Steve McKnight's

MONEY MAGNET

HOW TO ATTRACT AND KEEP A FORTUNE THAT COUNTS

#1 BEST SELLING AUTHOR

SAMPLE CHAPTER

WILEY

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HOW TO ATTRACT AND KEEP A FORTUNE THAT COUNTS

WILEY

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- Jules, Cassie & Alyssa — for their unwavering support and for making me feel significant; and
- My Lord and Saviour Jesus Christ — from whom I hope to hear the words 'Well done, good and faithful servant'.

Faith

I drifted off the faith path in my adolescent years before returning to following Jesus as an adult after I became financially rich, but felt spiritually poor.

While that's a story for chapter 24, my Christian faith adds an important context for the way I think and act around money and you'll note I make references to it and the Bible from time to time. While I do this unashamedly, I also respectfully acknowledge other beliefs, faiths and religions.

Royalties

One hundred per cent of the royalties received from this book will be applied to supporting environmental revegetation endeavours, including my carbon sequestration project at Carriage Range in north-east Victoria where 300 000 trees have been planted to establish a new permanent native forest. To find out more please visit: **www.TreeChange.com**.

Steveisms

You'll note that each chapter begins with a quote. I had initially included a variety of sayings and phrases that I found interesting or pertinent, but due to copyright and permission issues it became too difficult to include them. So, although it might outwardly appear a little indulgent, I have instead self-quoted short comments and sayings that I'm renowned for and that others have affectionately coined 'Steveisms'. I hope you find them interesting and helpful.

ABOUT THE AUTHOR

Steve McKnight holds a Bachelor of Business (Accounting) from RMIT University and is a qualified Chartered Accountant. He also has a Diploma of Financial Services. After a decade-long career in accounting he became a professional investor where he used his accounting and investing knowledge to purchase 130 properties in 3.5 years. In 2012 he established a managed investment fund that went on to purchase more than $100 million worth of commercial property. Through his books, training programs and websites McKnight has positively impacted the lives of millions of people. Steve recently turned his attention to land conservation and ecosystems management endeavours. He and his team have now planted more than 300 000 trees on previously cleared land with the goal of establishing a new permanent carbon sink native forest. Steve is married and when not in Melbourne can usually be found walking among nature at Bindi.

PREFACE
HOW THIS BOOK CAME TO BE

Dear Reader,

Something very strange happened on the 13th of July 2006 — something that hadn't happened before, and hasn't happened since: I woke up from a dream sobbing, with tears streaming down my face.

In that dream I believe I encountered God. There was no booming or thunderous voice; He did not speak in words, but rather in thought. There was no burning bush; rather God appeared as an intense, swirling cloud of light, with shining stars in it, and radiant colours of dark blue, and purple, with flecks of gold and silver.

Word-for-word, here's what I wrote in my journal on what I experienced:

> *I woke up in awe, overwhelmed and excited to the point of tears. I could not speak nor move. It was the most intense feeling I have ever felt. I had an incredible sense that God wanted me to run a learning based program teaching people how to use their money effectively. Three times did this thought come into my mind; each time stronger.*

Which brings us to today: to the here, and to the now.

I've had an unpleasant encounter with skin cancer, and it's reminded me that time is finite and that I needed to get busy doing what God asked me to do — to write this book.

In it I've shared many important lessons and insights gleaned from the front line of personal wealth creation: from the things I've witnessed being a chartered accountant and advising a variety of clients spanning mums and dads, to multi-millionaire business owners, to my personal experience building a family fortune buying and selling hundreds of properties, and even professional funds management where I've looked after more than $100 000 000 of other people's money.

I don't know where you are on your faith journey, and I'm not sure how or why this book has crossed your path, but I do know this: *it's no fluke*. The same God that gave me that prophetic dream back in 2006 wants to use the knowledge and experience I have about how to make and attract a fortune that counts to reveal something deeply personal and important about the way you think, or act, around money.

What might that be? Let's find out.

Steve McKnight

PART ONE
INTRODUCTION

A better and brighter financial future is yours for the taking, and there's not a moment to lose!

By the time you've finished Part 1 you'll have cast a monetary vision for the rest of your life. All going well, that plan will empower you to live a life of financial freedom and a self-funded retirement where you won't have to rely on government handouts for survival.

As you work through the four options in chapter 5, ask 'Is the model I'm following (perhaps even without knowing it) going to deliver a wealth-creation outcome I'm happy with, and if not, which model will?'

Make sure you attempt all the exercises as the answers you give and the insights you gain will provide an important platform upon which the rest of this book builds.

CHAPTER ONE

A SHORT INTRODUCTION TO WHAT'S AHEAD

The more you do of what you've done, the more you'll get of what you've got.

It stands to reason that the more you do of what you've done, the more you'll get of what you've got.

That is, if you're flush with cash, are debt free, have investments that are performing and have a life rich in meaning, then well done and keep it up!

On the other hand, you can't expect to change and yet stay the same.

If you're feeling financially overwhelmed, find yourself bogged down in debt, want a retirement that's not reliant on welfare, or have money but lack passion and purpose, then keep reading.

My hope in writing this book extends well beyond helping the wealthy get wealthier. The pursuit of more, when you already have more than enough, might feed your ego, but could come at the cost of a withered soul. What's the point of having a lot that only means a little? My goal is to help you make, manage and multiply your money to become financially empowered, and then to make your money count by using it to live a life rich in happiness.

Some people believe money is evil. It's not. As my good friend Brendan Nichols once told me, 'It's just a tool that can be used to *get a life* (let's call that *survival*) and to *give a life* (let's call that *significance*)'. That is, it is our attitude towards money, rather than money itself, that will determine whether it's a blessing or a burden in our lives, and the lives of others.

Survival means 'making bank'—having enough income to pay for your desired lifestyle, plus stashing some extra aside for rainy-day reserves.

Significance refers to 'largesse'—the pursuit of using your money in an altruistic manner to give your life meaning, by using it to fund a legacy for which you'll be remembered long after you're gone. How you use your money is how you'll be known and remembered.

How you use your money is how you'll be known and remembered.

Will that be for the materialism you amassed, or your magnetism attracting admiration for the way you made your life and money count by touching, moving and inspiring others?

A common belief I've encountered is 'I'll start working on significance once I've got survival sorted'. Such thinking is flawed though, as survival and significance are not mutually exclusive, but rather complementary: one spurs the other on. If you want your money to multiply, invest in survival. If you want your money to count, invest in significance. Want both? Do both! It's more than possible … it's recommended!

To be clear, don't work on survival *then* significance, work on survival *and* significance. What you do that matters will give meaning to your money and motivate you to keep making the sacrifices needed to attract and keep a fortune. This is critical because borrowing from tomorrow and spending it today is surely a recipe for a lifetime of financial disempowerment. Friend, here's the principle: *if you want to attract more, **first** become more attractive*.

If you want to attract more, first become more attractive.

I can't explain how it works, just that it does. When you invest a little from your survival into your significance, you become more 'magnetic', with your magnetism attracting more opportunity while also 'levelling up' the calibre of the people who are drawn into your sphere of influence. No, not in some modern-day ATM kind of way: you can't 'game' the principle of sowing and reaping. The law of attraction only works if you give from the heart (what's in it for others), rather than giving from the head (what's in it for me).

So, what's ahead in the book? Put simply, I'm going to do what I can to help you count your money, and to make your money count.

We're going to explore and unpack two concepts in detail: your Financial IQ and your Financial EQ. The former relates to how you think and act financially, and the latter to how you recognise, understand and manage your financial feelings and emotions.

As you'd expect, they're related, and if you want to become and remain wealthy, you need to master both. Thinking poor and acting rich will result in the appearance of wealth, but the substance of poverty: a flash-looking car with no engine. Thinking rich and acting poor will lead to great ideas, few of which will come to pass because you're not financially empowered to make them happen: a flash engine with no car.

The goal is to think rich, and act rich. But hang on and make no mistake! I am not talking about materialism here. Materialism amounts to lots of toys and babies prone to tantrums: spoiled people spoiled by possessions without purpose.

A better interpretation of what I mean by 'rich' is 'empowered', so if there's something disempowering about the way you think or act financially then we need to find and fix it. Otherwise you'll be building wealth on shaky foundations, meaning any wealth you manage to attract might not stick.

Chapter highlights

- If you're happy with your current wealth situation, then you don't need to change. Keep doing what you're doing.
- It is not possible to change and stay the same. If you aspire to a better and brighter financial future, then you have to do something different, to get something different.
- For many, wealth creation is a struggle to meet and maintain their version of survival – having enough to keep the home fires burning, and ideally a little extra for emergencies. Beyond survival is significance, which is an awareness and desire to use your money to add meaning to your life by positively impacting others.
- Most people concentrate on survival *then* significance. The better approach is survival *and* significance.
- Materialism reflects the external appearance of wealth. Magnetism reflects the people and opportunities that are attracted to you. What good is it to be financially rich, but socially and spiritually poor with fake friends and a lonely soul?
- The law of sowing and reaping mandates that any investment you make in significance will increase your attractiveness. Being more attractive will help you to attract more opportunities and 'level up' the calibre of people drawn into your sphere of influence.
- No-one is born a money magnet. It is a learned skill that can be improved over time with effort and diligence.
- If you want to make, manage and multiply more money, then you'll need to strengthen the way you think and act financially (your financial IQ) and also the way you feel financially (your financial EQ).

CHAPTER TWO
NOW AND THEN

Start with the end and end with the start.

Is it possible to get rich, quick? Some say no, but I say yes, depending on your definition of *rich* and *quick*, of course!

Take, for example, people who win the lotto jackpot and become instant multi-millionaires, or the enterprising folks who sell their businesses for billions in their twenties or thirties. In my case, I achieved financial freedom — no longer having to swap my time for money — in less than five years. Compared to working 50 years, that was quick! Don't be mistaken though, I've never owned a boat, nor a Ferrari; I define rich in terms of minutes (i.e. time), not materialism. More on that later.

Time for another question. 'Can *you* get rich, quick?'

That depends on whether you're inclined to try, and whether you're willing and able to pay the price.

Inclined to try

10

Out of 10, with 1 being the least important, and 10 being the most important, how big a priority is it for you to start working on securing a better and brighter financial future? Don't just think it, write your answer in the box, and note the date under it.

If you answered, say, 5 or below, then you're probably facing bigger challenges, perhaps struggling with the hustle and bustle of life and making ends meet. Alternatively, you may be young and believe you have time on your side to sort out your finances in the years to come.

If you answered 6 or above, then you're probably thinking it's time to make your financial future a bigger priority. Hmmmm … what to do, though? Pump some more money into superannuation? Dabble in the stockmarket, or maybe try your hand at real estate? Perhaps crypto? Buy a franchise or start a business?

There are lots of options, but instead of making the common mistake of letting the strategy determine the outcome, you'd be much better off starting with the end, and ending with the start. Or, in other words, don't let any available shoe determine your foot size—have the financial strategy fit you, not the other way around. That is, cast a vision for your financial future, make a plan and then work with the strategies that will see you make the most money, in the quickest time, for the least risk and lowest aggravation.

Paying the price

Financial freedom: the name is certainly deceptive, because there's nothing free about financial freedom. It's bloody hard work, unless you want to cheat.

There's nothing free about financial freedom.

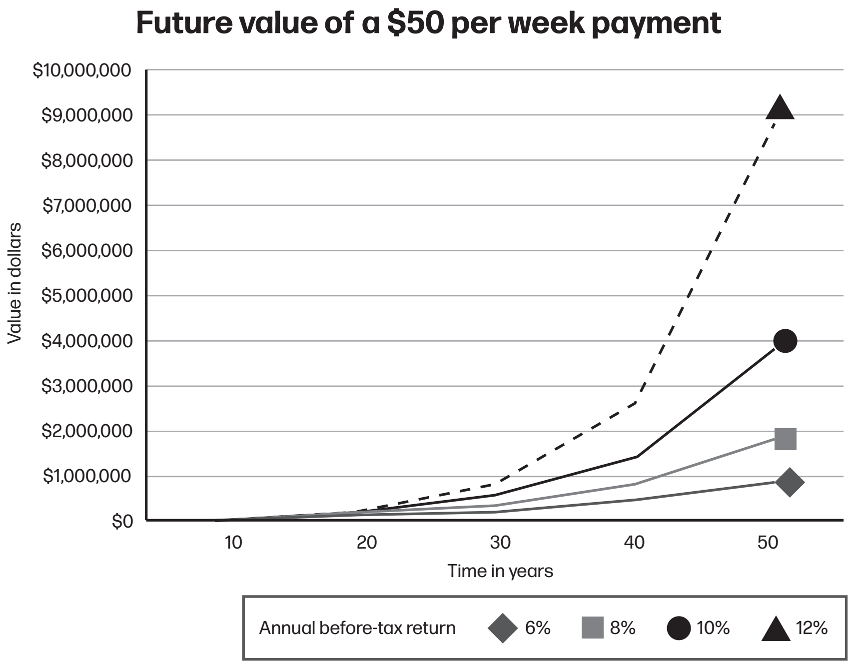
'Cheat! Cheat?' I hear you ask. 'How do people cheat?' By trying to get-rich-instant or get-rich-easy and hacking an outcome without putting in the work.

Take lotto, for instance. According to Oz Lotteries (2021), 76 per cent of Aussies like to go out on a date with lady luck, but it's not easy to win her favour. You're 3750 times more likely to be hit by lightning than win the Oz Lotto jackpot[1]. A more-proven and less-risky (that's a good combination, by the way!) idea would be to take the $50 per week spent buying lotto tickets and invest it. The following table gives you an idea of what the balance of doing this would be, depending on the return achieved and the period of time.

Future values of $50 per week, invested for different time periods and annual before-tax returns				
Time	**6%**	**8%**	**10%**	**12%**
10 years	$31,954	$39,786	$44,607	$50,170
20 years	$79,616	$128,276	$165,747	$216,509
30 years	$150,708	$325,093	$494,722	$768,013
40 years	$256,749	$762,849	$1,388,110	$2,596,540
50 years	$414,920	$1,736,494	$3,814,259	$8,659,077

If you don't think in numbers, the following graph reveals that the combination of return and time are certain to make you wealthy. Why rely on luck, when you can depend on skill?

[1]The chances of winning OzLotto are about 1 in 45 000 000 compared to a 1 in 12 000 chance of being hit by lightning in Australia.



You don't have to invest in hare-brained schemes either. For reference, according to Vanguard (2021), the 30-year return for listed Australian shares is 9.7 per cent per annum. That's pretty close to the 10 per cent column in the table above, which has a 50-year 'jackpot' of $3 814 259.

It's your choice: rely on a 1 in 45 million chance (by the way, you're eight times more likely to be killed by an elephant in captivity[2]) or the 100 per cent mathematically proven millionaire method?

But hang on a moment, 30+ years doesn't sound quick, does it? Well, that's the get-rich-slow option. If you want to speed things up, then there's a price you have to pay. Not a physical price such as buying a litre of milk, but more so an ongoing combination of sacrifice (choosing not to have something ever) and delayed gratification (choosing not to have something now).

[2]A one in 45 000 000 compared to a one in 6 243 604 chance of being killed by an elephant in captivity (US data).

For instance, rather than indulging and living above your means, resulting in stuff and debt, the price of a better and brighter financial future is living below your means to accumulate savings, which you can use to purchase investments.

Or, as I like to put it, work now so you don't have to work later.

Sounds simple enough, right? It's definitely not. The combination of powerful materialistic marketing messages, coupled with easy-to-access debt, means you have to fight against so-called 'normal' all the way.

True financial empowerment means not being casual with your money, lest you become a financial casualty. It's having the capacity, but electing not to purchase something because you don't want to be defined by your material possessions. This is not to say you need to live in a sackcloth, but rather that you spend from what you have (rather than what you don't have), and what you can afford.

True financial empowerment means not being casual with your money, lest you become a financial casualty.

There are two ways you can approach your financial future: chance or choice.

If you're happy to rely on chance, then you don't need a plan because you don't have a destination. You'll get what you get, and you don't get upset.

If you want to rely on choice, then you need to decide between slow and steady — where you let time and trend be your friend — or fast and furious — where you put on the afterburners and accelerate your wealth building. Or maybe a combination of the two.

Whatever you do, stay away from get-rich-instant or get-rich-easy, where the odds of failure are astronomically high. Just ask any elephant.

Chapter highlights

- It's possible to get rich—quick or slow. It's just not realistic to get rich instantly or easily, because schemes that promise maximum returns for minimum effort are almost certainly too good to be true.
- There is nothing free about financial freedom. It takes considerable effort and comes at the cost of sacrifice and delayed gratification.
- Beware trying to find an easy solution to a complicated problem, like trying to overcome a financial problem that has taken years to eventuate by using quick-fix or hare-brained schemes that rely heavily on luck or good fortune.
- Winning lotto really is a dream that will statistically almost never come true.
- Don't rely on chance when you can depend on maths. A small amount regularly saved and invested at a reasonable return over a long period of time is a sure bet.
- No-one will care more about your money than you will (or should). If you're casual with your finances, then you run the risk of being a financial casualty.

CHAPTER THREE
SEEING IS BELIEVING

Compelling vision is the secret to turning small ideas into world-changing action.

I've been short-sighted since I was 13 years old. I remember going to the optometrist for the first time and having my eyes tested, and being amazed at just how clear and sharp the letters became as different lenses were trialled. Upon getting my specs, the world jumped into focus. Who knew trees had leaves that weren't blurry blobs?

A lot of people I've met are short-sighted with their finances, meaning that without assistance money is a fuzzy mess. Try as they might, they just can't see straight; their vision is skew-whiff, resulting in a lack of clarity and perception.

Consider budgets, for example. Budgets are like diets: we all know we'd benefit by being on one, but who can be bothered sticking with it once the need for being on it has passed? I put it to you that one reason why people go on a diet is so, after they've lost the weight, they can eat whatever they like guilt free. The consequence of that is that they'll pile on the kilos when they go off the diet, resulting in them needing to go back on the diet soon thereafter. On. Off. On. Off. And so it goes — like trying to drive in a straight line by veering right and left.

Are budgets a waste of time then? Yes, they are, unless …

'Unless what?'

Unless you have a compelling reason to make one and stick to it; otherwise, whatever benefit you gain from budgeting can be easily blown by some errant binge spending.

Finding a compelling long-term vision

I've been teaching wealth creation now for more than two decades. That makes me an 'old timer' in the industry. There aren't too many 'old timers' around because of the tendency for people to sell their reputations and fade into ignominy, and because some methods taught don't stand the test of time and are proven ineffective — promising much, but delivering little.

A while back I was chatting with a fellow old-timer, Brendan Nichols, about why it might be that so many people seem interested in improving, but so few people seem to stick with it and achieve their full wealth potential — perhaps as few as 5 in 100.

We canvassed various possible reasons why people make a start and experience some degree of success, but don't stick with it to achieve their full wealth potential: difficulty of the subject matter, inability to apply the strategy, unrealistic expectations, changing market conditions, and so on.

I had heard Brendan say previously that the enemy of a great life is a good life, meaning that people give up on great because they get comfortable with (and don't want to risk) good. I think there's something profound in that.

'Bren, I think I have it.'

'What?' he replied with a note of curiosity in his voice.

'I believe people give up when the pain of going forwards becomes greater than the pain of going backwards.'

Said differently, if you lack a compelling reason that drives you to make, and keep making, the effort and sacrifices required for sustained success, then you'll plateau out.

Here's the principle: you're likely to spend if you lack a compelling reason to save.

You're likely to spend if you lack a compelling reason to save.

That is, you need to create and maintain personally convincing reasons to make, and keep making, the effort to sacrifice and delay gratification so that the outcome you're working towards tomorrow (by choosing not to spend) remains greater than the reward you'd receive by spending today.

How do you do this? How do you make something compelling to the point of it becoming motivating enough to delay gratification?

First, you need to *think it* — to give birth to an idea — and then you need to *want it* in a powerfully irresistible way: to build enough desire so that your idea becomes a must, rather than a maybe.

What's your reason? What makes it compelling?

One option is pleasure: you want the reward of the achievement. The other is pain: you want to avoid the consequences of not changing.

Consider quitting smoking. Some find the motivation they need to quit because they want the benefits of improved health. Others can only quit when they get to the point of receiving the unpleasant ultimatum that they'll die if they don't.

Let's apply this to money and how you can find the motivation to save rather than spend. Two ideas come to mind: things and time.

Things

The first is to set your mind on something you want — a thing — that gives you a reason to go without.

My daughter, Cassie, has a car. To drive it, she needs insurance — and that's expensive. The freedom and flexibility she gets from having the car is the motivator she needs to save rather than consume her cash by purchasing $28 cocktails on Chapel Street in Melbourne. She wants her car more than the cocktails.

Other examples of things people save for include their kids' education, a house, a holiday, and so on.

Time

The problem with saving for things is that you're consuming rather than compounding your money. You may never have thought about it, but money can also be used to 'buy back' the time you'd otherwise have to spend working in a job.

For instance, let's say you get paid the average amount an Australian receives by swapping a year of their adult life for money: $60 000 per annum, a little over $28 per hour. It just so happens that that's the price of a Chapel Street cocktail, so you could say that 1 cocktail = 1 hour of work. Another way you could look at it is that every $224 you save = 8 hours (i.e. $224 ÷ $28) = 1 day you don't have to work.

An even more advanced way to look at the time–money relationship is that if you could save (rather than spend) enough money to buy an investment that provided $224 of weekly recurrent income, then you'd be able to enjoy a permanent long weekend for the rest of your working life without impacting your living standards.

Here's a carrot to contemplate: one sensible property deal can make enough money for you to permanently buy back one day a week that you'd otherwise have to spend working.[3]

....

[3] On the basis that you reinvested the profit into income-producing assets.

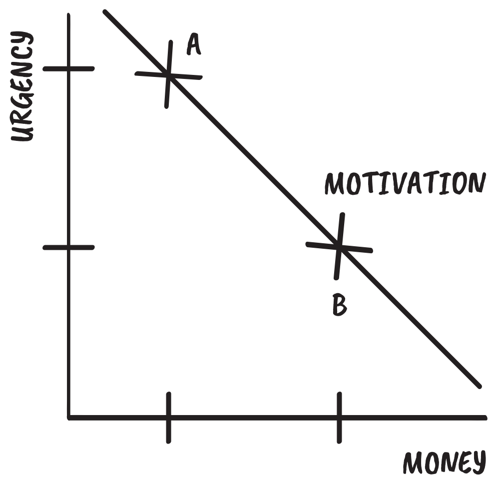
Josh and Shehan

Josh and Shehan are joint-venture partners. They purchased a 1970's-style four-unit site (4 × two-bedroom, one-bathroom units) in regional Victoria. Their strategy was to undertake a cosmetic renovation. Once complete, and including purchase costs, the project 'owed them' $928 550. Soon after they were finished they received an offer of $1 260 000, but they declined that and decided to rent the units out for positive cashflow.

Had they accepted the offer, they would have made a before-tax profit of a little over $300 000 in only six months.

What will it be: things or time? Would you rather have more stuff but have to work for the rest of your life? Or less stuff and the freedom to work when, where, how and however long you want? Maybe you want both? That's fine, but you have to choose which you want first.

Let's return to the question I asked in the previous chapter about how much of a priority a better and brighter financial future is for you right now (on a scale of 1 to 10). The following graph illustrates the relationship between your motivation and your interest in changing.



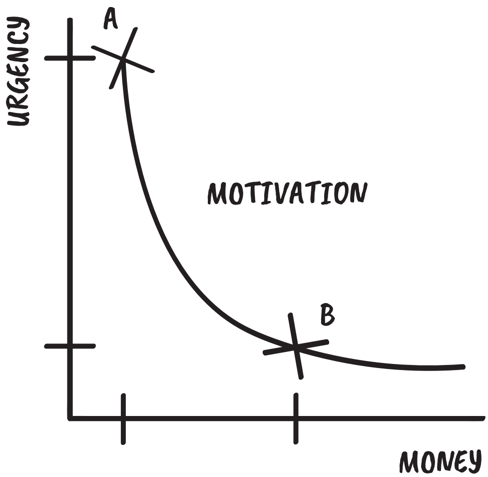
You'll see that urgency is measured on the vertical axis, and money on the horizontal axis. The scale increases as you go further up, and further left. Motivation is being measured.

Two points are charted:

- Point A indicates a little bit of money and a lot of urgency to act — something has arisen that means you need money in a hurry — and so you are highly motivated to act.
- Point B is where you have more money and less urgency, so your motivation is much lower.

It makes sense, doesn't it? If you're hungry, you're motivated to hunt, but if you're feeling full, why go to the effort?

The shape of the motivation line as shown in the diagram is linear, but in real life it's more likely to be inverse, as drawn in the following diagram.



Point A is being in a highly motivated state, spurred on by an urgent need that you can't resolve with your current resources. Motivation drops off quickly though as you move from uncomfortable to comfortable, which is represented by Point B. It's where Brendan's comment about the enemy of a great life is a good life becomes apparent.

Here's the point: how do you stay motivated after the circumstance(s) that motivated you to act to begin with have eased? That is, how do you stay hungry, even if you're not? How do you keep pushing forward when the pain of doing so is greater than the pain of stopping?

The answer is … a compelling long-term vision. Having a compelling vision will keep you hungry for making progress.

Having a compelling vision will keep you hungry for making progress.

Everyone is different, but in my case, I *had* to get out of accounting. The severe stress I was experiencing from feeling trapped in an unrewarding job was affecting my health, resulting in ulcers on, ahem, unusual body parts. The prognosis was an early grave if I persisted.

What about after achieving financial freedom though? How have I *stayed* motivated? I needed a vision bigger than myself, which in my case was faith. What drives me today is pursuing causes that add significance and meaning to my life, rather than more money simply for more money's sake.

Compelling vision is the secret to turning small ideas into world-changing action. With it, you have a reason for making, and continuing to make, the effort needed to bring vision to fruition. Without it, you're left to battle out each day according to what spot fire needs your attention to ensure it doesn't burn the house down.

Back to budgets

If you try to do a budget without a vision, then in my opinion you're almost certain to fail to achieve lasting success. Why? It's not that budgets aren't useful or helpful; it's just that the effort associated with doing one, and persisting to track and measure and report, will soon escalate to the point where the pain of going forward will be greater than the pain of going back. The more difficult a budget is, the more pain will be associated with trying to persist with it. The tipping point will be when the pain becomes greater than the urgency (probably because the circumstance for the urgency has eased).

Your budget is only as strong as your reason for budgeting. For example, say you have a strong desire to save for an overseas holiday. You're motivated to do what it takes, and the chatter in your head has changed so that not spending is a thing because every dollar saved is a dollar more for your holiday. You've even gone so far as to start budgeting to propel your progress. Success! You go on the holiday, have a great time and return with happy memories. With nothing else to save for, the need for a budget becomes redundant and without it, there is no system for spending restraint.

Your budget is only as strong as your reason for budgeting.

Have you ever made a budget but failed to stick with it? Don't feel bad, because most people sign up believing it's only for a short time to solve a temporary problem. Like a diet, the reason for doing one is so you don't have to do one. Here's the secret to sticking to a budget: instead of making it restrictive, make it empowering.

Restrictive means you want to spend but your nasty budget says you can't. Empowering means measuring and appreciating your progress, which confirms you're on the right track. What's the missing ingredient between restrictive and empowering? Vision: having a reason for saving that's more compelling than the reason for spending.

If you can't see a reason to sacrifice or delay gratification, why bother with consumption restraint? This conundrum plays out every day when people buy stuff they don't need because they don't see how spending now can lead to financial disempowerment later.

Have a vision for your money

If you don't have a vision for your money, then rest assured someone else does because they'd rather have your dollars in their bank account than leave them in your pocket. In fact, I've found that money is attracted to people who have financial foresight, and repelled from people who don't.

What if you don't have a vision for your money? Sadly, as outlined in the next chapter, the consequences are likely to be most unpleasant.

Chapter highlights

- It's hard for the body to achieve what the mind can't see, so before starting a budget, cast a vision.
- Money is attracted to people with financial foresight, and repelled from people who spend today because they lack a vision for tomorrow.
- Your budget is only as strong as your reason for budgeting.
- You can't expect a temporary fix to result in permanent improvement. A short-term budget can't overcome long-term financial mismanagement.
- Budgets are best used as an empowering tool to propel progress (i.e. a carrot), and worst used as a restrictive or punitive measure to force fiscal compliance (i.e. a stick).
- Motivation to start sacrificing and delay gratification is triggered by urgency and a lack of financial resources. Motivation to keep sacrificing comes from a compelling vision that puts a high price on failure. What's your vision and what makes it compelling?
- You'll give up when the pain of going forwards becomes greater than the pain of going backwards.
- If you want to attract and keep a fortune, cast a bigger vision and make the reasons for achieving it more compelling.

CHAPTER FOUR
THE FORMULA FOR FINANCIAL FREEDOM

If you do what everyone else does, then you'll get what everyone else has.

Do you have a plan to retire poor? Do you have a plan not to?

In the previous chapter I canvassed the carrot of achieving financial freedom to motivate you to save (and invest) rather than spend. That's the pleasure angle. The pain angle, sadly, is living until you have no more time of any value to swap for money, and then retiring reliant on welfare and in poverty.

Here's a disturbing statistic: 76.5 per cent of retired men and 78.7 per cent of retired women in Australia receive the age pension (Wilkins et al., 2019). Furthermore, another report (The Treasury—Australian Government, 2020) estimated that 60 per cent of those on the age pension were on the maximum rate, making it their main source of income.

Surely that's a shocking statistic: more than three quarters of retirees need government welfare (with the majority of them having the age pension as their major source of income) and only 2 or so in 10 are self-sufficient.

Another way to interpret those stats is that unless you approach your finances in a different way from the masses, there's an 8 in 10 likelihood that you'll need to lean on the government for survival when you cease full-time employment.

The age pension

In case you don't know, the age pension is (emphasis added in italics) …

> … *designed to provide income support to older Australians who need it*
>
> (Department of Social Services, n.d.).

The age pension isn't given to everyone—only those who have so little assets or income that they wouldn't survive without it. Some authors and wealth advisers believe you should do what you can to qualify for a pension because if the government's handing out money, then you should get in line. *I couldn't disagree more*. Your goal should be to not qualify for the pension because you're independently wealthy enough to retire when you want, with the means to self-sufficiently afford the lifestyle you desire.

Sustenance, not supplement

Perhaps you expect the government to look after you in your retirement—that after paying a lifetime of taxes, you're entitled to receive some of it back in the golden years of your life? If so, then what's outlined below might shock you.

The old-age pension (aka age pension) was never designed to be free money in retirement. A more accurate way to view it is as a survival payment for those no longer employable: retirees who have reached career obsolescence but are unable to financially sustain themselves.

This is certainly not written to be a put-down to those who need or rely upon the age pension. However, today's concept of an age pension as an *entitlement* is very much at odds with what was envisaged when it was created: a meagre form of income survival, not an income supplement.

The pension was envisaged as a form of income survival, not as an income supplement.

Beginning in Australia in 1909, the age pension was difficult to qualify for. To receive it, you had to be 65 years old—not an easy feat given the life expectancy of someone born in circa 1844 was 40 or so years (O'Neill, 2020). Who needs retirement savings when you won't live to retire?

Today, the eligibility age for the age pension is somewhere between 65 and 67 years (see the following table) and given we're all living longer (as outlined in the next chapter), it's reasonable to expect that either the amount paid will fall and/or the eligibility age will increase in years to come to match the number of people who can be supported to what's available in the federal government's coffers.

Age pension eligibility age	
Date of birth	**Eligibility age**
Before 1 July 1952	65 years
From 1 July 1952 to 31 December 1953	65 years and 6 months
From 1 January 1954 to 30 June 1955	66 years
From 1 July 1955 to 31 December 1956	66 years and 6 months
From 1 January 1957 onwards	67 years

Source: Department of Social Services, n.d.

Aside from an age limitation, the age pension was (and still is) means tested, limiting those who receive it to people who can prove they have insufficient income and assets to be self-sufficient. The limits in 1909 were not generous by any means, ensuring that only the very poor were eligible. The pension was a flat £26 per annum, and equated to about one-sixth of what a full-time, low-skilled worker earned. Imagine trying to survive on that!

Any wealth creation plan that lists receiving the pension as a long-term goal is surely a poor plan leading to a poor outcome—both metaphorically and literally. How so? Well, today's age pension is a little over one-quarter of what the average person in full-time employment earns, which means it's more generous than in 1909, but it's below the Australian poverty line (Melbourne Institute: Applied Economic & Social Research, 2021).

Any wealth creation plan that lists receiving the pension as a long-term goal is a poor plan leading to a poor outcome.

How does working your whole life to end up living in poverty sound? No thank you. I appreciate the age pension as an emergency backstop, but I'd rather chart a different course. How about you?

A miscalculation of time

I doubt anyone deliberately sets out wanting to live below the poverty line by relying on the age pension for survival in retirement. It just kind of happens. But how? One reason is a miscalculation of available time, a distraction caused by the hubbub and busy-ness of life.

In our younger years we tend to earn less because we're at the beginning of our careers, and pay is low at the bottom of the totem pole. It doesn't matter; with time on our side, we can spend what little we earn in the happy knowledge that we can pay more attention to wealth creation … *tomorrow*.

As our expertise and experience improves, so does our income-earning ability. That's awesome, but we're also starting to spread our wings and flex our independence. It's time to move out of home, so while our pay packets might be bigger, so too are our expenses. That's okay, because we can use debt to buy stuff, and there's still plenty of time to worry about repaying it and creating wealth … *tomorrow*.

Before we know it, our age has a 3 at the front of it and our 20s have come and gone in a flash. With the pace of life seeming to get faster and faster, it's now time to 'grow up', 'settle down' and establish some more permanency in our lives. The three Ms beckon: marriage, mortgage and menagerie (i.e. the pitter-patter of little feet). Heck! How did life get so ex-pen-sive?! Two incomes are helpful, but everything earned, and more besides, goes to keeping the home fires burning. Today's priorities are survival, and sleep! Wealth creation? That can wait until … *tomorrow*.

Oh dear. Our 40th birthday has come and gone, and with the family growing, we need more space. The value of our home has gone up, and lucky for us, our friendly lender is willing to increase our credit limit so we can renovate, extend or trade up to a bigger abode. Then there are the school fees, music and tennis lessons, the annual trip to the in-laws, and so on, and so on. Yep, you guessed it, putting money aside for retirement is a problem we'll tackle … *tomorrow*.

And so it goes, through our 50s and into our 60s when there's always something that seems to get in the way of giving us a clear run at increasing the rate at which we can save and multiply our money. Maybe it's an unexpected redundancy, a dud investment or failed business, an illness or a market downturn. Whatever it is (or was), it wasn't expected and it made the going harder than anticipated, which resulted in less progress than hoped.

Finally the big 'Double-R' day arrives: retirement and reality. As we shake the dust from our shoes and say goodbye to full-time work, we also say farewell to a full-time income. If we're like the majority of retirees, we won't be able to self-fund our desired retirement, and instead will need the support of welfare in the form of an age pension to survive.

The takeaway from this chapter is: if you do what everyone else does, then you'll get what everyone else has, and statistically, that's not enough income or assets to live independently when you stop full-time work. Instead, you'll need government support to help soften the unpleasant reality of permanent financial hardship.

If you don't like the sound of that, then make a new plan while you can and before it's too late.

How much will you need in retirement?

A reason why people don't get around to planning for their retirement is because they don't know how much they'll need. Let's solve that problem, keeping in mind that how much you may *want* and how much you may *need* are two entirely different numbers. In this section you'll find five suggestions. All of them assume you own your home outright.

1. Rule of thumb

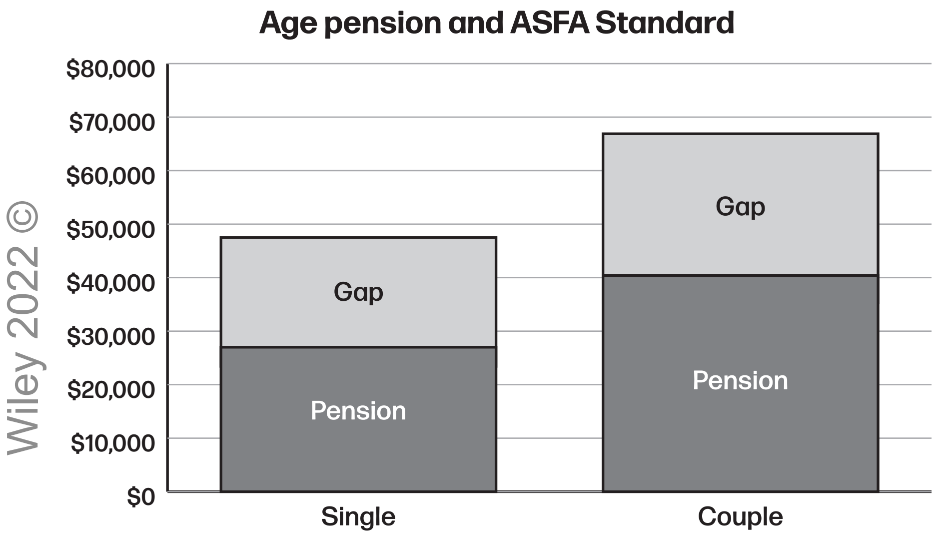
A simple guideline for the amount of income you'll need when you stop full-time work is 80 per cent of what you earned before you retired. This assumes that your living standard equals what you used to earn, scaled back a little because you won't have work expenses. The problem with this approach is that you don't know what your pre-retirement income will be, so it's a bit of a fuzzy number. Still, the following table might help you.

Average working-life taxable income by income percentile			
Income group	**Percentile**	**Gross income**	**80% gross income**
Low-income earners	10	$22,100	$17,680
	20	$36,300	$29,040
	30	$48,000	$38,400
Middle-income earners	40	$58,100	$46,480
	50	$68,400	$54,720
	60	$80,200	$64,160
	70	$94,500	$75,600
High-income earners	80	$112,900	$90,320
	90	$144,900	$115,920

Source: The Treasury – Australian Government, 2020; McKnight.

2. ASFA Standard

The Association of Superannuation Funds of Australia's (ASFA) Retirement Standard is an often-quoted benchmark. It distinguishes between two levels: comfortable and modest. Assuming you want to aim for the more desirable *comfortable*[4] level, ASFA's numbers (for June quarter 2022) are as shown in the diagram and table below, and compared (in the table) to the maximum basic rate of the age pension (Services Australia, 2022).



	ASFA	Age pension	Gap
Single	$47,383	$26,689	$20,694
Couple	$66,725	$40,238	$26,487

A simple explanation of the diagram is that the age pension won't provide enough money for you to live a comfortable life in retirement.

4 Defined as 'accounts for daily essentials, such as groceries, transport and home repairs, as well as private health insurance, a range of exercise and leisure activities and the occasional restaurant meal … an annual domestic trip and an international trip once every seven years'.

And speaking frankly, the ASFA Standard for comfortable—an occasional restaurant meal and international travel every seven years—sounds rather miserly too. It means you'll likely retire with a lower standard of living than you enjoyed while you were employed, and who wants that?

The value of this measure is also questionable, with the Productivity Commission's comprehensive report (Australian Government, 2018) on the state of the superannuation system referring to this standard as '… no more than an arbitrary benchmark that should be ignored in policy making'. Ouch!

3. Super Consumers Australia

I prefer to lean on the work done by the folks at Super Consumers Australia (2022). Their findings contemplate a savings target to support an annual spending at three standards: high, medium and low, and separate the data for singles and couples.

Their numbers, reported in July 2022 and summarised in the tables that follow, assume you will own your own home outright when you retire, or otherwise won't pay rent or a mortgage, and that you will receive the age pension. The difference in the figures is due to expected inflation, among other factors.

Savings targets for pre-retirees (aged 55-59)				
Living Status	**Living Standard**	**Fortnightly Spending**	**Annual Spending**	**Savings target (at age 65)**
Living Alone (By yourself)	Low	$1,308	$34,000	$88,000
	Medium	$1,692	$44,000	$301,000
	High	$2,115	$55,000	$745,000
Living Together (In a couple)	Low	$1,846	$48,000	$111,000
	Medium	$2,462	$64,000	$402,000
	High	$3,115	$81,000	$1,003,000

Savings targets for retirees (aged 65-69)				
Living Status	**Living Standard**	**Fortnightly Spending**	**Annual Spending**	**Savings target**
Living Alone (By yourself)	Low	$1,115	$29,000	$73,000
	Medium	$1,462	$38,000	$258,000
	High	$1,962	$51,000	$743,000
Living Together (In a couple)	Low	$1,615	$42,000	$95,000
	Medium	$2,154	$56,000	$352,000
	High	$2,885	$75,000	$1,021,000

The two age groups are pre-retirees (currently aged 55–59) who are expecting to retire in ten or so year's time, and those on the cusp of retiring now (aged 65–69).

Assuming you want to 'go for gold', you'll want to aim for a high standard of living, which I've highlighted in the table. What's particularly helpful about this data is that it provides savings targets, which will become the amount of income-earning assets you need.

For instance, if you're presently single, aged 57 and were planning on retiring in about 10 years' time, then your fortnightly spending (based on a high standard of living) is estimated to be $2115, your annual spending is $55 000 and you'll need to have saved $745 000, plus you own your home or are otherwise living rent-free.

4. Choose your own adventure

You don't need to be constrained by what others say. Here's a three-step process for coming up with your own number:

1. Nominate your desired annual income, then
2. Divide it by your expected return, to
3. Derive the amount of investment capital you'll need.

Have a go at filling in the following boxes.

Desired Annual Amount		Targeted Annual Return		Required Investment Capital
$	÷	%	=	$

For example, if you wanted an annual income of $60 000 and believed you could achieve an 8 per cent annual return, then you'd need $750 000 ($60 000 ÷ 0.08) of investment capital. That is, $750 000 of investment capital, invested at 8 per cent per annum, will deliver $60 000 per annum in investment income.

Desired Annual Amount		Targeted Annual Return		Required Investment Capital
$60,000	÷	**8%**	=	**$750,000**

How much annual income do you need?

Naturally, that's up to you, but assuming you are about to retire then here's a summary of how much income ASFA and Super Consumers Australia believe you'll need to afford a comfortable / high standard of living:

Living Status	ASFA Retirement Standard	Super Consumers Australia
Living Alone	$47,383	$51,000
Living Together	$66,725	$75,000

What investment return do you need?

What return do you think you can get based on your risk tolerance? At one end of the safety scale you have bank term deposits, and at the other end any number of different high-return, high-risk schemes.

The table that follows might be helpful. The values are based on $10 000 invested in 1991.

Asset class	Investment value in 2021	Per annum returns
US Shares	$217,642	10.8%
Australian Shares	$160,498	9.7%
Australian Listed Property	$118,013	8.6%
International Shares	$107,939	8.3%
Australian Bonds	$75,807	7.0%
Cash	$38,938	4.6%

Source: Vanguard 2021; McKnight.

It's up to you if you want to use before-tax or after-tax rates. I suggest matching them with whether you're using before-tax or after-tax annual income.

Remember that risk and return are related, so that the higher the return, the higher the inherent risk. We'll return to this topic later in the book when I outline how to dial up returns while also dialling down risk.

Remember that risk and return are related, so that the higher the return, the higher the inherent risk.

What investment capital do you need?

The amount of capital you need is the result of your annual income divided by your estimated return. The relationship of the equation means:

- The higher the annual income, the larger your required investment capital.
- The lower the investment return, the larger your required investment capital.
- The larger the required investment capital, the harder it will be.

If you're feeling that the required amount is simply not achievable, then you have these options:

1. Lower your targeted income.
2. Increase your targeted investment return.
3. Conclude that you may not know how to do it right now, but you're open to learning new ideas that could open new doors that turn improbable into entirely possible.

I tend to be a #3 kind of person. I had no idea how I'd buy 130 properties in 3.5 years, but not knowing didn't stop me from setting the target. You're going to have to acquire and apply new knowledge if you want to surpass the results you're capable of achieving based on what you know now.

At the other end of the spectrum there might be a few readers who are surprised to learn that they already have the required amount, but still feel anything other than financially free because their wealth is largely on paper and not deployed in the way needed to release them from their full-time jobs. If that's you, then keep reading: all will be revealed.

Shuffling the boxes

You can also mix up the boxes to calculate the following:

- *Annual income* based on available investment capital and targeted annual return

Available Investment Capital		Targeted Annual Return		Annual Income
$	×	%	=	$

- *Required annual return* based on desired annual income and available investment capital.

Desired Annual Income		Available Investment Capital		Required Annual Return
$	÷	$	=	%

5. Steve's magic number

Finally, we have my number, which is a nice round $100 000 per annum, regardless of whether you're a single or a couple.

Where does this number come from? It's the result of asking 'how much per annum would you like to retire on?' at many seminars, at many venues, in many countries, over many years. It's also a step up on what the other standards recommend, so if you aim for the $100k grand prize and fall a little short, you'll still be in the top bracket of the other benchmarks.

I should point out that $100k is an ambitious target and would place you among the wealthiest retirees based on income. But why not aim high?

Next, because I like to keep things simple, let's assume an 8 per cent after-tax return on your investments. This is a middle-of-the-road, long-term return that you should be able to source with your own research or by engaging the services of a competent financial planner.

The amount of capital you need is calculated using the same formula as outlined in point 4:

Desired Annual Amount		Targeted Annual Return		Required Investment Capital
$100,000	÷	**8%**	=	**$1,250,000**

And there it is … in black and white. Something to aim for: $1 250 000, invested at an average 8 per cent after-tax return, will deliver $100 000 per annum, which will place you among the richest retirees in the country.

$1 250 000, invested at an average 8 per cent after-tax return, will deliver an annual income of $100 000 for the rest of your life.

Game over. Book down. Let's go eat ice-cream.

Phew! We've covered a fair bit, haven't we? Completing this small step is a giant leap for your retirement planning. You might now be wondering whether or not you'll be able to accumulate enough superannuation to achieve your investment capital target, and if not, what you can do about it. They're good questions, and when you're ready, we'll tackle them in the next chapter.

Chapter highlights

- Do you have a plan to be poor? Do you have a plan not to be?
- The hubbub and busy-ness of life forces us to focus more on today than tomorrow. This is causing the majority of people to leave it too late to accumulate enough wealth to afford their pre-retirement lifestyles when their full-time incomes end.
- If you're hoping for a better and brighter financial future than what the majority of retired Aussies experience, then you'll need to chart a different path while you can – and before it's too late.
- The age pension is not an income supplement; it's income sustenance: the equivalent of a permanent old-age dole.
- If the age pension is your only source of retirement income, then you'll be living below the poverty line and are likely to experience extreme financial hardship.
- Because it's means tested, to qualify for the age pension you'll need below average income and/or assets. If that's your long-term plan, it's time to make a better one.
- One of the reasons why people don't plan for retirement is because they don't know how much they'll need.
- The act of setting a goal and engaging your mind to figuring out how it could be achieved is an important step to becoming more financially attractive.
- An ambitious retirement income target to aim for is $100 000 per annum. That's possible if you can save $1 250 000 and invest it at an average return of 8 per cent per annum.

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