

HOW ORDINARY
AUSTRALIANS
CAN CREATE
EXTRAORDINARY
WEALTH



WEALTH
WISDOM

JULIAN DAWSON

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Contents

<i>About the author</i>	vii
<i>Acknowledgements</i>	ix
<i>Introduction</i>	xi
Part I Where are you now?	
1 The six financial delusions that keep you poor	3
2 The seven ways to make money	15
3 What's the target?	23
4 Know thyself	39
5 The six steps to financial independence	49
6 The Holy Trinity of Wealth Creation	61

Part II Wealth

7 All you need to know about property investing	69
8 How to create a wealth-building property portfolio	91

Part III Growth

9 All you need to know about the sharemarket	145
10 How to create a share portfolio for growth	169

Part IV Income

11 All you need to know about contracts for difference	207
12 How to create income using the Wealth Wisdom CFD Selection Criteria	221
<i>Conclusion: bringing it all together</i>	239
<i>Glossary</i>	247
<i>Index</i>	255

About the author

Julian Dawson is an ordinary Australian living a very unordinary life.

A professional investor, Julian has spent more than 15 years and hundreds of thousands of dollars to uncover the strategies for successful investment in property and the sharemarket. Julian's passion for demystifying the often intimidating world of finance and investment has made him a respected and in demand speaker, educator and analyst.

He lives in the Byron Bay area of northern New South Wales with his wife and three children.

For additional resources, free webinars and further information about the topics discussed in this book, see Julian's website <www.wealthwisdombook.com>.

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I am blessed to have had so many amazing people in my life who have supported me on my journey to success.

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Introduction

Let's put the cards on the table right up front. It is not how much you have or how much you make that determines whether you are going to be rich or not, it's what you do with what you have. The only way to create real wealth and achieve financial independence is by investing your money.

If you look at the richest people in the world, they are not rich because of the salary they draw from the businesses they run. They are rich because of their investments — their shareholdings and property portfolios are what make them millionaires and billionaires. People like Bill Gates, Larry Ellison, the Albrecht brothers who started Aldi, and Ingvar Kamprad of IKEA fame have done phenomenally well in business, but they have also been extremely shrewd in what

they did with their money. In Australia, people like James Packer, Frank Lowy and Harry Triguboff have all made their money in various businesses, but it is their investments that make them super rich. There are, of course, full-time investors such as Warren Buffett and Donald Trump. Buffett is the second-richest man in the world and probably the most successful investor of all time. Trump, on the other hand, made his money through property development. However, most of the world's mega wealthy are actually just part-time investors.

Even if you won Lotto overnight and became a multi-millionaire, your financial future would not be secured unless you knew how to invest that money for your long-term prosperity. There are hundreds of stories of people who have won big in a lottery jackpot and been worse than broke within a few short years. Remember, it doesn't matter how much you have or how much you make, it's what you do with that money that determines whether or not you will become wealthy.

Bottom line — if you want to be rich and secure your financial future, you have to understand how to invest the money you make so that it keeps growing.

When it comes to investments, there are two main schools of thought — shares or property. But, again, if you look at the seriously wealthy, they don't pick one horse and back it to win. They spread their money between property and share-market investment. And that's what makes this book a little different. Most books on investing and wealth creation focus on one investment vehicle — shares *or* property. I believe that is a mistake. You need to understand both and invest in both over time. This book will give you the foundation knowledge and practical 'know-how' to allow you to do just that.

Together we will explore the financial delusions that may be holding you back from taking action. Leaving it until later or

leaving it to the so-called experts will never make you rich. But more importantly, you will never be free, fully in charge of your financial future, safe in the knowledge that you *do* know what you are doing. No-one else will ever look after your money better than you will and to pretend otherwise is foolish.

A huge challenge that I see people face in my education programs time and time again is that they really don't have a quantifiable idea of what they are aiming for. They want 'to be rich' but when asked what that actually means, they simply pull figures out of thin air. It's not a figure that has been calculated based on individual needs or desires. So, for that reason, we will take a moment to explore what it is you are trying to achieve. Do you want your investments to replace your salary so you can leave your job and focus on things that you are passionate about? Do you love your job but it doesn't pay enough? And would you like your investments to supplement your income?

Most of the time when people say they want to be rich, what they really mean is they want to be free. Free to pursue their own interests unhindered by the need to make money and worry about paying bills. Free to spend more time with loved ones, to be home for family meals instead of sitting in a rush-hour traffic jam. Free to travel or take up a new hobby or simply relax a little more. We live in an amazing country—but how many of us have even seen a fraction of it?

Money gives you choices. It gives you freedom, security and control over how you spend your most precious resource—your time.

Wealth Wisdom delivers just what it promises to—teaching ordinary Australians how to create extraordinary wealth. Creating wealth is a process just like everything else. This book teaches you that process in an easy to follow,

step-by-step format. You will learn about the Holy Trinity of Wealth Creation—Wealth, Growth and Income. And, most importantly, how to create wealth, growth and income!

Everyone wants to have money. Dreams and goals invariably involve being wealthy, having all the money you need to do whatever you want. It makes sense, therefore, to start this journey where we want to finish—with wealth. In reality, however, wealth is a destination. It is also the result of a process where investing for growth is key, so we will then cover growth. But investing in anything is extremely difficult without income, so we will wrap up by exploring how you can massively improve the income you create by bringing your growth and wealth strategy to life. In effect, we will finish the book where you need to start.

You can create wealth, invest for growth and create income in both the property and sharemarket, but each asset class is better suited to some parts of the Holy Trinity of Wealth than others. You will learn about property *and* the sharemarket together with their respective pros and cons so you can appreciate why that is true.

By educating yourself in this way you will begin to appreciate the hallmarks of your investment style and your attitude to risk. Some people are naturally drawn to one investment vehicle over the other and that can be your starting point. Over time, as your confidence grows, you can spread your investments and minimise your risk through diversification. But if you fall in love with the sharemarket, you can focus most of your activity there or, conversely, if you uncover a passion for property, you can put your early focus into real estate. The choice is yours but this book will arm you with the information you need to put the investment strategies into action immediately!

Opportunities are everywhere, but the only way you will see them is if you first understand what you are looking for. Unless

you expand your awareness and increase your investment knowledge, you simply won't see them. And if you don't believe me, consider this ...

In 2004 Daniel Simons of the University of Illinois and Christopher Chabris of Harvard University were awarded the Ig Nobel Prize for Psychology. The Ig Nobel Prize, by the way, is awarded for achievements that 'make you laugh, then think'.

What made people laugh then think was a series of experiments where volunteers were asked to count the number of passes made by one team in a video recording of a basketball game. Following the video clip, volunteers were also asked what else they noticed about the clip. Oddly, a large number of those questioned did not notice a woman in a gorilla suit come onto the basketball court and wander through the players for a full seven seconds, even when the 'gorilla' turned to face the camera and beat its chest!

So, the question is, if these people didn't see a gorilla walking around a basketball court because they were focusing on something else, what are you focusing on in your life and what are you *not* seeing as a result?

Perhaps you are so busy paying bills and making a living that you've forgotten to design your life. Perhaps you are so busy focusing on the problems you can't see any solutions. Perhaps you are simply blind to the gorillas in your midst—the thousands of opportunities that are all around you for creating income and generating long-term wealth.

If creating wealth is something you are serious about, then you've bought the right book. There is nothing sexy about what I'm going to share with you, and it's certainly not new. Since the parables of ancient Babylon, people have been writing about how to create wealth. Those who succeed follow

simple steps and those who fail believe there has to be an easier or faster way and they die broke.

You don't need to make a six-figure salary to be in a position to invest. As I said earlier, most of the world's truly wealthy are only part-time investors. There are plenty of school-canteen workers, truck drivers or nurses who might not make a fortune, but have accumulated a fortune because they learned to be smart with the money they did make.

Take one of our students, Karen, for example, who was a nurse for 34 years. After learning the strategies taught in this book, she quit a profession that by her own admission had not been kind to her. She became a full-time trader and investor—consistently making between 30 per cent and 60 per cent profit. Her trading more than supports her and she has already bought further growth- and wealth-creating assets. She's having a ball doing something she loves, investing for her future and, perhaps best of all, she has lost 40 kilograms and her health has improved dramatically.

Or what about another Wealth Wisdom student, James. He started investing in real estate faster than he ever imagined. Although working full-time, he found the time to do the research clearly set out in this book and he has bought four houses and seven blocks of land! Plus, he is spending more time with his family and passing on his new-found knowledge to his kids to kickstart their investing, too.

Wealth is not confined to extraordinary people—far from it. It is ordinary people like you and I who, armed with the right information, can truly create extraordinary wealth. And this is not just my opinion. In the book *The Millionaire Next Door*, authors Thomas Stanley and William Danko document their 20-year study into how people become wealthy. What they discovered was that the wealthy did not all live in the same suburbs, they were not necessarily the ones making the large

corporate salaries and they rarely inherited wealth. They were ordinary people who became extraordinary because they took the simple steps outlined in this book. They didn't talk about doing it—they did it! They got themselves educated, devised an investment plan and they stuck to that plan come hell or high water.

I've been poor and I've been rich—rich is much more fun. Over the years, I've documented the lessons I've learned and synthesised the steps that are necessary so that anyone else can make that transition, too. You don't need to make the expensive errors I've made—just read this book. If I can do it and my approach has helped countless others do the same, then it can secure your financial future, too—and that's a promise.

My story

I am not a financial whiz kid, guru or even a university graduate—I'm an ordinary Australian who has created an extraordinary lifestyle for myself and my family through some very simple, yet effective, investment strategies.

Born in South Africa, I experienced my fair share of discrimination and poverty. But it was when I was eight years old that an event occurred that stuck in my mind, as I watched my mother weep with despair.

Even though my family was poor, the one tradition we always shared was a big Sunday lunch. However, on this particular day, all my mother could feed us was bread and jam. That memory forever haunted me and I vowed to never let my own children feel the poverty that I experienced.

After my family migrated to Australia in 1984, I spent many years climbing the corporate ladder and was eventually fortunate to land a job with Hewlett Packard. I was finally

making good money; however, my pleasure at my rise to corporate success was quickly dampened by the realisation that I was working 70 hours a week and had no social life.

I found myself on what I call 'the treadmill of a corporate career' and it didn't take long to work out that a normal job was never going to deliver the lifestyle I wanted. *I decided to look in another direction.*

I devoured every investment book I could find. I was determined to discover the right path to financial freedom and spent thousands of hours researching and studying. The trial and error process that followed was emotionally and financially bruising as I regularly took two steps forward and three steps back. Undaunted, I persisted for years as a part-time investor and relentless researcher. I finally discovered the winning formula. I was able to identify the critical components of successful investing and learnt how to consistently make money through investing in property *and* the sharemarket for income, growth and long-term financial wealth — a specific 'road-to-riches' system that anyone could use. Not long after, I quit my job at Hewlett Packard and became a full-time investor, working from home.

Witnessing my growing success, my family and friends hounded me to teach them my investment system. I have since formalised that education process and have been sharing my wealth wisdom strategies since 2002. The word spread and people from all walks of life now flock to discover my remarkable system for creating a quality lifestyle from investing.

Teaching allows me to share my gift with others. My style is passionate and enthusiastic and, despite the nature of the subject, my jovial, light-hearted approach is entertaining and fun and makes it easy for anybody to understand and apply

the information. I remove the fears people might have about investing through my easy-to-follow methods.

Successful investment isn't just about making smart investment choices, it's about protecting what you accumulate and mitigating the risks. I spent over a decade analysing what really works, and the book you are holding allows you to go straight to the solution that took me hundreds of thousands of dollars to uncover.

Now making money as a professional investor, I enjoy a quiet lifestyle in the Byron Bay area of New South Wales with my wife, Frea, and three young children. I don't commute three hours a day or get stuck in rush-hour traffic. I have no boss and I don't have to 'work' another day in my life. But the best part is that I love my 'work' — I'm always on the lookout for ways to demystify the often confusing and intimidating world of finance and investing. It is that passion to remove the apprehension and make investing accessible to everyone that motivates me to help others.

Now you too can learn how to create an extraordinary life and enjoy an extraordinary lifestyle on *your* terms.

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Part I

Where are you now?

The first part of this book is the reality check. First we look at the various financial delusions that keep you poor. These are money myths that are all too often accepted as fact and hold us back from financial independence. We will also look at the various ways to make money that are currently open to you—whatever you are. It's also important to understand what your financial goals are and, perhaps more importantly, exactly where you are right now! And, finally, we will expose the tried and tested steps towards wealth creation that you must accept and follow if you are to achieve your financial dreams.

Chapter 1



The six financial delusions that keep you poor

There are certain financial delusions that act as road blocks to wealth. They are assumptions (or excuses) that you use to justify your current financial situation. In short—these delusions are keeping you poor! By the end of this chapter you will see how inaccurate these myths really are so you can choose a different future. Following are the six financial delusions:

- 1 It's better to leave it to the experts.
- 2 I don't have time.
- 3 Investing is as good as gambling.
- 4 It's too complicated.

- 5 I'm too young (or old) to worry about that.
- 6 I don't have the money to invest.

1. It's better to leave it to the experts

This is what the experts would like you to think. And even if you thought it to be true a few years ago, you'd have to have been living under a rock to still consider this one accurate. The 'experts' have cumulatively brought the financial world to its knees, while many were receiving eye-watering bonuses that were paid regardless of performance.

If you look at the sharemarket, there are brokers, analysts and fund managers. The brokers are nothing more than order takers and they are paid every time you buy *or* sell, so their incentive is activity, not necessarily getting you results.

The analysts are supposed to be a bit smarter—they study the companies and understand the market in a more detailed manner, so you'd think they'd get it right more often, but mostly they don't. Did you know, for example, that weeks, even days before Enron's collapse in 2001, 11 out of 16 Wall Street analysts covering Enron were still recommending the shares to investors as a 'buy' or 'strong buy'.

Or what about the fund managers? Surely when you invest in a fund, you have a better chance of benefiting from their considerable expertise. Again, that's not what the evidence suggests.

Economist and author Burton Malkiel studied the performance of fund managers and published his conclusions in his book *A Random Walk Down Wall Street*. In it Malkiel writes:

While the index may not win every single year, decade after decade two-thirds or more of professional funds are beaten by (the) index. Similar results can be shown for different time

periods and by using different indexes for comparisons. Results are also the same for international markets as well as for different asset classes such as bonds and real estate... The same result holds for professional pension fund managers, and even for highly compensated hedge fund managers... Those funds that do produce excess returns in one period are not likely to do so in the next.

In other words, by the time you take into consideration the management fees, most people would be better off passively investing in an index fund and not paying for expert advice in actively managed funds at all!

Remember, all of these 'experts' are being paid regardless of whether they choose wisely or not. Say, for example, you were a fund manager managing a large portfolio. There is no added incentive to stick your neck out and seek better returns for your clients. If you do and you are right, you probably won't get any additional bonuses, yet if you get it wrong, you will be hounded by your clients. So, instead, most fund managers just watch each other—not the market. They do what everyone else does. That way they are guaranteed a bonus and a hassle-free existence. If the fund does well—great! If not, they can just blame it on the economy or on the market.

What other industry do you know of where you can make a complete hash of your job and still get paid a big fat bonus?

And real estate is no better. It's always good to find a great agent and build a relationship with that same agent over time, but to blindly trust that every agent knows what they are talking about is a mistake. They are not always working towards your best interests.

There was a great insight made in the book *Freakonomics* that highlighted the vested interests that play out in real estate. Authors Steven Levitt and Stephen Dubner drew attention to real estate commission structures. In Australia, at the time of

writing, commission is around 4 per cent of the sale price. Say after reading this book you decide that you really love property. You already have one investment property but realise that it's probably not a great location, so you decide to sell and buy something else that meets your investment criteria. You sell your apartment for \$450 000. The agent makes \$18 000. You really wanted \$475 000 for the property but were urged to sell at \$450 000. Why? Because that extra \$25 000 to you was only worth an additional \$1000 to them! The commission structure of real estate agents virtually guarantees that the seller won't get the best price.

In *Freakonomics* the authors even analysed sales data for houses that were owned by real estate agents against everyone else. What they discovered was that agent's homes were kept on the market an average of 10 days longer and sold for an average of 3 per cent higher. So when real estate agents sell their own home they hold out for the best offer; when they sell your home, they will encourage you to take the first decent offer that comes along.

So, seriously, should we really trust the experts?

The simple fact is that no-one will care about your money the way you do. No-one will ever be more dedicated to its growth and wellbeing than you are. It's time to take control of your financial future and become your own expert.

2. I don't have time

Let me ask you one question and one question only... How much TV did you watch last week? Count up the hours that you spent watching everything from the news to your favourite soaps.

I'm not saying you have to give up what little relaxation time you have, but what about halving the amount of time you

watch TV and using the rest of that time to increase your financial education? What is more exciting to you — finding out whether so and so is having an affair with her doctor, watching cars speed around a track really fast or working out how to make yourself rich? Besides, once you're rich you can watch as much rubbish TV as you want, or buy a corporate box and watch your sport in style.

If you don't watch that much TV, what about the internet — how much time do you spend on Facebook or Twitter? How many hours do you spend pouring over online shopping websites or counting down auction closes on eBay? The internet is fantastic but it can so easily gobble up several hours a day if you're not careful. Or perhaps you're a mobile phone junkie? Check your phone right now to see how many text messages you sent last week.

Australians spend 30 minutes a day sending text messages. According to a study done by the University of Queensland, text messaging is the most addictive digital service, and is equivalent in addictiveness to cigarette smoking. There is even a condition where people panic when they don't have a connection! According to a recent Neilson study, the typical US teen sends 80 text messages a day! And considering Australia has a higher usage of text messaging than the United States, that's a scary waste of time!

Whatever you do with your day, the real issue is not time, it is commitment. We all have busy lives, work, family and friends — sometimes it can be hard to put time aside for anything extra. But if your financial future is important to you, then you simply don't have a choice. You have to find a big enough 'why' in order to rearrange your life a little and find the time.

Viktor Frankl, concentration camp survivor and author of the famous book *Man's Search for Meaning*, said, "Those that have a "why" to live, can bear almost any "how"". If Frankl can find

meaning in the desperate circumstances of a concentration camp and find a 'why' that would see him not only survive but go on to make a huge contribution to psychology, then you need to find a big enough 'why' to find the time necessary to take your financial future seriously.

Confucius said, 'We are so busy doing the urgent that we don't have time to do the important'. Unless we reverse that equation, we will never make the changes required to really create wealth and long-term prosperity. There will always be some urgent task that overshadows what you really want for your life. You are the only one who can make the changes so that you do find the time to be rich.

3. Investing is as good as gambling

Yes it is — if you don't know what you are doing. Investing is the same as gambling if your investment choices are based on guess work, pot luck or my personal favourite — the 'hot tip'. In those situations, investing and gambling is the same thing. You can't control or predict the outcome — you can just cross your fingers and toes and hope that it's your lucky day. It's completely random. And, for the record, a recipe for disaster!

Australia has a huge gambling addiction. Did you realise, for example, that according to the NSW Lotteries Corporation, NSW residents alone spent \$1.2 *billion* on lottery products in 2008? That is staggering and this is only one of the lotteries and only one state! And interestingly enough, this figure was higher than the previous year — obviously gambling is impervious to economic downturns or apparent financial difficulties! The mind boggles at what we spend on all forms of gambling in this country. And yet if we took that money and invested it over the long term, we would be able to create the wealth we crave.