The Dirty Secrets of the Financial Elite

Ryan J Melton

ISBN: 9781656392213

CONTENTS

ACKNOWLEDGMENTS

This book is testament to the dedication and integrity of the team at Oneplan For Retirement, who continually show me through their actions what it means to provide the gold standard of financial service.

Introduction

Greed, corruption, and manipulation are synonymous with the journey to financial success. A narrative fuelled by the ever-increasing income disparity between the rich and the poor. Where you and I may differ in opinion is that I believe those of us in a lesser financial position still have the opportunity to live a much more rewarding existence than what we currently do. I believe that with the right advice and execution, we can all reach our version of financial freedom.

The intention of this book is to merge the gap by providing you with the psychological tools and financial framework you need to live the life you want. Unlocking the hidden secrets of what constitutes a fulfilling life while at the same time unraveling the mechanisms for achieving it.

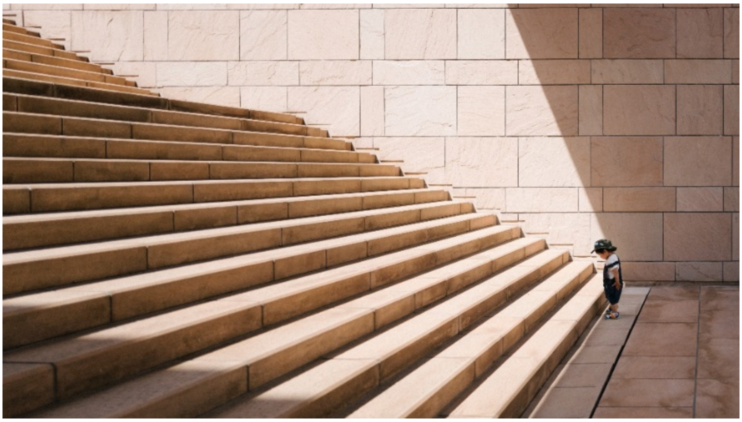
Though admittedly as you start reading this book, you might be thinking: why in the hell should I listen to this kid? You are entirely justified for having this thought, as this is precisely what I would have done in your shoes. Everywhere you look, someone is promising the next get rich quick scheme or is adamant that they have the secret recipe for success, and more often than not, they're just full of shit. So you would be wise to have a bit of skepticism about me and my ideas.

Where I might surprise you is that I am not going to go on a big long rant about why you should listen to me. If anything I want you to challenge my viewpoints and inspire me to be better at what I do, because at the end of the day whether you believe me or not I get immense satisfaction from helping people—provided they're not a tool and listening to them talk isn't like nails on a chalkboard. I am not Jesus; I have my limits. Now that we have that out of the way, you might be wondering what motivated me to write this book.

Well, where it all stemmed from was when I had to study finance to become an Authorised Financial Adviser. The boring content and jargon that came with this study made me want to hit my head against the wall. The other inspiring factor was the complete shock in realising that if the average person implemented the skills I learned during my studies then their lives could be irreversibly changed for the better.

Now some people are muppets, so even if they had this newly found knowledge they would find a way to muck it up. This is nicely summed up by the story of the frog and the scorpion. The scorpion walks up to the frog and asks, "Hey frog, can you help me get across the river?" Frog replies "If I let you on my back, how do I know you won't sting me?" to which the scorpion replies, "Why would I do that when I need you to get across the river?" The frog then reluctantly agrees to the logic in this statement. Though as they swim across the river, pure horror creeps over the features of the frog's face. "Why did you sting me? We'll both die!" to which the scorpion responds, "It's just in my nature."

Where do we begin?



Before you start the journey to financial freedom it is crucial to understand where the money is going to come from. Because let's be honest, no empire has been built from hot air. So that being said, what is your most valuable asset?

Asking this question sounds silly at first, and you might even think it's your house, but in actual fact the most important asset in your life is you and your ability to make an income. Perhaps you already knew that, but how many of us genuinely maintain this asset and work to increase its capital value?

We fuel it with cigarettes, weigh it down with McDonald's, and we accept a job far below our worth. In his book 12 Rules For Life, Jordan Peterson says it best: "Treat yourself like you would someone you are responsible for helping." So many of us pursue a career full of stress and worry in the hope of making a quick dollar without realising that we are contributing to the depreciation in value of our most valuable asset—ourselves!

Before you start rolling your eyes and muttering, "oh, here we go again..." we need to struggle through this first part because whether you want to believe it or not, the social narrative that happiness can be bought is counter-intuitive. Just the fact that you are seeking trinkets for external satisfaction suggests that on some level you do not feel you have enough or, more importantly, feel as though your life is 'lacking'.

So, although I will provide you with the financial tools to live a more rewarding life, I want you to filter them through the values of what truly matters to you. Connection, purpose, and independence—financial and health. Sharing your journey with the people you love, contributing to the world in a meaningful way, and having the burden of dependence lifted from your shoulders.

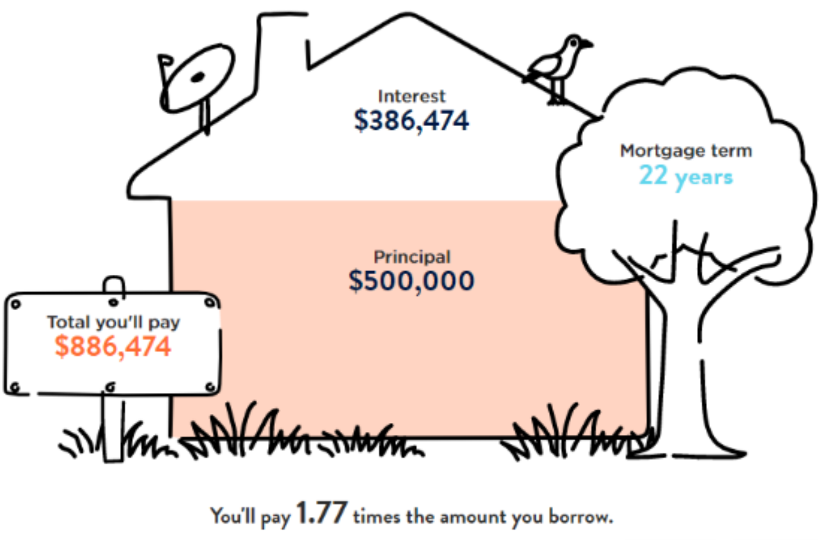
Your values are precisely that: yours. So I can't tell you what you want and what's important to you. Only you know, but just be aware that the veil of your superficial pursuits may have a much more sinister underbelly filled with deep insecurities driving you to fill your inadequacies with paper. A never-ending quest where the only winners are the people who sold you the idea.

Health, self-awareness, love, adventure, compassion, gratitude, and meaning can buy you more joy than any amount of money ever could. So I implore you to look internally before you seek externally. Now that's said, let's start with you.

For any investment strategy or financial advice to be effective, it needs to be relevant. Simple right? You'd think so, but the number of people I have come across who are blindly seeking the highest return without any forethought of what that would mean for them is obscene. For example, you wouldn't get a 10-year term deposit if you were going to need the money in 2 years, right? But that's precisely the investment approach many people have.

Let's take property, for instance. New Zealand's favourite. The average person is unlikely to buy a home in cash so let's say they get a loan of $500,000 at the rate of 6% from the bank.

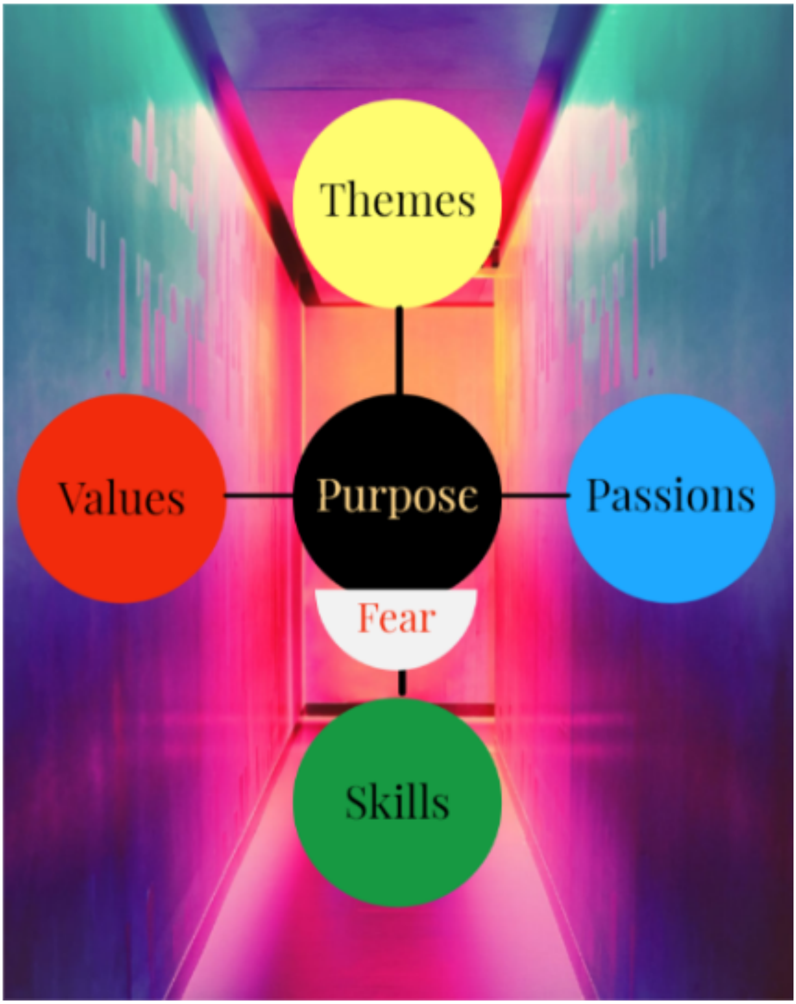
At $600 per week how long will it take to pay the mortgage off?



Source: https://sorted.org.nz/tools/mortgage-calculator

The answer is 22 years, and by that point, you would have paid almost double the price. If your intention was to sell your house at some point and travel then the house resale value and ease of selling are relevant. Often a house in New Zealand will increase in price on average by 5-7% per annum, subject to market fluctuations. You may have to sell when the price is down, effectively losing money—especially when you take into consideration the interest you have paid and the cost of maintenance. So before you even think of investing, start thinking about your goals and the timing of those goals.

GOALS



What constitutes a good goal, and where do you start? Well, the interesting thing about humans is that more often than not, the key drivers that govern a person's life stem from their experiences as a child.

An excellent example of this are UFC fighters and the curious trend of them being bullied as kids. George St-Pierre—arguably one of the greatest cage-fighters ever—shared his experience learning karate to protect himself against a boy who terrorised his childhood.

Sharing the story on Joe Rogan’s podcast, George described how, after becoming the world champion in mixed martial arts, he came face to face with the very man who bullied him as a child. This man was now homeless and asked for some money. Although George had pursued a career in fighting to protect himself from the bully, when faced with the opportunity for revenge he instead showed the man sympathy.

The reason I share this story is to demonstrate that drive will take you to the ball, but it is habit and discipline that’ll make you the prom king. You can sit at home twiddling your thumbs waiting for the motivational bug to bite, but in reality even if you were to get that lucky at some point shit will hit the fan and the only thing that will keep you going is habit and discipline.

If you doubt the influence of your childhood on the career you pursue, then I invite you to try this little experiment. Every time someone tells you that they’re a psychologist respond with “oh so you’re a wounded healer” and watch as the realisation creeps into their thoughts. “How do you mean?” Well, psychologists, more often than not have witnessed hardship themselves or in the ones around them. They have then pursued psychology in the hope of helping others or to learn tangible skills to overcome the gargoyles of their own mind.

That’s not to say seeing a psychologist isn’t immensely valuable; my intention is instead to prod you into looking under the hood and start wondering why you do what you do? This is important because goals can be superficial. You could spend your whole life pursuing a dream that you don't realise is a nightmare until you open your eyes.

So now the question becomes, what is a real goal and how do you find it? Well, an excellent place to start is to take the advice of David Deida in The Way of the Superior Man: “live as though your father is dead.” This is not to say you shouldn't love someone or value their opinion, and it’s not even just about fathers. What it is saying is that you need to live your life without letting the expectations and criticisms of those closest to you influence the choices you make.

My friends and I call this the ‘poison drip’. It is where a person in your life means well but projects their own insecurities and doubt onto you in the hope that if you stagnate then you won't leave them. It is also worth noting that we have a cognitive bias as humans where we seek to reconfirm what we already know; instead of pursuing truth we search for evidence of what we already believe. So it is vital to hear from a credible opinion to keep you firmly rooted in reality as well.

Before you jump down my throat about contradicting myself, let me just say this: when your goal is in the fragile stages then for someone to critique it could be the straw that breaks the camel's back.

So what's my point? First off, start thinking of common trends or passions that have remained consistent throughout your life. Maybe you love contributing to a team, being in control, being active, helping people be better, understanding what makes people tick or pulling things apart to see how they work. Whatever it is it doesn't matter. What we are trying to do here is create a judgement-free space, where instead of confining your goals before they've even been made we start shaping themes that can be applied as filters to decide if your pursuit is meaningful.

This is what irks me about the advice that is given at school:

- What job would you like?
- What do you want to study?

- How much money do you want to make?

Just the act of asking these questions narrows your field of opportunity. Immediately running your own business is wiped from your field of vision. Instead, what I propose is that you seek your passions and Whys before you shape your Whats. Your Whats can change often, but it's your Whys and the pillars of how you see the world that remains relatively constant.

Let's use an example. For me, no matter what time of day it is and what's going on in that moment, I have this unhealthy obsession with understanding why people do what they do and seeing if I can help. Immediately with this filter, you can see that I would be interested in something like psychology, that I want a career involving people where I get the opportunity to ask tough questions, and I want to have the ability to help them.

This is the tip of the iceberg in your journey to self-discovery, and it's not going to be an overnight experience. You're going to have many blind spots so don't ever become utterly rigid in your way of thinking because at any time a realisation could reshape that perception, thus changing your life for the better. What you do need to do is collect as much data on yourself as possible to act as anchors against your protection mechanisms.

Be mindful that your brain will, at times, hinder you in your ability to seek truth because it holds survival as higher priority than your happiness. The reason for this is that throughout your life it has built a strategy for survival. That strategy may include deliberately sabotaging your goals to maintain your perception of low self-worth.

It may encourage you to put on a persona because if you were yourself maybe people wouldn't love you in the same way your mother didn't. Whatever traumatic experience or lesson you learned as a child your brain has documented it in your emotional guide to survival and at any stage it will implement its learnings. Especially when you're under the threat of change, because then it perceives the deviation from its guide as a threat to your existence.

Don't believe me? Do a self-test when someone asks you to do something you have never done before and that goes against what you usually do. Take note of the emotional tools your brain uses to impede this pursuit and the supposed logic/rationalisations it mounts up to further impede this change.

It's a never ending winter of self-doubt and self-destruction where the only way out is through the shining light of your objective truths. Truths based on data, self-journals, perceptive friends that know you well, repetitive themes independent of the situation, and a professional's well thought out opinion. But above all else, the best indicator that you are close to your escape is a feeling of discomfort—that old saying, the truth hurts. Feel it then do it anyway.

When your actions deviate towards the path of least emotional resistance then more often than not, you're rationalising your way out of what you truly want. So use your emotions as your true north and ask yourself, would you be living the life you are now if you weren't afraid to take a chance?

If the answer is yes, then congratulations, you can skip to the end of this chapter. If the answer is no, then this is what you need to do: break down your Why into four categories—themes, values, passions and skills. Themes, as you have already learnt, are the things you often find yourself doing out of joy and are the filters which you should examine your goals through e.g. my obsession with understanding why people do what they do.

Secondly, values are the standards to which you hold yourself and the world. They are the rigid framework that keeps you together when things get tough. Because if you don't steady your confidence with the strength of your values, you'll be a leaf in the wind, guided by the breeze of opinion with no control over your destination.

Now, finding your passions is not so easy. This is the What that has a tendency to change over time. All I can say to this is treat it as though you are a young child experimenting with a new toy. Go in with an open mind, try lots of different things and eventually, the themes which you filter your goals through will start piecing together a clearer understanding of what you enjoy. Trial and error. Then it becomes a simple matter of maximising the positives and minimising the negatives.

The last filter is that of your own personal skills. No matter how much you want something, if you suck then you suck that's ok just do it for fun instead of a profession. Once again the tricky part is that the fear could be clouding your interpretation of those skills.

You may, for instance, be an exceptional artist with crippling doubt, meaning no one becomes aware of your talent until you pass away. So once again collect data. Do you actually suck? Will you always suck? Or do you just suck at thinking you don't suck?

Vision

You've done the hard part. You've collected the data, challenged your beliefs, and formulated a deeper understanding of what matters most. We have highlighted the filters through which you see the world and can now explore the best avenues of which to enjoy it. What I am talking about is your vision. Where do you see yourself in two, five, ten or even 20 years?

This can be anything from career, personal, health, or where you want to live. Maybe your only vision is to have five men walking around in mankinis carrying puppies while you catch some rays outside your condo by the beach. Whatever it might be, this is the time to be completely free and outrageous. The first person who had the vision of building a magic box that you can watch people on would have seemed utterly nuts at the time, but it happened. Someone made this magic box and called it the television.

One of the greatest motivational speakers of our time, Tony Robbins, recommends the book Psycho-Cybernetics, and its idea that "your nervous system cannot tell the difference between an imagined experience and a 'real' experience." Maybe you think this is a bit "woo-woo", and you're probably thinking "gosh who is this fruit loop…" and I don't blame you.

So what you are saying is that if you vividly imagine something your nervous system will react as though it is real? Well, I wouldn't go that far, but there appears to be merit in the use of visualisations. A person afraid of public speaking, visualising the emotions and experience of doing it, has less fear when it's time to speak. A golfer visualises hitting the ball on the green, and his body moves in unison to achieve it. An adult watches a horror movie knowing full well it's not real but reacts in fear as though it is. The list goes on, and I am not trying to say I agree with it wholeheartedly, but it definitely helps. So what I want you to do is to go to your favourite little thinking spot. Clear your mind. Get comfortable.

The four pillars I want you to use as a focal point for your mind are what you call home, connection, purpose, and independence. This is to merely act as a guide as it is a deeply personal experience. What I value and what you value are two completely different things. You may love the creativity of cooking, whereas I just love eating. To help you though it's vital that I explain a little bit about why I chose these four and what I mean by them.

Firstly, why did I choose these four? Well, I had the good fortune of spending thousands of hours with the elderly. There's something to be said about accepting your own mortality and the feeling of contentment that follows, but that's a story for another day. What I asked them in my meetings were, what do you value most in life and why?

After posing this question to hundreds of people, I soon discovered a trend. They usually wanted three things albeit with many different names. For example, spending time with their grandchildren was really saying they wanted connection, volunteering at the salvation army was contributing to the world or in other words having a purpose, and finally wanting good health so they don't burden their children is really independence.

The reason I add a home to the mix is that in my work as a Financial Adviser understanding where you want to live and how you want to live is essential in making a robust financial plan. So forgive me for temporarily adding a bit of tangible to the "woo-woo" stage. I can't keep it up for too long, so let's go deeper.

What do I mean by connection? What you may have started to realise is that humans are social animals. Being alone indefinitely isn't all that fun. But you could live in a forest and still not feel alone because connection isn't limited to just humans. If you want to be the crazy cat lady with ten cats living in a treehouse, then so be it. You've still ticked the connection box. Whoever or whatever you connect with, include it in your vision.

How many kids do you want? What type of people do you want in your life? What would you do together? How would you like them to treat you? All things related to connecting and being social bring to the forefront of your mind. Go into detail. Imagine how you would feel in that moment using all your senses. Stay at this point for as long as it takes because remember the more vivid it appears the closer to reality it becomes.

Secondly, open the thought web of what gives your life purpose. Do you want to feel valued? Do you want to help others or the environment? Do you want to be in control? Do you want to earn the respect of your peers? Whatever aspects in your life where you feel joy in the "act of doing" not just the result then start visualising it.

It could be kayaking on weekends with your son, building a business, mentoring people less fortunate than you, inventing something for the betterment of the planet or even just learning how to swim. This is the part where the expectation of others rears its ugly head because throughout your life you've been sold the idea that you need to fit into a little box.

The story that we have been sold is that success is having the money and prestige to buy things you don't need in the hope to impress people you don't like. But if you want to juggle for a living, then fuck it. Fuck what your mum wanted, your dad wanted and what your teacher thought you were capable of. This is about you and what you want to do.

Finally and most importantly, what does independence mean to you? The idea is to build a platform to protect you against the obstacles in life. For example, what would you perceive as financial freedom? Being able to order a large combo without worrying about money? Having the freedom to travel where you want? Or is it as simple as having a roof over your head and food in your belly? This is the part where we start bringing your vision into reality. Helping you shape the base independence needed for you to feel comfortable pursuing what you want in life. Don't forget to include health in this, because you could be a billionaire sleeping in your private jet but if you don't have the health to enjoy it then what do you really have? As Johnny Cash said "you can have it all, my empire of dirt."

And before we slip too far into the obscure, let's revisit the point of what constitutes a home. For you, does home mean a feeling of community, having your own space or feeling safe? Where do you want to live? Do want to have a guest bedroom so friends and family can stay with you? Do you only want to rent so at any time you can just fly off into the sunset with no responsibility? No matter what vision you may create from this pillar, I want you to go in-depth. Obsessively paint the picture. Think of the welcome mat, the curtains, what it feels like when you come home, the smell and the sensation of walking through this space. The reason this is so important is the brain works kind of like a radar in the sense that when you define something as physically and emotionally relevant, it pops up in your field of vision.

Kind of like that feeling you had after you first decided you were going to buy a certain car. You would see that very same car at the grocery store, on TV, and on the road.

This is not to say that sitting at home stuffing potato chips into your mouth while imagining your Prince/ Princess Charming will cause them to somehow be manifested into your life. Instead what it will do is open your eyes to the opportunities around you.

It's about dialling your radar to the frequency of what you are trying to find. This is not an exact science, but I can guarantee hide and seek is a whole lot harder when you don't know what you are looking for.

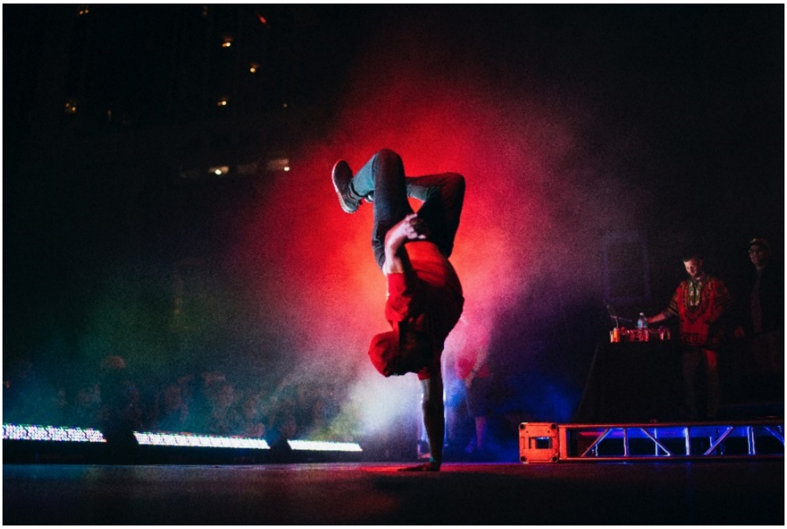
Home

Purpose

Independence

Connection

BREAK IT DOWN



You've completed the airy fairy stuff—now what? This is the part where I bring you crashing back to reality. No matter how obscure or irrational the picture you have painted, it's time now to make it into something real. You might even start regretting the future you created at this point. That's ok, don't give up hope yet.

Even if your vision is to live on Mars, there will be a way for you to position yourself so that if the opportunity were to arise, you could be one of the first picks. If you did the previous steps right, you'll get the same level of satisfaction from working towards your goal as you would from achieving it. To break this down, you can use any one of the famous acronyms: SMART, FAST or CLEAR. Specific, Measurable, Attainable Relevant and Time-based. Frequently discussed, Ambitious, Specific and Transparent. Collaborative, Limited, Emotional, Appreciable and Refinable.

We won't dwell on the specifics of these methods because any old yobo can google how to create goals. The gist is it has to be rooted in reality, broken down, tracked, and timed. Adding a time frame to your goal and making it ambitious is essential. This is because of something called Parkinson's Law where "work expands so as to fill the time available for its completion."

We all know that feeling of putting off an assignment until it is almost due, then somehow completing weeks of work in a few days. So if you root your strategy in reality and sprinkle a bit of ambitious timing, then you may surprise yourself with what is possible.

Now that I've managed to keep the publishers happy by upping the word count, let's talk about where I think most people come unstuck.

The first obstacle to your success is paralysis by analysis. The need for everything to be perfect, all your ducks in a row, before you can start. "When I get a promotion then I will have enough money to…" "If I only had more time then I would…" "If I had this then I could…" "Once I know everything, then I will…" The antidote to this crippling resistance is to start small and start now while minimising the cost of failure.

The reason I say the second part is I don't want you to be silly e.g. jumping into something with no forethought and it leading to your financial ruin. Instead, start small and get some wins to build momentum and boost your confidence. Because more often than not, the perfectionist types are the most self-critical and self-doubting.

Then surprisingly when you focus on the baby steps towards summiting your Everest, by the time you think to look up, you have already made it halfway.

The other time I see people come unstuck is when they don't fit their plan to their archetype. What I mean by this is there is no one-size-fits-all. I personally hate pressure and targets. I find talking to people incredibly scary and intimidating, so any stress stacked on top of this leads to less than desirable results. It always miffs me that managers use industrial targets, pressure, and an iron fist in jobs which at their core are creative and light. There is nothing worse than being put on the spot to answer a question as the social pressure and looming cloud of doubt shrouds your ability to think.

Sure, when we were in the industrial age where numbers and the bottom line were king, then you could get away with this style of leadership: Make me these 100 bricks in this time and you'll get a bonus. But now with change being the only constant in a world of rapidly advancing technology, the most valuable commodity your worker has is the ability to innovate, solve problems and think for themselves.

That being said though, some of you masochists out there only respond to a verbal caning. This might seem harsh, but once again, it's a reflection of a person's themes where the only way to earn their respect is to challenge them. So it may seem counter-intuitive, but in actual fact, you're being cruel to be kind as that's the communication style that resonates with them.

Another common archetype is that of someone who only works hard in the light. This type of person needs accountability and to be around others to stay on target. If this is you, the best course of action is pivoting the power of social pressure by running around telling everyone what you are going to do and keeping them updated as you do it. The opposite of this type of person is someone that embodies the phrase "throwing your frisbee over the fence." By this, I mean that the good feelings they get from telling everyone their goal actually acts as a de-motivator. They've thrown the frisbee over the fence, they don't need to go get it because it feels as though they already have it.

On top of that, there is an endless list of different ways to motivate people. But the most critical part of this segment is that you make a conscious decision on who you might be and if you managed yourself, what the best style would be to get the outcome you want.

So now that you have improved your self-awareness and painted your vision, we will need to shape your financial goals into relevant timeframes for an investment strategy. These time frames relate to the volatility and liquidity of each asset class. I'll discuss that more in-depth in the coming chapters, for now though I want to fit your goals into these three timeframes:

- Short-term (the next 12 months)
- Medium-term (the next two to five years)
- Long-term (over five years)

Just the fact that you have taken the time to shape your vision, values, and goals will put you ahead of most people. We will accelerate this lead in the next chapters of the book, where I will provide you with tangible investment advice for achieving the lifestyle of your choice.

The building blocks to a better life

If there's anything I have learnt in this industry it's that people are living longer and spending more. You may feel that the woes of your life stem from a lack of income, but I'll put money on a more budget-conscious person who earns less being a more effective saver in your situation than you are. I don't say this to have a go at you. There are definitely people in financial hardship who do need more money, but the average person's lack of savings is more behavioural than circumstantial. We spend to our income and confuse wants with needs.

This is the one time where you might have sympathy for the financial elite: when their income suddenly dries up in retirement, the lifestyle shift when they go to just being on a pension is a significant hardship. To scare you even more, without an income-generating asset in retirement, the purchasing power of your money is going down close to two percent each year.

So in other words, in 36 years your $100k will only buy $50k worth of stuff. If that's not scary enough, right now as I write this book, the average couple in retirement in New Zealand gets $633 after tax each week. Not each, in total. Further to this point, the age demographics of the world are immensely over-weighted with old to young.

Hospitals, retirement villages, rest homes and aged care facilities are either outside the price range of the average New Zealander or are already on the brink of capacity with the problem only compounding. If you're confident that our government can not only fund your lifestyle but also the services you need when you need them, then you are a much more optimistic person than I. If so then I really hope you are right, but for now, let's plan in case you aren't.

This rant was to act as motivation, because change isn't easy. Historically significant changes only happen when the cost of change is less than the pain of remaining the same. The analogy of the barking dog is a good demonstration of this. Every day the dog sits in his favourite chair. One day a nail appears in the chair.

The chair is now uncomfortable, and he howls in complaint often, but he doesn't change his routine. Until one day, the pain is so immense that the fear he had of changing was no longer greater than the pain of remaining the same. This, for most people, is what we call rock bottom. An addict's destructive lifestyle is maintained until they experience something so horrible that the challenge of quitting is the more comfortable choice. Obviously, there are many other ways to change too.

One, you can change the environment you are in. This works because we adopt the characteristics of those closest to us. This was demonstrated by an experiment done with rats. The rats had the opportunity to consume a drug-dosed drink or just regular water. The rats that were put in a stressful, lonely environment turned to the drug-laced liquid as a means of coping. Then the same addicted rats were put into a 'rat utopia.' They had things to do, mates to hang with, and were not as stressed, so what do you know? They started drinking normal water instead of getting drugged up.

If you don't believe hanging out with your close-minded drop-kick mates isn't impairing your success, then I have news for you. The hardest thing to do is to believe in yourself when no one else does. There were pivotal moments in my life where if the right person didn't say the right thing at the right time, I wouldn't be in the position I am now. So if anything, this should lead to you sympathising with people who have much less than you as it may not be a conscious choice by them but instead the result of the environment in which they were raised. This isn't a get-out-of-jail-free card for all those who have had horrible things happen to them. Instead, it's to open your eyes to the life you're giving up for the sake of a toxic connection.

The point of all this is to show that there is a big, looming threat and it's called retirement. And no matter how deep you put your head in the sand, the waves are still going to hit. So front up, chin up, and let's get work.

The first thing we need to acknowledge is that this new journey isn't going to be much fun at the start. You will resist it, you will fight it, and you will fuck up from time to time, but the most important thing to remember is why you are doing it.

One of the most sobering yet enlightening books I have ever read is Man's Search For Meaning by Viktor Frankl. Viktor a very perceptive psychiatrist who wrote his personal observations of what it was like to be in a Nazi concentration camp in WW2. An incredibly inhumane experience that no man or women should ever have to endure but he did. And you know what he said?

"A man who becomes conscious of the responsibility he bears toward a human being who affectionately waits for him, or to an unfinished work, will never be able to throw away his life. He knows the 'why' for his existence, and will be able to bear almost any 'how.'"

Your own experiences and challenges, whatever they may be, can be faced and conquered. You may not be able to control what happens to you, but you can control what you do about it.

To further hit this point home, I once had the good fortune of meeting one of the world's gentlest souls. She, on the surface, was a very kind, gentle, and determined woman, but her story revealed a different tale underneath. Her mother was an abusive and conniving woman that would padlock the cupboards. She was only allowed to eat on the days her mother perceived her as 'well behaved.' Fortunately, despite the belittling nature of her mother, her father was the guiding light that kept her sane.

Then one night, frustrated with the hunger, she snuck out to get her first meal in a long time. When her father realised his little girl had snuck out, he went into a fit of rage and beat her to within an inch of her life. Having lost the rock she had relied on for all those years, she left home at age 16 and attempted to try and fend for herself. As time went on and with no real way to make an income, she turned to prostitution as a means of survival. Sacrificing her emotional wellbeing to keep a roof over her head.

Then just when she felt like her life was getting back on track, something horrible happened. She was raped. An act so terrible that it forced her to start using the only tool that she felt she was in control of, her eating. That journey carried her into adulthood, where she became one part anorexic and two parts bulimic further incentivised by a career as a stripper.

That career enabled her to travel the world with friends she called family and have a life most would only dream of. Then one night, as she made her way home from work, a man approached from behind. Despite her screams for help and attempts to fight him off, once again the darkest side of humanity was forced upon her. A level of spiritual suffering that no human should ever endure.

A career of seeing the worst side of men, a childhood of depraved cruelty and an identity built on the mistrust of people, what could she do but hate the world? This though, was something she couldn't do. Sure, with everything that happened to her, she could have crawled up into a little ball and just given up. No one would judge her. No one would say, "Hey, suck it up; it's not that bad." She would be completely justified to give up on the world. To say it is all too hard.

Sure, she could have done all those things, but what she chose to do instead was to use her experiences to help others. Despite not being in school for many years, she took up the reins of her life and pursued a career as a therapist. She overcame her eating disorder, she left her job as a stripper and she surrounded herself with only the best kind of people.

While these experiences are terrible beyond measure, what they gave her was a very powerful skill. A skill called empathy. For if you can show someone you understand and that you've been there, then what you are to them is hope. Not only can you walk with them through the shadows of their darkest points, but you are able to drag them into the light. An ability you might never have been able to develop if you hadn't lived through the traumatic experiences of your existence.

The other opportunity these pivotal moments in life give you is the ability to change. You may feel completely lost right now and unable to see a way out, but if you can survive the next day then what you have is motivation. If the pain is so immense that the thought of existing is far worse than anything you could ever do, then why not use this very moment to become something you never felt possible because it was never 'the right time.' You were crippled by your safe and secure life, but now that everything you thought mattered is gone, you can start pursuing something that does. Chase a dream that means something or, as Viktor would say, something worth suffering for.

Now, this is an immensely tough story to share and for you to read. My goal is to not make you feel bad or trivialise anything you may be going through but instead show you that there is hope. That you do have control and that although the world can be incredibly cruel, you still have a choice. So let's dust off all your mistakes, all your fears, and start shaping a vision you only thought possible in your dreams.

The first step in this journey is cutting out the things that cost you emotionally, financially, and spiritually. It could be someone you call a 'friend,' something you waste money on but don't really need or a vice you continuously say you will quit 'tomorrow.' I can't speak to the emotional or spiritual aspects of your psyche without knowing you, but what I can do is give you the financial tools to protect you from feeling as though you have to do something to survive.

Just like the prior segments, we need to start with data. Where is all your money going? Many of the major banks in New Zealand offer a way to track your spending habits since it is in their best interest for you to save more. Alternatively, you can find budgeting apps online that will do what you need, or you can use the following as a guide:

Essential Fixed Expenses	Annual $
Hire Purchase Repayments	
Insurance – Disability	
– Home and Contents	
– Income Protection	
– Life	
– Medical Insurance	
– Motor Vehicle(s)	
Motor Vehicle WOF/Registration	
Other Loan Repayments	
Rates/Water	
Rent/Home Mortgage Payments	
School Fees	
Total Essential Fixed Expenses	
Essential Variable Expenses	

Accountant/Solicitor Fees	
Bank Fees	
Chemist	
Doctor/Dentist	
Gas/Electricity	
Groceries	
Fuel	
Repairs to Car	
Repairs to Home and Appliances	
School Books/Uniforms	
Telephone/Tolls/Mobile	
Transport/Parking	
Total Essential Variable Expenses	
Discretionary Expenses	
Alcohol/Cigarettes	
Books/Subscriptions	
Children's Pocket Money	
Gifts	
Charity	
Clothes	
Entertainment	
Garden/Lawn/Rubbish Removal	
Hairdresser	
Holidays	

Miscellaneous	
Pets	
Savings	
Sports/Hobbies/Clubs & Societies	
Total Discretionary Expenses	

Grand Total	

Although this may cause a domestic and start a blame game, the importance is that purely from the fact that you have become aware of where your money is going, you now have the opportunity to direct it. As you dig deeper you'll be surprised how much of your spending you discover is on things you don't need or even like that much.

The objective of all this is nothing crazy. All I need you to do is save 10% of your gross income. By gross, I mean your income before tax i.e. if you earn $60,000 a year, then I want you to save $6,000.

Depending on what stage of life you are in or your objectives, by all means you can save more. The intention, as I said, is that the smaller the change, the less the resistance. Start small and start now. This percentage is a starting point and also a good life philosophy, for as my business associate Greg Moyle would say, “life is too short to not enjoy good wine.” What he means is that not only do you need to prepare for tomorrow, but you should also enjoy today.

So now that you’ve done the numbers and realised where you are spending too much, let’s make the change. To go about doing that we need to make the benefit of saving emotionally relevant. For every one dollar you save you are contributing towards a reward or specific goal. How you go about documenting this is up to you, but at the very least, just start. When doing this it is vital that you include rewards along the way—not just the end goal. It could be as simple as this: if you save a certain amount this month then you can go to a really nice restaurant with someone you care about.

The whole point of this exercise is to train your brain like Pavlov’s dogs with the intention to associate your sacrifice with reward. This is what we call Classic Conditioning, where you associate a neutral stimulus (saving) with a potent stimulus (food). What Pavlov did with his dogs was ring a bell every time he gave it food. Then after some time the dogs would salivate at the sound of a bell due to the newfound association.

I'm not trying to have you start salivating and barking when you’re trying to shmooze the opposite sex, what I’m trying to get you to do is make your saving emotionally relevant and thus valuable. For example, you choosing to buy one bottle of wine instead of two means you can drink three bottles of wine in the Maldives next year.

The second thing we need to do is create an environment that supports you and keeps you accountable. You may already have the good fortune of being part of a community like that, but if not, you can seek it out. Once again, you need to know what you're looking for. It could be finding someone with the attributes you lack or someone you aspire to be.

On the surface this may seem hard, but these days with the accessibility of the internet you're able to connect with just a click. It could be from going to Meetup groups, using Eventbrite to find events your target demographic would go to, or reaching out to your existing social circle to find your person. You'd be surprised how easy it is to find these people provided you seek to add value to them instead of leaching it. Value doesn't need to be financial remember; it could be as simple as listening intently.

Alternatively, I think the most under-utilised benefit of social media is accountability. You do this by telling everyone your goal on Instagram, LinkedIn, or Facebook, and document your journey honestly—including both negatives and positives. Firstly you'll inspire people to come on the journey with you and secondly they'll encourage you along the way.

As much as we like to think we're wolves and not sheep, the reality is that we are the sum of both our personal characteristics and our environment. Kurt Lewin, the modern pioneer of psychology, would say B = f(P, E) i.e. behaviour is a function of the person and his or her environment.

Further to that point, I found over the years with my work in commission-only selling and management the number one thing that defined whether people would quit or not was what they went home to at the end of the day. So the first thing I would teach, as a manager, was how to sell the career to their partner. A big part of this is helping them be a part of your vision. This inclusion and joint accountability is an incredible tool. Although you may have differing opinions on what your vision is, if you can find common ground then it's as they say: a problem shared is a problem halved.

The other thing to be aware of is that they want you to be happy, so if you tell them every day how shitty this saving thing is or if you are always irritable/angry at them, then what you are doing is conditioning them to not to be supportive. This is not to say that you can't vent and share your concerns, just be aware of the possible negative implications of oversharing. So in these instances, when your ideas aren't fully formed or you're overly emotional, then take some time to reflect before unloading onto your significant other. Another option is to talk to different friends in an attempt to distribute the stimulus of negativity, so the consequences are managed.

So now that we know how to manage your motivations and control your environment, we need to improve your habits. Whatever your goal is, we need a way for you to take contributive actions towards it every day. It is a lot easier to do small things every day than it is to do challenging things once a month. Once again, it's your brain's propensity to resist change that we need to avoid. By doing something every day that leads to your goal, it soon moulds into the framework which you can use when things get tough. Your psyche attempts to reinforce the habit against the sudden obstacle as you have developed a steady routine that it has associated with survival. Your change has now become your 'norm.'

How I personally do this is after all my essential expenditure requirements (food, rent, transport etc.) have been paid, I withdraw $100 cash for entertainment or whatever I feel like doing that week. If I spend $140 this week, then next week it's $60. What this does is creates a habit where no matter how much my income increases I still feel comfortable just spending $100. The good thing about this as well is that if suddenly you want to spend a lot of money on something like a watch, then you can do it without stress due to the buffer this habit has created. This doesn't need to be a habit you mirror, but I would recommend having a routine for tracking your goals or spending.

The last piece of the saving puzzle is willpower. Willpower is a finite resource that can be improved. You improve it in the same way that you strengthen muscle—by a willpower workout of sorts. Challenge yourself to do something when you feel too tired. Create a habit of doing things that are hard but rewarding. Over time when you feel the need to buy something you don't need or try to resist doing something you should do, then what you have now is the strength to do what's right.

Another interesting thing is that people usually have the most willpower at the start of the day. All the night owls out there may attest to not feeling motivated in the morning, but if you get in the habit of doing the hardest and most important things first, the rest of the day is a breeze.

Motivation **Community**

Habit **Willpower**

THE FILTERS TO FINDING FINANCIAL RICHES

You've put in the hard yards and you're now saving towards a goal. When I told you to group those goals into specific time frames from short to long, you might have wondered why. This is where the why starts coming together because it is time to start talking investment.

The three most common ways of investing have been the same for hundreds of years. Buy land, own a business or loan money. You may start getting confused at this point on why loaning money is a common investment strategy. Well if you haven't realised already, when you put money in the bank, you are effectively loaning it to them for a price (interest). What most people aren't aware of is that when you loan the bank money, more often than not you only break even or actually lose money. This is where you start telling me about your term deposit, earning three percent and calling bullshit on what I just said. But if you break it down after tax and inflation, the return ends up being around -1% to 1%. Not convinced? Let's do the calculation for a tax rate of 30%, an interest rate of 3% and an inflation rate of 2%—the result is as follows:

3% x 0.7 = 2.1% return after tax
2.1% – 2% = 0.1% return after inflation & tax

This is what we call in the financial industry the real return (after tax, fees and inflation). What you 'really' get, because the biggest enemy to your financial wellbeing is the increasing cost of living or, in other words, inflation.

Historically in New Zealand from 1926 to now, inflation has averaged close to 4.5%. That includes periods of extreme hyperinflation in the eighties and the periods of low inflation that are occurring now. Before you start falling asleep, this is an important point. To really hammer it home, let's use a famously simple equation to scare any dedicated saver. It's called the Rule of 72. It's a way for you to calculate the number of years it will take for your money to either halve in value or double with compounding interest. For example, how many years it would take for your mortgage to double if you didn't contribute to it at all. What you do is simply divide 72 by the return/interest rate.

So if your mortgage is 6% then the equation would look like this:

$$\frac{72}{6\%} = 12 \text{ years}$$

Meaning if you let your mortgage compound and don't contribute to it, then in 12 years it will go from $500k to $1million. This tells us two things. One: the first step of any financial plan should be to pay off debt. Two: have an investment that outpaces inflation, which effectively means getting a return greater than 2% after tax and fees.

Before we go too deep into the nitty-gritty of investing, we need to create the filters through which we look at opportunities, so let's begin.

Risk vs Return

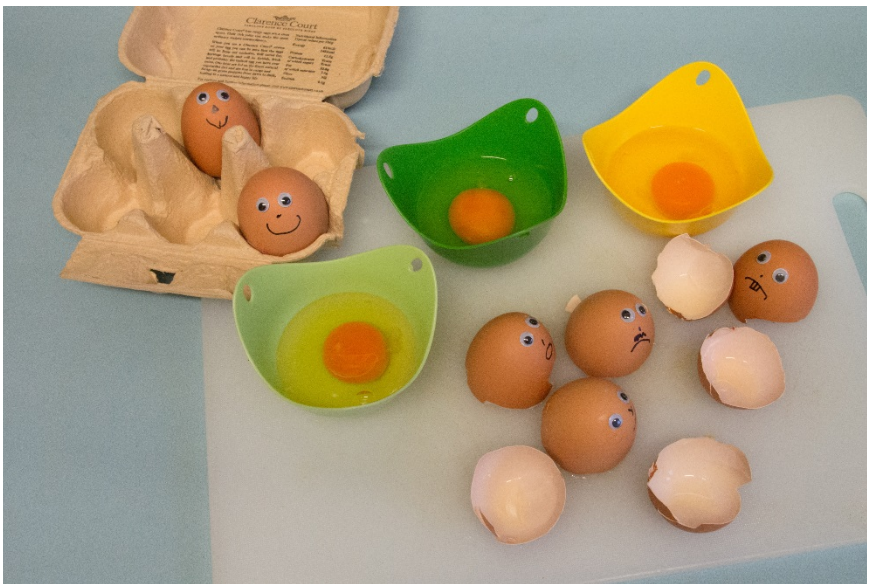
In investing, there are very few tried and true rules you can rely on relatively consistently. Although nothing is an exact science, this is a good rule to have as a foundation: risk and return have a strong correlation with each other.

If something sounds too good to be true, it probably isn't. The strange thing is most people's go-to question with investing is 'how much of a return can you get me?' Which, if asked differently, would be; how much risk can you give me? When investing is done right, the risk is merely volatility i.e. ups and downs. Though when done incorrectly, the risk is that you could lose all your money. We have all heard enough stories of this to be incredibly weary if not fearful of taking that investment leap. Which flows nicely to my next point.

Don't lose money

This sounds really silly even as I type it. The idea of this filter is that we do not want to put ourselves in the position where we could lose money. This includes outpacing inflation, not putting all our eggs in one basket and not selling when the market is down. You will hear all too often of speculative investors telling you about the quick fortune that they have recently made, but very rarely do they share their losses with you. When you add up all the money they've lost and the potential returns they've missed out on due to that loss, it starts to paint a very different picture.

Diversify



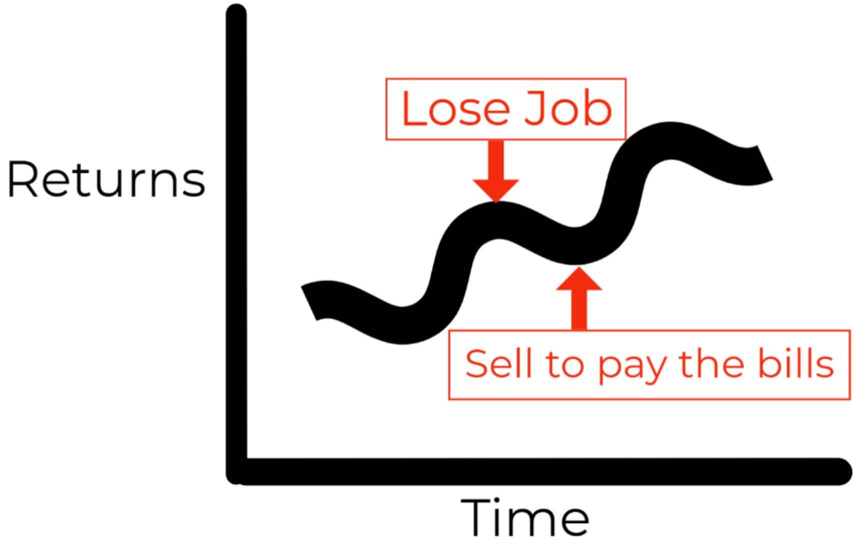
The same rule that your parents drilled into you as a child has relevance to you now: don't keep all your eggs in one basket. Sounds simple but even smart people who know this rule often make that very mistake.

Owning lots of different shares with a strong correlation (i.e companies all in the same industry) and calling it ‘diversified’ is alright on paper, but in reality not so much. Sure you own shares in hundreds of companies, but if the sector goes then so does your money.

Is it sellable?

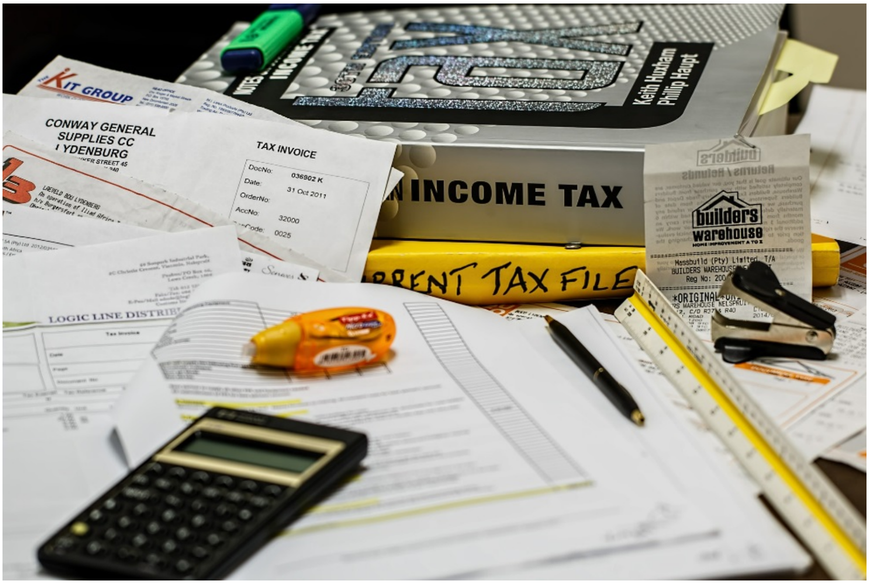
Once again it sounds pretty simple, but the implementation for most is lacking. The financial types would call this ‘liquidity.’ In other words, is there a demand for what you own and how quickly can you sell it? What this shows is that the value of your asset is not necessarily what it says on paper but what others will actually pay for it. If you own shares in a company with no buying or selling market, then the likelihood of someone buying your shares is much lower, and potentially, the value could be zero if no one buys it. So what is your investment really worth?

Is it flexible?



This is the part of investing that is often overlooked. The one thing we know about the future is that we can never have complete certainty over what will happen. So even if you have a great investment strategy, if it's not flexible and able to adapt to your changing circumstances, then you could lose out. By this, I mean over the long-term you may be on track to do well, but then something happens where you need money, so are forced to sell when the market is down. This is what we call 'crystallising your loss,' because the gain or loss in your investment strategy is only realised at the point of sale.

Is it tax efficient?



This is a subtle but important point. Often we get so caught up on points like returns and fees we neglect to think of the tax implications of our investments. For one, in New Zealand we don't have a capital gains tax. That means if the value of your investment increases, the government won't class it as income—so it's tax free.

On top of that, we have here in New Zealand groups labelled as Portfolio Investment Entities, more commonly known as PIE funds. These funds provide you with the opportunity to pay less tax than what you would on your income from your business or job. It is called your Prescribed Investor Rate, with the options being either a rate of 0%, 10.5%, 17.5% or 28%.

You'll start to notice already that if your Pay As You Earn rate (PAYE) or Resident Withholding Tax (RWT) on your income is upwards of 30% then effectively the 28% option saves you money. I won't go too far into this as it even puts me to sleep, but it is important to be conscious of when making an investment decision.

If it doesn't make sense, then don't give it your cents

I am not an advocate for direct investment i.e. buying shares in just one company, as it is too prone to human error and has a higher probability of failure than success. If you were to do it though, I see it as a bit like being one of the top athletes in the world in a chosen field. This is because you are competing against all the perceptions of the smartest people around the globe and saying you know something they don't. In other words, you have discovered an underpriced stock.

For you to even have the chance to beat the collective knowledge of the world, then you need to know or do something that no one else does. Even the best direct investor of our time, Warren Buffet, who reads eight hours a day and made his first investment as a child, says that you will only find two to three great companies in your lifetime. By this he means that even with his level of dedication to the craft, he believes that you must specialise in what you know and that even then the opportunities can be rare.

More filters will unravel as we progress through this book, but those are the foundations. Now let's start using them in real life situations.

Scenario One

Imagine yourself sitting around the campfire in the 1990s surrounded by all your double denim-wearing friends. Just as you're about to crack open another beer, the topic of the internet flows into the conversation.

One friend starts adamantly declaring how it's going to "revolutionise the world." Another friend chimes in on how much money he is making on the stocks. "Every single company in my investment portfolio with a .com is just exploding." He's drowning in cash. You hear about the massive returns and the potential of the industry, so with the support of your peers you start adding the filters to his claims.

Is it high risk?	
Is it diversified?	
Could you lose all your money?	
Is it sellable?	
Is it tax efficient?	
Do you understand it?	
Is it flexible?	

What I have just described to you is the .com crash. From 2000–2002 investors lost a total of $5 trillion. Crowd hysteria, greed, easy capital for companies and over-inflated share prices led to the house of cards coming undone. But if you had a diversified portfolio, not sold when things got tough and ticked the other boxes too, you would have come out on top.

Scenario Two

This time you have had your money in the bank for several years, but you're starting to become concerned that you’re not getting the returns you would like, so have begun looking elsewhere. Fortunately, you read of this opportunity to get a slightly higher return than the bank, and it appears to be relatively low risk due to the lower returns. It is part of the lending sector so not too dissimilar from the bank, in that you loan them money and they pay you interest. It has been performing very well after an economic downturn since banks are providing fewer loans to be on the safe side and thus making the lenders more competitive. This, given the recent downturn, provides potential to earn higher returns and is something you are considering. But before you invest, you add the filters:

Is it high risk?	
Is it diversified?	
Could you lose all your money?	
Is it sellable?	
Is it tax efficient?	
Do you understand it?	
Is it flexible?	

This, if you haven't guessed it yet, is the finance company collapse of 2006-2012 where many New Zealanders lost their life savings. The tricky part of this investment strategy was due to the lower returns; it didn't appear to be a risky investment. Funnily enough, a finance company approached Greg Moyle during that time, offering him a three percent commission for every dollar of his clients' money he invested with them which at the time was close to $100 million. That would give him an annual income of $3 million a year. So you know what he did? He threw it in the bin. His clients have never lost any money in the 30 years of him being a financial adviser due to the very fact that he embodies these fundamental principles.

WHAT MAKES AN INVESTMENT GOOD?

Now that you know what to avoid let's start looking at what constitutes a good investment. The most universally accepted way to achieve diversity is by investing in the four main asset classes: cash/cash equivalents, bonds, property and shares. The proportion of your money you invest in each asset class is dependent on your risk appetite. Which in this case is a reflection of volatility, not the threat of you losing all your money. I will explain this later, but the sheer volume you are investing and the low correlation that each asset class has to each other means the likelihood of losing all your money is very low. What also is remarkable about this investment strategy is that you can tailor the portfolio to match your volatility tolerance. The reason for structuring it this way stems from Nobel Prize winner Harry Markowitz's Modern Portfolio Theory, where an "effective frontier" is achieved by matching the expected return to any given level of risk. Your eyes might start glazing over at this point, but let's break it down anyway.

1. Cash and cash equivalents

This asset class is typically used in a portfolio as it is very liquid (sellable)—in fact it is the most liquid asset of the four. What makes it so liquid is that it is short-term—usually 90 days—and has a high credit rating. This is important as it can pay the fees of running the portfolio or if you need to make a withdrawal it is accessible relatively quickly. A few examples include short-term government bonds, where they need money for a project, and commercial papers that are forms of short-term corporate debt.

When I say they have high credit ratings, this isn't always the case with every fund manager being different. So it's essential that you understand that credit ratings are usually decided by three main scales; Standard and Poor's, Moody's and the Fitch Scale, as shown below:

Standardised rating scale

	Description	S&P Scale	Moody's Scale	Fitch Scale	Approx. probability of default over 5 years*
Capacity to make timely payment	Extremely Strong	AAA	Aaa	AAA	1 in 600
	Very Strong	AA	Aa	AA	1 in 300
	Strong	A	A	A	1 in 150
	Adequate	BBB	Baa	BBB	1 in 30
Vulnerability to non-payment	Less Vulnerable	BB	Ba	BB	1 in 10
	More Vulnerable	B	B	B	1 in 5
	Currently Vulnerable	CCC	Caa	CCC	1 in 2
	Currently Highly Vulnerable	CC		CC	
	Default	D	C	D	

* The approximate, median likelihood that an investor will not receive repayment on a five-year investment on time and in full based upon historical default rates published by each agency.

Explaining Credit Ratings-Reserve Bank of New Zealand November 2008

There have been times as well, like the global financial crisis for example, where the credit ratings were not accurate. They were called sub-prime mortgage-backed securities (MBS) and collateralised debt obligations

(CDO). Basically, a whole lot of crap bundled together to look sparkly. On the surface, it ticked boxes with a high rating, but it was mainly a collection of homebuyers with bad ratings sliced together and approved to look good. A general rule of thumb is to stick to government debt, local government debt and banks with high credit ratings. Remembering that the intention of this fund is reliability and low volatility, not returns.

2. Bonds

This is basically the longer-term version of number one. You lend money to groups (government, banks, and corporations) likely to pay you back.

The two ways to make money are firstly from the interest they pay for the right to have your money, and secondly, you can sell your loan to someone else. This gets a bit confusing, but the idea is if your bond has a good interest rate compared to the other investors' bonds, then you're like a cheeseburger at fat camp. Everyone wants a piece.

So let's say you loan $10k to the government, and they offer a 3% fixed return for five years. If the other loans out there only provide a 2% fixed return, then you have suddenly become very popular, so sell. The value you get from this sale is called 'capital appreciation' or, in other words, how much others 'appreciated' your capital. This once again is capital gain so is tax-free, but the fixed return isn't since it's income.

The thing to keep an eye out with this investment is once again the credit rating. More concerning is that in today's economic climate where fixed returns (bond yields) are very low, conservative investors, in my opinion, are taking undue risk in the pursuit of higher returns. They are investing in BB or lower corporate debt. With overpriced shares, large unprofitable companies, and cheap loans for corporates currently the assumption would be that something has to give. If suddenly these corporations were to experience an economic downturn, then they are unlikely to have the cash flow to push through those tough times, then it could get ugly. For the investor, this means that they may default on the loan they promised. Not ideal for the conservative investor. Secondly, there is an expectation that the economy will experience a recession sometime soon. I am not saying I agree with this perception as predicting the future is only real in myths and legend, but the markets experience ups and downs similar to that of seasons. We have spring (expansion), summer (peak), autumn (contraction), and winter (recession). If we were to experience a recession, then these corporate bonds could fall like dominos.

So I implore you to choose the more vanilla version of investment-grade bonds of A or higher to be on the safe side. The intention of this asset class is to be accessible for withdrawals and to lower the risk of the portfolio.

Also, it is worth noting what drives an increase or decrease in the fixed or variable returns offered by said groups. Often the two things that influence returns most are the level of demand and the cost of cash. Essentially what banks provide to you is a product, cash. That cash, as you can imagine, they get from other groups that have cash. One of these main groups is the central bank, or in New Zealand, it's called the Reserve Bank. What the central bank does is offer to take cash or loan cash at a specific rate. This is the Official Cash Rate. Then if one group is offering a certain price, the others will try compete. The result of this is the rate that other banks charge each other often stay at or below the rate offered by the central bank. Then, being a business, banks charge you, the consumer, more than what they paid. Similar to a wholesale price versus a retail price. So if the central bank increases the wholesale rate, that should lead to an increase in the retail rate, which eventually, due to the increased cost of borrowing, flows onto the rate offered for bonds.

For you, if you have a lower rate than the new rate, then selling your bond has suddenly gotten more challenging. You are now the salad at fat camp. The reason I mention this is to show that if you intend to use your portfolio in retirement with continual withdrawals, then it would be wise to have medium-term bonds—say one to two years—so at least if you end up with a salad, you don't have to eat too long before you can buy the new cheeseburger.

3. Property

This is not property as you know it. I am not talking about your family home or being the sole owner of a rental. What I am talking about is owning shares in a rental property or, in other words, a percentage of the rent and its capital value. The two main ways it is recommended to do this is through Real Estate Investment Trusts and Listed Property Securities. The reason I say this is that once again, you want the asset you own to have a market for it to be bought and sold. These two options provide you with that opportunity. But it is important to note that this asset has far less liquidity and more volatility than bonds, so it should be perceived as a longer-term investment and the proportion kept relatively low.

4. Shares

The final piece of this portfolio puzzle is that of shares. You would have noticed in the earlier chapters that I said the three main successful ways humanity has invested over the last few hundred years are in land, business, and loans. Well, the land is property, loans are cash and bonds, and shares are owning a percentage of a business. You share the companies profits (dividends) and the value of what you own can appreciate (grow) provided others appreciate it too. In this instance, dividends are classed as income, so are taxed accordingly. Let's say you buy shares for $4 each, then in the future, someone buys them off you for $10. Meaning if you brought 1000 shares at the price of $4, then you have just made yourself $6,000 tax-free in New Zealand—not too shabby, right? Well, the thing to be aware of is no matter how smart a person thinks they are, it is tough to predict what the price of that share will be in the future.

Also, there have been many an investor that has tried to beat the market and outperform the index. The most commonly used benchmark to compare their performance against is Morgan Stanley Capital International (MSCI), as it has close to 160,000 indexes with data as far back as 1968. Take the MSCI World Index, for example, it has around 1655 different shares in 23 developed countries and since inception in 1987 has grown annually by 8% gross (before fees, tax, and inflation) or in the last 10 years by 9.95% gross. So not only does an active manager need to beat this index, but they need to beat it on top of the fees they charge. Kind of like trying to win a yacht race with parts of the sail missing. Sure, if you get the right gust of wind with the right crew, then you can win, but it's hard to do it consistently. A few fund managers have been able to achieve this, it's just unlikely for them to be able to keep it up.

There have been a few contributing factors for this being the case. Firstly, if someone finds the secret recipe for beating the market, eventually the market finds out and the benefit is no longer unique. Similar to when the four-minute mile was an unconquerable task until Sir Roger Bannister beat it by 0.6 of a second in 1954 and then funnily enough someone beat him 46 days later. In that first moment, he was the king, but quickly his achievement became the norm. Today's winner can be tomorrow's loser.

So if the active managers struggle to beat the index, then what is the alternative?

The alternative is what they call a passively managed index fund. Historically, a passively managed index fund has outperformed most active fund managers. By an index fund, what I mean is that you invest in say the top 50 companies in your country or the world depending on what index fund you have. The idea is that if a company is no longer in the top 50, then you sell your shares and buy shares in the one that replaced it. The great benefit of this style of investing is that even Blind Freddy can run it, so the fees are very low. All the fund manager has to do is keep track of who the top companies are and buy/sell to maintain the criteria of the index fund. Not too hard with today's technology, so fees can be very low, and this strategy can be applied for most assets. There is more to be discussed around this topic, but for now it's worth mentioning a small yet essential addition to your portfolio.

5. Alternative Investments

This includes financial assets that don't quite fit into the above categories. More specifically commodities, which are essentially the raw materials used to create a good or service. Gold, silver, crude oil, milk powder etc. The benefit of commodities is that they can perform well during periods of high inflation. As you can imagine if more people are buying shit thus increasing the price then suppliers need more shit to make the shit. Another benefit of commodities is that they don't have a strong correlation with the other categories in the sense that the price is decided by a separate demand and supply market. So once again, having a small exposure to alternative investments allows you to capture more of the potential gains while spreading out the ups and downs.

Maximise your portfolio

Congratulations, you have discovered the ingredients for a successful financial future. What we need to do now is start putting together the recipe. It begins with asking: what is the right mix?

To do that first we must go back to the filters we discovered in the last chapters:

- Is it diversified?
- Is it high risk?
- Could you lose all your money?
- Is it sellable?
- Is it tax efficient?
- Do you understand it?
- Is it flexible?

Achieving Diversification

Global vs Domestic

We know already that the low correlation between the asset classes gives us a certain level of diversity, but we can take it further. One of the most common mistakes investors make is something called 'home bias,' the propensity of an investor to invest the majority of their money solely in their own country. Which is nice if you want to support your country but isn't a smart investment strategy. The reason for this is that no one country is consistently the top performer, so purely by having an overexposure to your domestic economy means you will miss out on potential gains as well as possibly having a bumpier ride.

Imagine, for example, you had your money in Venezuela during 2018 when the stock market crashed by -94%. The MSCI World index (shares) from 29th November 2018 to 2019 grew by 24.6%. So because you felt safer investing in your home country, you have now ended up in a very tough position as well as missing the boat on those gains.

Active vs Passive

Active managers are those who are actively trying to find incorrectly-priced assets and minimise the downturns, whereas passively managed funds follow an index which, as we have learned before, has a higher probability of outperforming the active managers due to fees.

Where I will surprise you is that I recommend that your portfolio have a mixture of both. This is really to protect you from yourself. The challenge is that investing for most people is a side hustle, not their nine to five. What that exposes you to is the potential to make the wrong decisions, whether it be the wrong index or asset allocation, as well as not having the confidence to ride it out when things get tough. The other thing is that we can never be sure of the future and how that will affect your investment structure.

Prior to everyone jumping onto the passively managed investment bandwagon, many of the investment decisions were based on asset analysis and dedicated professionals' recommendations. Now what is happening is consumers are blindly investing directly into an index with little or no middle man. This has worked perfectly fine with the cash cow that everyone has been riding since 2009, but what happens when things go wrong?

Millions of people with no real in-depth understanding of what they've invested in suddenly experience a drop of 40%—what happens? No consultation, no middle man, just a mass hysteria of selling and freaking out. Secondly, what are the implications for investing if sound research is no longer the foundation of investment decisions? The answers to this I do not know, so to be on the safe side why not have an investment strategy that can think for itself instead of relying solely on your emotional fortitude and investment know-how.

Hedged and unhedged

Hedging is used in investing to protect an asset against price fluctuations. More specifically, in your case its currency price fluctuations.

Just imagine you own some shares in the United States that produced a 10% return, but at the point of sale you realise the NZ to US dollar conversion has gone down by 12%. Then your return in actual fact is minus two percent once you convert it back to your New Zealand currency. That's not ideal, so let's do something about it.

The two main ways to protect yourself against this is to use currency futures or buy the currency at the prevailing price. The second is easy to understand, the first once again is the financial gurus trying to make it sound hard. Let's simplify things.

Basically, it's a future IOU. I agree to buy the currency from you at this price on this date. Like bonds, you can sell the agreement to others, and the amount you get for it depends on what the market is feeling. The smartie-pants call the strategy of using futures either taking a 'long' position or a 'short' position. A long position is when you buy a currency with the expectation that it will increase in value. Taking a short position is when you believe the currency will decrease in value. This strategy is used in other areas as well, but for the sake of understanding, let's use shares as an example.

You call up your broker saying that you would like to take a short position on Apple Inc as you believe it is going to go down in price. The broker then lends you one of their client's shares and sells it to the market on your behalf for $100. Boom $100 goes into you brokerage account. Then, as you predicted, the price for an Apple share goes down to $70. You then call the broker up to celebrate and tell them to buy you a 'real' share for $70. What that means is the share you 'borrowed' is then returned to their client, you bought the new 'real' share for $70 and thus made a profit of $30. The broker takes his cut for helping you, and you are on your way, having made a profit without spending any money. The problem, as you can imagine, is when the price goes up. You borrow the share and sell it for $100, but the price increases to $130. Now not only do you have to buy the whole share totalling $130 but also add the brokerage fee on top. Not a pretty sight. Though when included in a diversified portfolio having an investment strategy made up of globally hedged and unhedged shares is a smart way to protect against currency fluctuation risk. So when you are deciding which fund to go with, make sure the underlying investment structure includes a combination of both.

Rebalancing

The answer is in the title. You want to make sure that when you make the decision on which portfolio suits you best you tick the rebalancing option.

Imagine you're on a boat with four of your mates, Share, Bondy, Cash and Propert. Suddenly Cash tumbles off the side headfirst into a blue whale. Though he is pretty happy reenacting Keisha Castle-Hughe's movie Whale Rider the boat is starting to tip a bit too much to the side for Share and Propert. They had a big lunch. The problem now is that the safe, stable ride has suddenly become riskier due to the imbalance, so we have to coax Cash back onto the boat. Once he's onboard, no worries, everything is back to normal.

Essentially, any time you make a withdrawal most diversified portfolios will sell the most liquid assets first. If you don't rebalance your portfolio, over time this results in them being underweighted compared to the more volatile assets (shares and property).

Multi-managers

Another great way to disperse your risk is to use a multi-manager approach, where you have a centre 'administrator' that helps with reporting and asset allocation. The structure is maintained through a family tree-like network of portfolios, which works from top layers of multi-manager portfolios, managed by the administrator, and branches out down to a bottom layer of portfolios representing each individual fund manager. Each of these 'bottom layer portfolios' represents an investment pool allocated to each fund manager by the administrator.

It is designed to temper the emotional basis for investment decision-making that is often prevalent among inexperienced investors. Combining fund managers with different investment strategies, styles, and specialty skillsets can help to reduce investment risk and provide more consistent investment returns over the long run.

<u>What is the risk of losing all your money?</u>

The risk of this investment strategy is in the implementation. If your fund manager follows these principles correctly, then the likelihood of you losing all your money is almost nil.

For an event to happen that would result in you losing all your money, you would have much more significant concerns than your money. If you think about it, your funds are diversified across many countries and many assets, so for all your assets to go under then, it would have to be as close to an apocalypse as you could get. That's not to say that the returns won't go up and down, because they will. What it is saying is that the threat to your financial wellbeing is in the implementation, not the investment principles themselves. So what constitutes proper implementation, and why am I so confident?

Well firstly there are four main portfolio risk profiles:

- Conservative
- Balanced
- Growth
- Aggressive

The asset allocation of these funds are shaped to fit a certain risk tolerance and time frame. As we have learned already, this is based on the Modern Portfolio Theory with the intention to reach the 'effective frontier' of expected returns and risk level. In this instance, it's used to reflect the level of volatility a person can handle as well as the time frame in which they will need the money. For example, even if you were a big risk-taking 80-year-old, you probably don't want a fund with big ups and downs because you may need the money when there is a big down.

The other thing to be aware of when selecting a fund manager is that you want them to be a large and well-established company. There are a few reasons for this, one you want them to have the resources to make smart decisions, two if something goes wrong you want them to have the ability to correct it, and three you can also pool your money with other clients' investments to achieve higher levels of diversity.

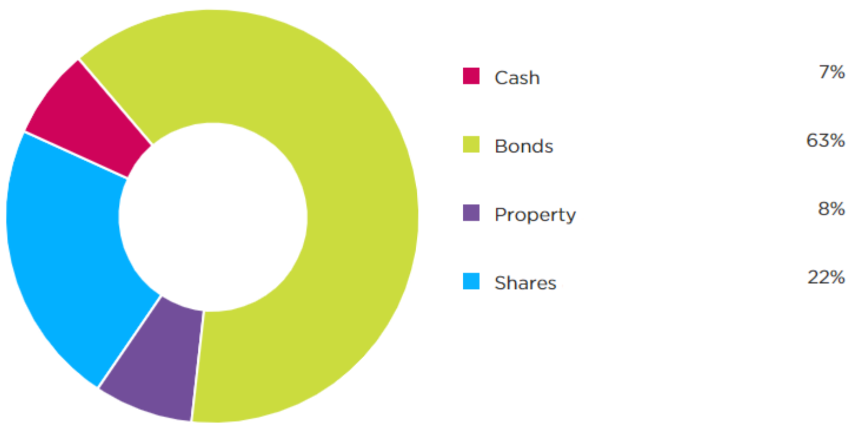
In New Zealand, they use unit trusts to pool investments together. This is achieved by you owning units in each asset e.g. 9.456 units might be equal to $200.

The other way you want them to protect your NZ interests is using what we call a custodial trust. The intent of this trust is to be an independent body that supervises the investing of your money.

Why both of these structures are important is because if your fund manager goes bankrupt, then the underlying investments you hold don't need to be affected and another fund manager can take over. If the new fund manager doesn't fit the filter test, then you may need to reassess whether you would like to remain with them. The other thing to consider now that you have a deeper understanding of what constitutes a good investment and the timeframes of your goals is; which fund suits you best?

Conservative

The goal of this fund is to invest in lower risk assets with a moderate exposure to growth assets (shares and property). For you, that means a lower return but with fewer ups and downs. The reasons you would use this might be if you have an investment period less than four years, when you have a conservative mindset or you are in retirement, meaning you would make withdrawals often so need a less volatile fund. A basic summation of what that asset allocation might look like is as follows:



Typically a good rule of thumb is 70% income assets (cash and bonds) and 30% growth assets (shares and property).

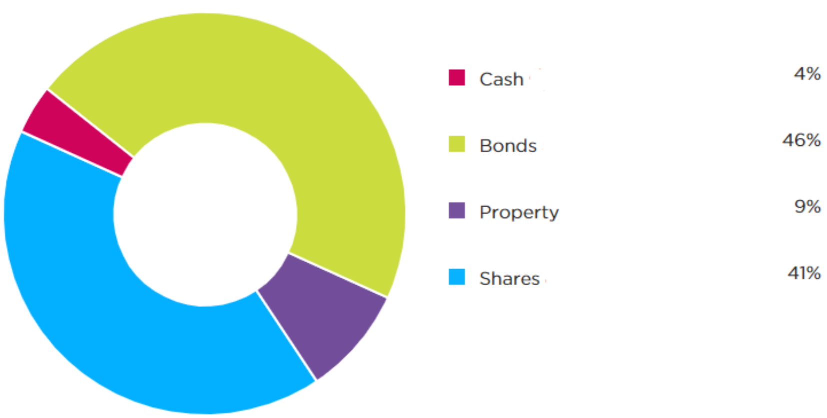
What a real-life example of a conservative investment may look like is:

Growth Assets	
Australian Shares	3.75%
New Zealand Shares	3.75%
Global Shares—Unhedged	6.25%
Global Shares—Hedged	6.25%
New Zealand Listed Property	5.00%
Alternatives (Growth)	7.50%
Total Growth Assets	**32.50%**

Income Assets	
Global Bonds	17.50%
New Zealand Bonds	35.00%
Cash	15.00%
Total Income Assets	**67.50%**
Total	**100%**

Balanced

This fund is a balance of income and growth assets. Typically either 60% growth to 40% income or 50% growth to 50% income. It requires a minimum investment period of five years. When in doubt, a balanced fund can be your go-to as it gives you sufficient exposure to a higher return—due to the share and property percentage—as well as lessening the volatility with the income asset allocation. A general overview of that allocation would look similar to this:



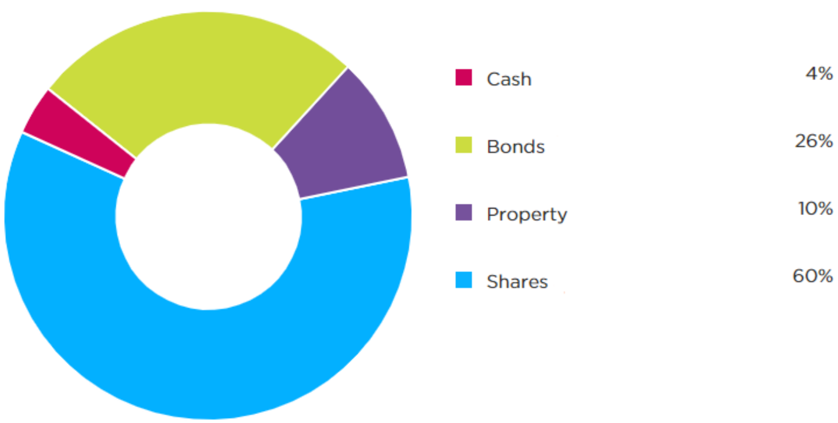
A real-life example:

Growth Assets	
Australian Shares	6.00%
New Zealand Shares	10.00%
Global Shares—Unhedged	12.00%
Global Shares—Hedged	18.00%
Emerging Market Shares	3.00%
New Zealand Listed Property	2.00%
Global Property	2.00%
Alternatives (Growth)	4.00%
Total Growth Assets	**57%**
Income Assets	
Global Bonds	18.00%
New Zealand Bonds	15.00%
Cash	10.00%
Total Income Assets	**43%**
Total	**100%**

NB: Emerging markets are shares in companies from countries that have some of the characteristics of a developed nation but not all. A level of exposure to them is important as they have greater potential for growth over the longer term.

Growth

The intention of this fund is to provide growth over an investment period of 10 years plus. With this comes a greater level of volatility due to the primary holdings being growth assets with a much lesser allocation to lower-risk income assets, as shown below:



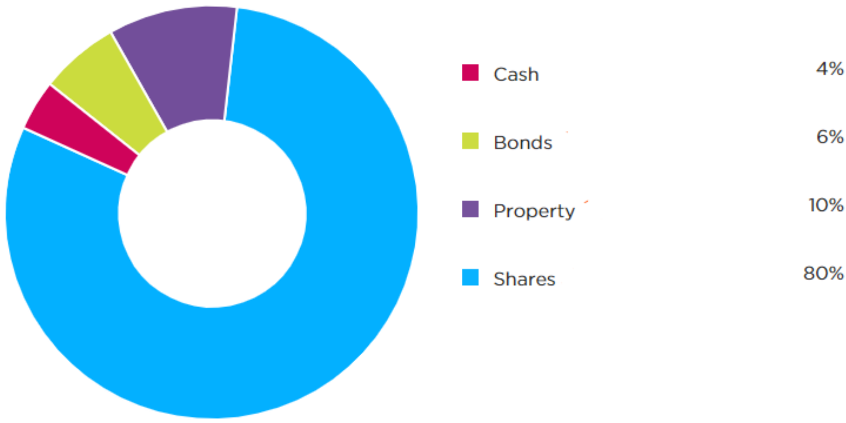
A real-life example:

Growth Assets	
Australian Shares	7.50%
New Zealand Shares	15.50%

Global Shares—Unhedged	16.00%
Global Shares—Hedged	24.00%
Emerging Market Shares	4.00%
New Zealand Listed Property	2.50%
Global Property	2.50%
Alternatives (Growth)	5.00%
Total Growth Assets	**77%**
Income Assets	
Global Bonds	10.00%
New Zealand Bonds	7.00%
Cash	6.00%
Total Income Assets	**23%**
Total	**100%**

Aggressive

The high allocation of growth assets—usually close to 80% plus—makes this a very volatile investment strategy. The investment period is recommended to be at least 13 years plus as the returns can remain negative for a number of years. A general overview is as follows:



A real-life example:

Growth Assets	
Australian Shares	8.00%
New Zealand Shares	16.50%
Global Shares—Unhedged	18.00%
Global Shares—Hedged	27.00%
Emerging Market Shares	5.00%
New Zealand Listed Property	3.50%
Global Property	3.50%
Alternatives (Growth)	5.50%
Total Growth Assets	**87%**
Income Assets	
Global Bonds	5.00%

New Zealand Bonds	3.00%
Cash	5.00%
Total Income Assets	**13%**
Total	**100%**

Is it flexible, is it sellable and do you understand how it works?

Due to the varying time frames and the low correlation of each asset class, you can withdraw from your portfolio at any given time without crystallising a loss. The level that you can withdraw without incurring a loss is dependent on the prevailing market price as there are times where the majority of your assets are experiencing a negative return. But for the most part, this is not the case. To illustrate an estimate of what each fund's returns are likely to be and the ranges they usually fall between, I made the following table:

	Nominal return (less fees & tax)	**Real return (after inflation)**	**Volatility range**
Term Deposit	2%	0%	None

Conservative	3%	1%	-9% to 9%
Balanced	4%	2%	-13% to 13%
Growth	5%	3%	-17% to 17%
Aggressive	6%	4%	-21% to 21%
Index Fund (Shares)	8%	6%	-30% to 30%

This is to only act as a guide and is not to be taken as a guarantee, though historically the funds' returns have been in the vicinity of the above percentages.

If you want further guidance on what might be the right fund for you, here is an overview to get the ball rolling:

	Risk Tolerance	**Age**	**Withdrawing in**
Conservative	Low	65+	4 years plus
Balanced	Medium	55-65	5 years plus
Growth	High	18-55	10 years
Aggressive	High	18-55	12 years plus

NB: This doesn't include your personal goals, which may change the recommended options. For example, if you were going to close the portfolio to buy your first home in a few years you would want to have a more conservative investment strategy to minimise the risk of a market downturn at the time of your withdrawal. Common sense—which unfortunately isn't all that "common".

In terms of understanding the concepts, you may already have had the knowledge without even realising it. The reason I say this is that the KiwiSaver model, for the most part, is based on the fundamentals of this structure. That's not to say the average Joe has your level of understanding nor uses it correctly, but instead that the concept of your KiwiSaver is based on the Modern Portfolio Theory and diversification across the four asset classes. Where KiwiSaver trumps my recommendations is with its added benefits:

- A government contribution
- An employer contribution
- Home-Start Grant

I won't go into too much detail as the landscape of this is continually changing but, at the very least, make the most of these benefits. For example, at the time of writing this book the government will contribute a maximum of $521.43 annually if you put in $1042.86. If eligible, you can also get a financial contribution for your first home and your employer is legally obliged to contribute a 3% minimum of your gross (pre-tax) salary—provided you do too. You'd need to have an empty space between your ears to not take advantage of this, as this is a very effective investment vehicle. The only downside is that the money is relatively inaccessible; you need to be buying your first home, turning 65, getting sick, moving permanently overseas or experiencing financial hardship.

So, for this reason, a lot of self-employed people with uncertain incomes are avoiding it like the plague. But at the very least, they should still put in $1042.86 each year to capitalise on the free money from the government.

YOUR GOLDEN YEARS

The big R. No, not me; that scary little thing I mentioned not too long ago. It's time we addressed it and solved your worries.

The first thing we need to work out is how much money will you need for retirement?

If you are unsure, go back to your expenditure calculations, but this time exclude the mortgage repayments or liabilities that ideally we should have paid off before starting our investment journey. Be generous though; don't be afraid to add a bit extra just to be safe since it's better to be over-prepared than under.

Do you have your number yet?

For the sake of explanation, I am going to make the assumption that you need $60,000 per annum in today's money to have a comfortable retirement, that you utilise KiwiSaver, invest in a growth fund, and retire in 20 years. The point of this is to show what such a strategy may look like and to get you thinking about how you might achieve the same result. Before we jump to those calculations, we need to do something advisers call the 'Financial Gap Analysis.' In this circumstance, I am working out how much of that $60,000 can be funded by your NZ pension. For a couple over 65, their after-tax income is approximately $32,000 total per annum, which leaves you with a shortfall of $28,000 that needs to be funded by your investments.

Net NZ Superannuation (approx.):	$32,000
Shortfall funded by investments:	$28,000
Total Net Income Per Annum:	$60,000

Once again, we are getting stuck into some very dry content, but this is just a bit of temporary suffering for the sake of long term fulfilment. So let's continue with this example and make some assumptions:

Growth Fund

- Invest $120,000
- Add $6,000 per year into it until retirement
- A real return (after tax, fees and inflation) of 3% p.a.
- Withdraw $28,000 per year from age 65 to age 90 to fund the gap

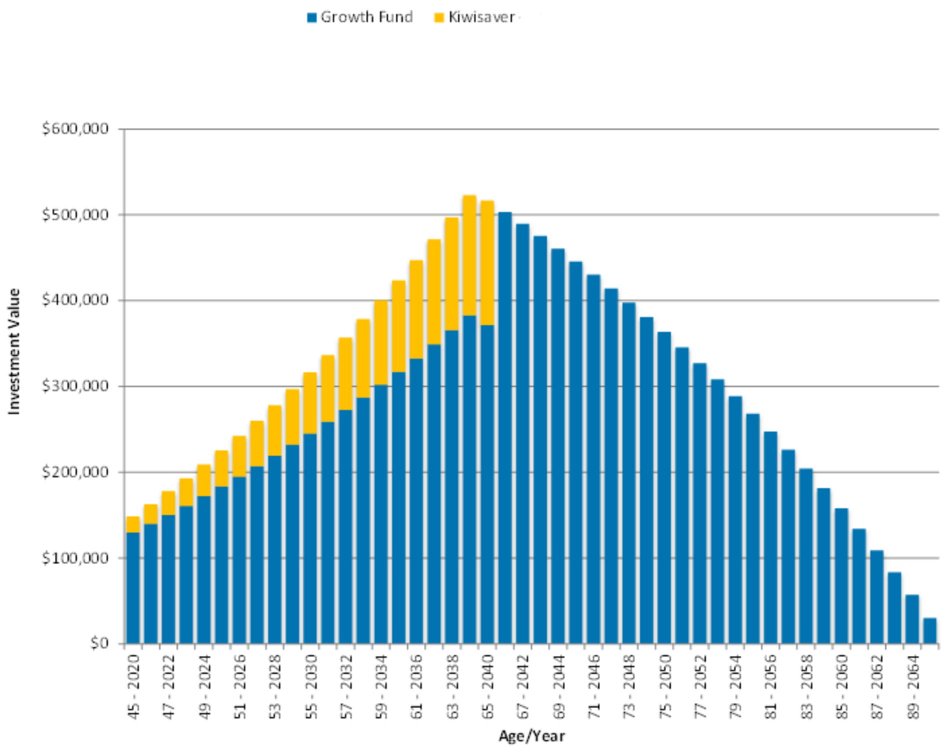
KiwiSaver Growth Fund

- Current balance $15,000
- Gross income $60,000
- Contribution of 3% from you and your employer

- A real return of 3%

Year	Age	Investments $	Investment Deposits $	Investment Withdrawals $	Estimated Growth $	Investment Balance $	KiwiSaver
2020	45	120,000	6,000		3,780	129,780	18,824
2021	46	129,780	6,000		4,073	139,853	23,090
2022	47	139,853	6,000		4,376	150,229	27,547
2023	48	150,229	6,000		4,687	160,916	32,202
2024	49	160,916	6,000		5,007	171,923	37,063
2025	50	171,923	6,000		5,338	183,261	42,137
2026	51	183,261	6,000		5,678	194,939	47,433
2027	52	194,939	6,000		6,028	206,967	52,957
2028	53	206,967	6,000		6,389	219,356	58,718
2029	54	219,356	6,000		6,761	232,117	64,725
2030	55	232,117	6,000		7,144	245,260	70,986
2031	56	245,260	6,000		7,538	258,798	77,511
2032	57	258,798	6,000		7,944	272,742	84,309
2033	58	272,742	6,000		8,362	287,104	91,390
2034	59	287,104	6,000		8,793	301,897	98,764
2035	60	301,897	6,000		9,237	317,134	106,441
2036	61	317,134	6,000		9,694	332,828	114,357
2037	62	332,828	6,000		10,165	348,993	122,594
2038	63	348,993	6,000		10,650	365,643	131,164
2039	64	365,643	6,000		11,149	382,792	140,078
2040	65	382,792	6,000	(28,000)	10,824	371,616	144,939
2041	66	371,616		(28,000)	14,657	503,212	
2042	67	503,212		(28,000)	14,256	489,468	
2043	68	489,468		(28,000)	13,844	475,312	
2044	69	475,312		(28,000)	13,419	460,731	

2045	70	460,731		(28,000)	12,982	445,713	
2046	71	445,713		(28,000)	12,531	430,245	
2047	72	430,245		(28,000)	12,067	414,312	
2048	73	414,312		(28,000)	11,589	397,901	
2049	74	397,901		(28,000)	11,097	380,999	
2050	75	380,999		(28,000)	10,590	363,588	
2051	76	363,588		(28,000)	10,068	345,656	
2052	77	345,656		(28,000)	9,530	327,186	
2053	78	327,186		(28,000)	8,976	308,161	
2054	79	308,161		(28,000)	8,405	288,566	
2055	80	288,566		(28,000)	7,817	268,383	
2056	81	268,383		(28,000)	7,211	247,595	
2057	82	247,595		(28,000)	6,588	226,183	
2058	83	226,183		(28,000)	5,945	204,128	
2059	84	204,128		(28,000)	5,284	181,412	
2060	85	181,412		(28,000)	4,602	158,014	
2061	86	158,014		(28,000)	3,900	133,915	
2062	87	133,915		(28,000)	3,177	109,092	
2063	88	109,092		(28,000)	2,433	83,525	
2064	89	83,525		(28,000)	1,666	57,191	
2065	90	57,191		(28,000)	876	30,066	



As you can see, by taking this approach you could comfortably fund your retirement until age 90.

It is also worth noting that $120,000 was a randomly selected number. If you do not have that amount of money, don't stress—you can still achieve the same result if you save more, start earlier or require less income in retirement. This, if anything, is just to show the power of the 8th wonder of the world, compounding interest. I could have shown you the nominal return to really illustrate the significance of this, but the reason for using a real return is that over time your withdrawal amounts will increase to match the rising cost of living.

By including inflation in the returns, it means that the increase in your cost of living is accounted for in the calculations. At any time as well, you can withdraw more money or close the portfolio. But always be mindful to do this on a gain, not a loss, if possible. This flexibility is essential once again since we can never truly know what is around the corner—despite what all the economists in your favourite newspapers like to say.

Now that being said, it is vital that when you make a deposit or withdraw money you do it consistently. The reason for this is due to something called Dollar Cost Averaging. This concept is based on the assumption that you contribute a fixed dollar amount, usually monthly. What this means is by always adding the same amount, the volume of which you can buy may increase or decrease depending on the price of the investment at the time.

Just imagine that every month you go grocery shopping. You have a budget of $600 each time. Some months the things you want are on sale so you can buy more. Other months it's more expensive, so you buy less. In investing, this allows you to make the most of the ups and downs. Bargain hunting without even knowing that you are. Take a look:

Date	Share Price	Shares	Cost
1st April	$20	50	$1,000
1st May	$15	66.66	$1,000
1st June	$10	100	$1,000
1st July	$18	55.55	$1,000
	Total	272.22	$4,000

Average price per share: **$14.69**

As you can see, you managed to get a lower overall price than most of the options. This, when combined with all the other one-percenters of investing know-how, start to make a real difference to the betterment of your financial future.

The next step of this adventure is finding the right investment strategy for you as an individual. I can never truly understand your personal situation without taking the time to get to know you, but I hope this overview adds value to your circumstances and provides you with the right tools to achieve the outcome you want.

Part of achieving this is not only about having the right investment strategy but also preparing you to face the uncertainty of life.

In the next few chapters, I want to break down the psychological quirks of the human condition that lead us to making bad financial decisions, as well as to provide you with a rigid framework to protect against adversity.

HUMANITY'S PSYCHOLOGICAL QUIRKS

With this new-found knowledge, you may be a bit like me and wondering why everyone isn't doing it.

It's a question that has miffed me for some time. When I break this down logically to people, they find a reason not to believe it or start wondering; what's the catch?

The reason people have this viewpoint is from all the horror stories we've seen or read. Some poor bastard has been taken advantage of or has done something stupid. Like me, you probably look at some of these mistakes and wonder; how the hell did you even think that was a good idea? Then all of a sudden, you take the time to reflect and realise we all tend to do things that make no sense logically. But why is that?

As the famous Chinese General, Sun Tzu, once said:

"If you know the enemy and know yourself, you need not fear the result of a hundred battles. If you know yourself but not the enemy, for every victory gained you will also suffer a defeat. If you know neither the enemy nor yourself, you will succumb in every battle."

So let's start the knowing.

Psychological Quirk Number One

Price Anchoring

It's exactly how it sounds: people get stuck on the price. "Barry, look at the price of these shares, how good is that?!" Then low and behold he's a bit too slow to buy the bargain so has now become too sceptical to invest.

The reality of this psychological bias is you're actually buying a business, not the price. The important aspect of the purchase is its value. This is the founding principal for some of the greatest investors of our time, Benjamin Graham and Warren Buffet. The fallacy we find ourselves caught up in is trying to perfect market timing and get that 'good price.' I'm sure there's many a person who has managed good market timing and perhaps should open a fortune telling business. You and I, on the other hand, need to think about what this investment means for our lifestyle/goals and whether it fits our filters. There's much more to this but the main thing to remember is that we all crumble a bit when we hear a juicy price.

Psychological Quirk Number Two

Finding form in the random

Your brain sucks up a tremendous amount of energy, so it's only right that it tries to cut corners.

One of the things we do as humans is group things into patterns. An interesting experiment, for example, was when a group of people tried to complete a task where the only way of knowing they were doing the right thing was when a red light flashed. Initially, they randomly pushed buttons but overtime started creating a strategy based on when the light would flash. The thing they weren't told was that the flashing of the light was completely random and that no matter what they did, the light would flash independently.

Where this is important for you is when we 'finance guys' start thinking we've cracked the code that we've found a pattern to predict future returns. Two things are wrong with that. One, there's no precedent for that being the case despite the many declarations Two, if they solve that riddle, then eventually the market will use the strategy, meaning the 'special sauce' is no longer special and becomes the norm.

Psychological Quirk Number Three

'Loss-bold' and 'profit-scared'

Have you wondered why losers like to suggest double or nothing?

In behavioural finance, they've found that if you're making a loss, then you are more likely to make a rash decision with higher risk to try to get out of this hole. The inverse is also true. If you have been getting a very low but reliable return, you are less likely to want to jump ship. Better the devil you know than the one you don't.

Where you need to be cautious of this is when things are falling apart. Be aware that the decision to make the leap could take you to the very hole you think you are jumping out of.

Psychological Quirk Number Four

It won't happen to me

Have you ever had the feeling, when you see a successful person demonstrating a task, that deep down you think you could do it better?

It's a bizarre human fallacy where we overestimate our own abilities or somehow feel it'll be different for us—like an ingrained over-optimism of sorts. Sure, we have insecurities and doubts, but on some level and in some way, you feel like it won't happen to you because you know how to do it the 'right way.' Finance is no different, even to the point where similar investment strategies to yours are coming unstuck before your eyes but you stick with it while further shrouding the truth in rationalisations.

A master manipulator realises this human bias and pivots the truth with sprinkles of positivity, so your subconscious then latches onto it like Jack in Titanic, with a delusional hope of somehow escaping the dark truth of reality.

Then, as the impending doom of your financial failure looms ever closer, your aversion to loss further inspires your need to take bigger and bigger risks in the hope that a big win will somehow 'turn the ship around.' So sometimes the difference between success and failure is simply addressing the fact that you could be wrong.

Psychological Quirk Number Five

Abundance vs Scarcity

The founding framework of our financial system is the idea that scarcity adds value; that a resource in limited supply is more valuable than one that is abundant. You may be thinking cool, good to know, but why should I care? Well, if you're a parent you will have noticed that no matter how much you try bubble wrapping your kids or try hiding them from the harshness of the world, it always finds a way into their life. So there are going to be events that not only shape the circumstances of your existence but also shape the framing of your mind to the point where in that moment, you're no longer thinking clearly.

Warren Buffet says it well: “Never make a decision in an emotion.” For example, someone could break into your house, you may lose your job, you might even win Lotto. In those instances, you need to realise whether this event is influencing your thoughts into a viewpoint of scarcity where you're making uncharacteristically fearful decisions. Are you depending on a financial strategy because it provides familiarity and comfort in a changing world? Or perhaps you are impulsively investing from a mindset of abundance where you're putting yourself at risk in the long-term?

So not only should you be aware of your tolerance to risk, your life circumstances and your strategy, but also your state of mind when you make decisions. Nothing looks after your finances better than a good night's sleep and the advice of an unbiased and credible individual.

Psychological Quirk Number Six

Consistency is consistently consistent

You've probably been in a situation where you know you're right, you're making good points but the other person just still won't fucking agree.

The book "How to Win Friends and Influence People" describes it well: "in an argument there is no right or wrong, just someone that feels wronged." This is a substantial psychological flaw in our psyche: We create a self-image of ourselves from the imaginings of a distant memory. That viewpoint looks for further affirming evidence to solidify it into your mind, and then what you end up with is a rigid way of thinking not receptive to change.

I'm not saying that you can't change someone's opinion. What I am saying is that when an opinion is tied into a person's view of themselves, then they'll have to make a choice; either resist the new-found information or admit that part of the life they've lived has been a lie.

Now, this is being a bit overdramatic which is pretty standard in this book but what I propose is that you go on a journey of self-discovery to test this theory. I suspect you'll start to notice how we seek to reconfirm what we already know and that most of people's ideas are tied into their ego. So just be aware that when you hold a strong viewpoint it isn't necessarily rooted in reality, but instead could be crafted by the imaginings of your inner child.

Psychological Quirk Number Seven

The Hive Mind

The Bystander Effect

Ever wondered why we don't freak out during a fire drill or why there are so many instances where victims in need go unsaved?

It's basically the blind leading the blind. Collective ignorance. Everyone looks around and no one reacts, so they assume nothing's wrong. But in reality, you're relying on the ignorance of the group, whose ignorance stems from your lack of knowledge.

Mates Rates

The people closest to you have the ability to cause you the greatest harm. Your guard is down, and the consequence of disagreement is much higher. Sure, I'm like you and prefer advice from someone I know and trust. But unfortunately, people we know don't necessarily know, you know? So always be aware that although your loved ones mean well, meaning well doesn't mean right.

Market Armageddon

This ties in with your mum's favourite sayings: "would you jump off a bridge if everyone else did?" To which, if you were cheeky like me, you'd say: "depends how deep the water is." The premise of this is that the masses love hysteria. When the market starts to dip, they start selling, which scares more people and thus, the plummet continues. Which is the exact moment where your adviser-turned-mum convinces you not to jump. Now, this is the part where managed funds trump direct investments. With a direct investment into, say, one company's shares, the odds of that market plummet being a risk to your finances is pretty high. But with a diversified managed fund, the odds of that plummet affecting all your investments negatively is much lower. So in this instance withdrawing your portfolio is stupid, but selling your direct investment might be smart. Money is generally lost when they go bust or when you sell in fear, so check the water before you jump.

Psychological Quirk Number Eight

Santa's Dirty Little Secret

This is the whole underlying concept behind the effectiveness of this book. When you give without expectation, others feel obliged to reciprocate. An entrepreneur with concerns about the financial viability of running a company in a climate where consumers expect more for less would be wise to live and breathe this concept.

For you, as a consumer, you should always be vigilant of your susceptibility to this psychological influence. For example, when someone unexpectedly gave you a thoughtful gift, did you feel this weird and compelling urge to do something for them in return? The reason I say weird is that you don't necessarily even need to like the person for it to work, because feeling indebted to someone you don't like in some way feels like they have one up on you, that they're better than you. Where this comes into finance—or just consumer decisions in general—is when a company or an adviser does something for you at their own expense: just be aware that your progression to a mutually beneficial decision could have been swayed by your need to reciprocate.

Psychological Quirk Number Nine

Me, Myself and I

I had an interesting conversation with a zoologist I used to live with. She said, "in biology there are no truly unselfish acts." This stirred up the hippy in me to the point where I gave hundreds of examples on why she's full of shit, but true to form she found her way back to the idea that we are all selfish.

I'm not saying she's right, but she's right more than she's wrong, and I suggest you look at the finance world through the same filter. What is this person gaining from giving me this advice, and are their conclusions rooted in logic? Be like the police; look for the evidence and the motive.

Right now, take me as an example. Why would I give you an ebook for free, and how do you know it's good advice? Well, the first thing is, it's probably not good advice for you. Why? Because I don't know you, so how could I know what's best for you? Secondly, what do I get out of it? The plan is for you to think this Ryan bloke seems to know a lot about finance and also says a lot of awkward shit, so he must be pretty honest so why not book an appointment with him. The best-case scenario for me is that I can help you as a client for life; that way, I can make money off you making money. You win, I win.

Psychological Quirk Number Ten

Greed

One of the most effective strategies in marketing and selling is creating a sense of urgency in your client. The feeling of "I don't know why, but I NEED IT NOW." It's a very compromising view that we're all buying into, and it's this idea of getting rich quick. It blows my mind how many people in my line of business open with the statement, "so what kind of returns can you give me?" It's like walking into a fortune teller's tent and asking, "so what is the exact date I'll die?"

Sure we can estimate, we can throw random percentages around and we can sell the idea of you making a specific figure, but deep down, we can't truly know the time frame and exact return you'll get. So if you're sitting in the office of an adviser who is adamantly declaring the incredibly high returns you'll get through them, then you better start questioning whether they're the next messiah, a savant with unprecedented math skills or someone just painting a pretty picture to make a sale.

The other thing that I hope is now drilled into your psyche is the idea that higher returns likely mean greater risk and if it sounds too good to be true, it probably is. What truly matters isn't that you become the next Bill Gates drowning in your billions—despite that being the consumeristic narrative that we're all buying into—but instead the simplicity and freedom of being able to do the things you want to do when you want to do them.

<u>Psychological Quirk Number Eleven</u>

If I only had more money

You know the funny thing about humans is we don't really grasp the idea of restraint, of delaying pleasure.

There was an interesting study done with kids and marshmallows, you might have heard of it. They simply said, don't eat the marshmallow in front of your face now, and later we'll give you two marshmallows. Well, naturally, a lot of the kids stuffed that soft goodness straight down their gullet. But strangely enough, some managed to wait and reap the rewards. The interesting thing about the study was that the kids that showed restraint actually ended up being much more successful in life. Now, as we know, successful people are the exception not the rule, so the majority of us lack that ability to some degree. Where it really creeps into your life is in the hope that things will change when you come into money or get that next pay rise.

The reality instead is that you end up spending to your income. More money, more spending, similar saving. Particularly in New Zealand, where we are universally known as bad savers—hence the creation of KiwiSaver. The scary thing is if you make a lot of money now and you're a terrible saver, then retiring on a pension is going to hurt so much more.

So it's worth thinking, should I change my habits now and enjoy the double dose of marshmallow goodness in retirement or blindly hope that buying the marshmallow now won't double my hunger later?

Psychological Quirk Number Twelve

That sinking feeling in your stomach when nobody invites you

It's the oldest selling trick in the book. If you don't make the most of our offer now you'll miss out. Ouch, "are you saying this is my only chance to get it?!" The best I've seen it used is by retailers. It's almost comical. A person asks for clothes in their size, the clerk lumbers into the back of the store as though they might not have it but low and behold they come back saying, "I think this is the only one we have left." Said client leaves with their purchase and a big happy grin, feeling lucky. The clerk gets asked for the same size ten minutes later, and from within their magic closet appears another "only one we have left."

The same can be said for investing; you hear of this fantastic opportunity and if you don't invest now, you might miss the boat. An excellent example of this is Bitcoin. The underlying driver is a nice thought: no middle man, fast international transactions, and the users themselves maintain its credibility. This is not to say that a lot of people didn't make a lot of money in Bitcoin, but the problem came when it reached Average Joe. A whole lot of people buying into something they didn't understand, driven by a fear of missing out. This is the time where you have to take a long hard look at yourself in the mirror and ask, what drove me to do this? Was it logical? Was it safe? Is it in my field of expertise, and will it help me to achieve my goals? Odds are you had to look away because deep down, you know you just jumped onto the hysteria bus.

Psychological Quirk Number Thirteen

Homeostasis

I'm trying to limit the big words in this book but homeostasis is just too pretty a concept not to name. The idea of it stems from the building blocks of life, whose fundamental goal is to seek stability through equilibrium. For example, if a whole lot of chemicals are floating around in containment and you suddenly increase the pressure, as a general rule the substances will seek to form bonds that take up less space. In other words, you make a change to the system and it adapts to equalise that change. Also, the extremity of the response is relative to how drastic and sudden the change is.

In real-life terms, let's say you had an unfortunate upbringing of violence and abuse which you knew at your core was wrong, so you left home. Sadly, although you managed to escape, you've continued to find yourself in situations or relationships that are painful and not good for you. The scary thing about this is; although you know intellectually that you don't want this to happen, subconsciously you actually do. What I mean is your brain has associated love and affection with the bad way in which you were brought up. So even if you find yourself in a happy and fulfilling relationship, somehow you'll find a way to sabotage those good emotions or create drama to simulate your subconscious understanding of what you think a relationship should be. Chemically and psychologically, you're trying to maintain what you've always known because it's your learned version of safe.

You can break out of this cycle, so don't be afraid to ask for professional help. But this concept is relevant to investing because the market's correction is often similar to its rate of downturn. How badly your portfolio goes down is probably how well it goes up—provided it is sufficiently diversified.

Also, the market always wins. Let's say old Barry down the road is killing the market with unprecedented returns; year after year he's smoking the competition. But then all of a sudden Barry goes bust.

Today's winner is tomorrow's loser. No matter what you know, when the market knows what you know, then effectively you know nothing. Your skill has become the norm. So the next time you're not happy with the stasis of your life, it's worth wondering am I just being a homeo?

BUILD A MOAT AROUND YOUR EMPIRE

The most demotivating experience you can have is putting in the graft, doing almost everything right, then losing it all because you made the mistake of not planning ahead. Not only do we need to build your empire, but we need to protect it from creditors, from bad relationships and from the unexpected. As we walk through the concepts of this chapter, it is essential that you see the key specialists in each chosen field, as this is just an overview to get you thinking.

Insurance

Gambling and insurance aren't too dissimilar in the sense that the house always wins. Sure, you get that good feeling and peace of mind knowing that if the worst happens you could be covered, but at its core you're betting against the odds. The odds that you won't live to the average life expectancy, that you're one of the few that'll have a severe car crash, that your house is the unlucky one taken in the flood and the list goes on and on.

This isn't me bagging on insurance, it's just shining a light on the fact that when the charismatic insurance salesman tells you something that is almost too good to be true, then it probably is. So read the words, ignore the tongue. The whole back-end legislation behind insurance is drastically changing in New Zealand, but in the meantime, you have mass-calling salesmen desensitised to the plight of potential clients and incentivised to push the sale a little bit closer to that big commission.

Insurance is definitely not a bad thing, and I'll explain why later. What I'm trying to say is just keep your eyes open to the idea that the wording matters and at the end of the day insurance companies are businesses, so they have to win more times than they lose.

Health insurance

The annoying part about ailing health is a little thing called degradation. Sure it's excellent that ACC comes to the party for accidents in New Zealand, but what about our poor little mate Arthritis? The number of clients I've seen doddering around in pain yet still not qualifying for treatment—or even worse stuffed onto an endless waiting list—is obscene. Our public health system just can't handle the sheer volume of patients, so they have to prioritise by need or decide to give it to whoever makes the most noise. What you really need to think about with health insurance is: what are the odds you'll need it? So age, genetics, risk, and the amount you're willing/able to pay for the convenience of not having to wait. This is a personal choice, so I won't advise you on what to do without knowing you, but I'll let you know how it works in case you do.

Key things to consider when picking:

What's covered and what's not?

You may stumble into an insurance purchase, hurt yourself, then realise you're shit out of luck because your injury isn't included.

<u>What's the maximum cover?</u>

Once again, being a business they have to create limits. Either limiting the max they pay for each treatment or a limit on the overall payout.

<u>What has to happen to get your money?</u>

Do you have to lose three ribs and one toe? Do they decide what the surgery is worth, leaving them able to avoid paying the full amount and leaving you stuck with the difference? I'll say it again, check the wording, check again, check what you checked, and then once you know you've checked all the checks, only then write a cheque.

<u>**Car insurance**</u>

The thing about this insurance is, sure for the most part you probably won't make a claim, but the scary thing is that when things do go wrong, they go really wrong.

An old colleague of mine managed to wrap his car around a lamp post, so naturally they wanted to wrap their hands around the thousands of dollars not in his bank account. You hear enough stories of theft, natural disasters, and car crashes to know, well, it's probably not worth the risk of having nothing. Now, this what to look for:

Is your vehicle a hunk of shit?

If you're driving around in a car two strokes away from no return then why insure it? You should be more concerned about whose Ferrari your hunk of shit bumps into, so either third party insurance or third party fire and theft. If you have a little sacred gem you're quite fond of, or you don't have the saving skills to replace your hunk of shit, then now we're talking comprehensive. You make the call.

Market or made up?

Naturally, more cover costs more money. The real choice is to either have them pay out the value of the car at the time of loss or what you tell them to pay. This is all about preference. Cars depreciate in value, so it's just about how much you're willing to pay for the convenience of a payout if the worst happens.

Home and contents

Since the worst natural disaster in modern NZ's history, the Canterbury earthquakes, there are now three main ways to insure your house. The most common is a specific sum you agree to. Second is 'Indemnity,' which is the value of your house after wear and tear while not including the land value. Third is the least available option of 'total home replacement,' which covers the cost to rebuild your house. Now, the everyday things that give homeowners the heebie-jeebies are theft, fire, natural disasters and accidental damage from over-enthusiastic cricket games.

It’s important to note that if your house gets hit by a tsunami you are covered because it’s sudden, but, similar to health insurance, if your home is ‘unhealthy’ from degradation (e.g. a pipe that’s been leaking since you were five) then odds are your insurance company will sidestep the payout. This sort of insurance horror story should scare you into crossing your T’s and dotting your I’s when buying a home. This is where I’m starting to slip out of my lane of knowledge, so to learn more I recommend visiting www.consumer.org.nz/articles/buying-a-house.

The content of contents is similar

Your worldly possessions are covered in two simple ways: indemnity and replacement—or as we learned before; the value of your tv now vs the cost to get a new one.

Your dad’s jewels

Get your mind out of the gutter, this is just to make sure you think twice before insuring your jewellery. There’s nothing wrong with insuring it, just make sure you check these key things:

A. Is there a limit on what they’ll cover?

B. List the expensive pieces on your application from day one.

C. Keep your receipts safe and take photos of them.

D. If someone lawfully on your property steals your jewellery, the claims team might use that gem of information to dodge a payout. So you basically want to play hide and seek with your jewellery if you're having an open home or a tradie over—just to be sure.

Life insurance

The main reasons you should get life insurance are because your bank mortgage made you or if you think your family is a bit of alright. Let's be honest though, there's always that one little special family member you wish you could adopt out, but that's a story for another day. What we need to know now is: where are the slippery bits?

Think of it logically, the insurance company wants to charge you more and accept your claims less, the closer you get to death. So if you already have pre-existing conditions, you smoke, or you're simply just getting older, well, more premiums and exclusions for you. How they implement this is either by having 'stepped' or 'level' premiums. Stepped is basically where the older you get, the more you pay. Level is where they calculate the premium for the life of the policy and you pay the average until a certain age when it'll eventually change to stepped anyways. They're also a bit triggered about people potentially hacking the system so have taken measures to make sure you're not messing with them, so honesty is the best policy here.

Stand-down

Depression is a horrible and debilitating illness, and insurance companies don't want to incentivise suicide. So often you'll find a stand-down period where you're not covered for suicide or specific deaths (i.e natural causes) for the first two years.

Trauma (critical illness)

A very specific cover for serious illnesses. So unless you live life in the fast lane, have lousy genetics or insufficient income insurance, then you might not need it. More support for more money, it's for you to decide what's important.

Total and permanent disablement

The word of the day is 'permanent.' This has to be a permanent injury/illness that is pretty bad. To give you an idea the only client I've ever told this to that got excited, was a guy who lost his hand in an industrial accident: "Awesome so I can cover my other hand!" Me: "Well, actually they cover limbs so you'd have to lose an arm or a leg." You're starting to get it now, aren't you?

Income insurance

Now we're cooking. This sort of falls into that behavioural human fallacy where we can be a bit over-optimistic. To be honest, not enough people I speak to have a Plan B. What happens when your income dries up? Sure, as I say, we all like to think a pay rise will mean more savings, but in reality we just spend more as you now know. So imagine for a moment that your income disappears into oblivion, but you still have the same spending habits. Scary stuff. If you don't want income insurance I don't blame you, but at the bare minimum you should have an emergency fund to cover three months of unemployment. This is just to act as a buffer against the uncertainties of life. Two critical choices if you intend to go the insurance route: indemnity or agreed value?

Indemnity is your income at the time of the illness/ accident. Usually it's about 75% of your gross income, which is the go for salary earners because I hope you're getting a pay rise every year. The not so good part is you'll have to pay tax on it.

Agreed value is for those self-employed people who smashed the last few years financially, so decided on the payout they'll get based on those earnings, which are usually about 55% of your gross income and tax-free.

Also worth thinking about is cheaper doesn't always mean better. Just like with those neighbours around the corner boasting about their fund manager outperforming the market. You've got to think about what's behind it—are they taking more risk to get those returns? In the case of income insurance, it could be some sneaky wording around the disability criteria, so they pay out less often, or it could be they have a shorter income period or a more extended stand-down period. So always think: what is the cost of me paying less?

This is for the "I'd rather rely on the government" people

ACC

It's never a good ethos in life to entirely depend on another human being, let alone an organisation on a budget. ACC tries its best, but sometimes there's just not enough money to go round. For example, I broke my leg one week after handing in my notice. ACC then decided my holiday pay counted as an income, so their payout equated to $7 a week. #winning.

WINZ

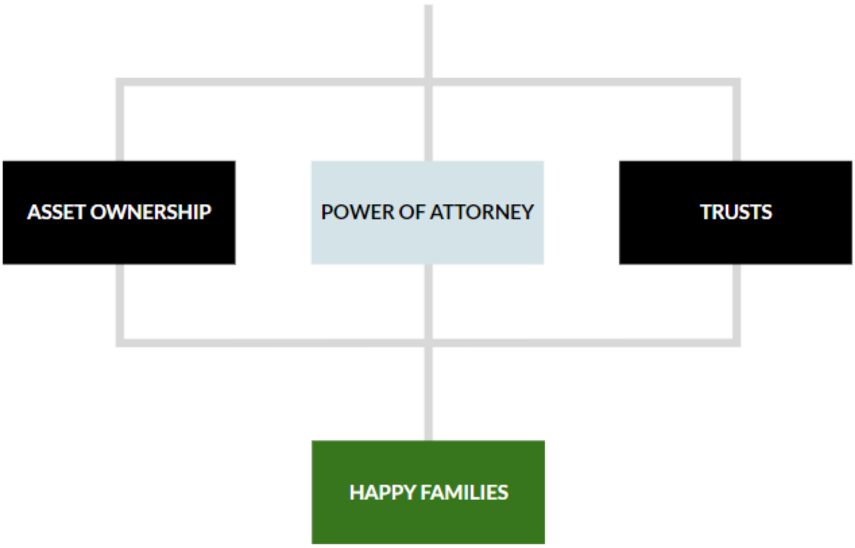
As much as you may like to complain about people leeching off your 'hard-earned taxes', the reality is it's a pretty awful life and a mind-numbing process to even qualify for income support. There was even a time when you couldn't get income support if you didn't have an address, which is pretty hard if you're homeless, you know? So long story short, have a Plan B.

Earthquake Commission

Through no fault of your own tectonic plates shake your house to bits. Surely the government will come to your rescue right? Wrong. To even qualify you need to have home and contents insurance and even then there's a limit. So once again, take control of your own destiny and turn your over-optimistic mind to the beginnings of your Plan B.

Drop dead gorgeous

Everyone knows losing someone is hard and yet very few have the foresight to organise their estate. This is the one time when ignorance isn't bliss, so let's improve your understanding with three simple ideas:



Who gets what?

Ownership is really important when you die. It's simple though: if you don't own it, how can you give it away? There are three common examples of owning something: having money in an account only in your name, sole ownership of a house or something called 'tenancy in common' where you own a share of the house—so you can give away that share in your will.

The more pressing question might be, what don't you own then?

Anything that says joint or isn't in your name is a good start i.e. joint tenancy/insurance or life insurance in your partner's name or even a discretionary trust (look it up if you're not sure). In these special moments where an asset is jointly owned, the joint partner who survives gets it all. The interesting thing about KiwiSaver though, is even if you own it, they'll pay it directly to your estate despite your request.

Will I or won't I?

There's this frustrating thing called probate, where the court slows up the money you'll get from a deceased loved one. The idea is they need to make sure that the will is legitimate before the estate can be transferred. So for all of those thinking money in the bank will cover the funeral are in for a surprise beyond the grave. Those loved ones left behind that don't have access to your account will be trying to jump through the red tape you left behind. Which further adds to the importance of having a funeral fund/insurance that they have access to, while also making sure your will is as compliant as possible.

So first things first, if you're writing a Will make sure you do this:

A. Have it in writing, be over 18 and of sound mind.

B. You the will maker sign it while two independent witnesses watch and sign it too.

If you're searching for a general guideline on how it should look, then search no further:

1. Cancel previous wills (revocation).
2. Who is executing it? If you don't decide, the government will.
3. Specific gifts of personal estate (legacies/ bequests).
4. General gifting of annuities (retirement scheme of sorts that pays a fixed annual income) and any property that is movable (personal estate).
5. Specific real estate you want to be given away.
6. Whatever real estate is left over (residuary estate)
7. Funeral arrangements.

Will you just leave me alone?

This is where the tricky stuff comes in. You might have done everything by the book, but sometimes the book hits you in the face. Not that you're a big disgrace with mud on your face, but instead that there's a legal loophole forcing the terms of your will into the 'ignore me' pile. Here's how they do it:

Will first, marry later

If you made a will before your marriage or civil union, then unless the will takes this into consideration, it will no longer be valid. Bye-bye hard work.

Pre-probate challenge

The validity of the will can be challenged in the moments before probate is approved. One way is if a partner you lived with for over three years or married (generally but with exceptions) utilises the Property Act instead of the will. They can then split the 'relationship property' evenly as though both parties were still alive. Surprise!

Secret children

The Child Support Act requires that necessary provisions are taken to make sure there are no secret children under 19 who, if found, would have the same entitlements as your spouse. They don't actually need to be a secret it just makes this tedious passage more interesting.

Will, what will?

What the smartie-pants like to call intestacy. The word sounds complicated enough, let alone the reality of using it. It's basically when you make a shitty will that they couldn't validate, or you just couldn't be bothered making one at all. If you think a post-Christmas day hangover headache is bad, then you obviously haven't had to deal with intestacy.

Not only is your family having to deal with the horrible reality of paying close to $10,000 for your funeral, but now they have to walk the very awkward legal tightrope of the Administration Act. This process can be arduous and by no means will your family necessarily get the outcome they desire. So even though writing a will may feel tedious at the time or a bit doom and gloom, I implore you to live by the mindset that today's problem is tomorrow's crisis. Grab the bull by the horns or get the horns in a place you didn't expect.

Will you just stop talking about wills?

Alright alright. I'm almost done. This last cheeky little number is for those of you with partners that don't quite connect with your favourite little ones.

It's the diplomatic approach instead of choosing A or B, you're like: "I'll choose AB." It's something called a 'life interest'. Primarily how it works is if you die, your partner (life tenant) gets to use/live in the house but can't mess with it, whereas the kids (residuary beneficiaries) get it once your partner dies.

The whole idea is your partner gets all the joys of life provided they preserve the capital. I said it that way because let's say you left the $200k you had in the bank as a 'life interest' for your partner. Do you think old Bazza is free to go on a spending spree? Not exactly, but what he can do is spend the interest he gets from that money. You see, he's not dumb; he knows he can get all the goodies in life provided he preserves the capital for the kids.

You're a wizard, Harry

No, we haven't teleported into your kids favourite book, though in a way you are bestowing a newfound power onto someone you trust. It's called the Power of Attorney and it's exactly how it sounds. You're giving special powers to someone (usually an attorney) to keep your best interests at heart. More specifically in this case, something called the Enduring Power of Attorney (EPA). This little guy is meant to have your back when you lose your metaphoric marbles or as the legal buffs like to say become 'mentally incapacitated.' This is really for the oldies that are starting to worry about their gloomy future. It gives someone you trust the ability to oversee your property or personal care.

The important things to know about your EPA

They can't be bankrupt, under 20 or have a personal property order against them, and let's be honest who truly wants that kind of person running your affairs anyways? Oh, and make sure you sign it before the marbles start dropping out your ears.

<u>We're just like birds—trust me</u>

Once upon a time trusts and families were like birds of a feather, but now as accounting fees and legal loopholes continue to mount, the benefit is greatly diminishing.

Why do you even need a trust anyway?

The four main reasons people considered a trust is that it could hide the moolah from creditors and partners, dodge the government or better yet give your family that little bit of special treatment and simplicity.

You see once again the government, like a business, needs to make money. So if they were just paying out benefits to any old Joe Blow, they'd be out of business pretty quick, so they do this thing called 'means-tested benefits.' Meaning if you were feeling particularly slick, you could put your assets into a trust so you no longer legally own it—hence not needing to declare it. Or even let's say you watched too many gold digger movies and want to make sure your future partner doesn't take you for everything you've got, then happy days, in this we trust.

The problem is that trusts are one of those old school good morality sort of things, so with the right lawyer and the right loophole, people can potentially find a way around it. It could be as simple as your intent when you established the trust.

Now we could go all in and talk fixed trusts, discretionary trusts, family trusts, custodians, the prudent person rule blahdi blah blah, but for now, I suggest you do your own research with your own lawyer and think carefully about whether it is truly worth it.

Contracting out

No, this isn't when you win Lotto, storm out of your boss's office and yell, "fuck you, I'm out." This is an agreement with your significant other to not abide by the 'normal rules' of the Property Relationships Act. It's commonly referred to in the movies as a 'prenup.'

The whole intention of this is to define what is relationship property and what is separate property. Typically, the instances where people agree to this are when they're a new couple moving in together or about to get married.

The whole point is to protect against the messy breakups we see on the news. Where you can protect yourself is with continuous updates and making sure it will be seen as 'fair' when the time comes. For example, if you agree to it before you have kids, then obviously, when you do have kids, they need to be included. Also—ideally when deciding—you need two independent lawyers helping each party make the right decision. So provided you tick the boxes then this could be a good strategy to protect against a messy future.

THE DIRTY SECRET

As I write the final words to this book, I just want to say that I genuinely appreciate the time you took to understand these concepts. Also that I may have come across as blunt, colloquial, and arrogant, but my only intention was to open your eyes to the potential of what you are capable of. Every single one of us has the ability to contribute to humanity in a meaningful way. The level of difference we make will vary, but sometimes the simplicity of doing something small can ripple through the fabrics of our society, forever changing the world for the better.

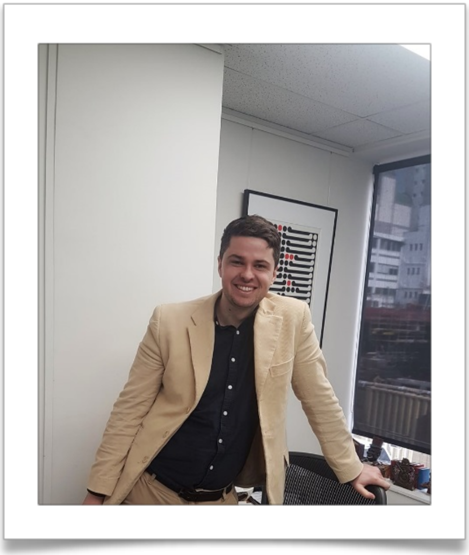
When you first started this book, you may have been hoping to find a conspiracy to reassure yourself that your life is not your responsibility. That somehow, the corruption of the world is impeding your ability to live. The reality though, is something much more sinister. Deep within all of us is a subconscious built on fear and tuned to survive. An unknown creature of sorts that pulls on the strings of our emotions, crippling us in the shackles of inaction. A dark force represented in religious texts as Lucifer, the Prince of Darkness, Beelzebub, Mephistopheles, Lord of the Flies, the Antichrist, Father of Lies, Moloch and Satan. This ominous creature has been represented as an external force, because it is the aspect of our psyche that is seen as so unclean we would rather banish it to the darkest corners of our consciousness than accept that it could be a part of who we are. A force field of ignorance protecting us from the truth.

The truth that we are afraid. That before we learned how to protect ourselves from the world, we got hurt. Whether consciously or unconsciously, the chaos of the universe taught us to pretend. To hide part of who we really are. For the devil of our own mind grows more powerful in the dark, hidden in our lack of awareness and protected by our rationalisations. So before you start looking for skeletons in someone else's closet, it's time you open the doors to your own.

Accept that while the world can be cruel, you have a choice on how you react. You have a choice as to what you do, you have a choice as to who you love, and you have a choice as to whether you achieve your dreams.

The dirty secret that the financial elite know and you don't, is that the only thing standing between what you have and what you want, is you.

ABOUT THE AUTHOR



I am an Authorised Financial Adviser from Oneplan for Retirement. The reason for you and I crossing paths is that from a young age, I had an unhealthy obsession with what constitutes emotional success and understanding the best way to help others to achieve it. This obsession led me on to an illustrious career in commission-only selling and management for one of the world leaders in face-to-face marketing. The motivation for pursuing such a career was that I had a crippling fear of talking to people with an intention. Whether that be asking a girl on a date, asking a stranger for directions or selling a product. I knew deep down if I didn't face this, then I had no place giving others advice. After forcing through the nerves and facing my fears, I was lucky enough to lead the education and direction of a team of 15 whose income was derived purely from their ability to achieve results. This experience was one I would never forget and it helped bring me to the door of Greg Moyle's office. Greg's a financial adviser with over three decades experience and he helped lay the foundations of everything I know about investing today. Now it's my turn to give back by sharing what I've learnt about the underlying drivers of the human psyche and the financial framework you need to live the life you want.