MyLife
Managing Your Lifestyle
Income & Future Expenses

# Focus on Active Wealth

The great Australian dream is to 'own your own home'. Seems like a good idea. But in the rush to pay off the mortgage, many of us are missing out on the chance to own other assets - assets that can produce an additional income and dramatically reduce the tax you pay year after year after year.

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The fact is, if your home is the only significant asset you have when you retire, you'll have a shelter over your head, but nothing that produces an income.

No doubt you've heard the expression 'asset rich but cash poor'. Real financial security requires assets that produce income. Put simply, to not take advantage of the equity in your property is a lost opportunity.

The Active Wealth strategy puts your assets to work for a better future while reducing your home loan debt.

## What is the Active Wealth Strategy?

The Active Wealth strategy has two parts: Structured Cash-flow and Leveraged Equity ('SCALE').

Structured Cash-flow ensures that every dollar you earn is spent in the most effective way. This means that your debts are repaid faster, your investments grow quicker and you reduce tax along the way.

Of course, structuring your cash-flow means having a budget in place. If you are already disciplined with your money, you'll have a head start. If not, MyLife Financial Planning offers monthly cash-flow monitoring and budgeting assistance.

Leveraged Equity is created by using the equity you have in existing assets, such as your house or shares, to borrow money.

This is done through your home loan and/or a margin loan. Your equity is put to work to build income producing assets. And the sooner you act - the better.

We've all heard of the power of compound interest. Compound interest needs time to work. The more time you have, the more effective are the results. The table below shows how much you would get back if you invest $100,000 at an assumed 8% annual return.

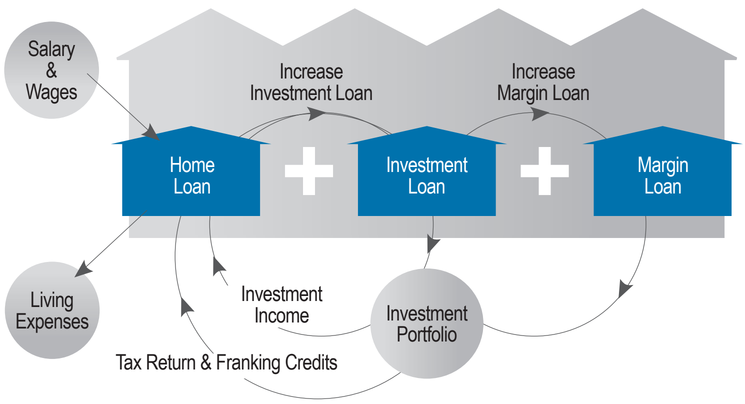
| Investment Period | Investment Value |
|---|---|
| 10 Years | $215,890 |
| 20 Years | $466,090 |
| 30 Years | $1,006,260 |
| 40 Years | $2,172,450 |

Please note: This example ignores the impact of tax on investment earnings and the diminishing dollar value effect of inflation. Investment markets fluctuate over time, past performance is not indicative of future returns.

As you can see, after twenty years, your $100,000 would be worth $466,090. If you delayed investing and had only five years for your $100,000 investment to grow, you would need to generate a return of 36% every year to achieve the same result of $466,090.

It's worth noting here that diversification is the golden rule of investment. And you can't have a diversified investment portfolio if all of your money is going into your home loan.

## When you put all the parts together, the Active Wealth strategy looks like this:



# Does the Active Wealth Strategy really make a difference?

Implemented properly, and with professional financial advice, our Active Wealth Strategy can make a huge difference on your financial situation over time.

Let's look at an example:

Tim and Tracie have a house valued at $400,000 with a mortgage of $220,000 (interest rate 7.36%). Their monthly loan repayments are $1,894 per month and they have spare cash-flow of around $720 per month. They are keen to create wealth through building a portfolio of investment assets, but also want to repay their mortgage as soon as possible.

They are considering two alternatives:

## Option One

Use all their surplus income to repay their home loan first and once the loan is repaid, invest both the surplus income and the funds formerly being paid off their loan.

## Option Two

Implement an Active Wealth strategy.

Borrow to a maximum of 70% of the value of their home and start a margin loan equivalent to their investment loan. To do this, Tim and Tracie take a $60,000 interest only loan using their home as security. They also establish an interest only margin loan of $60,000 and invest $120,000 into growth based investments. After meeting the interest payments on their investment loans from their investment earnings and surplus income, they repay the home loan with the difference.

By reducing the home loan, Tim and Tracie have increased their capacity to borrow. Each year they increase their investment loan by the amount they have reduced the home loan. As a result, their overall level of debt remains the same ($340,000) but they are slowly recycling their debt to tax deductible debt. As a result, they now have income producing investments that will assist in meeting their loan commitments.

| | Repay Home Loan First | Active Wealth Strategy |
|---|---|---|
| Time taken to repay home loan | 9.5 years | 17.2 years |
| Value of investment portfolio | $572,995 | $1,163,428 |
| Outstanding Debt | - | $340,000 |
| Net position in 20 years | $572,995 | $823,428 |
| Additional Wealth created | | $250,433 |

## Why Active Wealth makes sense

- Active Wealth replaces non tax-deductible debt with tax-deductible debt.
- It allows you to shift to an investment only interest loan which in turn enables you to direct more cash towards paying off your home loan.
- It also allows you to have a line of credit style investment loan with a higher pre-approved limit which may help you to avoid any additional paperwork and fees when adjusting loan balances each year.
- You establish an investment portfolio sooner rather than later.
- Although Active Wealth may mean that it takes a little longer to pay off your home loan, you unleash the potential to create extra wealth (as long as you purchase growth assets).
- At the end of the period you will have paid off your home loan and own an investment portfolio.

To find out more about an Active Wealth strategy, contact MyLife Financial Planning today on 03 9017 4114.