# How to grow rich: tips from the experts

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There are five recognised ways to wealth, ranging from being tight with money to borrowing, writes David Potts

The fastest way to get rich is building your own business. But you have to do what you're good at, take risks, work hard and be lucky.

"There are more Ferraris in Victoria registered in industrial Dandenong than Toorak because all the businesses are out there with warehouses and shops, so the Ferrari goes in the company business," the head of investment strategy and consulting at UBS Wealth Management, George Boubouras, says.

"The secret is to understand your own business, he says. "Each story is unique.

"And borrow to invest."

Short of starting your own business, five recognised ways to early wealth range from being tight with your money to borrowing other people's.

When building a portfolio of investments, timing is a critical factor. "The rich don't follow the herd," says Dale Gilham, chief investment analyst at Wealth Within and author of *How to beat the managed funds by 20%*.

"It's the opposite – the herd attempts to follow the rich.

"The research I have done is that those who are not rich tend to move their money into the market before the peak and out of it after the crash."

The fastest way to make big money is to borrow it. There's more to play with and the interest is tax deductible.

"The rich know that to leverage is to increase the potential risk and so understand the law of leaving some on the table," Gilham says.

This is a buffer – preferably cash or an undrawn down portion of a loan – against market volatility and financial shocks.

"Never place yourself in a position where you are forced to sell an asset to pay off debt," he says.

The type of gearing is also critical. Borrowing against equity in the home is the cheapest and least risky way. Margin loans have the risk of a margin call when the market is falling.

Contracts for difference (CFDs) are margin loans on steroids and so can produce staggering returns – or losses – in a short time on a deposit of 5 per cent or less. Foreign exchange trading requires just 1 per cent up front.

Yet day-trading shares or currencies is a hard and mostly unsuccessful way of getting rich. The biggest mistakes are starting with too little capital and over-trading, says Travis McKenzie, head of online trading at Trade With Precision.

"Most people say they want to make $100,000 but only have $5,000 capital. They are trading way outside their limits of what they should be. I try to find a couple of good opportunities a week. You should risk no more than 1 per cent of your account on a trade, and aim for at least a 1 per cent return. That's a risk reward ratio of one for one," says McKenzie, who switched from being a lawyer to a trader.

"Successful day traders have a lot [of capital] in their account or manage other people's money."

Property features at some point in most success stories, either as the means to wealth or preserving it.

"Realistically, the only way you make quick returns in property is through luck or a boom," Mark Bouris, who founded then sold Wizard Mortgage Corporation and is a

successful developer, reveals in his book *Wealth Wizard*.

The closest to a property boom in the next year is likely to be office blocks in Melbourne.

Office values slumped 25 per cent from their peak during the global financial crisis and in 2010 recovered only 5.3 per cent, says Martin Hession, head of property at Australian Unity.

He points to a shortage of new developments, which have a lead time of two or three years, due to a lack of bank funding, as well as a forecast $22 billion pouring in from offshore this year seeking Australian real estate, compared with the usual $9 billion.

"Vacancy rates have fallen dramatically. Melbourne will be the standout performer with values rising 30 per cent in the next two years," he says.

At the same time, house prices are weakening, though Sydney has the best prospects because it has been a laggard.

"Sydney has upside with prices likely to average 6 per cent annually over the next three to four years. For capital growth it will do a bit better [than other cities] over time," says Robert Mellor, managing director of leading property forecaster BIS Shrapnel.

"It hasn't moved much since 2003. Maybe it was 20 per cent over-valued then but it's since fallen in real terms."

But back-to-back interest rate rises this year would pull property prices down 5-10 per cent.

Rents are rising and until first home buyers are back in force, the market is there to be had for investors.

In what may herald a permanent break from the past, units are in more demand than houses.

Among the time-tested rules for buying residential property are that it should be close to public transport, schools, parks or beaches, have few other rentals in the vicinity, and that it meets the area's demographics.

The largest price rises in 2010 were for houses in Melbourne (up 49.7 per cent), and units at Nambucca Heads in northern NSW (up 47.2 per cent), R P Data says.

Capital city properties within 10 kilometres of the CBD are generally regarded as fail proof, and property expert Margaret Lomas says Adelaide offers the best value.

Since the key to property is location, other potentially winning investment opportunities include car parking spaces or your own ATM.

Further afield, property prices have collapsed in the United States, presenting bottom of the market opportunities for investors, but are in a bubble in China and in most of Asia.

"Becoming rich through the sharemarket is not about how much you make on any one investment, it is how much you do not lose. If you lost 50 per cent in the GFC then you need to make 100 per cent to get back where you started. If you lost 10 per cent then you only need to make back 11 per cent to break even," Gilham says.

"Be patient and be open to opportunities as they present themselves."

More immediate opportunities are in blue chip stocks such as the banks and big resource companies, which Gilham says have under-performed the market in the past year.

But longer term, small stocks that survive are the big money makers.

Leading fund manager Geoff Wilson, whose listed WAM Capital specialises in smaller stocks, avoids speculative miners because they are overpriced "and even though every now and then there's a major discovery the odds are against you" while for industrials "we've made a lot of money waiting for a bubble to burst – that's when to get in because you can make 10 to 20 times the money."
Boubouras says one of the best strategies for the next three years is buying global shares without currency hedging.

High risk takers could even borrow cheaply in US dollars to buy global equities and bonds.

He also suggests investing in private equity, directly or through a managed fund.

"Conditions globally are very conducive for further mergers and acquisitions, corporate balance sheets are very sound, conditions remain expansionary, global funding costs are low and equity valuations are not demanding," he says.

And energy stocks such as oil, LNG and thermal coal as well as stocks in alternatives such as uranium, wind and solar, would perform well over time.

Demographic trends are a guide to opportunities. By 2050 it is forecast one in five Australians will be retired, suggesting a long term rise in demand for health and other services.

The rollout of the national broadband network will be an impetus for e-businesses.

Offshore, India trumps China for favourable demographic trends with a bigger middle class and a fast growing young population. Even better could be opportunities in the next rung of emerging economies, headed by Indonesia, which aims to be one of the 10 largest by 2025. "Investing in Indonesian assets early on could prove to be very rewarding," says Tom Stevenson, investment director of Fidelity.

The rich don't pay much tax, which apart from incorporating a company in the Bahamas, leaves a family trust.

Even after the budget crackdown on the taxation of distributions to children under 18, a family trust is unbeatable for income splitting.

Control rests with the trustee over who gets how much and so distributions can be arranged according to the tax rates of family members. "You can build a portfolio, for example, including a holiday home, of assets that will survive generations. And it's good for wealth preservation such as a bankruptcy, which doesn't impact on the trust," says Michael Hutton, a financial adviser at HLB Mann Judd.

Incorporating reduces the top tax rate to 30 per cent but has the disadvantage of missing out on the 50 per cent discount on capital gains for an asset sold after a year.

Concessional tax deductions for superannuation, salary sacrificing for employees or after tax contributions if self-employed, offer the best tax breaks. Splitting super contributions with a spouse will also be a viable tax saving strategy when the $500,000 limit for the $50,000 concessional cap for those over 50 starts in 2012-13.

## Budgeting

When it comes to expenses the rich never pay too much, and preferably not at all. Every dollar saved today and invested will be worth more later.

Advisers say to "pay yourself first" by setting aside 10 per cent of your wage in a separate savings account before budgeting for anything else.

The biggest savings that can be made are on the mortgage. Paying off an 8 per cent home loan is the equivalent of earning 14.5 per cent when on the top rate of tax.

The same goes for paying off credit and store cards. There is no point in having a term deposit earning a taxable 6.5 per cent while paying 12 per cent on a credit card.

"Once the mortgage is under control you can build a lot of wealth by systematically putting away regular amounts of money with or without salary sacrificing into super," Hutton says.
"That gives automatic dollar cost averaging. If the asset rises in value that's fantastic. If it tanks that could also be good because you're buying at cheaper prices."