You can hear and read advice and strategies from this team of experts in a series of eBooks, reports and audios we have specially prepared for you. 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 at www.FinancialFluency.com.au.

If you are ready to become rich by becoming a strategic property investor, this book is for you.

Michael Yardney

PART ONE

WHY YOU SHOULD BUILD A PROPERTY INVESTMENT BUSINESS

CHAPTER 1

WHAT YOU MUST DO TO BECOME RICH

I won't beat about the bush – this book is designed to help you become rich.

More specifically this book will show you how the finance, tax and legal systems work and how to get them working for you and not against you.

Almost everyone I speak to says they want more money. They want more choices in their life. They want financial freedom to allow them to go to work if they want to, not because they have to. They want a better life for themselves and their families. They would like to contribute more to the community and charities.

I guess they've realsied that any problem money can solve isn't really a problem!

Yet when you think about it, despite living in one of the most affluent countries in the world, most Australians never achieve the financial independence they deserve. Currently there are over 26.5 million of us calling Australia home. However, the latest Capgemini Wealth report estimates there are just over 300,000 high net worth individuals in Australia – people with a net worth of more than one million dollars on top of their home.

As I said – despite working for forty years or more and having earned well over three million dollars over their lifetimes ($75,000 a year for 40 years), very few people become financially free – in fact most retire just above broke.

But the bottom line is most of us want to get out of the rat race, to have more choices and to develop financial freedom. That's the main reason many Australians give up their jobs and start their own small business. Yet very few actually make a financial success of it. It is also the reason why close to 2.2 million Australians are involved in property investment. But 90% of property investors never own more than two properties and less than 1% of property investors own more than six properties. Let's face it – even owning a portfolio of six properties is unlikely to give you true financial freedom.

As you delve deeper into the stats you will find that a large number of those who now have financial freedom amassed their wealth through running a successful business, through shares investments or from having received an inheritance.

So the inconvenient truth is the majority of property investors never achieve the financial

freedom they are looking for. But the good news is according to that same Capgemini report, every day over the past year there were 21 new people joining the ranks of Australia's high net worth individuals, and many on the back of their property holdings.

Interestingly, of those high net worth individuals quoted in the Capgemini Wealth report, close to 80% created their wealth as business owners. Most of the others were employees with strong financial discipline and who invested wisely, and there was a smattering of high-income earners such as celebrities and sports people who had also invested wisely.

This made me wonder what common attributes or characteristics these successful business people shared.

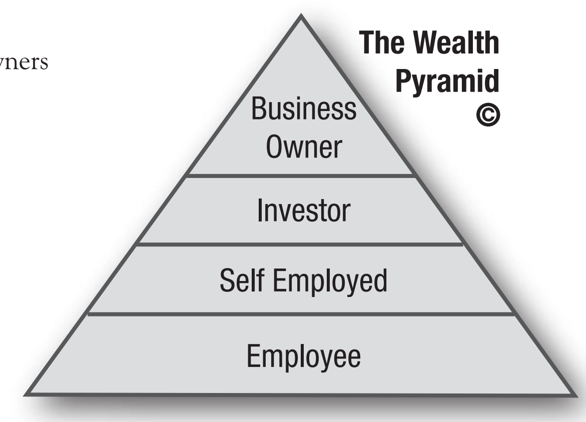
Now before you run out and start a business, let me make something clear. I said over 80% of those who become financially free are business owners. I didn't say 80% of business owners are financially free. In fact, we know that's not the case and most small businesses fail in the first five years.

So let's clarify this – most business owners, self-employed people, employees and property investors never become financially free. And of those who do achieve financial freedom, the majority are successful business owners. Then there is a significant number who are employees and treat their investments like a business.

As I studied what led to the successful people's financial freedom I discovered it has very little to do with what they do for a living. It really didn't matter whether they were a business owner, self-employed or an employee. It has everything to do with their mindset. In other words, you could be a business owner yet still think and act like an employee or you may be employed but think and act like a successful business owner.

When it comes to how people make their money we can all be placed in one of four categories:

1. Employees
2. Self-employed
3. Investors
4. Business owners



I call this the **Wealth Pyramid** – let's look at each of these categories in more detail:

1. EMPLOYEES HAVE A JOB

Maybe that's the category you're in right now. Employees work for someone else and receive an income from their employer. They trade their hours for dollars; however before they even see their money the government takes its share in taxes.

"So what? They do that to everyone!" you may be thinking.

Well no! They don't take money from everyone in this manner. In fact, some investors and business owners only pay tax on what's left over after their bills are paid. That doesn't happen for you now, does it? You have to try to pay all of your bills with the bit that's left over after the government is done dipping its hand in your pocket.

Wouldn't it be nice to only have to pay tax on what's left over after you spend your money on what you need (or want)? That's why some investors and business owners can achieve financial freedom. Read on and I'll show you how.

2. THE SELF-EMPLOYED – OWN A JOB

Self-employed people are typically small business owners or professionals who want to be their own boss or "do their own thing". This includes lawyers, accountants, doctors and plumbers – anyone in business for themselves who does the work themselves. They are prepared to work hard and expect to get paid for their efforts. And they're usually pretty proud of being self-employed because they don't have to answer to a boss.

But often what they've done is swap one boss for hundreds of bosses – they're called customers, clients or patients. In reality, self-employed people still work for money just like employees do. They are somewhat better off than employed people because if they're smart, they take advantage of (legal) tax deductions that allow them to pay their business expenses before being taxed on what's left over.

However, despite what they would like to think, self-employed people aren't true business owners; they still swap their time for money. Doctors call it consulting fees, plumbers call it an hourly rate, but the bottom line is they are still working for their money. And if they take time off or fall sick, they simply don't get paid.

Often to them, money is not the most important thing about their work. Rather they place a greater emphasis on their freedom and independence. They are frequently perfectionists who are hesitant to hire others because, in their mind, nobody does their job as well as they do. This, in turn, means they continue to do it all themselves and work hard in the process. That's the reason most self-employed people never develop financial independence.

3. THE INVESTOR – MONEY WORKS FOR THEM

As opposed to employees and self-employed people who trade their time for money, investors make money with money. Once they build a sufficiently large asset base, they don't have to work, because their money is working for them. And that's a nice feeling as life is simply too special just to work all day for your money.

Regardless of how you make your money today, if you hope to become rich at some point in the future, then you are going to have to belong to this group, because investors convert money into wealth.

Does achieving this standing seem impossible to you? Well, take heart – you CAN get there from wherever you are right now! Obviously, you're not going to jump from being an employee to being a full-time investor overnight. But what you can do is start taking the steps by setting up your own property investment business. Done right, income-earning "investment grade" residential real estate can be your vehicle for getting out of the rat race!

There are also many tax advantages available to investors who don't have to work for their money. One of the reasons the rich get richer is because in some cases they can make millions and legally pay very little tax. That's because they build their assets and not their income. They make their money as investors, not workers.

For example, if an investor owns a $1 million investment property that increases in value by 7% each year (which is around the average annual increase in value of a well-located capital city property in Australia), in 12 months their asset base will have increased by $70,000, yet no tax is payable on this. On the other hand, if an employee puts in 40 or 50 hours a week at the office and earns $70,000, a large chunk of taxes are withheld from their wages and they will never set eyes on that portion of their income. In the meantime, the wealthy property investor can borrow against the increased value of their asset and use this money to reinvest or even possibly to live off.

However, I've already explained that most property investors don't ever get to this level, and that's because they don't treat their investments like a business.

4. THE BUSINESS OWNER – WORKS "THE SYSTEM". THEY OWN A SYSTEM AND PEOPLE WORK FOR THEM

The true business owner not only doesn't have to do the work; in fact they don't even have to be at work every day. They have a system and have hired people to do it all for them, along with highly qualified supervisors to manage the workers. The true business owner asks, "Why do it yourself when you can employ someone to do it for you?"

If the business owner went to Europe for a year and came back, they would find that their business is still up and running, and hopefully even more profitable than it was before they left.

In fact one of the best ways to earn more and work less is by owning a business, because the "tax system" favours business people and disadvantages employees. Business owners understand the system of finance, tax and the law and have it working for them.

As a business person you could own a hardware store and have a team of employees working for you, or a McDonald's franchise and have a group of teenagers serving Big Macs and making money for you, or you could have a business with less moving parts like a portfolio of investment properties working hard for you.

I know I've just explained this, but it is so important for you to understand that I'd like to repeat myself. The average employee earns money, pays tax and spends what is left, while a business owner earns income, spends money and pays tax on what is left. That makes a big, big difference.

Have you ever wondered why so many business people and successful property investors drive nice cars? It's a great example of the point I'm trying to make.

As an employee you would have to pay for life's pleasures with after-tax dollars. Most employees have to pay for their car this way. On the other hand, a business owner is allowed to pay for their car with before-tax dollars if it is used for business and meets certain requirements.

A business owner can even pay for such things as movie tickets, trips, magazines and other benefits with before-tax dollars while an employee pays for them with after-tax dollars. Of course they must qualify as legitimate business expenses and meet certain requirements. We'll explain this more fully in the tax section of this book.

DOES THAT MEAN I'M GOING TO HAVE TO SET UP A BUSINESS?

Well sort of. But probably not the type of business you may have in mind. I'm not advocating you open up a conventional business. To my mind, it's just too hard to make money that way. Whether it be a conventional shopfront business, a franchise or even network marketing, most small businesses go broke in the first five years and many of those that survive close down in the following five years.

However, I've seen some property investors become very, very rich by growing a multimillion-dollar investment property portfolio. But if I haven't made it clear by now, let me say it again – the property investors who achieve financial freedom are the ones who treat their investments like a business. They get the right type of finance, they set up the correct ownership and asset protection structures and they know how to use the taxation system to their advantage – and that's what this book is all about.

Let's face it: the majority of Australians will always be employees. And that's a good thing. We need policemen, nurses in our hospitals and politicians in parliament. Ok, maybe we don't need politicians.

We all have the ability to become financially free and the way I propose you do this is to become a property investor and treat your investments like a business. The good news is that you can set up your own property business while you're still an employee or self-employed. In fact that's what I did and what every wealthy property investor I know has done. They have built their wealth by growing their real estate portfolio one property at a time. While this was going on they lived off the income they earned from their day job. They started off with one property then leveraged off its capital growth to invest in another and another until one day they found themselves with a true property investment business; one that gave them financial freedom and choices in their lives.

But, as I said, that's not what most people do. So let's now look at how many Australians go about becoming wealthy, what works and what doesn't …

LINEAR VS. PASSIVE INCOME

Employees and the self-employed are in the time for money economy – they trade their time and their labour for dollars. On the other hand investors and business people are in the results-for-money economy. They don't go out and get a job; they send their money out to get a job.

What it boils down to is 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 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 and wrote my bestselling book *How to Grow a Multi-Million Dollar Property Portfolio – in your spare time*, before I earned a single cent I put thousands of hours of hard work over a number of years into compiling it. Now that it has been published it's a bestseller, has been reprinted multiple times and over the last 17 years I've earnt royalties and every six months the cheques flow in no matter where I am or what I am doing.

That's the power of recurring income!

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

The problem is when most people try to grow their wealth they think about income or cash flow. However, focusing on increasing your cash flow will not make you wealthy. Why? The more you earn the more tax you pay. It's really too hard to work your way or save your way to wealth. "The system" is stacked against you.

The reason employees and the self-employed struggle financially is because they work for money. The problem with working for money is you have to work harder or longer or charge more for your services and we all have a finite amount of time and energy.

One of the reasons the rich keep getting richer is they work (or get their money to work for them) to acquire more assets. By building a significant asset base they end up getting all the income they need.

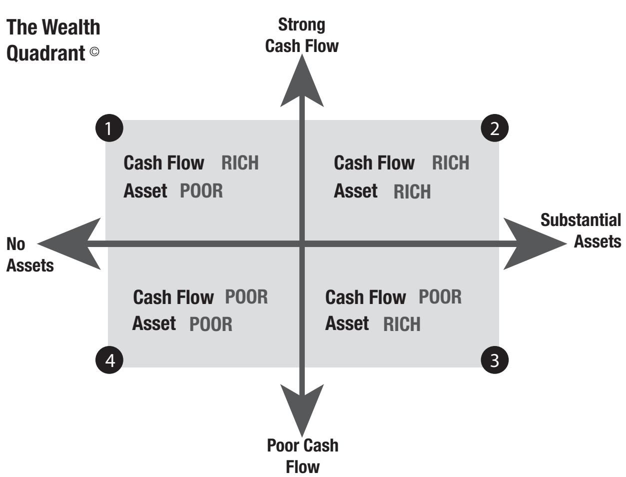
Today you may be in the position of having to take any job that comes along. You're likely to be stuck in the time-for-money economy, and within that framework your options are very limited. Setting up your property investment business and creating multiple streams of investment income that is not dependent on you working will take you outside that box. Instead of just meeting your financial needs, you'll begin to make your own financial choices.

You may not be able to quit your day job immediately, you may not even want to quit it – but as your investment income increases, your dependence on your day job will decrease. Ultimately, of course, investment income can liberate you from needing to work at all. You may still choose to work, but that's very different from needing to.

Let me explain it another way with my Wealth Quadrant.

THE WEALTH QUADRANT

Some people have lots of cash flow (income) and others don't. Some have substantial assets and others don't. We all fall into one of the following four quadrants:



People in *Quadrant 3* don't have any assets and have poor cash flow. It's the worst place to be, but sadly that's where many Australians are because they have taken on significant debt (usually credit card debt or consumer debt for those shiny new toys) and they struggle to make ends meet.

The people in *Quadrant 4* often own their own home, sometimes without any debt, but don't have the cash flow to enjoy life. Others who fall into this quadrant are property investors who are highly geared and have negative cash flow. They often live from month to month because they haven't set themselves up with the proper finance buffers (which I will discuss in the finance section of this book) and shudder whenever there is mention of rising interest rates, which could decimate what little cash flow they have.

Sitting in *Quadrant 1* are people who have a good income from their job, but don't own any appreciating assets. They often look wealthy, drive an expensive car and live in a fancy home. However they tend to have few assets and are totally dependent on their well-paying job to support their lifestyle.

When you look at the four quadrants you'll want to be in *Quadrant 2* – won't you? That's where you have a substantial asset base that generates cash flow. Yet I see many people trying to get cash flow the hard way. They either get themselves another job, they try to make a go of network marketing, or they make hard work out of property by attempting strategies such as leasing out their properties room by room, or through AirBnB, in an attempt to increase their cash flow.

They are building the wrong sort of income.

Instead they should be looking for passive recurring income – recurring 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 assets that produce passive recurring income that gives them time freedom.

When you view people's lives through the filter of passively earned recurring income, you find 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.

You see…my definition of wealth is being able to do what you want, when you want, with whomever you want for a long as you want.

So to achieve that I've bult myself a "cash machine" of passive recurring income.

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 and 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 the 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 will obviously need to buy more than one investment property. You'll need to build yourself a property investment business – one that manages your multimillion 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. Don't worry if you're still just getting started. Commence by absorbing the knowledge contained in this book, and then commit to putting that knowledge into action by building your own property investment business one property at a time.

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

ASSETS, NOT INCOME, CREATE 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. This is because, if invested wisely, your assets grow and income flows into your hands from them.

When you buy a property you put down a deposit – this is your money or asset. When the property increases in value and your loan remains the same, your asset (your capital) grows in value. This is called capital gain or capital growth. The great thing about this capital gain is that it is yours and you don't have to pay tax on it unless you sell your property (you only pay Capital Gains Tax (CGT) when you sell an asset). In time you can use this capital growth to borrow the deposit for your next investment property and the next and so on.

Unfortunately, most people don't get past the income stage. They don't get their money growing and working for them. They're just focussed on cash flow – but while cash flow keeps you in the property investment game, only capital growth will gets you out of the rat race. You can't save your way to wealth with income. I'll explain this in detail shortly as I discuss the various levels of investors.

INSIDER TIP
The rich think 'Assets', the poor think 'Cash Flow'. Assets, not cash flow, create real wealth.

CHAPTER 2

DOES MONEY MAKE YOU RICH?

I've already explained that my aim in writing this book is to make you rich. I'm going to show you how to create your own property investment business and become financially free. But before we go too much further, I should really explain my thoughts about money, because I realise there is much more to life than money.

I'm sure you've heard the saying "Money doesn't buy you happiness". I completely agree with this old adage. The truth is, you can be poor and happy, you can be rich and happy and you can also be either poor or rich and completely miserable.

If you're looking for money to make you happy, you'll be disappointed. If you're hoping that money will make you powerful, younger, sexier and more interesting or better looking, you'll also be disappointed. Money doesn't do any of that. It might in your mind, but it doesn't in reality. You can be all of those things without money; it isn't money that makes you powerful, interesting or a nice person – money is neutral. Money makes you more of whatever you were before.

WHAT I'M TRYING TO TELL YOU IS THAT CLEARLY, MONEY ISN'T EVERYTHING

To me, it's not even amongst the most important things in life. But there's no doubt that money does help. Having come from a poor background, I thought money was the answer to all of my problems, but after chasing "the almighty dollar" for the first part of my life and losing my marriage in the process, I realised that wasn't the case.

True wealth is much more than just money. In my mind, to be truly wealthy you need money plus the time to enjoy it, the family and friends to appreciate it with, the health to be able to live the lifestyle you can now afford and spirituality (whatever that means to you). To me it also means the ability to contribute to charities and back to the community.

I hope you agree that you can indeed be wealthy without being rich. That's why some people may suggest that being financially free is an unworthy goal —- even perhaps morally suspect. To me though, financial freedom is a means to an end.

MONEY BY ITSELF IS NEITHER GOOD NOR BAD

It is our own emotions, experiences and attitudes toward money that determine whether we see it as a positive aspect of the world in which we live, or something that has negative ramifications. Money is merely a tool that, when used correctly, can provide the financial freedom I've been talking about. It's what you do once you become financially free that determines your level of happiness. That's why I want to teach you to become financially fluent – to understand money – I'd like to show you how to ethically make it, keep it and share it. This will add a positive dimension to your wealth.

I've found a lot of wealthy people contribute to the community; in fact that's something that's become very important for Pam and I as we've become wealthy. One of the reasons I still work at earning more money is not because I'm greedy, but because it enables me to help others, help our children, help our grandchildren and give to the community and charity.

Shifting my focus from helping myself to helping other people has allowed me to look at creating wealth in a different way. I don't feel guilty about my desire to make more money; in fact I'm obliged and morally responsible to become wealthy because it enables me to help other people. That's another reason why I'm happy to share my wealth creation strategies with you in this book.

While money isn't the most important thing in life, clearly our relationships and our happiness do improve when we have it. The trouble is most Australians don't know how to make it or if they do get it, they don't know how to keep it.

I've found that money is important in those areas of life where it is important (such as paying the bills) and not at all important in areas where it is not important (such as relationships, spirituality and religion.)

However having money does affect all those areas of life where money isn't important and makes them more enjoyable. Having more money does affect your standard of living, the standard of education you can provide your children and the quality of your leisure time. It's also great to be able to contribute more to the community and charities because you don't have money worries. And if you think about it…if you have money, then any problem money can solve isn't really a problem – is it?

WHAT DOES WEALTH MEAN TO YOU?

We all have our own definitions of wealth. I have a few. I've already shared one, here's another… Wealth is having enough so that I don't have to worry about having enough. For some people, not worrying might mean that they have enough to pay for any emergencies that arise.

So how will you define wealth? By the number of cars you own? By how much cash you have in the bank? By the value of your house or by the size of your investment portfolio?

Of course, there are no right or wrong answers, but it's something you have to work out early because if you don't have a target, how can you take aim? If you don't have a destination to get to, you'll be driving around in circles. If you don't have your own definition of real wealth, how will you be able to monitor your progress and know when you get there?

Another definition I like is that wealth is not measured in money, but by how much you know. If you are financially illiterate you will never make money and if by chance you do, you are likely to lose it. On the other hand the financially fluent understand the rules of money as well as how the game of finance, tax and the law works.

NO JUDGMENT

In this book I use the words wealthy or rich and poor or "average Australian" to differentiate between those who have achieved financial freedom and the vast majority who never quite make it beyond the nine to five grind and continue to live just within or, in many cases, beyond their true financial means. I realise that in Australia there are very few "poor" people – we tend to have the rich and the middle class.

So when I use these terms I am trying to make a distinction and **I am definitely not making a judgment** about the "wealthy" or the "poor" and whether one socio-economic group is better than the other. This is not a social analysis or commentary. I am just suggesting that most people in Australia want to become rich or at least financially well off, in fact most people I deal with want to become financially independent. They are not happy with mediocrity or struggling for a wage.

I want to make it clear that when I'm talking about rich or poor, wealthy or hard working, I'm not putting a value on the person, because truthfully there is no way to do that – all of us are priceless.

What I am saying is that from a financial standpoint, some of us are doing better than others. Also, throughout this book I am going to use the words wealthy and rich interchangeably, just for convenience, even though I have just explained that my definition of wealth is much more than just being rich.

Now that I have clarified how I feel about money, and considering the reason you bought this book was probably to help you make more of it, let's get on with the business of showing you how to use the finance, tax and legal systems to build your own property investment business so you can make more money and enjoy your life.

PLAYING THE GAME OF MONEY

While my intention is to teach you to build a property investment business and to treat it seriously, one of the biggest lessons I have learned over the years is to treat my business like a game – to take it seriously but not too seriously.

Like it or not – you are already playing the game of money – rich or poor we all are. The difference is some of us are playing harder than others. Some of us know the rules and use them to our advantage. Some of us are more committed, more passionate and more determined to win.

I've heard it said there are three types of people:

1. Those who make things happen
2. Those who watch things happen, and
3. Those who say, "What the heck just happened?"

Yes, some people don't even know they are in "the game".

By reading this book I hope you become a player in the game and not just a spectator. In the following chapters I am going to teach you financial fluency and the lessons I wish I had learned earlier in my investment journey.

When I started investing in the 1970s there were no books like this, there were no property seminars and there was no internet. Of course, the rules of finance, tax and money were around then, but the rich held this knowledge more tightly. My early years of investment were sprinkled with frustration, failure, loss of money and mistakes.

So I set about learning the rules the rich were playing by.

I got some clever mentors around me and paid experts in their field to advise me. I invested in me – in my financial education and eventually I moved from being financially illiterate, to financially literate, to financially fluent. Today I am comfortable with the rules of money and the basics of the finance, tax and legal systems as they relate to business and property. I know what to look for and what questions to ask.

Even though I'm widely recognised as an expert in my field, I'm still dedicated to increasing my financial knowledge. For me, my education never stops.

HERE'S WHY I'M STILL WORKING

People occasionally ask me: "Michael… now that your candles cost more than your birthday cake, if you're really rich, why are you still working?"

The answer is simple… I still work today but not for the money. I do it because I enjoy it. I enjoy challenge. I love learning. I love the game of property; I love educating others by writing blogs and book and presenting seminars. I want to be the best I can. I could have retired many years ago, but what would I do if I stopped working? Some play golf, others play tennis. These are not my games. My game is property investing and business. I have fun and I love it. If I stopped working I would lose my passion – what I get up for every morning.

By the way, my game is a team sport. I don't play on my own. To play the game of property to the max I have a great team around me at Metropole – I still have advisors, mentors and coaches, and so should you.

Why should I know the latest changes in what the banks are looking for when I have a group of proficient finance brokers as close affiliates? I don't have to keep up with all the latest changes to superannuation or trust structures when I have a leading property tax accountant like Ken Raiss on my team. And he also keeps me up with all the asset protection or structuring laws, as do the solicitors on my team.

And even though I know more about property than most investors, I just can't have an intimate knowledge of all the property markets around Australia, and where the best investment opportunities are on my own. With the backing of the research department at Metropole, and the on-the-ground market knowledge of the buyer's agents at Metropole on my side, I play my game better than most.

And my team has a coach – Mark Creedon of Mastermind Business Accelerator is a great business coach, who also coaches the whole Metropole team. He sees my blind spots and helps bring me perspective, allowing me to play at my best. In fact He is now CEO of the Metropole Group of Companies.

I have a number of other mentors who help me achieve what I want to achieve, and I'm part of two mastermind groups of like-minded people that stimulate me.

Why am I telling you all this?

Not to boast. I'm explaining how I built my property investment business to teach an important lesson I learned early on – there is no such thing as a self-made multimillionaire. If you want to build your own successful property investment business you are also going to have to assemble a great team around you. You will also need to become part of a mastermind group and have a mentor.

By the way I'd love to be your mentor; I run a mentorship program and you can find out more about it at www.MichaelYardney.com.au.

CHAPTER 3

THE FOUR LEVELS OF INVESTING

Now that you understand the importance of setting up your own property investment business, I'd like to introduce you to a model I've created to explain the progression most investors take in their path to developing financial freedom. This model allows you to know exactly where you are heading financially, at 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 I had a business partner, Brian, who came into the tea room at work one day and said "Michael – I'd like a cash machine!"

I said "What?"

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 once again start working and churn out the money."

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

I bet now that you have read about this concept 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 away on holidays, sometimes for up to 6 weeks at a time and often overseas but our cash machine keeps churning out money. Our rent comes in, the property managers look after the tenants and our properties, our investments 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.

Now back to the concept of the 4 Levels of Investing – if you want to build your own cash machine you are going to have to move up the rungs and become a Level 4 investor.

While some investors will actually move up this hierarchy and make it to the top, and some people will drift a little from one investor level to the other, unfortunately most will 'safely' sit at one level for their entire life. They become stuck because of their mindset (their programming about how they deal with money) and this prevents their financial success.

As I said, the ultimate goal is to become a Level 4 investor; this is the top rung of the investment ladder and means you have become financially free. The good news is that by building your own property investment business that controls your own multimillion-dollar property portfolio you can achieve this.

My model allows you to know exactly where you are heading financially. The first step is to understand what type of investor you are now, then you decide what you want to achieve – how far you want to progress – and then start learning the things that the next level of investor already knows. In order to reach that next level you will have to understand what they understand and behave like they behave. It's not enough to just have the knowledge; you also need to take the actions the next level of investor has taken if you want to climb your way to the top.

Just to clarify things, moving up this investment ladder has nothing to do with your income. I've seen many people earn hundreds of thousands of dollars a year, but by spending most of it on a flashy lifestyle they fail to graduate up the investment ladder.

Having said that, I've also seen successful investors build a substantial property investment business and work at what some would call menial day jobs, earning relatively little in their pay packet. In other words, their job becomes something they choose to do, not something they have to do for their primary source of income.

As you read through these four levels of investors, I want you to know that at various points in my life I've been at every stage. It's only as you develop more knowledge and understanding, step up and take further action that you will also have the opportunity to move up this investment hierarchy.

Let's look at the four levels of investors:

LEVEL 0 – THE SPENDER

Level 0 investors are really not investors – they tend to be spenders and borrowers and as a result, end up with a high level of debt. They spend everything they earn and often more. Their money runs out before the month does. They usually survive from pay packet to pay packet, using credit cards and store credit where they can.

The Level 0 investor lives for today. If they have some money they spend it, if they don't have money they borrow it. These are the people who, when they need some cash, go to the ATM and pay a fee to collect an advance on their own money and then pay interest on it. Their solution to financial issues that arise is to spend their way out of it or to take on more debt. They'll often get a new credit card or refinance their home in order to buy more things on credit. Their idea of financial planning is robbing Peter to pay Paul.

The biggest problem for spenders is their money habits, and this 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. They are consumers who spend their money as soon as, or even before it comes in, rather than conserving it for the future.

There are many high-income earners who fall into this category because they spend as much, or more, than they make. Sure some spenders can look rich – they may even have big homes or fancy cars, but they also have huge loans they have difficulty repaying.

For the most part, spenders are not overly conscious about money or their spending habits. Shopping is one of their favourite pastimes. They buy things they don't need and they spread their debt over a long period of time, kidding themselves that they'll work harder and pay off their bills someday.

When asked what their problem is they will tell you that they don't make enough money. They think more money will solve their problems. Yet no matter how much money they make, they go deeper into debt. They fail to see that the real problem is not their level of income, but their bad money habits.

Do you know any level 0 investors? A large part of our adult population falls into this category.

LEVEL 1 – THE SAVER

The vast majority of Australians who are not spenders will generally be Level 1 investors or what I call savers. Their main investment is their house, which they aim to pay off over time and their compulsory superannuation. Sometimes they also save a little, putting a small amount of money aside on a regular basis.

In general they save to consume, not to invest. Level 1 investors tend to be afraid of financial matters and are generally unwilling to take risks. They're following the plan their parents and grandparents followed – get a steady job, buy a house, pay it off and save a nest egg for retirement. The problem is savings, or even owning your home outright, doesn't make you rich.

What usually happens is they work hard over their lifetime, diligently save or pay off their home and are left with what will be a modest, most likely old and tired house.

The problem is that saving doesn't make you rich. Three things tend to get in the way…

First there's inflation. What you save today won't be worth the same in 15 or 20 years time. This is especially true in current markets where Australia is battling with record levels of inflation as a result of knock-on effects from the COVID-19 pandemic, Russia's invasion of Ukraine and strong consumer demand.

Then there's income tax. The average Australian loses 30-40% of their income on taxes over their lifetime.

And **finally there's spending**. We've become a nation of consumers. The cold, hard fact is that most Australians will spend a large chunk of their income on consumables: another car, a bigger TV, a holiday, a caravan, etc. all the while eating up much of the money they should have put away for retirement.

Don't get me wrong, it's good to have some savings. I think you should have at least six months worth of living expenses in an emergency fund such as a savings account or an offset account or line of credit, but after that there are far better and safer investment vehicles than low yielding bank accounts or a home you own outright. To get maybe 4% or 5% interest on your savings from a bank (on which you have to pay tax anyway), or to save 5-6%interest by paying off your mortgage sooner, isn't really a smart investment strategy. Particularly when you consider that a Level 4 property investor can achieve much, much higher wealth building rates of returns on their money.

Level 1 investors are what I would call financially illiterate. They need to focus their efforts on building a solid base of financial and investment skills, upon which they can grow their financial future. They will get the most leverage by investing in themselves and getting a quality financial education (one that is relevant for this new financial era) and beginning to build a network of peers they can make the journey with.

LEVEL 2 – THE PASSIVE INVESTOR

Level 2 investors have become aware of the need to invest. They realise their superannuation won't get them through retirement, so they start learning about investment and begin accumulating assets.

While they are generally intelligent people, Level 2 investors are still what I would call financially illiterate –- they don't really understand the rules of money. But remember it's not their fault – nobody taught them. If anything, their parents taught them old fashioned, outdated ideas about money.

They have very little idea of how or where to invest their money; so many blindly follow the advice of financial planners or sometimes their accountant who works closely with a financial planner (who just happens to be sitting in the next office). These investors are usually taught to save and put their money into managed funds or a group of blue chip shares because they are "safe", and to spread risk by diversifying. Interestingly, most really successful investors don't diversify. Instead they find a niche and specialise in it.

My strategy is to find your own niche, one in which you can specialise. I invest in high-growth, income producing, capital city residential properties that I can add value to through renovations or redevelopment. I would strongly suggest this becomes your niche, too.

The point I'm trying to make is that rather than taking responsibility for their financial education (their financial literacy) themselves, Level 2 investors tend to look for answers to their investment needs from outside sources or "experts". This makes them easy prey for financial planners or brokers, or worse still the newest "get rich quick scheme" advertised online or the latest flash-in-the-pan investment schemes spruiked by telemarketers.

Level 2 investors need to start refining their financial and investing education and focus their efforts on choosing a specific wealth vehicle they are going to master. This could be residential property (my preferred suggestion), or shares or a business. The key is not trying to master every wealth vehicle, but rather to specialise in one. They are also going to have to unlearn the flawed, incorrect and mistaken lessons they have learned about money and wealth from unqualified teachers. I describe these and the golden rules of money for the new financial era in my book *Michael Yardney's Guide to Investing Succesfully* at *www.InvestingSuccessfully.Today.*

LEVEL 3 – THE ACTIVE INVESTOR

Level 3 investors realise they must take responsibility for their financial education and become actively involved in their investment decisions. They become financially literate by building a knowledge base of investment strategies and techniques. They grow to understand and use the three marvels of wealth accumulation: compound interest, leverage (using other people's money) and tax-favoured investments. They are starting to get their money working for them.

These investors actively participate in the management of their investments and concentrate on building their net worth. Their main focus is on growing their asset base and as they do, their cash flow increases.

As this is the asset accumulation stage of their investment life, these investors have in general moved to high growth, low yield investments and take advantage of the opportunities of compounding and leverage to grow their wealth. This is where residential real estate really shines – it's the best asset class I know for growing your wealth safely.

Level 3 investors usually leverage the time and expertise of a network of industry professionals as they realise that they can't do it all themselves. They also upgrade their network of advisors and peers, often joining a Mastermind group of like-minded people.

They must focus on actively doing something to make their assets more valuable before, during, or after they acquire them. This includes things like buying a property below market price, or renovating or redeveloping a property they have purchased, or actively building a business to increase its value.

LEVEL 4 – THE PROFESSIONAL INVESTOR

A very small group of investors move to the top rung of the ladder and become a Level 4 "professional" investor who has built and now manages a true investment business.

A Level 4 investor's property investment business has a substantial asset base that generates

sufficient recurring passive income to pay for their lifestyle costs, plus keep growing their investment portfolio whether they work in a real job or not.

Level 4 investors are well educated; they are financially fluent, are comfortable with the language of money and fully understand how the game is played. They understand the "system" of finance, tax and the law (the things we will discuss in this book) and use them to their advantage.

These investors tend to concentrate on optimising the performance of their investments, at the same time minimising their risks. While they are still accumulating assets, they are now more interested in cash flow that will allow them to gain the most out of life.

Rather than investing what is left after they have spent their money, they have the correct tax structures in place that enables them to spend what is left over after their money making investment machine ploughs more cash back into further investments.

They have a finance strategy and financial buffers to buy themselves time and see themselves through the ups and downs of the economic and property cycles.

And they understand the law as it relates to property so they don't make the mistakes many beginning investors do.

Professional investors realise the value of outsourcing much of the work for their investment business to give themselves more time-freedom. They have a team of accountants, finance brokers, property managers, solicitors and property strategists to assist them in managing and growing their investment portfolio. The professional investor doesn't hand over control of his investments to others; he or she still remains in control but employs a proficient team who have great systems that achieve repeated and consistent results, which are reliable and predictable.

This gives Level 4 investors the freedom to choose whether they get up in the morning and go to work or not. Many still continue working because they enjoy it, but now they go to work because they choose to, not because they have to.

Others find the time to contribute more to their community or to charities. I know that over the years Pam and I have contributed more and more to charities and the community. We get great satisfaction in helping a number of charities that assist sick children, street kids and others in need. In fact as I write this Pam is in her office organising another Metropole Charity Ball.

The state of the economic markets and the stage of the property cycle don't seem to affect the professional investor who makes money in good economic times and bad.

While Level 4 investors are financially fluent, they rarely stop educating themselves. They read, they subscribe to investment newsletters, listen to podcasts and they still attend seminars or webinars and surround themselves with a great team of advisors and mentors. They're prepared to pay for solid advice – not only to increase their wealth but also to protect their assets from opportunistic family members, lawsuits and the government.

You will find that Level 4 investors personally own very little in their own names. But even though they "own nothing", they control everything through companies and trusts. By controlling the legal entities that own their assets, these investors gain considerable legal tax benefits and asset protection.

And a final point about these professional investors is they tend to teach their financial knowledge to their children and pass on their family fortune to future generations as their companies and trusts endure after they have departed this life.

ASSET GROWTH FIRST, THEN INCOME STAGE

Just in case I haven't made it clear, there are two stages to becoming financially free. The first is the stage of asset accumulation – your job as a Level 2 and 3 investor is to build the biggest asset base you can – in other words build your "cash machine." When you have grown a substantial asset base you then transition into the cash flow (income) stage of your life as a level 4 investor.

Sure you need income (cash flow) to service your debts as a Level 2 or 3 investor, but your focus must be on asset growth rather than income growth.

Let me explain why …

INCOME IS THE WORST PREDICTOR OF WEALTH

I've already explained that most employees and self-employed people never become wealthy, but just in case I haven't made my point clear, let me explain it in a different way.

I've come across many clients who earn substantial amounts of money, well over six figures, yet still don't "have" anything. I know Bob, my doctor, has earned hundreds of thousands of dollars each year for the past 45-plus years. He's in his early 70s now, but still lives in a rented house, and continues to feel like he's on a treadmill. Every day he goes to his medical practice to see patients and at the end of the month, he just manages to pay the bills.

I have spoken to him about this a number of times. The trouble is, every time he earns money, he seems to spend it. He has never managed to put anything aside in the way of savings or investments, or even as an emergency fund. Apparently a while ago his car broke down and needed major repairs and even that created some degree of financial hardship for him.

The story of someone like Bob, who probably earns more than $350,000 a year, may sound strange to you. But if you're like most Australians, you're going to earn well over three million dollars in your lifetime. No, I'm not joking!

Think about it – you will probably earn more than $75,000 a year for over 40 years. That equates to well over $3 million in total working income. And that's in today's dollars, not taking into account how your wages will rise with inflation.

So the question isn't really can you make two or three million dollars? My question to you is: are you able to keep a million dollars? If you're like Bob, in fact if you're like many people, you're going to find it difficult to save and easy to spend.

I asked Bob why he still rents; why, despite his income, he hasn't managed to save up a deposit for his own home. He told me the following story…

Each New Year he makes a resolution and says to his wife, "This year we're going to take $1,000 out of every week's pay and put it aside for the future."

He hoped putting this money into a savings account would give him $50,000 by the end of the year and combined with the small return he'd get on his investment, it would give them a deposit to finally purchase their own home. When I asked him why that didn't happen he told me, "Life keeps getting in the way".

Somebody got sick, or he needed a new plasma TV, or his car broke down. You know what it's like – there are always unexpected expenses.

So he asked me, "How do I do it? How can I do it? What am I doing wrong?"

I explained to him that if he wanted to save but didn't make a firm commitment to pay himself first, it wouldn't work. I suggested he do exactly what the government does.

"What do you mean?" he asked.

I explained that every time we get paid, the government automatically takes a portion of your money in the form of taxes. I guess they do it that way because they know that if they didn't take it then, it would be really hard to get it out of us any other time. Therefore, he should similarly set aside a predetermined portion of his wage each and every time he got paid. He should take at least 10% of his wage and put it into a form of savings account before doing anything else with a cent of his money.

Now Bob had heard this before, but had just left it very late to change old habits and make a start. You can probably guess what Bob thought when he heard this theory many years ago – "How much difference could 10% of my pay packet really make? How much could I really gain from that?"

Don't underestimate the power of this wealth-building rule. Consider this – if you started investing just $100 a month at age 25 and managed to achieve a 15% return over the next 40 years, when you retired at age 65 you would have more than $3 million in your savings account.

Conversely, if you waited until 35 years of age to get started, while you might have enjoyed spending that extra $12,000 during those first ten years, you'd only end up with around $700,000 in the bank. In other words, that extra $100 a month spending money for those first ten years, which in total adds up to $12,000, meant you lost out on close to $2.5 million worth of investment savings on retirement.

We've all heard of the power of putting a small amount of money aside to secure our future, so why doesn't everybody do it? We've all heard of the idea that we should pay ourselves first, yet most of us don't. Although many of us make an attempt, we want to put some money aside to save for a rainy day or we want to invest, why doesn't it seem to happen as we plan?

I've spoken to so many people who've told me the same thing; no matter how hard they try, they just never manage to get ahead. They run out of money before the month is over and regardless of how much they earn, they only ever seem to have enough just to pay the bills and scrape by.

The scary thing is I hear the same story from people making $25,000 a year as I do from people making $200,000 a year. Just think of my friend Dr. Bob, who earns more than $500,000 a year and is still constantly broke.

"That can't be possible," you might think. "If I made that kind of money I'd be rich by now." But would you? Or would you find more to spend it on? The simple fact is that because Dr. Bob does what most people do, spending all the money he makes and then some, and he has no investments and nothing set aside for a rainy day, the fight to get ahead has never worked for him.

The basis of success in moving up the investment ladder is to:

1. Live below your means so that you have money left over and,
2. Convert your earned income into assets that will generate passive income.

Since there is no amount of money you cannot outspend, managing your money is essential to building wealth.

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.** As I mentioned earlier, the average Australian will earn between more than $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. This book is about helping you build your own cash machine.

WHAT LEVEL OF INVESTOR ARE YOU?

Now it's time for some home truths … How far up the investment ladder are you? Where do you currently sit in this hierarchy of investors?

Remember, this assessment of your current investment level has nothing to do with your income. You can be a "low income" earner when it comes to your day job, but still be a Level 2 or 3 investor. Likewise, you can be considered "rich" by working income standards yet still be a Level 0 investor, spending every dollar you earn.

What I want you to understand is the "active" income you make (the pay packet you work for every day) has nothing to do with what level of investor you are and in fact is one of the worst predictors of wealth.