assured. You are truly on the path to “Automatic Financial Freedom”. Automatic Investors are clearly aware of the need to invest. They are actively involved in their investment decisions. They have a clearly laid out written long-term plan that will enable them to reach their financial objectives. They invest in education before actually buying an investment. They take advantage of periodic investing and whenever possible invest in a tax advantage way.

Level Five - The Active Investor

These people have become highly successful private investors, on either a part-time or full-time basis. You must become a Level Four Investor first. You must not skip this stage. If You 'Skip You Will Trip!" Level Five Active Investors understand that to move to this level they must become very clear on their Principles and their Rules for investing. Their vehicle of choice might be Real Estate, Discounted Paper, Businesses, or Stocks. Their investments may vary but their Principles and Rules seldom do.

This level of investor actively participates in the management of their investments. They consistently strive to optimize performance while minimizing risk. They intimately understand money and how it works. Level Five Active Investors become very wealthy. Their main working focus is on increasing their assets and thus their cash flow. Their money philosophy varies dramatically from that lived by the poor and middle class - rather than investing what is left of their money after spending, they believe in spending what is left of their money after investing. This shift in perspective is a fundamental one for the budding millionaire.

Level Six - The Capitalist Investor

Few people in the world ever reach this level of investment excellence. The main purpose of their money is to make more money. These people are the "Movers and Shakers" that have propelled many western nations to become economic and industrial powerhouses. These are the Packers, Murdochs and Stokes. These Capitalists have provided more jobs, more homes, and more financial benefit to the world than all the poor people who ever lived combined.

These Capitalists also contribute hundreds of millions (if not billions) of dollars to causes and charities throughout the world. Bottomline - A true Capitalist does not buy investments. A true Capitalist creates investments and sells them to the market. The Capitalist not only creates large amounts of wealth, they invariably also create vast legacies of innovation, efficiency, economic prosperity, employment opportunity and philanthropy, thereby greatly increasing the standards of living for hundreds of millions of people throughout the world every year.

You can download John's 35-page book in its entirety from:
http://www.lulu.com/content/626447

Ask The Negotiator

Email gregg@negotiator.com.au to ask a question relating to investing/wealth building and I'll publish the answers in future newsletters.

Helpful Product/Tip

Creating Wealth is about Holding not Selling

Too many people sell their investments to their own detriment. Often they feel they haven't got a sufficient return or they don't have the patience to realise that property is a long-term investment. Other times they sell because they want to buy in another suburb that they think is "hot". To be successful you must resist the temptation to sell your property.

Can One of You Afford to Quit?
Before deciding to live on only one income -- to take care of children, go back to school or even start a business -- a two-income family must consider a number of questions. First, can you afford to quit? Besides the reduction of income, you could face a new set of expenses and have to re-examine your saving goals and priorities. This worksheet will help you develop a snapshot of your cash flow before and after these adjustments. Before getting started, gather the records you'll need to calculate your monthly income and expenses: Pay statements, last month's bills, bank statement or checkbook register, investment records and so on.
http://www.kiplinger.com/tools/managing/afford.html

Joke Of The Month

All Is Fair In Business
A shopkeeper was dismayed when a brand new business much like his own opened up next door and erected a huge sign which read 'BEST DEALS.'

He was horrified when another competitor opened up on his right, and announced its arrival with an even larger sign, reading 'LOWEST PRICES.'

The shopkeeper panicked, until he got an idea. He put the biggest sign of all over his own shop. It read: 'MAIN ENTRANCE'.

And remember, this is a common saying of mine "Always think outside the box".

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