Chapter 1

How to build your freedom fund

One of the biggest misconceptions I see in relation to personal finance, especially in Australia, is that owning your home outright automatically means you're financially secure. On paper, that might be true. In reality, it often isn't.

This chapter unravels the difference between being asset-rich and being cash-flow secure. They're not the same thing. You can own a multimillion-dollar home and still struggle with everyday expenses.

I meet people like this all the time — retirees whose houses in great suburbs are fully paid off yet who rely heavily on their pension and worry about unexpected costs.

That situation is largely the result of how most of us were taught to think about money. Work hard, buy your home, pay it off and 'everything will take care of itself' in retirement. For previous generations that strategy sometimes worked. Today it often leaves people asset-rich but income-poor.

This is why I talk so much about building a *freedom fund*. It's not just about owning assets. It's about owning assets that generate income, flexibility and peace of mind.

If you retire and must rely on the pension, you're depending on the government to support you. To avoid this you need cash flow. You need assets to pay you a salary. That's why investing matters.

It's not just about buying property. You might choose to invest in shares or gold or oil — in all sorts of things. You need some assets that will generate cash flow to enable you to retire when you want to and live comfortably.

You don't want to get to the end of your career and think, we've got a few years left — let's enjoy it on the pension! You want to set yourself up well and retire early so you can enjoy life to the full. I'm here to help you do that. I love helping other Aussies *invest smart* so they can live comfortably and create a positive legacy. Truly, it's what gets me out of bed every day.

This book is not about being a multi-millionaire with a big portfolio of properties or owning that massive house. It's about working toward being comfortable for life.

In this chapter, we're going to unpack why so many Australians work hard but end up with no freedom fund because what looks like wealth on paper — owning a multimillion-dollar house, say — doesn't translate into financial freedom. This chapter is about what you can do differently.

Set your goal

Most buyer's agents will focus on advising you on buying a property. The first thing I do with a new client isn't to look at property; it's to ask, 'Where are you in your life? What are you trying to achieve? Let's map out a plan, a strategy, and then think about property. The first thing I want you to consider is your current financial situation. Do you have a freedom fund?'

People seek financial advice as they reach different life stages. It really comes down to goal-setting, resolving what you're trying to achieve and working backwards from there.

It's a big-picture perspective.

A new client may say something like, 'I'm 45 and I don't have much saved, but I want to be in a better position by 55. So I want to start a property portfolio.' Maybe they've gone through a divorce, or their business has gone under or they've lost their job.

A lot of my clients are single and starting to climb the career ladder. They may be in their early twenties but already seeing the writing on the wall if they choose to take the path their parents followed. They may fear they will never own a home given the current markets.

There are single parents with young kids and couples with young kids and elderly parents. There are single women and widows who need a home. And there are your regular families with two-and-a-half kids and a dog.

All of which is to say, there's everybody! I can speak to every reader because I've worked with all sorts of people in my 12-plus years of running the business. And every single situation is different.

People's goals may be similar, but none are the same. I talk with hundreds of people each week and all their stories are different. Some have no money; some have lots. Some earn a lot but have zero savings. Some have property that hasn't done very well for them; others may have a productive portfolio.

They may have adult kids or grandkids, and want to set themselves up financially in order to help the kids. Some come to me in their fifties and ask, 'How can I buy my dream home on the water in the next 10 years.' Realistically, that's not going to happen unless they have some savings and somewhere to start. It won't happen by magic.

Some people might already have their dream home paid off but have no cash and want to set up a passive income.

I have plenty of clients who have lost a parent and inherited some money and want help investing that money to set themselves up.

I've worked with so many people whose first question is, 'Have we left it too late?' And my answer is always a firm 'No'. However, I do advise my retirement-age clients to seek financial advice by speaking with a financial planner. We can all sit in on that conversation and have a round-table discussion.

There's a solution for just about every challenging situation. It comes down to what's important to you and what you are trying to achieve. But you don't have to take my word for it. In this book, we'll look at many success stories from clients who were in situations just like those I've enumerated and the property investment strategies that helped them get ahead.

Case study

From divorce to financial independence

Katie, in her mid-fifties, came to me having read the first edition of *Positively Geared*. She was single, had spent many years out of the workforce raising kids and had only $90 000 in super — nowhere near enough to retire on.

Recently divorced, she was in a difficult position financially. She'd gone from a double-income family to living alone on a single income, as her children were no longer dependants.

As part of the divorce, she kept the investment properties — an apartment in inner Brisbane and a townhouse in Adelaide — but because they were negatively geared, the rents weren't covering the mortgage and she was having trouble keeping up with them as well her own rent.

What she wanted

Katie wanted to set herself up for retirement, but on a single income and with little super she needed sound financial advice.

In our discovery call I ran through a few scenarios. She wasn't comfortable renting at her age, and the aim was to get her in a position to buy her forever home. Katie's dream was to move to the Gold Coast.

To achieve this goal, she needed to build her cash flow and acquire some properties that would both help offset the low cash flow on her existing properties and build her freedom fund.

The strategy

I suggested that because Katie's Adelaide asset wasn't performing well, she should sell it to reduce her debt and improve her position with the banks. I urged her to go back to her broker to run some numbers and get a pre-approval.

Katie had $90 000 in cash for a deposit on another investment property, and her broker prepared a pre-approval for a loan of up to $625 000. Her total budget, including the deposit, was

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just over $700 000. The key was to spend less than that and maximise cash flow.

Property 1: Armidale, NSW

We sourced a very good property in Armidale, NSW, a city that was going through its next growth phase.

- *Purchase price:* $525 000 (well under Katie's budget)
- *Rental income:* $625 per week
- *Yield:* 6.1 per cent
- *Result:* rented immediately

Katie then sold her Adelaide townhouse for $650 000. This increased her total borrowing capacity to $1.1 million for her next purchase.

Property 2: Deception Bay, Brisbane

I could see that market growth in Brisbane was about to happen. We secured a fantastic four-bedroom house with two bathrooms, a double garage and a media room in the northern Brisbane suburb of Deception Bay for $725 000.

- *Purchase price:* $725 000
- *Rental income:* $650 per week
- *Yield:* 4.6 per cent (very good for the area where most yields are 4 per cent or under)
- *Secured:* off-market
- *18-month valuation:* $925 000
- *Equity gain:* $200 000 in just 18 months

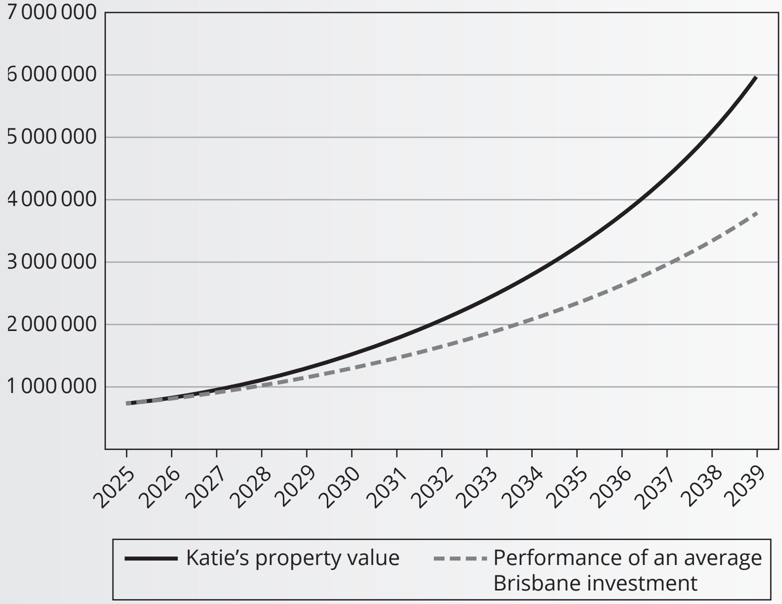

Figure 1.1 *Estimated property value over time*

Watching the growth

Katie sat on these properties and watched their growth with excitement. We kept her up-to-date with what the market was doing.

Eighteen months later the market started to boom. With retirement approaching, we decided it was time to sell down the Armidale property to finance her forever home.

The sale strategy

Armidale sold for $710 000 — a $185 000 profit in 18 months. Deception Bay was valued at $925 000 — a $200 000 increase in 18 months.

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Katie had to pay capital gains tax on the Armidale property, but because she'd held it for more than 12 months she could access the 50 per cent CGT reduction.

After taxes, and combined with the savings she'd accumulated, Katie now had a freedom fund total of $450 000.

The forever home

Her dream home was an apartment on the Gold Coast. We ended up acquiring a low-maintenance two-bedroom unit at Varsity Lakes for $855 000. Katie bought this home with a 50 per cent deposit, leaving herself with a relatively low mortgage.

The outcome

Given the predicted growth for Brisbane, Katie decided to keep her property in Deception Bay and buy a couple more properties with my help. Katie's goal is to pay down her Varsity Lakes home as soon as possible, to set herself up for life. She has graduated from struggling on a single income to financial security in retirement.

Katie's freedom fund strategy

- Challenge: Divorced, single income, negatively geared properties.
- Strategy: Sell underperforming assets, buy high-yield properties, sell at a profit.
- Property 1 (Armidale): $525 000 to $710 000 = $185 000 profit. CGT benefit: 50 per cent reduction for holding over 12 months.

- Property 2 (Deception Bay): $725 000 to $925 000 = $200 000 profit + $200 000 equity in 18 months. Property is positively geared.
- Forever home: $855 000 apartment with 50% deposit (low mortgage).
- Note here that age didn't matter. With the right strategy, starting over at age 50+ still works.

Next phase: Keep one investment, buy more to pay down the forever home faster and start enjoying a passive income from a positively geared portfolio.

NET YIELD is the income on an investment after costs and expenses, including purchasing and transaction costs such as stamp duty, legal fees, pest and building inspections, loan start-up fees, advertising, rent lost through vacancy, repairs and maintenance, management fees, insurance, rates and charges.

Tap into the reasons why

For me, money means peace of mind. Now, if something happens—an emergency with the kids or the car or the dog—I know we'll be okay. It's about knowing my family is taken care of today and I won't be a burden tomorrow. In fact, I hope I will have made life much easier for them through creating a legacy of generational wealth.

It means I will have built a life I love to live. It's really about freedom. A lot of people post fancy shots of their cars and their boat and all the cool things they do on Instagram. I've always loved cars, but I don't think I've ever put up anything online about my cars.

The first car I ever had was a secondhand Mini I bought from a friend of my dad's. It was a 1972 model and I bought it in 1992, during my final year of school. The next car was a secondhand Ford Falcon that had been a taxi and had about 500 000 kilometres on the clock.

I had achieved financial independence and left teaching before I bought my first 'cool' car — a Mercedes convertible. Recently I bought my dream car, but that's because I put myself in a position to be able to do that.

It's great if you can afford nice cars and things but when it comes down to it, it's about buying comfort, leisure and, most important, time, because the most important things in life are having time to spend with your family and friends. To borrow a cliché, you only live once. To enjoy those precious times, you need a freedom fund more than you need a fancy car.

What makes your perfect day?

If you're having trouble visualising a life goal, here's a quick way to figure out what you want.

Ask yourself, If I had one day to live and I could do anything at all in that day, what would I do?

We live on the water now, opposite a national park. The perfect day for me involves taking the kids to the beach. Spending time together on the boat. The day Riley caught his first fish was just amazing. We take lunch with us and just have a nice day out on the water. That's my perfect day.

Riley's first catch

Work backwards from a passive income goal

Now you know what you truly want — that last-day-on-Earth scenario — you can look at your financial situation and ask: Do I have cash available for that? Am I broke, in debt? Am I still working? Can I get a loan? Where are the risks? What can I invest in? Can I go into partnership with someone else, maybe with one of my kids, to buy property to help us both get ahead?

Let me show you, in a nutshell, what I do with my clients each day to give them a bigger-picture view of their finances. We'll start with the goal: paying yourself an annual cash flow of, say, $100 000, so you have time for your perfect day, 365 days a year.

You'll need $150 000 a year in rent, because if you're aiming for something fairly achievable like $30 000 a year in rental income from each property, then you'll need about five properties to clear around $100 000 a year in actual income by the time you've paid all your expenses.

Of course, it's not going to be passive income until you have paid off any debt against them. To keep that amount, all those properties need to be unencumbered by mortgages.

So you need strategies in place, first to buy properties and then to pay them off. And property investment becomes trickier as you get older because you have less time to allow the properties to increase in value or to pay them off. In this situation, you'll need an 'exit plan'. For example, you might buy twice as many properties as you want to end up with, then sell half of them to pay off the other half.

There is a strategy for everyone.

Property as an asset

Australians love property. Owning our own slice of land is the Great Aussie Dream and part of our culture. It's also one of the country's most resilient and profitable investment vehicles. But buying property to become rich just doesn't work as it once did.

Why not? Because Australia isn't just one property market — it's thousands. Every suburb, every street can behave differently, based on supply, demand, interest rates and population growth. If you don't have a strategy that takes all this into account, you are not investing; you're guessing.

Not everyone needs to buy property. Some people's financial situation and goals mean it's better for them to focus on other asset classes. I chose property over other asset classes, such as stocks, when I began investing because that's what I was exposed to.

And I liked that the property market was less nebulous and less volatile than others. You can see, touch and feel property, and it takes longer to sell and longer to buy. That met my need for security.

Stocks can go up and down overnight. The share market can plummet over something a politician says or does, or over something that happens overseas. Property doesn't work that way, and because it takes longer to crash, or to rise, it's a bit safer.

Property as an investment strategy hasn't essentially changed since I began investing. In chapter 4 we look at how property has the ability to double your wealth in a short space of time. You can change your life quickly, which is exactly what I've done.

Some strategies will change from time to time depending on, for example, rising construction costs or decreasing rental yields. Today it's pretty hard to find positively geared properties that offer the trifecta — low interest rates, high rental yields and capital growth — compared to a few years ago, when interest rates were lower.

THE PROPERTY TRIFECTA

But maybe positively geared properties aren't as important as some people think. And as an investment, I believe property is as good today as it was when I first invested.

Invest with a strategy: a roadmap to property success

If you're chasing financial freedom, it's not about luck. It's about having a strategy. Following are the strategies I'll cover here:

1. Capital growth

Let's start with the classic 'buy and hold'. You purchase in a well-located suburb with strong demand and you hold for the long term in order to benefit from rising values. This is perfect for wealth accumulation, retirement planning or building equity to grow your portfolio, but holding might cost you in the short term. Some high-growth properties are not positively geared, so you'll need to be able to cover the cash-flow gap caused by a low rental return.

2. Cash-flow strategy

Cash-flow investing is all about buying properties that generate high rental income. You might look in regional areas or lower-priced suburbs where yields are strong. It's great for building a passive income but often comes with less capital growth. So if long-term wealth is your goal, cash flow alone won't get you there. We'll talk about markets in chapter 6.

3. Manufacture equity

Equity is the difference between the market value of the property and what you owe on it.

If you don't want to wait for the market to move, you can increase a property's value by, say, renovating or by developing a dual-income property—think a granny flat or a duplex. Just be warned, reno blowouts, council delays and tight selling windows can turn quick profit into slow pain. We'll look at strategies later.

4. Positively geared portfolio

Positive gearing and balanced portfolios are a smart move. Blending strategies can create a balanced portfolio in which high-yield properties help cover the shortfalls from capital growth ones, enabling you to build a positively geared portfolio without sacrificing long-term wealth creation. I'll tell you about this in chapter 11.

5. Negative gearing

For high-income earners, negative gearing might be part of the plan. You wear short-term losses on paper, use them to reduce your taxable income and wait for capital growth to make up the difference. But this works only if you can afford the shortfall. It's not a strategy for investors who are just scraping by.

6. Self-managed super fund

You can invest through a self-managed super fund. This strategy gives you control of your retirement savings and offers tax advantages, such as tax-free rental income and capital gains once you reach the pension phase. You can also use borrowing structures inside an SMSF, but there are a lot of rules, so get advice and understand the restrictions before jumping in. I'll explain more in chapter 9.

7. Time frame

You need a time frame for your goal. If you're in your twenties, you might want to retire by the time you're 40. If you're in your thirties you might be seeking the freedom of another income stream or no mortgage so you can spend more time with your children while they're young.

If you're in your fifties, maybe you're trying to achieve $100 000 a year in passive income by the time you're 65. Some can do that in 10 years, depending on their income.

If you're 60, we're not talking about achieving $100 000 by age 65 unless you're planning to keep working. Lenders are less likely to look favourably on you because they know you're not likely to keep working and paying off a 30-year loan until you're 90. You'll want to retire!

That's where downsizing becomes important. Sell the home, buy something smaller and invest the difference, or buy an investment property outright and use the rent from that as passive income.

Case study

The clients

Let me introduce Michael and Melissa. Their goals were clear: retire early, build passive income and eventually fund their dream home using equity, not savings. Here's what we did.

The strategy

First, they bought a regional property (for $395 000) that was already renting at $450 a week. Six months later they spent just $22 000 on a smart cosmetic renovation — think paint, flooring, fixtures.

The result

A new valuation on their property of $550 000. The rent jumped to $490 a week and it's on track to hit $520. Their yield: close to 6.8 per cent. The property is now positively geared and they've tapped into the new equity to fund investment number two. They could do this because they had one thing most investors don't: a strategy tailored to their goals. This isn't about buying cheap or relying on luck. It's about executing the right move at the right time with the right plan.

Your right to live comfortably

It doesn't have to be stressful! My whole philosophy is about setting yourself up so you can live a comfortable, stress-free life. Whether you plan to retire at 65 or at 50, you'll have worked hard to get there and you want to be comfortable.

This is about you. Not everyone needs $100 000 in passive income a year. If you've paid off all your debt — you've got no car loans and no mortgages — $40 000 or $50 000 a year might be enough.

The key is to be comfortable. Sure, when we're young, many of us are trying to keep up with the Joneses: striving for the next house, the next car. But people who live like this risk getting into substantial debt. I get it. You deserve to enjoy what you've worked for.

Many people tell me they want a worry-free life. I prioritise helping them set themselves up so they can be comfortable and free of stress in their retirement years. So don't worry about 'keeping up' with others.

Just work out what you need for a happy and comfortable retirement and work toward making that a reality.

What are your inherited beliefs?

Maybe you're not keen on overextending yourself financially or taking on a long and complex property investment project. Maybe all this is new. I get it. I gave no thought to property as an investment until I was 28. I grew up on a farm about 10 kilometres out of Orange. My parents didn't invest in property and they were strict believers in paying cash for everything. Our farmhouse was a place to live rather than an investment opportunity.

Back then everything was orchards—not oranges, but apples. After hailstorms devastated the orchards some growers turned to winemaking. The region is now famous for wine—not apples or oranges.

My brother now owns and lives on the family farm our dad bought for about $20 000 in the 1970s. The last valuation, a couple of years ago, was about $2 million. That's compounding capital growth for you.

I became passionate about property when I recognised it as a vehicle for building wealth. It was clear to me my dad's philosophy of 'If you can't afford to pay cash for it, you shouldn't buy it' wouldn't enable me to follow my passion, because I would need to use debt to create wealth.

Buying an investment property needs bank financing. That's why property is so good as an investment. It's a great way to leverage money.

I'm the first person in my family to branch out and use leverage to create wealth. The point is, Dad did save the money he had, but he didn't make much.

A family man

I don't remember any financial hard times during my childhood. Dad was a business owner who never carried any debt, but we weren't wealthy.

I remember Dad working really long hours. He would come home from work at six or seven each night and work on the farm for a few hours. He'd be out there watering trees, fencing and stuff like that.

At the time it never bothered me. Mum was a nurse but once she had kids she stayed home with us. So I always had one parent around when I was younger, and both of them once Dad retired. They were always there. Even when he was still working he would often come home at lunchtime to spend time with Mum. He was always a family man.

When Dad retired in 1984 he sold his business to his best friend. We would have gone out for Chinese, because that's what we did for family celebrations.

I never saw money as something to worry about or imagined that saving for retirement would be hard. And growing up in a very close-knit family, I absorbed my parents' values.

The golden nugget: my dad's strategy

I was about nine years old when Dad retired. This is going back 40 years. I think he did well. He was 65 and sold his business and invested that money.

Yes, eventually he invested, but that's only because he'd always been a saver and knew he needed to do something with the money.

Sure, someone else might have taken the kind of money he earned over the years and bought a property with it earlier on, or bought shares. But he just invested it in a long-term bank account and he had the interest coming in, probably quarterly.

We lived on the interest from his investments, which wasn't a lot—it would have been several thousand dollars. But it was enough to support our whole family at the time. My parents never spent the principal. That was the point. It's a bit like buying a property and never selling it: you live off the rent; you don't sell the principal asset.

> Don't sell your principal asset. It will continue to experience growth and needs to be held to provide the income.

The money taboo

My parents were set up reasonably well because Dad had some investment money and his veteran's pension, which meant Mum had a bit of money to retire on, and there was their principal place of residence, the mortgage-free farmhouse.

None of this was consciously taught to me. Actually, money was never spoken about. Mum used to admonish us, 'Money is the root of all evil.' I heard this aphorism often when we were kids, though I didn't really understand what it meant.

Maybe it was an inherited belief. Frugality was a quality ingrained in many born during the war years or earlier.

Open discussion of money, salaries, debt and wealth is a recent trend, yet even today money is considered by many to be a taboo topic. A 2024 Bankrate survey found that Americans consider talk about money as more taboo than talking about politics, religion or a person's weight.

I frequently argue that while, to turn to another familiar saying, 'money can't buy happiness', it can buy choices and security.

A cash stash

One firm belief I inherited from my parents, and still hold to be true, is that you need to keep some cash in the bank. A lot of people question this idea, pointing out that cash loses value over time, and therefore, they say, you should invest everything in assets that will appreciate. While that is true in principle, you should always have some cash available because you never know what is around the corner.

Investing comes later. Initially, you need to set some money aside in your freedom fund.

Being asset-rich and cash-poor means you're not set up properly, because if some unexpected expense crops up, you need to know the money's there to cover it.

While writing this our Boston terrier Frankie came down with tick paralysis after a trip to our holiday home on the south coast. She ended up being put on a ventilator, and we almost lost her.

Frankie: one of the family

The vet bill for one day was $7000. Paying it was a no-brainer as Frankie is part of our family, but we also had access, as always, to our cash stash.

I've never really believed in pet insurance. Frankie did recover, and we brought her home after seven days in the veterinary hospital, but I never expected a vet bill of $50 000—that's almost a house deposit!

I plan to buy insurance now.

The importance of accessible cash

You may be a multi-millionaire on paper. But in an emergency, you can't just get money out of your house. It takes time. You either sell, which might take months, or refinance, and that too takes time. Even shares, which are more liquid, take time to turn into cash. You've got to sell them and then access your money a few days later.

So those who invest all their cash are going too far. I think you need to do both. Personally, I feel wealthier when I've got access to some cash. I remember that even at age 20 I felt uncomfortable without some money in the bank, and I'm still like that now. I have money in the bank now that I won't touch.

Of course it all begins with self-education and setting saving strategies, which are the subjects of the next chapter.

Key takeaways

- Investing in property can set you up for life.
- But first you need to know your why, to set a passive income goal and to develop an investment strategy to achieve it.
- Being asset-rich and cash-poor means you're not set up properly, because when some unexpected expense crops up, you need to know the money's there to cover it.
- Initially you need to build a freedom fund — investing comes later.
- Your freedom fund is a backup account that will, first, cover any unexpected costs and, then, hold assets that generate cash flow to enable you to retire when you want to and live the life you want to.