Making it outback

Here's a couple on the way but needing a little help

NAMES Alexandra Allen & Nathan Rains
AGE 25
LIVE Roxby Downs, SA
QUESTION How do we make the most of our financial situation and set ourselves up?

Living and working in a remote mining community where wages are higher is an excellent way to kick-start your wealth. When the nearest city is almost 600 kilometres away, there's little to spend your money on so saving is easier. That's why Alexandra Allen and partner Nathan Rains are working at Roxby Downs, a town that services the BHP Billiton-owned Olympic Dam Mine.

They plan to live for the next four to five years in Roxby Downs, a town with a population of 4500 that is set to rise to 12,000 in the next five years.

The town has great services and an average age of 29, says Alex, but importantly they earn about 40% more than if they had similar jobs in Adelaide. Alex earns a predictable salary whereas Nathan's income includes overtime so it can vary from week to week.

They hope to set themselves up well for when they move back to Adelaide. "At this stage we have no plans for marriage, children or any other events that will significantly impact our financial circumstances and savings ability," says Alexandra.

The couple are channelling their savings into three investment properties in Adelaide. Nathan owns two houses and Alexandra a unit. They are considering investing jointly in a managed fund that allows them to contribute through a savings plan, but they want to know how to do it. They realise they need some liquid investments in case one or both are made redundant due to the global financial crisis. When they move back to Adelaide they anticipate a need to renovate and repair their house and buy a second car.

JOHN PICK

Get rich slowly

THEO MARINIS

Senior financial strategist Theo Marinis of Financial Strategies (SA) Pty Ltd says Alex and Nathan will comfortably become millionaires if they stay on course and avoid any gimmicky investments.

Alex and Nathan, you are in a wonderful financial position for a couple so young, already controlling three investment properties in Adelaide with a combined purchase price of $747,000 with mortgages outstanding of $728,000. You are also very astute, working hard in a mining town and directing your salaries towards long-term goals.

After tax and expenses of $29,960pa you have $23,660 spare cash. By focusing repayments on the investment property you will live in in four or five years time, you will be millionaires by 2014. This assumes all the circumstances remain the same and real estate values continue to increase at 7% each year; cash management trusts continue to pay 4% per annum while investment and superannuation funds deliver a 7% return. Here's a to-do list: **STEP 1:** Make a will and put binding nominations on your superannuation naming each other and any other people you wish to receive the proceeds from your estate in the unlikely event of a premature death.

STEP 2: Make a written life plan together. Divide it into sections: between now and 40, middle age and retirement. Include what sort of holidays you want, if any, plus what sort of home and cars etc. Think about unexpected contingencies such as illness or pregnancy.

STEP 3: Acquire life and income insurance while you are young and healthy.

STEP 4: Get valuations on all three of your properties from the time they were bought, as capital gains tax (23.25 % of the "profit") will be payable. Keep good records of all your maintenance and other costs for the properties as this will also reduce the tax payable.

STEP 5: As you already have combined cash savings of $5000, move this into a cash management trust as your redundancy or unexpected expenses buffer and leave it there. Contribute $400 a fortnight to a separate CMT, build up blocks of $5000 in this account and transfer them every 13 weeks to a conservative balanced fund, suitable for someone with a balanced risk profile and a minimum five-year investment time frame. These savings over the next five years will allow you to renovate the house you plan to make your home.

> "Acquire life and income insurance while you are young and healthy"

In five years you will have around $61,300 combined set aside as a result of this savings plan, which should be sufficient to renovate your home and buy a second car. Make sure you talk to an adviser for an appropriate recommendation.

STEP 6: Review the loans on the other two properties and if necessary change them to interest only.

STEP 7: Pay off the mortgage of $196,000 on the house you wish to make your principal residence by 2020. Capital gains tax will be due for the period the home was rented.

You may want to renovate it while still a rental and the costs may be tax deductible or depreciable, while it is a rental property.

You should then use the freed-up cash flow, being paid into this mortgage, to instead direct whatever is the then maximum allowable contribution (currently it is $25,000 a year) to your superannuation.

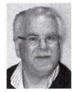
Count the 9% compulsory Super Guarantee amount which is contributed directly from your pay, as part of this $25,000 a year total.

By the time you are 67, your super balance should be around $2.3 million each.

Plan a transition to retirement strategy by the time you are 60. Any additional "spare" money should be used to pay off the principal of the remaining two properties.

Build more equity

MICHAEL YARDNEY



Michael Yardney is a director of Metropole Property Strategists. His new book is *Thriving, Not Just Surviving in Changing Times*.

Alex and Nathan, your properties are in good suburbs of Adelaide that have experienced strong capital growth over the past few years, so you are well on your way to becoming millionaires. Using the power of compounding, leverage and time, you may reach your goal sooner than you think. The next step is to build on the assets you already have and keep growing your property portfolio. Currently your portfolio is negatively geared, which means the rent is less than the mortgage payments going out. Fortunately you both earn good incomes and can cover this cash flow shortfall and take advantage of the tax benefits of negative gearing.

By the way, tax benefits are not a good reason to invest in property. But assuming that your property portfolio is increasing by around 8% a year (on average over a 10-year period), the value of your properties is increasing by about $48,000 each year. And this unearned income is not taxable. So overall your property portfolio would be performing very handsomely.

Just keep doing what you have been doing successfully up to now; grow your property portfolio one property at a time as your equity and ability to service loans allows. This gets easier over time as the miracle of compounding works on your increasingly larger asset base. You have done very well up to now but you may have to be patient for a while.

You have ridden the wave of the SA property boom, but it is unlikely you are going to experience the same level of strong capital growth in the value of your properties over the next few years. To help diversify I suggest you consider looking at one of the east coast capital cities for your next property purchase. I would also get tax advice on the best vehicle in which to own your properties. Most successful investors do not own properties in their own names but control them through trusts, which afford the benefit of asset protection and legal tax minimisation opportunities.

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