eBook

NO.007

PROPERTY

P U L S E

THE MOST COMMON MISTAKES MADE

WHEN INVESTING IN TE FINANCIAL FUTURE OF CHILDREN

Contents

Setting up my kids for a great start in life

As a parent, one of the greatest concerns is about the future - your child's future well-being and financial security.
You want to protect your child from any difficulties they may face and smooth their journey to adulthood.

Traditionally, parents have used the "nest egg" approach to provide a handy financial start in life for their children.

Working hard and consistently setting aside money into a savings account, especially for 'the kids'.

Changing economy and protecting your money.

Governments worldwide face increasing pressure to find more tax revenues, especially in Australia. What the average person pays out of their wages plus the GST you pay when doing your supermarket shop doesn't add up to enough tax being collected.

All you need to do is turn on the News, open a newspaper or see what's trending on Twitter to find out how many services are suffering without proper government funding - hospitals, schools, police, public transport, and the list goes on.

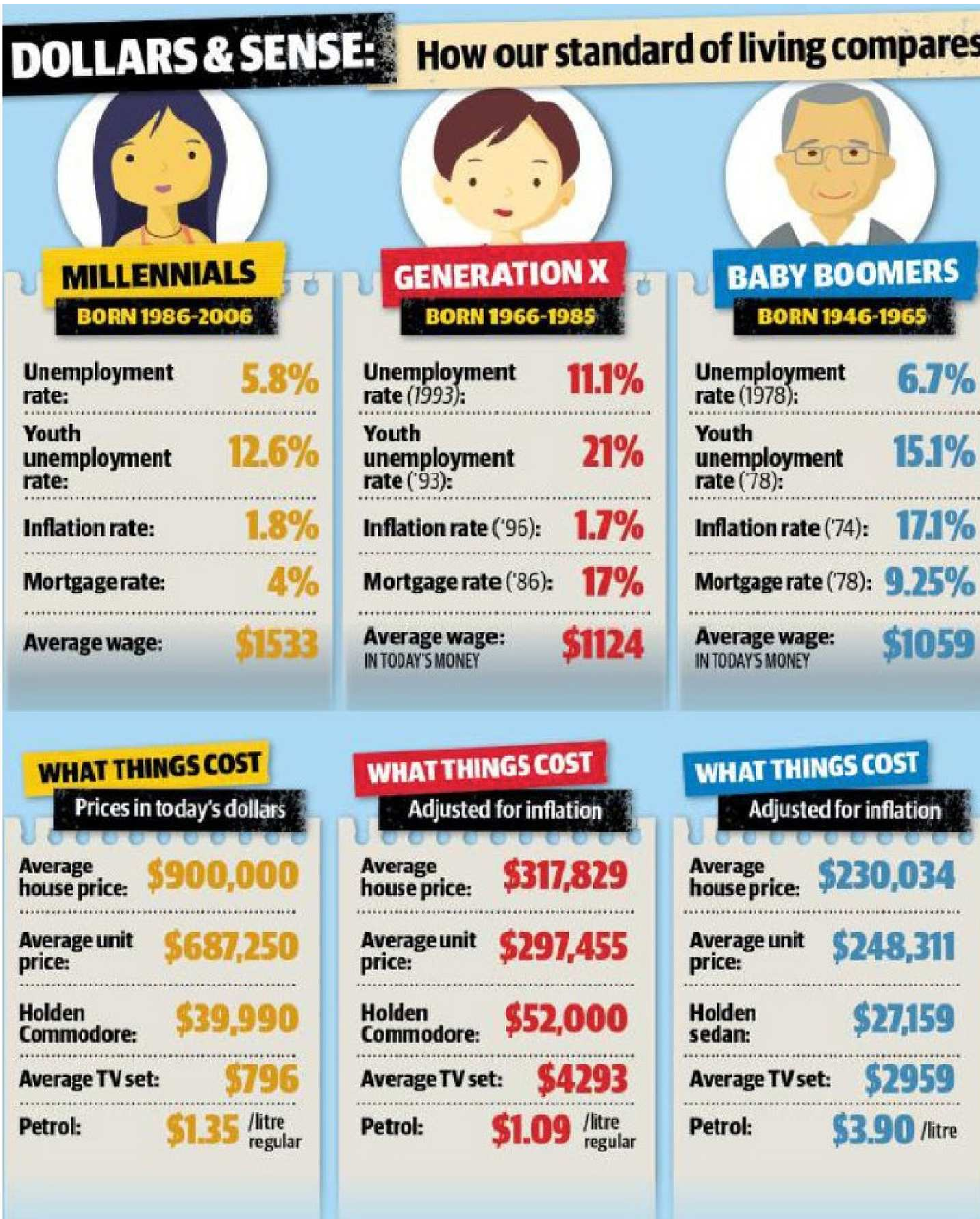
So the pressure is building to find new ways to get more money to pay for all these services. And the only way governments have to get money is through taxes.
That's why politicians are being pushed to consider raiding savings havens such as trusts and superannuation.

> Every year when the Treasurer delivers the budget, it's a coin toss!
> Will trusts be safe or not? Will your superannuation be taxed or not?

"Those once relatively safe wealth havens - for your retirement and savings, for your child's future, are now extremely vulnerable."

Experts believe it's only a matter of time before your trust becomes completely worthless as a way of protecting those savings you are putting aside. On the one hand, we're told to be good savers and to teach our children about financial matters. On the other, all how everyday people can maximise and preserve savings is under attack.
It may feel like it's too hard to secure your child's financial future with all this government interference, but there is a way.

Standard of living comparison:



Dollars & Sense Chart courtesy of Daily Telegraph Australia

05

It’s a difficult road for young people regarding property and home ownership.

It’s a difficult road for young people regarding property and home ownership.

Especially when the family home, which was once an asset that could be passed down to your children, is how aged care costs are being paid for when retirees need full-time suppot.

So as much as you might want to help your children in the future financially, if your physical health deteriorates unexpectedly later in life, you may have no choice but to sell your home.

And since 2015, the number of families forced to sell their homes to cover nursing home and aged care facility costs is steadily increasing.

It’s a worrying new development!

With financial uncertainty increasing each year, it’s easy to feel helpless, frustrated and overwhelmed about how difficult it’s becoming to look after your family’s financial prospects.

There are many different ways to prepare for a future where you are ready and able to help your children financially.

There are many ways to get the money together to help you or your family out of a bind. So depending on whether you’ve planned or not for financial emergencies will depend on which of these is an option for you.

Step 1. Saving For the Future.

This is the most straightforward way for a parent to assist their children financially; and is one of the most commonly done.

Usually, parents plan to be able to do this ahead of time by setting up a separate bank account in which they regularly deposit money. Some even swap to Term Deposits once the amount saved becomes large enough to qualify for these accounts.
Buying Bonds can also be an option for those with the money now and are prepared to lock it away for later.

If you are lucky enough to have sufficient additional income or savings, then gifting cash is the easiest way to give your children a financial head start. There isn't anything special you need to learn, and as long as interest rates are good, you can slowly and steadily grow the amount.

Most people rationalise this cash gift as "an advance on inheritance."

Step 2. Making Extra Income

So while the government is primed to erode your savings, your salary stays fixed each year. You may be wondering how anyone can do any savings at all. The answer is by making extra income.

Fortunately, that doesn't mean getting a second or part-time job today. All you need is the right technology. Many parents have been quick to use technology disruptors to help them financially.

You are most likely to have heard of eBay, Etsy, Uber, car next door, Fiverr, Upwork, Airtasker, homestay and Airbnb. From turning your regular commute to and from work into extra cash to renting out your spare room at home.

These technology-enabled business platforms let anyone make more money than their standard take-home pay. This additional source of income can take the pressure off your household budget, making it easier to enjoy your lifestyle and increase savings. It is also a way to provide your children with a regular stream of cash that you create for them, depositing into an account they hold.

There are still some questions about how income from these sources impacts your tax obligations, so you'll want to track what happens with this. Some states have already started restricting Uber and Airbnb opportunities, so you must check what local authorities in your area allow before you get started.

Making extra income through these business platforms requires a bit of investigation to learn how they work. You'll also need to work out how easy it is to get paid and get your money. For some, the challenge of working more hours or renting out rooms isn't appealing or even possible.

That means looking for other, more innovative ways of getting money for your children.

Step 3. Re-mortgaging the Family Home.

Rather than stashing money away in a savings account, some parents are instead paying off their mortgage quickly and then using the equity in the family home to provide a lump sum to their children.

This means that the equity built up over time in the family home can be leveraged to benefit your child's financial future only when the time comes and they need it. It is common for a "good property" in a "good area" with a reliable banking history to be able to release 80% of your home's value.

Depending on your bank and credit history, you'll be able to take the equity as a lump sum that you can then hand to your children. Sometimes, the bank may only allow you a line of credit. If this happens, you'll want to understand exactly how this will impact you and your repayments before you go ahead or start handing chunks of money to your kids.

While home loan rates have been low, this has been an easy strategy. The cost of your home loan repayments is low, so paying off the mortgage quickly is relatively quick and easy. As the cost of a mortgage increases, this option becomes less affordable through rising interest rates and may be totally out of the question based on your ability to afford repayments.

The closer you are to retirement, the less likely your bank will approve a loan to re-mortgage your home, So you may need to shop around when you are set on doing this. Having a mortgage for your entire working life (and potentially into retirement) can be a frightening thought for many.

This is a high-risk decision that can put you, personally, in a financially vulnerable situation at a time of life when it's difficult to recover. So do the research. It's a complicated way to get money, even if it is for your children.

Step 4. Property Downsizing.

Alternatively, you could do what many parents have begun doing. That's to sell the family home and split the money between the children. Then buy a smaller property for yourself in preparation for retirement.

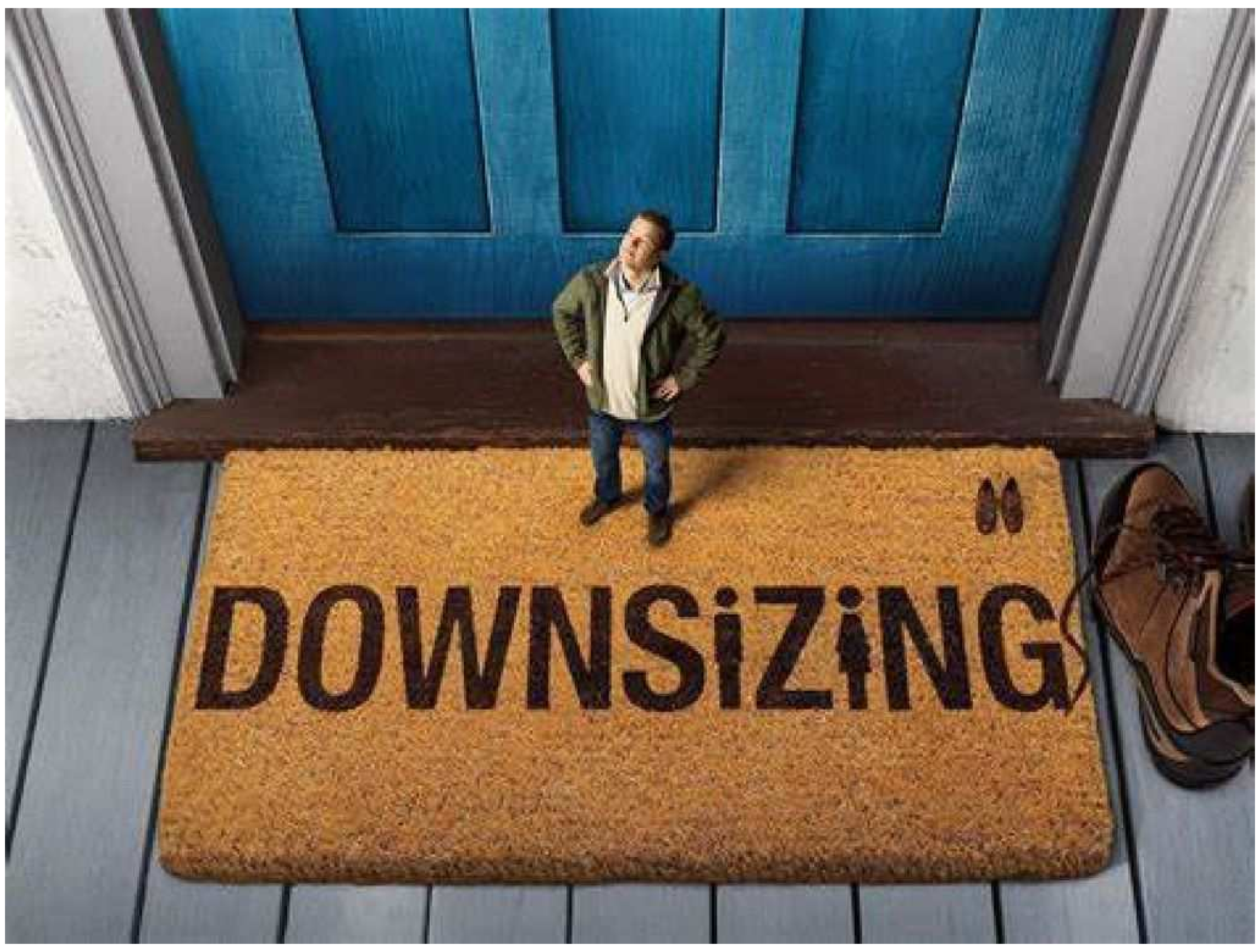
Downsizing is particularly appealing for parents finding the family home an expensive burden that's difficult to upkeep, whether it's the cost of bills to heat or cool mostly unused space, the repairs and maintenance on an aging property or simply because you want to be doing something other than housework on a house that's now too big.

Downsizing to a home that is easier to manage, cheaper to run and needs a lot less of your free time for upkeep has appeal for an increasing number of people. Again this approach is often sold on getting "any early inheritance". They are making it easier for some parents to feel comfortable being free of future financial obligations to their children. Selling your largest asset and cashing that in "early" can make some people nervous.

For example, those who want to give their children the choice of being able to move back into the family home if relationships or circumstances become a dire struggle with downsizing.

Anyone anxious about whether their superannuation will be enough to cover their retirement expenses is also rightly concerned about selling the family home. It's reasonable to want to give your children a financial head start, but not at the expense of your financial security.

This is an un-doable way of getting money, so you must be certain that the time is right and that the benefits outweigh any doubts before taking the plunge.



Step 5. Raiding Your Superannuation.

Depending on what time of your life you want to be able to assist your children, you may have the option to take out a lump sum from your superannuation. If this is something that you are open to, then you'll want to speak with your Accountant or Financial Adviser first.

They may be able to give you a way to take out the money you need without seriously impacting your financial circumstances. Once you've withdrawn funds from your superannuation, there is no going back.

Make sure that you have carefully investigated all other options first before you take the plunge

Step 6. Selling Your Assets.

Other than your family home, there are plenty of other assets that you could buy today so that you can sell them later when you want cash. Anything of value that's easy to hold on to and has the potential to increase over time is worth considering.

Cars, motorcycles, wine, stamps, artwork, antiques, comic books, memorabilia, handbags, jewellery, precious metals, bullion and shares are some things that people buy intending to later sell for money. Accumulating wealth through valuable items can be a highly affordable and pleasurable way to build a nest egg for your children. You can sell items as you choose, or your children can inherit the item(s) and convert them into cash as needed.

Having lots of smaller items of value that you can sell whenever you want spreads your risk. You're more likely to be able to sell a collectable comic book faster than your family home, for example.
A wine collection can be split up, and only the wines fetching the highest prices when you want to sell need to be sold—protecting you from falling victim to people who would try to "scalp" you.
Selling your antiques through an Auction House rather than negotiating with the buyer directly or through a Dealer gives you more options for getting a better buyer and offer. Buying and selling assets is another very easy way of getting together the cash for your children that doesn't take much-specialised learning to get started with.

There are some pretty high risks with this, like protecting your items from damage that would devalue them - such as fire, flood or theft. Making the right decision to start when you're choosing what things to buy can be challenging - can you guarantee that what you buy will increase in value and that there will be buyers interested in the future?

Step 7. Taking Out a Loan.

More of an "old-school" approach to giving your children financial support; is the loan you take out and pass the money across to your children. With low-interest rates, most young people can easily get their loans and comfortably pay them off.

Changes to interest rates and other economic factors may make borrowing harder shortly for young adults just starting, rather than being a guarantor on loan or dipping into your savings.

If you have the capacity, you may want to take out a loan where a substantial part of the loaned amount is channelled straight through to your kids. You then have the responsibility and burden of paying off the loan, but your children can avoid their debts and liabilities.

The challenge with taking out a loan for your children is that if your kids have another financial need at some later time, it's unlikely that you'll be in a position to assist. This limited ability to help a second time dissuades most parents from pursuing this approach.

Step 8. Building a Portfolio of Investment Properties.

While most of the other ways of getting together money for your children have involved the potential to challenge your financial security, this last one does not. Building a portfolio of investment properties is about first building wealth to help your children.

Rather than relying on your earnings, savings, selling assets or interest rates to create wealth, purchasing properties and creating a rental income is about making money with little personal effort from you. Owning properties that generate income (rent payments to you) and increase in value over time builds wealth to a greater value than the average person can save during their lifetime. The more properties you have, the greater the value you accumulate in equity. With equity comes choice and a level of financial freedom you may not believe you can achieve.

Through property investment, you also get greater choice over how you give financial security to your children. You can create a financially stable property portfolio for your kids and get them into any of the properties you already own or sell properties to gift your children cash.

Investing in property is recognised as being a great safe way to build wealth, even when housing affordability, natural disasters, wars and world events keep hitting the headlines. Despite this, many people's concerns about property investment stop many from doing it.

Challenges with Giving Cash Lump Sums to your Children.

You'll need to seek advice from your Accountant about how you give money to your children. Several legal and tax challenges can prevent you from handing over a large sum of money to your kids.

It's better to know what those implications are now before you start down the path of saving or accumulating small assets. Discovering later that the Taxman wants half of whatever you intended to give your children can be a massive blow for you and them.

Once you know what your legal and tax obligations are likely to be, you will probably be faced with some moral and emotional challenges.

Fairness and Expectations.

One of the parents' greatest challenges is giving and distributing money when they have more than one child. It can be challenging to ensure that each of your children feels that they have been treated equally (each child has been given the same).

If your children are from different marriages, there can be serious disquiet about favouritism and the amount of financial help each person gets.

Being completely open and honest with all your children about what you can and can't do to help financially is a start. This will set their expectations, particularly when your kids come to you asking for help.

Making sure your children know your plans gives everyone clarity about what will happen. Likely, you won't be giving your children money simultaneously, which raises another issue you'll want to plan for.

The Value of Money.

With time, the value of money (its spending power) changes, so there can be a serious value difference in the amount your eldest and youngest child may expect or need to get. You may consider this when you're planning and make sure that your children are financially savvy enough to understand why the amounts they get might appear different.

Alternatively, you may decide that there is one amount that everyone will get, and there is no further discussion on the matter.

To understand how differently the money you give your children will benefit their lives based on the changing value of money over time. Let's take a quick look back to see how much it has changed over the last 40 years here in Australia.

Unfortunately, the value of money and interest rates on your savings are not aligned. That means the interest rate on your savings doesn't go up when the cost of things becomes more expensive. So no matter how much you save, if interest rates are low and the costs of things go up quickly, your lump sum will be smaller than you hope.

Even though you've sacrificed a lot to save it, things like trusts have been used to help protect those savings, but there's no guarantee that they will work for much longer.

The Changing Value of Money in Australia

	1975	2000	2015
Average Salary*	$7,600	$34,745	$78,832
Average new car^	$3,800	$31,250	$52,190
Price of bread* (per loaf)	$0.24	$2.30	$2.84
Price of milk* (1 litre)	$0.30	$1.40	$1.45
Petrol* (per litre)	$0.57	$0.82	$1.20
Movie ticket~	$3.50	$8.40	$13.60

That means if you want to give money to your children as a lump sum, you'll need to earn more or find new ways to generate money to save.

Then there is also that little problem of transferring large cash amounts between bank accounts and the unexpectedly high fees for doing that, but that's more inconvenient than anything else.

13

CONCLUSION

If you are serious about wealth creation and want to provide your children with a secure financial future, instead of saving cash or buying small assets, consider property investment for the double value you get - equity and asset.

Did you know... more Millionaires have been created through Property Investment than any other form of investment?

That's because when the investment is structured properly by experienced professionals, investing in properties is affordable and rewarding. You should remember that you can save a lot of money if the considerations are considered. You must not miss the opportunity to secure maximum by a minimum effort.

Property investments can be immensely profitable and an excellent way to create wealth. However, there are some associated risks. Predicting profits and guessing taxation is highly complicated, and it requires expertise when you are planning for negatively geared investments

It would be best if you relied on a professional financial advisor who can understand your financial position and guide you according to them to maximise your profits and make a successful wealth-generating plan. You will make progress on your road to financial independence with the support of the right advisor.

DISCLAIMER ON OUR UNIQUE SKILLS.

Our team members are specialist investment planners in property, and what we do is different to that of a financial planner. We are licenced to deal in real estate, not financial planning.

Financial planners and accountants often buy into us to assist their clients in starting a successful property portfolio. We have no specialist skills in family succession, shares, or testaments. We do not hold an Australian Financial Services or Credit Licence. Until we learn more about your uniqueness, the opinions published here can only be general.

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The data in the following graphs and tables are from third-party authoritative sources, all listed at the rear of this document.
These use historical data. Of course, past performance is not necessarily indicative of near- future results. We use this data to highlight long-term trends.

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We believe that any financial commitment is a big step in your journey, so we strongly recommend obtaining independent advice before making financial decisions arising from this document.

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The law compels us to state that we make no warranty as to the accuracy, completeness, or reliability of the information, including the tools used to compute the information, nor do we accept any liability and responsibility arising in any way from omissions or errors contained in this document.
All arguments herein are made in good faith, and all data has been obtained in good faith from the most accurate sources we could find, much from government agencies

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Feel free to contact us to set up an initial complimentary meeting and find out how we can help you on your quest to develop your property portfolio that can change your future.

The steps include:
Step one. Relationship.
Step two. Knowing the numbers.
Step three. The choices.
Step four. Recommendations.
Step five. Plan into action.
Step six. Working together as a team.

CONTACT US TO START YOUR RELATIONSHIP WITH OUR LICENSED TEAM MEMBERS