

# Investing without fear

**F**ear usually stems from concern about the magnitude of the purchase under consideration – or for the inexperienced investor, fear of what they possibly don't know about property investing. If this fear is severe, it may even result in novice investors not investing at all.

I remember back in my early days of investing, my two biggest concerns were about taking on lots of debt and how I was going to pay the bank back if I lost my job. I wasn't too worried about the property at this point; I was more worried about my peace of mind. Even though I had started to get an education in property investing and I was very excited about the concepts, I was still really nervous about the whole thing.

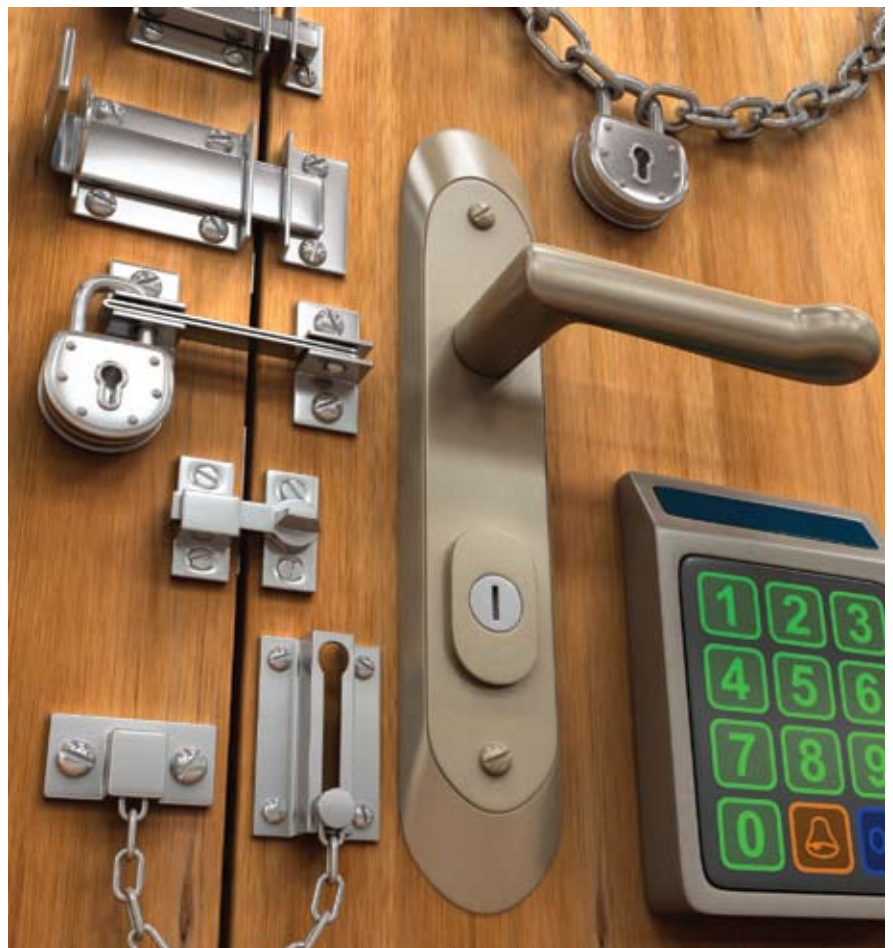
I found that most people I spoke to about investing were really negative, causing me to think twice about moving forward. I was also worried about looking stupid in front of my friends and family and hearing the dreaded words, "I told you so".

It's understandable to see how easy it is to be stopped before you even begin, when all you hear are so many negative opinions and remarks.

To help overcome my fears, I found that the best thing to do was to not speak to anyone about property investing, especially family and friends who had never successfully invested in property before.

It's also hard to argue with someone when you have the passion to do something, but no runs on the board

**When it comes to property investing, most investors experience fear at some point or another. *Helen Collier-Kogtevs* reveals time-tested strategies to help you overcome the initial jitters and mitigate the risks so you can invest with confidence**



to back it up, so I began mixing with like-minded property investors who supported rather than discouraged me. We all know that our friends and family mean well, but in your early days of investing, it can be beneficial to only share it with people who know and understand what you're trying to achieve. It's such a relief when you share your concerns with other investors and they tell you that they, too, have experienced the same thing that you're going through or can provide a solution to your particular issue or problem.

### Overcoming fear

Now, you may have heard me say this before, but getting an education in property investing from people who are investors themselves is the fastest way I know of to help you to mitigate your early investing fears.

When you're able to overcome your initial fears of investing, more fears will develop as the actual process of buying and managing investment properties begins.

These are a new but different set of fears that are often referred to as risks. Learning how to manage your early fears will help you to deal with these risks. If you don't identify each risk and how you're going to deal with them, they could at some point in your investing career, consume you with fear to the point of being stifled.

You can never completely eliminate all risks because you're not in control of some of them, such as government legislation and rising interest rates.

When it comes to property investing, it's important to have identified all known risks with the property and to have mitigated any high and medium category risks to at least a low category risk before buying the property. If you can't mitigate the risk to a low, then don't hesitate – run from the deal as fast as you can.

### Identifying risks

Risk is another word for fear. Another way of saying it is if you have a fear about a property that you're about to purchase, then it's a risk. Your mind is a great tool for raising alarm bells when there's risk in doing something, so listen to it but don't be dictated by it. Remember, the greater the fear then the greater is the risk.

Below are some of the most common risks/fears that property investors experience, and the strategies that can be applied to mitigate them to a low category risk:

### 1 Risk: increasing your debt level and not being able to pay it off

When growing up, my personal experience of debt meant that the money I borrowed was used to buy high depreciating, non-income producing items such as cars, clothes or just having a good time. This type of debt only kept me working longer

The answer is to keep some money in reserve for a 'rainy day'. You might ask 'how?', if you barely make ends meet now. But there are options:

#### Purchase a positively cash flowed property

This type of purchase has the rental income exceed the mortgage payments and property expenses, and puts money into your pocket each week. This additional amount can then be used to offset a second, negatively-gear investment property, with the net income and expenses of the two properties being neutral.

## Experienced investors in the share market always have an exit strategy for their share portfolio, which determines at what price they'll cut their losses and sell. The same needs to be done with your investment properties

hours to try and pay off the debt. So the thought of borrowing hundreds of thousands of dollars really gave me a few grey hairs.

Good debt, on the other hand, is used to purchase income-producing assets such as investment properties. The income or rent from these assets is used to pay the mortgage payments and property expenses, while the owner reaps the rewards of the increasing capital growth in the value of the property. In short, the property pays for itself and makes money for me while I sleep, work or play. This is known as a passive income.

I was never ever taught this concept at school but once I understood the difference between good and bad debt, increasing my good debt has never been an issue for me again. Instead my attitude towards borrowing money is 'the more the merrier'!

### 2 Risk: supporting an investment property if you lose your job

How can I support my investment property(s) if I lose my job, especially if I need to supplement the mortgages from my income each week?

#### Borrow up to 80% of the value of the property

Then later on, extend the loan to 90%, and put the additional 10% in an offset account for a 'rainy day'.

#### Tax buffer

Your property deductions should help you to secure a tax refund at the end of the financial year. Save your tax return as a buffer. The good thing is that after a couple of years, you'll likely end up with a large enough amount that you can then use for a deposit on another property.

#### Refinance after six months

If your property has grown in value, you might consider refinancing after six months of capital growth and put the extra money into a redraw or offset account for a 'rainy day'.

### 3 Risk: not securing a tenant

This is one of the most common risks that investors talk about. I remember when we purchased our first investment property, and hadn't considered getting a tenant until after we had settled the property. I panicked. I needed to get a tenant



straight away. I remember thinking ‘oh my goodness, I need to find a property manager to help me find a tenant now’. What would happen if I didn’t find a tenant in a hurry? If I found a tenant, how long would it take for them to move in? How long could I afford to sustain the mortgage before the bank came knocking on my door?

I actually put a lot of negative time and energy into worrying about finding a tenant, instead of just getting down and finding a tenant. There are a couple of ways to mitigate this risk:

- Only buy properties in high rental areas where the vacancy rate is consistently less than 3%. This will ensure that there’s rental demand and your property will be untenanted for no more than a couple of weeks per year, or possibly even less.
- Begin looking for a property manager in the early part of the purchasing process. When negotiating the purchase of a property I usually contact three independent property managers and get them to give me a rental appraisal. I interview them and work out which one I would select if the property purchase were to be successful. When it came to settle the property, I already had the property manager selected, who had advertised my property for rent at least four weeks before settlement. By following this process, I normally had tenants moving into the property the day of

or just after the day of settlement. The effort I put into finding a good property manager early helped lower my risk of not finding a tenant or experiencing a long vacancy period.

#### **4 Risk: bad tenants**

Having been a tenant myself, I never imagined destroying someone else’s property or not paying my rent, but it does happen, so now as a landlord, I had a whole new set of challenges to deal with. Watching programs on television on bad tenants caused me to worry about having someone destroy my property or run off without paying the rent. How would I pay the mortgage if they didn’t pay the rent? How would I fund the repairs of any damage caused if the tenants did a runner? My thoughts would be that it could possibly take weeks or possibly months to repair the damage, during which time I may not be able to rent it out until the property was once again habitable.

The fears started to get the better of me again and I did go back to accumulating more grey hairs, until I found out about ‘landlord’s insurance’. What a marvelous invention – insurance that protects the landlord from bad tenants and for next to nix. The cost of this insurance is ‘bugger-all’ when you consider the cost of not having it, and it’s tax deductible as well. I’m sorry to say but any landlord that doesn’t have landlord’s insurance

is dumb, dumb and bloody dumber! It’s just not worth the risk of not having it.

There are many insurance companies that provide it – just make sure your policy covers you for rent default, loss of rent while damage is repaired, malicious damage and litigation. I did a heap of research on insurance companies and many of them don’t include the above – so make sure you shop around.

By having landlord’s insurance, the risk of tenants defaulting on their rent or destroying my property is no longer high, as the insurance policy will kick-in to cover those costs for me. Therefore, I no longer worry about what tenants do, as the insurance policy will cover any problems.

#### **5 Risk: interest rate increases**

As an investor, the one thing I have no control over are interest rates, including if and when the Reserve Bank of Australia (RBA) increases or decreases them. There’s nothing worse, from my perspective, than trying to manage mortgage payments and costs when rates increase several times over a year, as it did recently. When the RBA does increase rates, I know it becomes the ‘talk of the town’ as property owners discuss how to manage their mortgages.

In Australia, we’re experiencing a housing shortage, which means the demand for rentals is high. As part of my risk mitigation strategy, I have adopted two things: one is to increase my rents, and two is to fix my interest rates on part or all of my loans for three to five years.

In my opinion, interest rates are just the cost of doing business and whining about them doesn’t solve anything. So instead, I also allow a little extra fat when calculating the numbers on the property to ensure that I can afford to keep it today and tomorrow, so that when rates go up, I know I can still afford it.

I have met many investors who are on the borderline of losing their investment, and it’s a tragedy to watch them in such despair. Unfortunately, many have hastily purchased the wrong property and have failed to plan for interest rate rises, causing them more financial hardship than they can handle.

Interest rates are a fact of life and if you're going to use property investing to create your wealth, factor in the increases and purchase property that you can afford to hold onto without the fear of financial ruin. After all, it's no fun living off baked beans while trying to get rich.

### Exit strategy

An exit strategy is the plan you develop to cover you if a catastrophe hits you between the eyes. It's a plan that describes the point at which you'll 'pull the pin' on the property and get rid of it. You need to put this plan together in the cool light of day, as doing it under stress or pressure will always lead to the wrong decision.

If the ultimate exit strategy is to sell your property then at what point do you place your property on the market? What driving factor would cause you to do that? At what point do you decide that your investment is no longer working for you and you now need to take your money and run?

Your property mentor or coach will help you in determining the triggers for this decision, but the best way I can describe it is imagine a ladder with a number of steps, and the top step of the ladder is your exit strategy, which is to sell. If you stood on step one, the ladder is stable and your risk of falling off is low; however should you climb half way up the ladder, the risk of falling becomes considerably higher as the ladder becomes a little more unstable. If you were to stand on the top step, your risk of falling would have increased dramatically. Similarly, your exit strategy would be to sell when your risk of falling is high. The more unstable the situation, the more you should think of applying your exit strategy and get out of the deal.

Experienced investors in the share market always have an exit strategy for their share portfolio, which determines at what price they'll cut their losses and sell. The same needs to be done with your investment properties. I hear too many stories of investors who have hung on to their investments too long and then ended up losing the lot. It's vital that investors develop an exit strategy for each and every investment property they own, as it will protect your overall investment strategy and give you peace of mind.

### Applying the exit strategy

Some years ago now, I purchased a property in Kalgoorlie simply because the property was earning \$330 per week in rent and the purchase price was \$173,000. I was looking for cash flow opportunities and thought I had struck gold – pardon the pun.

However, as it turned out it was a government lease that wasn't

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renewed, and thus the property was put onto the open rental market. The property ended up renting for \$260 per week, a huge difference in cash flow. The house was 20-years old and required more maintenance, thus the expenses were high. To add insult to injury, there was a problem with the plumbing, which would cause a flood in the backyard at least twice a year. A couple of old trees were damaging the driveway and required removal, plus the plumber's assessment of repairing the plumbing required the digging up of the concrete driveway.

For a property that was purchased purely for cash flow, it didn't provide the return we were looking for. At the time, there was very little capital growth and the maintenance costs were in the thousands. With the quotes back from the plumbers regarding the digging up of the drive to repair the plumbing, we decided to apply our exit strategy and put the property on the market. Our worst-case scenario was to at least get our money back so that we could re-use it elsewhere and for a better return.

As it turned out, our tenants bought the property from us for more than we needed, and we managed to walk away with a small profit.

One of the risks with older properties is the cost of maintenance. At what point do you say enough is enough? For us, it was a combination of poor cash flow, poor capital growth and high maintenance expenses.

You never know what's around the corner, so as part of my risk mitigation strategy I always have a planned exit strategy for each property.

If you're going to purchase investment properties, I suggest you start with the end in mind. Before you take the plunge and purchase the property, have a think about what you'll do as part of your risk mitigation

and ultimately your exit strategy. If you can reduce the risk factor to low, then great – go for it! But if you can't, then consider walking away.

The biggest breakthroughs I have experienced in this game called property investing have been in my mindset. I have learnt to worry less about things that really don't matter because a good risk mitigation strategy always allows me to sleep at night without fear.

As human beings, we tend to worry about things more than we probably need to, and when talking to people who have achieved serious success in their lives, I have found that they're more relaxed than I am, despite the fact that they have more debt, more risk exposure and more responsibilities than I have. It's fantastic to learn that they experience the same highs and lows that I do, and they each have a plan for those rainy days.

The moral to the story is, don't fail to plan your rainy days – because if you don't, you're effectively 'planning to fail'.

Until next time, happy investing. 🍀

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