

# Focus On Active Wealth

Scale up your wealth using structured cashflow and leveraged equity.

The great Australian dream is to 'own your own home'. Seems like a good idea. But in the rush to pay off the mortgage, many of us are missing out on the chance to own other assets - assets that can produce an additional income and dramatically reduce the tax you pay year after year after year.

The fact is, if your home is the only significant asset you have when you retire, you'll have a shelter over your head, but nothing that produces an income.

No doubt you've heard the expression 'asset rich but cash poor'. Real financial security requires assets that produce income. Put simply, to not take advantage of the equity in your property is a lost opportunity.

The Infocus Money Management Active Wealth strategy puts your assets to work for a better future while reducing your home loan debt.

## What is the Active Wealth Strategy?

The Active Wealth strategy has two parts: Structured Cashflow and Leveraged Equity ('SCALE').

Structured Cashflow ensures that every dollar you earn is spent in the most effective way. This means that your debts are repaid faster, your investments grow quicker and you reduce tax along the way.

Of course, structuring your cashflow means having a budget in place. If you are already disciplined with your money, you'll have a head start. If not, Infocus Money Management offers monthly cashflow monitoring and budgeting assistance.

Leveraged Equity is created by using the equity you have in existing assets, such as your house or shares, to borrow money.

This is done through your home loan and/or a margin loan. Your equity is put to work to build income producing assets. And the sooner you act, the better.

We've all heard of the power of compound interest. Compound interest needs time to work. The more time you have, the more effective are the results. The table below shows how much you would get back if you invest \$100,000 at an assumed 8% annual return.

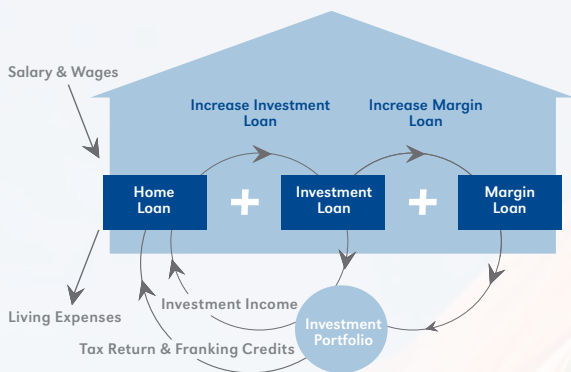
Investment Period	Investment Value
10 years	\$215,890
20 years	\$466,090
30 years	\$1,006,260
40 years	\$2,172,450

*Please note: This example ignores the impact of tax on investment earnings and the diminishing dollar value effect of inflation. Investment markets fluctuate over time, past performance is not indicative of future returns.*

As you can see, after twenty years, your \$100,000 would be worth \$466,090. If you delayed investing and had only five years for your \$100,000 investment to grow, you would need to generate a return of 36% every year to achieve the same result of \$466,090.

It's worth noting here that diversification is the golden rule of investment. And you can't have a diversified investment portfolio if all of your money is going into your home loan.

When you put all the parts together, the Active Wealth strategy looks like this:



### Does the Active Wealth Strategy really make a difference?

Implemented properly, and with professional financial advice, Infocus Active Wealth Strategy can make a huge difference on your financial situation over time. Let's look at an example:

Tim and Tracie have a house valued at \$400,000 with a mortgage of \$220,000 (interest rate 8.77%). Their monthly loan repayments are \$1,894 per month and they have spare cashflow of around \$720 per month. They are keen to create wealth through building a portfolio of investment assets, but also want to repay their mortgage as soon as possible.

They are considering two alternatives:

#### Option One

Use all their surplus income to repay their home loan first and once the loan is repaid, invest both the surplus income and the funds formerly being paid off their loan.

#### Option Two

Implement an Active Wealth strategy. Borrow to a maximum of 70% of the value of their home and start a margin loan equivalent to their investment loan. To do this, Tim and Tracie take a \$60,000 interest only loan using their home as security. They also establish an interest only margin loan of \$60,000 and invest \$120,000 into growth based investments. After meeting the interest payments on their investment loans from their investment earnings and surplus income, they repay the home loan with the difference.

By reducing the home loan, Tim and Tracie have increased their capacity to borrow. Each year they increase their investment loan by the amount they have reduced the home loan. As a result, their overall level of debt remains the same (\$340,000) but they are slowly recycling their debt to 'smart' debt (tax deductible debt), but now they have income producing investments that will assist in meeting their loan commitments.

The results after 20 years:

	Repay Home Loan First	Active Wealth Strategy
Time taken to repay home loan	9.8 years	12.75 years
Value of investment portfolio	\$818,868	\$1,587,893
Outstanding Debt	-	\$340,000
Net position in 20 years	\$818,868	\$1,247,893
<b>Additional Wealth Created</b>		<b>\$429,025</b>

*This example assumes Tim and Tracie borrowed money at 8.77% (ANZ standard variable loan rate as at 31/1/08). They invested their funds at an assumed rate of 7.50% growth, 3.5% income which is franked at 50%. Capital gains tax would be payable should the investments be sold.*

### Why Active Wealth makes sense

- Active Wealth replaces non tax-deductible debt with 'smart' debt.
- You establish an investment portfolio sooner rather than later.
- It allows you to shift to an investment only interest loan which in turn enables you to direct more cash towards paying off your home loan.
- It also allows you to have a line of credit style investment loan with a higher pre-approved limit which may help you to avoid any additional paperwork and fees when adjusting loan balances each year.
- Although Active Wealth may mean that it takes a little longer to pay off your home loan, you unleash the potential to create extra wealth (as long as you purchase growth assets).
- At the end of the period you will have paid off your home loan and own an investment portfolio.

**Infocus' Financial Advisers can help you assess whether an Active Wealth Strategy involving gearing is right for you. We can determine how much you can borrow, select the right loan type and arrange finance.**

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