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# the **barefoot investor**

five steps to financial freedom

**scott pape**



barefoot

**second edition**

# **The Barefoot Investor**

**Five steps to  
financial freedom**

**Scott Pape**

**PLUTO PRESS AUSTRALIA**

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Dedicated to my family – the most important people in my life

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# INTRODUCTION

## Going Barefoot

## There's a Barefoot Path for everyone

Bank managers, financial planners, real estate agents and mortgage brokers are salespeople – not educators. The more you know, the less they get.

I started the whole Barefoot thing to counter the condescending crap and misinformation which is designed to stroke the egos and pad the pockets of people who don't deserve it. The result is a straight-talking, sexy guide to money that empowers you to get to your goals as quickly as possible.

### Here's the deal ...

You want to achieve a level of wealth that allows you to spend the bulk of your time, creativity and cash doing the things that mean the most to you. You don't want to be confused with complicated lingo, or beaten around the head by someone who assumes your goal in life is to delay the good times until you're too old to enjoy them.

Welcome to the world of Barefoot.

I wrote the *Barefoot Investor* book because everything seemed to be written for people living in a parallel world who'd paid off their homes loans and bought substantial investments, and whose idea of a rocking Saturday night was clipping coupons in front of *Australia's Funniest Home Videos*.

No-one seemed to be talking to young people, and everyone seemed to think that finance had to be boring, boring, *boring*.

*The Barefoot Investor: Five steps to financial freedom in your 20s and 30s* was grounded in a firm belief that not only can anyone become wealthy, but that learning about it can be fun, empowering and downright sexy. After all, what's sexier than living life on your terms?

There is only one success – to be able to spend your life in your own way

— CHRISTOPHER MORLEY

Since the first book I've received hundreds of emails from readers who've not only achieved phenomenal success following the Barefoot Path outlined in the book, but enjoyed every minute of putting the plan in place. Many of them wanted more information or elaboration of the Barefoot Path.

This edition of the book answers those questions. Questions like: How will I ever afford to buy a home? How can I get on top of my debts? What hot stock tips do you have?

When I first started Barefoot I was told by people who had far less hair than me that there wasn't a need for finance to be fun, and that I should leave it to the (older) experts. I'm glad I didn't take their advice. The original book was a run-away bestseller, and has led to me doing a newspaper column and quite a few television and radio gigs. In the process I've put thousands of people on the road to financial freedom. I'm happy to say that I'm still treading my own path – now it's your turn.

## **In the beginning ...**

Most teenagers rebel. Some do it by cutting school or getting tattoos, while others hide in their rooms and listen to Cold Play.

I rebelled against the institutions that I was a by-product of – middle-class suburbia, and an educational system that was designed to perpetuate the same myopia. I had no desire to become part of the rat race. I had no Hills Hoist envy.

Throughout my school years, success had been presented as an easily digestible *modus operandi*: 'Study hard, get a good job, and be set for life.' I started to question this truth after having it screamed at me by a middle-aged maths teacher who looked as though he'd done one too many rounds of yard duty – he was a successful graduate of the same three-step formula.

My teenage angst led me to search for an alternative path – a Barefoot Path – that would allow me to do the things that I wanted without getting caught in the trap of working my arse off to pay for stuff that I really didn't need in the first place.

My rebellion wasn't about dyeing my hair, having an Eminem-esque attitude, or binge drinking (well, maybe just a little), but more about how I could use money as a tool to bypass the pervading culture. Money meant one thing to me: freedom. The freedom to do the things that I wanted to do. Freedom from the rat race.

I've been fortunate to have many positive influences in my life, from wise old stockbrokers who took me under their wing, to my parents who fanned the flames of my economic interests, which was fortunate given that in my thirteen years of schooling I was never once taught about money.

Early on I decided that the flight to my future life wasn't going to be travelled in economy class. I devised a strategy that would allow me to tread my own path, make choices about how I would work and live now and in the future, and never have to worry about money again.

## Reality check

Advertising has us chasing cars and clothes, working jobs we hate so we can buy shit we don't need. We've all been raised on television to believe that one day we'd all be millionaires, and movie gods, and rock stars. But we won't. And we're slowly learning that fact. And we're very, very pissed off.

— TYLER DURDEN (PLAYED BY BRAD PITT), *FIGHT CLUB*

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I went to university, experimented, partied, played, studied, and came out the other end with a business card that read Scott Pape, B. Bus SDIA ADA 2, a desk in a skyscraper, and a coffee mug that had my name on it – not that it mattered. I had a plan. *A Barefoot Plan*.

Many of my friends also finished university and graduated to positions that brought with them below-average salaries, mounting bills (and the accompanying mounting debt) and work hours that went some way to curbing their appetite for 5am finishes. They'd fulfilled their end of the success formula – letters after their name, good job – and it was now time to be 'set for life'.

Just like learning about computers on an original Apple Mac, much of what I learned through high school later became redundant. Thirty years ago, when it seemed the only people who went to university were hippies trying to get out of going to the Vietnam War, higher education (funded by the government) was probably the next best thing to joining the Mafia.

Today things have changed. The bar has been raised. My generation is the best educated in history – and as a consequence we're all competing for the same jobs. These days a graduate degree will see you on the fast track to

being junior vice president of burger flipping, and it cost you thousands of dollars in uni fees for the privilege.

House prices have gone through the roof. Young people are squeezed out of the market, or burdened with mortgages that could wipe out the debt of a Third World country. Masses of Baby Boomers congratulate themselves on being shrewd investors as they see the value of their house going up, up, up, while those faithful to the three-step track to success sit on the sidelines paying rent.

Many of my friends felt cheated – the financial cards were stacked against them. As they struggled to get by, their thoughts weren't focused on which house, car or holiday to purchase, but on how to pay their bills.

Not me. I'm a guy who has money.

I don't clip coupons – I eat out, and I spend money on CDs, concerts, travel and a host of other things that add value to my life. Invariably my friends would come to me and ask what I was doing differently. I explained that the source of my success doesn't lie in a huge salary, living like an Amish convert surviving on a dollar a day, or even on disciplined budgeting (I've never stuck to one successfully for longer than a few days). Nor was it about being a financial wizard making a killing on the stock market. The difference between me and my friends was that I had a plan. A Barefoot Plan.

The Barefoot Plan has evolved into a series of steps that can be implemented within the space of an afternoon and require no more additional thought than it takes to watch an episode of *Big Brother*. It doesn't require a huge income, an interest in investing or keen analytical skills, and takes only a tiny dose of willpower or determination.

I don't pretend to know your goals. You're an individual. Your goals will invariably cost money, be they buying a house, travelling or starting your own business. The Barefoot Plan sets you on course not only to become wealthy beyond what you've ever envisioned, but more importantly it gives you the ability to tread your own unique path in life, experiencing life on your terms – something that will mean much more to you than money.

## The way of the Barefooter

The size of your bank account is not a measure of your happiness. I strongly believe that money is quite simply a medium of exchange that allows us to live a life with choices.

It seems that most people have screwed-up ideas about money.

There are some who think that if they were rich then their life would be complete. It's a fairly common assumption – after all, who doesn't want more money? Yet from personal experience working in the world of high finance and dealing with people who have large amounts of money, I can categorically state that there are just as many miserable and stressed-out people among the wealthy as there are among the poor.

It's often been said that money acts like a magnifier. If you're unhappy when you're poor, coming into cash will tend to magnify those feelings. If you're happy with your lot and you get a windfall, research tends to indicate that you'll be a happy rich person. For validation of this point, just check out any of those trashy magazines that dish the dirt on the rich and famous. It's clear that some of these people, despite their wealth, fame and adulation, battle with depression. Think Britney Spears and clippers, Courtney Love and white powder, or Michael Jackson and children.

Many people say that money is the root of all evil. I don't buy that at all. The underlying philosophy of going Barefoot is that money is not inherently evil, at least not like Bert Newton's hair is inherently evil; it's simply a means to an end.

The real deal is that being responsible about the choices you make regarding the money you earn (and later invest) allows you freedom of choice. With money in your hip pocket you call the shots. Money allows you to be in control of your career – or lack of one. You can donate your time to something you're passionate about. You can follow your calling, live your dreams, tread your own path.

So while it's true that money is an important part of people's lives, and something that creates a considerable amount of stress, by implementing effective strategies, and directing your money towards the things that mean the most to you, you can live a unique and prosperous life.

I'm able to live the way that I want right now because I make choices about how I want to live, and then direct my time, energy and financial resources to getting to that point. Sure, I may not be living the David Jones catalogue lifestyle, I don't have a fancy car and my clothes aren't designer label, but at the end of the day I simply couldn't give a toss.

I don't care about buying into the status symbol game. I have true peace of mind, and the ability to do the things that mean the most to me. Get your finances in order and you'll be able to do the same.

Money to me is not about conforming to the ideals of family, friends, co-workers or marketing people. I have money, and the overriding factor that gets me jazzed is not the Gucci shoes I could splash my cash on, it's true freedom – freedom of choice.

Money gives you choices. It gives you peace of mind. It allows you to live the life you want. Forget those less enlightened who denounce money as evil. It's a tool, and how you use it depends on your ideals, your character and, importantly, your goals.



**Britney Spears ... Hit me baby, one more time.**

## The five Barefoot steps

The Barefoot Plan gives you five steps to follow. Each one builds upon the last and will culminate in you finding your own personal Barefoot Path.



**Step 1: Keep It Real**



**Step 2: Look Out for Number One**



**Step 3: Repo Your Repayments**



**Step 4: Work Your Mojo**



**Step 5: Have a Backup Plan**

I've designed this book differently to most traditional finance texts. I don't presuppose there is one correct path that we should all be striving towards. I won't be giving cookie-cutter advice on how to save by clipping coupons, or lecture you about spending money on nights out with your friends (that's something I actually encourage).

I've taught this plan to hundreds of people on my radio show, in seminars and in personal consultations. Thousands of people have also read the original edition of this book. Each person had different income levels – some were outrageously wealthy, others were on Centrelink payments. Some had costly goals like travelling first class overseas or buying a house, others simply wanted to get out of debt. All of them wanted to gain control over their finances so they could start living a life unconstrained by lack of money. The results people have achieved with the Barefoot Plan never cease to amaze me.

From reading this introduction you'll hopefully have gleaned that I don't write like other finance writers. I have no interest in boring you with complicated lingo that serves nothing but to stroke my ego. Nor am I attempting to go off on a tangent and waffle on about irrelevant financial facts.



**With this book I promise that:**

- Formulating your own Barefoot Plan will take the best part of an afternoon, and after it's in place you won't need to spend another second thinking about it.
- The plan requires no great sacrifices or cutting back on the pleasures of life, and little in the way of budgeting (just bondage, but more on that later).
- You don't need to have any interest in money, except for an interest in where you want to spend it.
- You require no existing financial knowledge.
- I'll give you a plan that will deliver you riches, peace of mind and the ability to tread your own path.

# BAREFOOT STEP 1

## **Keep It Real**

## BAREFOOT STEP 1

Let's get this party started. The first step builds the base for the Barefoot plan. We'll tackle these questions and issues:

- Are you enslaved by your possessions?
- What are some of the issues you face for building wealth in the new millennium?
- How much do you really need to live large?
- Why you should bother dragging your arse out of bed each day – and how you can win the game by getting closer to your goals.

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We'll also spend time creating the fuel to fire your own unique Barefoot Plan.

## First impressions count

If I don't stop shopping, I'll end up a bag lady; a Fendi bag lady, but a bag lady ...

— **CARRIE BRADSHAW (PLAYED BY SARAH JESSICA PARKER),  
SEX AND THE CITY**

Whether you like it or not, there are certain unwritten rules when it comes to finding love. Relationship experts tell us that an impression is made within the first few seconds – and that first impression is vital, especially when your plan is passion.

Finding love is a little like a job interview, so it pays to put your best (bare) foot forward. Over the years I've seen my female friends 'hire' dud dates simply because they were good interviewees. They looked the part, they said the right things – but after a few weeks on the job, these blokes couldn't perform the most basic tasks and had to be made redundant.

Looking back, I can see that not giving a flash first impression was my major downfall. As I'm the first to admit, I'm quite unimpressive. I have a history of driving cars that don't need locking, in the vain hope that somebody will do me a favour and actually steal it. I have no designer clothes – other than the fake Diesel T-shirt I picked up in Asia last time I was there. I generally live quite an unmaterialistic lifestyle.

While I see no problem with this, it's certainly pushed me down the ladder in the love stakes. Time and again I've been beaten by blokes driving flash Beamers. Blokes who wear Hugo and whose apartments mirror a faux Freedom Furniture display centre.

While I don't believe that many women are gold diggers per se, there is something to be said for a guy who seems to have his shit sorted, and from the outside looking in, it was 'bloke in the Beamer, one vote, Barefoot in a 1990 Magna with a coathanger for an aerial, zero'. (Although I've always argued that if a bloke under thirty is driving a car worth more than his age, it means one of two things: either he has really rich parents, or he's a drug dealer.)

The process of purchasing status symbols to project your affluence works. We're pre-programmed to believe that the girl with the Gucci handbag uses it to store her gold card (or perhaps has just been to Bangkok and picked up a fake), and that the bloke driving the Mercedes is wealthy. After all, these products are expensive – the people with these trappings must be doing OK.

I've since learned that those people that look like they're real-life mannequins for a David Jones catalogue are trying to prove something to the world – you can learn a lot about a person who chooses to purchase an eighty thousand dollar car. Many of these people stay poor because of the desire to look rich. As the saying goes they're 'all show and no dough' – and if you tune into radio station 'wanker FM' you'll soon be able to spot them a mile away.

But it took me a while to sort this out. Where did it all start?

## My first day of high school

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On my first day of school I was thirteen, and seriously stressed about leaving the confines of my little primary school to jump into the land where the big kids ruled. Adding to my angst was the fact that the high school had deemed our first day to be 'casual dress day' for the whole school, as a 'special treat' to welcome the freshers to their new school.

'Special treat my arse!' I remember thinking to myself. I secretly wished that the first day could be full school uniform, so at least everyone would look the same. Alas, not only was the new Year Seven class thrown into the deep end having to deal with all the new surroundings, damn it we had to look cool too!

The day before I remember scrounging through my wardrobe desperately searching for something passable.

Nope, nada, nothing. That's what you get for letting your mother buy clothes for you for the first thirteen years of your life, and relying on hand-me-downs. But hey, I was thirteen, what did I know about fashion? At this stage I was in a state of panic. What would happen to me if I turned up wearing stuff that wasn't cool? Would they think I was a mummy's boy?

Taking the money I'd saved from my paper round, I hauled arse down to the local shopping centre and pleaded mercy with a shop assistant to deck me out in something cool for my first day of high school.

At the time, Stussy was *the* label. Back then, in the early '90s, brand names were yet to encounter the backlash they have now. For most of us, it didn't really matter what you wore so long as it had some god-awful brand label stuck on it, the more prominent and expensive the better.

So, after using all my spare cash, I was the proud owner of a pair of Stussy shorts and a (hideous) Stussy T-shirt. It mattered not that if these clothes didn't have the Stussy emblem I wouldn't be caught dead in them – at least I wouldn't stand out, and I'd pass the test in the nervous few hours of starting at a new school.

The next day as I neared the school gates I noticed a funny thing – practically every fresher had the same idea. You could pick the new kids a mile off: each piece of clothing had come freshly off the retail rack the day before and had been ironed within an inch of its life.

Cut to adulthood: do you think the issue of conforming and appearing with the right material possessions has changed? God no. If anything, as you move through your turbulent teen years and towards the process of sitting at the adults' table the pressure gets worse.

### Dear Barefoot

**Q:** My jeans cost more than it would take to feed a village in Ethiopia for a week – am I a wanker?

**A:** Yes.

Marketing tells us that the car we drive, the clothes that we wear and the furniture in our houses are symbols of our lot in life. Their marketing messages are designed to appeal to our basic human desires – to be attractive, powerful, smart or sexy.

I don't want to make money. I just want to be wonderful.

— MARILYN MONROE

Television has a major impact on society, influencing our expectations of what our lives should look like. You see the lifestyles the characters on your favourite sitcoms are living and you feel depressed. On the face of it we all know television is fantasyland, but I reckon our subconscious minds see the images flickering away on the TV and somehow associate this with something close to reality.

This is not how people go about their everyday lives. Have you ever noticed how the characters on your favourite show spend very little time watching television?

A report came out some time ago that said that if the funky group of thirtysomethings on the (now finished) show *Friends* were to live the lifestyle of the hip and funky New Yorkers that they portrayed on the show, each of the characters would have to be earning well over \$US100,000 a year! Now, in between all the high jinks and coffee lounging that happens, my bet is that there's not much time left over to bring home the bacon, unless of course Chandler is running a downtown amphetamine ring and supplying the rest of them with the cash to support their lifestyles.

### **Driving a Mercedes makes a statement that you're rich ... right?**

In today's consumer consumption society, achievement is in no small part dictated by the status symbols you own and the brand labels you wear. Yet I've come to understand that in most cases the person with the flash car and fancy clothes will often be the poorest person in the room.

A good explanation of this is found in the American book *The Millionaire Next Door* by Thomas J. Stanley and William D. Danko. The authors set out on a study to find out how to market to the very wealthy.

Initially the pair interviewed people in wealthy suburbs who they perceived to be rich – those with big homes, expensive cars and designer goods. Yet their findings showed that although this group met the expectations of what we believe wealth to be, many of them were income rich and asset poor.

Worse, they were drowning in debt.

This is a classic trap that some people get themselves into – spending money they don't have, on stuff they don't need, to impress people they don't like.

So the authors began to search for people who were independently wealthy and made them the basis of their book. Their study uncovered a number of patterns common to the financially well off – most of which ran contrary to what we imagine a successful millionaire looks and acts like.

The picture that the research painted of these wealthy people was of fortunes built over a lifetime by following the time-tested tenets of wealth. They were careful with their credit, saving up for items rather than splashing out with the fantastic plastic. Many didn't have a boat or a lap pool. The average millionaires in the book drove second-hand family cars, our equivalent to a Falcon or Commodore.

Their modest houses were located in middle-class suburbs, hence the title of the book. Above all, the people surveyed who achieved great wealth had a long-term investment program. A whopping 95 per cent owned stocks, and few traded them (blasting away the image of the successful millionaire day trader).

Ten years ago the hot topic of conversation with my classmates centred on the courses we would study and the universities we would be applying to. The underlying theme was those who studied the glamour degrees were on a one-way ticket to the good life.

Now I realise that the occupation you have and the income it derives plays but a small part in wealth. Of much more importance is what you do with your money. That's why I wrote this book. The steps outlined later in the Barefoot Plan will, if you follow them, make you a millionaire.



Get married, have 2.3 children, wear the Gucci garb, shop at David Jones and drive a Beamer. Then you'll be happy. Then you won't have a worry in the world. It's a game. It's unrealistic, generic and plastic.

Yet my personal experience of working in the fast-paced world of stockbroking has confirmed that people still happily eat this garbage up. Throughout my career I've worked with guys who, despite earning hundreds of thousands of dollars a year, still struggled to find money each month to pay the bills. Why? Well maybe they watched the movie *Wall Street* one too many times, but at the end of the day, like many of us, they got caught up living a label. They bought a Porsche (and the repayments killed them), rented a decadent apartment, and lived L-A-R-G-E Puff Daddy style. It's the image of the mover and shaker.

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Unfortunately, even though they're earning tons of cash, most of it is spent maintaining the lifestyle. When I went into the stockbroking field my old man had one piece of advice for me: 'Don't turn into a wanker'. Dad, I think I've upheld my end of the bargain.

It's not just people on lots of cash who get caught up in the label game – to a certain degree all of us are affected. Let's look through the marketing madness and see it for the propaganda it is.

Businesses are in the biz of making consumers spend. How do they turn an otherwise generic bottle of water into something fashionable? By marketing. How do they convince you that you need to shell out \$150 for a T-shirt that costs less than \$5 to make? By marketing. They're not selling the shirt; they're selling a lifestyle – all the things that the marketing people have embodied in a brand. I own Rip Curl boardies, but when I chuck them on I certainly don't feel like Tom Carroll – or surf like him, unfortunately.

### Dub dub dub files

Do you spend time fantasising about what it would be like to be rich? It's time for a reality check: you're already one of the wealthiest people on the planet. Check out [www.globalrichlist.com](http://www.globalrichlist.com) and get some perspective. Simply type in your annual income and check out your global standing, from richest to poorest. The site uses figures from the World Bank's development research group. The table input data is designed for US and UK figures. For an accurate conversion from Aussie dollars, work out 80 per cent of your annual income then plug that figure into the \$US field.

I believe that growing up in Australia we're already wealthy. Those of you who've done a bit of travelling will know what I'm talking about. Australia has without doubt one of the highest standards of living anywhere in the world. By virtue of the fact that you're a resident of Australia you're already on top of the heap by global standards. Look at all the beautiful parks and gardens, the public libraries, the sporting facilities – as residents of this lucky country, they're ours. Collectively we own them!

A survey by a United Nations Development Program ranks Australia in the top ten countries in the world for income, life expectancy and educational standards. That means we're doing a whole lot better than most people.

### My tour of duty

I often joke that my passport reads like that of an international pedophile – consisting of far-flung countries which thankfully are yet to offer Contiki babes and beer tours. Places like Vietnam, Thailand, Cambodia and Laos.

I love visiting our Asian neighbours, regardless of whether I'm working, backpacking on a trek or simply enjoying a holiday. Each time I learn something different, and get a better perspective on my place in the world.

My first trip to South-East Asia truly jolted my perceptions of this country. On my tour of duty I saw families living on the sides of roads. On my nightly walks I saw them huddled together, trying to keep warm and dry as the wet season set in. I also witnessed the slave labour that occurs when multinational companies set up sweatshops to pump out garments so they can put a million per cent mark-up on them and sell the dream to vain Western consumers.

Many people in South-East Asia put up with substandard housing, intermittent electricity, poor telecommunications, unhygienic drinking water and food that is prepared in filthy conditions.

Number of people in the world living on less than US\$2 a day?

**2.6 billion**

Yet, through it all the lasting impression I received was that most people in South-East Asia seemed genuinely happy. Place the average Westerner in their shoes and it would be a catastrophe – or on second thoughts, it's probably already a hit reality TV show by now.

Some of the coolest people I know couldn't care less about keeping up with the Joneses; they live their own life and focus on achieving the things that mean something to them, not what anyone else has dictated. My view? I don't give a shit what clothes you wear, what brand of cola you drink, where you live, what you drive, so long as you're happy.

## Talking 'bout my generation

Since I launched the Barefoot Investor and became a (self-appointed) media tart, I've long campaigned for a systematic approach to teaching money in schools. It's an uphill battle. Things were fairly simple for the Baby Boomers. They got married in their early twenties, bought a Commodore and a house, and pumped out a few kids. There were no ATMs, no credit cards, and the

local bank manager wanted to see that you saved before he'd lend you that \$3000 for a deposit on a house.

As a result of the deregulation of the financial services industry, it's a very different financial picture that presents itself today. Young people are actively targeted by financial institutions for credit cards, mobile phones, car loans – come to think of it, any consumer item. Why? Because they're a good bet: after all, they have decades to pay off the debt.

Of those who declare bankruptcy in Australia each year, one in five will be under the age of thirty – most due to run-away credit cards, mobile phone bills and pay-day predator lenders. So, given that managing your money has become much more complex, kids need to be taught simple money management in school. Unfortunately the statistics show that the average eighteen-year-old school leaver ranks among the most financially illiterate of all Australians – which is why so many end up with debts which rob them from becoming financially free from a young age. Just think, where would you be right now if you'd read this book in Year 10?

We're one, but we're not the same

— U2

There have been a heap of studies lately highlighting the fact that the post-Baby Boomer generations – X and Y – are struggling with issues such as the soaring cost of home ownership and tertiary education, job insecurities and changes to the welfare system.

The deal is that we're seeing first-hand the effects of a generational shift. Baby Boomers are placing a massive burden on our infrastructure as they all hurtle at breakneck speed towards retirement, the Gold Coast and golf.

My parents are fond of saying 'things ain't what they used to be', and for once they're dead on the money. Let's have a look at how some things have changed.

## Baby Boomers

Had access in real terms to more affordable housing  
 Were part of a much more resilient labour force  
 Were offered free university education  
 Grew up with the Rolling Stones

## Generation Xers

Have seen housing prices rise to such an extent that house affordability is a big problem (a survey by the Australian Housing & Urban Research Institute in early 2006 found that 54 per cent of all those experiencing housing affordability problems are in the private rental market)  
 Have come to accept job insecurity as downsizing and casual employment become more common  
 Have to pay for university  
 Grew up with the Backstreet Boys

Source: Generation Xcluded: AMP:NATSEM Income & Wealth Report Issue 6. November 2003.

## Housing

Baby Boomers have had access to cheaper housing (in real terms). You'd have to be living under a rock somewhere if you hadn't worked out that housing prices in Australia have reached insane levels.

Housing is one of the central issues affecting younger generations. It's becoming increasingly difficult for first home buyers to gain a foothold in the property market and, as the Great Australian Dream of home ownership slips further out of reach, younger generations are missing the opportunity to get in the game.

One of the key points about getting ahead is that you'll eventually need to start making money passively. What do I mean by that? Making money without having to work for it.

Home ownership is a perfect example. You purchase a home, start paying off your mortgage, and in ten, twenty or thirty years, your house (asset) should be worth a lot more than you originally paid for it.

## Careers

Job security, or better yet job insecurity, has been highlighted as a major difference between the two generations. Remember when you quit school at sixteen, got a job, kept away from the boss's wife and ended up as a senior executive picking up your gold watch as you shook hands with the president of the company after forty years of loyal service? Neither do I, but apparently it happened once. A few things have happened since then.

First, younger generations have experienced the technological explosion that has made redundant much of the menial labour that was once the backbone of the workforce. At the same time there's been a steady increase in the use of casual labour, and this has made establishing a career path more difficult for many younger workers.

## Education

As a result of an uncertain labour market, demand for education has skyrocketed and Generation X has become the most qualified generation in history. Almost 60 per cent of Gen Xers have tertiary qualifications. Years ago if you'd been to university you were on the fast track to management. These days we hear about people with multiple degrees, even some with PhDs, who are still asking the crucial question: 'Do you want fries with that?'

Baby Boomers were offered free university education. Not so for the young people of today. The dreaded HECS-HELP has meant that university is certainly not free anymore – Australians have racked up a collective university debt of \$10 billion, which will have to be repaid throughout their working lives.

Because of our tertiary education many of us have a crippling fees debt that takes a big chunk out of our pay packets every week. Sometimes we're forced to take a first job doing something that's completely different to what we've studied just to 'get some experience', not to mention the humbling experience of looking at housing prices and calculating that on our income we might just be able to afford a humpy off the coast of Tasmania.

These days turned out nothing like I had planned.

– POWDERFINGER

The fabric of society is changing. Don't get me wrong – I'm not getting all Kurt Cobain depressed, I'm just highlighting the fact that we're living in different times to those of other generations, and therefore getting control of your money is even more essential to treading your own path.

So, don't just passively read this book. Take the time to think about how the different topics relate directly to you. If you do, you'll be better equipped for the journey.

## The future is going to be expensive!

Prices keep going up. Economists with polyester ties and dandruff on their shoulders tell us it's a phenomenon called inflation. Just like the influx of reality television, inflation is here to stay, pushing up the price of most things as time goes by. What can we do about it?

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When I was younger and still living at home, my old man was always harassing me about how much a big night cost me. It would go something like this ...

I wake up, my head's pounding, I've got the dry throat, I'm trying to work out how I got home, and all I want is a gallon of water. I stumble out of my room and my parents are sitting down having, well, dinner, and are looking at me with the shame of having an alcoholic son.

Then Dad starts up: 'How much did last night's drunken episode cost you?'

I mumble 'eighty bucks' – truthfully, without thinking, because I'm not at my best when I've just woken up. Usually I can see a set-up before I walk into it.

'Eighty dollars!' Dad screams incredulously. 'That's ludicrous, highway robbery, boy! When I was your age ...' And it's like – here we go. Church is in session, the Reverend is about to start another sermon.

The truth is that when my old man was my age (some thirty years ago) a cleansing glass of ale set him back the grand total of 20 cents. Can you imagine

that? The mind boggles. As in, I'm going out, going to have a huge night, so I'd better dig into the savings. I'll take out ... three dollars! That'll buy me ten beers and I'll still have enough for the jukebox and for the taxi home.

I know what you're thinking, what a great time to be alive! Twenty cents for a beer! But hey, step back bucko, my old man was probably only earning \$80 a week – and that was a full-time wage.

What I'm getting at here is inflation. Prices rising. Each year the price of everything – from a beer to a car – rises. According to the Australian Bureau of Statistics, a historical annual average over the last twenty years has been around 4 per cent.

This isn't so bad cos just like when my old man was hitting the club scene (I wonder if they had clubs back then?) he was only earning \$80. So, roughly speaking, the price of a beer was relative to what the price of a beer is now. We just earn more. Each year as prices go up, economists tell us that our wages should (hopefully) increase by roughly the same amount. If they don't, then we lose purchasing power because as prices rise our income will buy us a little bit less each year.

Like most things in finance, people tend to use confusing and intellectual terms for what are essentially simple concepts. Here's a classic example of what inflation is: remember being in primary school when the school bell rang at 3.30pm, and you and your mates jumped on your bikes and rushed down to the milk bar to get 20 cents worth of mixed lollies? While age has no doubt matured your palate, try finding a use for 20 cents now!

Someday... I'll buy an old car  
 Someday... I'll get that car to start  
 Someday... I'll learn how to drive too  
 And then Someday... Imagine all the things I could do.

— CAT EMPIRE

## Going up and going down

We've established that inflation erodes our purchasing power over time – so the value of a dollar today (using the historical average of 4 per cent inflation a year) is only 96 cents in a year's time.



I can already hear you saying, big deal, 4 per cent here, 4 per cent there, it's all sand through the hourglass.

When looked at with a measly dollar, or with our beer analogy, things still look pretty calm. It's when we apply the principle to larger-ticket items that we see inflation can get a little scary. Here's how that 4 per cent kicks in over just one year.

### The impact of inflation

	2006	2007
Stereo	\$500	\$520
Car	\$25,000	\$26,000
House	\$400,000	\$416,000
Value of an Arts degree	\$22,000	\$4.50 an hour (with tips)

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An important thing to point out is that there is no 'value added' in these prices. Inflation is simply an increase in price for what is essentially the same product. The examples I've given above basically mean that you'll have to find more money as each year rolls on for essentially the same product.

That being said, certain items, like DVD players, computers or any offering from an *Australian Idol* 'artist', may actually drop in value due to technology or manufacturing breakthroughs. At the same time other goods and services can rise in price faster than inflation. Good examples of this are growth investments – shares and property.

Yikes! Sounds like the future is going to be expensive!

The deal is this. Inflation is a wild beast that is constantly eroding the value of the folding stuff in your hip pocket. Each year that cash can purchase a little less than it did previously – while at the same time we want to be increasing our standard of living.

Enter investing.

To guard against inflation, people invest their money. Historically, certain asset classes, which we'll be talking about in depth later, will provide returns higher than the historical average of inflation, which is a process known in technical schools as 'outpacing inflation' or, as I like to put it, keeping in front of the eight ball.

## But which assets should I invest in to keep playing pool? Have I totally missed the point?

Ahem ... yes. Take it easy, tiger. This won't be on the test. Let's look at the historical returns of each of the major asset classes ('asset class' is a term investors use for broad categories of different types of investments, like shares, property, fixed interest and cash, so they can compare general returns). The historical returns reveal two sets of figures: the annual returns for different types of assets, and the all-important inflation-adjusted annual returns for the asset classes, which is derived by subtracting the historical rate of inflation of 4 per cent from the annual returns.

One thing about using historical examples – they're just that, historical. They're used as a guide to the future based on what we know about the past. But one thing we can count on is that things *can* and *will* change in the future.

### Annual returns by asset class over 20 years

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	Raw data	Adjusted for inflation
Residential investment property	12.1%	9.7%
Australian shares	11.8%	9.4%
Fixed interest	7.3%	4.9%
Cash	4.6%	2.2%

Source: ASX Long Term Investments Report, December 2005.

Ouch, baby! See how little you have left in your fixed interest or cash account after inflation has done its worst? On the other hand, property and shares are not bad at beating inflation.

## Kicking goals

Choosing a goal and sticking to it changes everything

— SCOTT REED

Money is simply pieces of paper (well, plastic these days). It has no real value until you apply it to the things that are important to you – the achievement of the short-term and long-term goals you’ve set for yourself. Money has been and always will be a means to an end. What makes it sexy is using it effectively so you can achieve the things that mean the most to you.

I’ve always been interested in money – how to make it, how to invest it, and how to spend it. I’m what you call a money nut. That’s my thing.

Through experience I’ve also learned that most people would rather have a frank and open discussion with their parents about why they’re still single than sit down and tackle personal finance, and I couldn’t agree more.

For far too long personal finance has been the domain of the ‘home on a Saturday night crowd’ and I’m here to say that we shouldn’t let them have all the fun. Investing is sexy!

You picked up this book because at some level you recognise that learning about, and getting control of, your finances is worthwhile. What I’m here to tell you is that it’s absolutely essential. While we may all believe that someday we’re going to win *Big Brother* or Powerball, or be offered millions of dollars for our artistic endeavours, the likelihood of any of these happening is close to zip. What we’re left with is reality.

The best thing about being young is that we have something more valuable than Rupert Murdoch’s piggy bank ... the opportunity right now to plan the next ten, twenty, thirty, fifty (yikes!) years of our lives.

Being a Barefooter is about living the life you want, and helping you to use all your resources to get there – and that’s the sexy part of being Barefoot. What’s sexier than living a life of choice?

We all have goals we want to achieve. Maybe it’s to buy a house and pump out some kids, maybe it’s breaking free from the confines of the rat race. Janet Jackson and Luther Vandross were right: the best things in life *are* free – but in a cruel twist of irony, you need some money to do them. Going Barefoot is

about achieving the things that are important to you, and my job is to provide you with a simple, down-to-earth plan to get you to that point (wherever that may be) as quickly and as efficiently as possible. When you have your finances in order, you call the shots.

Treading your own path isn't about denying yourself the things that are important to you – it's the complete opposite. It's about recognising that you only live once, and that by getting smart about the money you earn now you'll be able to live exactly the way you choose as the years roll by.

The fundamental principle behind going Barefoot is that everything you do with your money – from earning it and investing it to spending it – should be centred on your goals. The only reason to invest (or earn for that matter) is to achieve the things that are most important to you.

Personally I want to make my own path. I don't want to be dictated to by my parents, partner, neighbour or friends – and with cash in my pocket I can. True independence is what we're ultimately chasing and it's the only reason we bother getting our money in order. It's certainly a sexy alternative to being the lapdog of your parents, grandparents, significant other or bank.

## Money means choice

What does money mean to me? It means choice. There have been a few times in my life that I've picked up my bat and ball and gone on home. I once endured a boss who was a complete jerk. I've had housemates who drove me crazy. In each situation having money allowed me the freedom of choice.

While I don't want to sound like the motivational gurus – sometimes those Giants Within they bang on about are best left sleeping – some of what they say makes sense. I believe that we shape our destinies through our choices, and that each of us has the ability to achieve things far beyond our wildest dreams.

Research has revealed that only one out of a hundred people has any definite plan about where they want to see their lives in the future. Most people tend to have goals that are fuzzy, as in 'I'd like to do some travelling', 'I'd like to marry Colin Farrell', or 'maybe it'd be cool to get a better job'.

It's also true that most people spend more time planning a holiday than they do setting out what they'd really like to achieve in their life. It's been said that if you don't have a plan for your life, you'll become part of someone else's plan. Having been out in the cold harsh world of gainful employment for a few years now, I see that this is undeniably true.

Now, before you get down to the nitty gritty of getting your finances in order, you need to understand exactly why you're doing it in the first place.

Getting your finances in check is the purpose of many personal finance books. Far too often I've found that people in the financial education business seem to focus on the 'how' instead of the 'why' – as in 'why the hell am I bothering?'

My argument has always been that if you plan your goals and get motivated and inspired by them, the fundamentals of learning about your finances and taking control of them is easy – not to mention a hell of a lot of fun for those on the Barefoot path.

The deal is this: nothing's going to change until you make a commitment. Unless you set a goal worth striving for, you're not going to have the necessary motivation to go the extra mile.

So, where do you see yourself in five years' time?

Let's start by focusing on your lifestyle-based goals. These are tangible goals that will decide the way you live in the future. Don't for a minute think I'm leading you down the path of greed and materialism. The Barefoot philosophy is not about being greedy. By definition it's about kicking off your shoes and making your own path in life, and that's exactly what we're going to focus on – the things that mean the most to you. After we've established these goals, we can look at the tools and strategies to get you there quickly.

There are things that we're all naturally passionate about. For some it may be travelling, for others it may be contributing to a charity or community service. You may have a flair for artistic expression. Whatever. The key questions are: Where are you going? How are you going to get there?

I understand that for many people pondering what they're going to eat for lunch that day is exerting too much forward thinking, and they often get uncomfortable when they have to start thinking about their future.

## My goals

As a fickle twentysomething I can personally attest to the fact that my short-term goals change on a daily basis. I should also tell you that I certainly don't have a personal mission statement or any of the other self-help crap that people espouse. But early on I sat down and decided where my life was heading and came up with the following goals:

### Short-term goals

- I wanted to turn off my mobile, disconnect the internet and take a well-earned holiday and re-energise my batteries.
- I wanted to rebuild and relaunch my website.

### Long-term goals and philosophies

- I wanted to be self-sufficient, to have true financial independence so that I was free to live the life I wanted without the emotional guilt trip that financial dependence breeds.
- I wanted to travel. We've got it pretty good here Down Under, and most of the world still sees us as fun-loving pissheads who love our sport (not that there's anything wrong with that, mind you). I needed to see what was beyond our shores, and the only way for me to get perspective on the world outside my little patch was to experience different cultures.
- I decided that the status symbols that society values so highly weren't that important to me, and I made a conscious decision not to buy into the marketing hype.
- I also decided that after years of share-house living I wanted to get my own pad where I could come and go as I pleased and not have to answer to anyone.
- Another thing that's important to me is winding down work sooner rather than later. While I love my career, I decided that as I got older I wanted to decide whether to work or not. If I'm passionate about the work I'm doing I can keep going full steam ahead for the enjoyment, but it won't be for the money. If I decide there's something more worthwhile to do with my time, then I can choose to do that.

These long-term goals were included in the original edition of this book. Now, some three years later, I'm reading over them. I'm proud to say that I've mostly achieved them all. At the time of writing that earlier edition I was a full-time stockbroker, now I am in the fortunate position of being able to work on Barefoot full-time. That's the sexiest goal that I have achieved thus far.

But remember: these are my personal goals, or ideals if you like. I've included them to give you an idea of the sorts of things you may want to start thinking about. I'm certainly not advocating my goals as the 'correct' path.

You'll notice that I haven't gone into specifics. That will certainly come as you start thinking through your goals, but by thinking about what's important to you, and the type of life you want to live, you can take the first steps of working towards them.

## Short-term goals

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It's important to think about the ways in which having money would help your everyday life. Maybe paying off Mr Visa, treating yourself to a Sunday session with your friends, having some emergency money set aside so you don't have to live from week to week. Maybe it's just experiencing true financial independence so you no longer have to look to others for financial support.

## Long-term goals

Too many young people have absolutely no idea how they want to fill up, say, the next fifty or sixty years, and even thinking about it can be a pretty daunting task. But right now I'd like to get you to start thinking about how having money would enable you to experience the things that are important to you. It's important not to censor yourself in this process, although it's equally important not to get too bogged down in the specifics ('I want a house on Sydney Harbour with antique furniture, a swimming pool, a hot tub'... I think you get the point).

For your longer-term goals, focus on the things you're passionate about, and what you'd like to do in your life: the experiences, the sights, where you may want to live, whether you'd like to own your own home, the charities or

community organisations you'd like to contribute to, maybe a goal of winding down work sooner rather than later.

Now, take five minutes to write down as many things that spring to mind.

### **Goal planning**

Short-term goals

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Long-term goals

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How'd you go? Hopefully by now your mind is starting to focus on how you can use your money to do the things that mean the most to you, and that's the start of all successful wealth creation.

As I say time and time again, if you focus on getting your finances in order simply because it's the right thing to do, it's never going to be a change that lasts indefinitely. The next time you do some window-shopping, or the next time you go on a bender with your mates, you'll throw personal finance out the window – and who wouldn't?

The same goes with focusing on being rich; focusing on having money for money's sake is a lame way to live. Having large amounts of money should certainly not be your end goal. Money is a means to an end. Instead, focusing on what you can use your money to achieve is a powerful motivator and one



that helps you get active with your wealth creation. This will allow you to speed up the process of attaining your goals.

The next step is to take your most important short-term and long-term goals and write them on a separate piece of paper. Look at the goals you've set yourself and do two things:

1. Put a price tag on the most important goals you've set.
2. Assign a realistic date you want to achieve them by.

It may be a month, six months, a year, ten years or more. It's important not just to have huge twenty-year life goals, but also short-term goals, like paying off your credit card or purchasing a new item of clothing.



**Schapelle Corby ... free accommodation in Bali for twenty years.**

Now as you look over your list there are going to be some goals that will take you longer to achieve than others, and that's fine. Highlighting how you want to use money allows you to attain your goals a hell of a lot quicker than idly sitting back (hung over) each New Year's Day and making a wish list – then forgetting about it the next day.

Putting a price tag on your goals allows your brain to see a set figure, and assigning a realistic date for its attainment allows you to look forward in anticipation. Most psychologists agree that humans are more apt to move when the facts are laid bare.

## **I want to go on holiday, but unlike Schapelle I don't want to finance it by taking a boogie board – any tips?**

I've met plenty of people who dream of an overseas holiday, but I'm yet to meet anyone who gets excited about the thought of scrimping and saving. Therefore if you can't wait to be sunning yourself off the coast of Thailand, it's time to set yourself a goal.

Do some research and find out how much it will cost you – let's say \$800. Now, chunk it down by dividing the cost by 52, which will give you the weekly amount you need to save in order to achieve your goal. Often when people do this they're surprised to see how little they need – only \$15 or so a week in this case.

If you haven't already done so, set up an e-account with your bank and transfer money into it weekly by direct debit. These nifty accounts have low fees, or none at all, so they won't drain your weekly savings away.

Armed with this knowledge, you'll be sucking down sangria in no time.

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Now it's time to spice things up a little ...

Starting with your most important short-term goal, let's combine the time frame you've set for yourself and then divide that by the price tag you've assigned to it. This enables you to chunk down your goals into bite-sized tasks.

A typical example for a short-term goal might be:

**Goal:** Pay off my credit cards within 12 months.

**Price tag:** Well, I have \$3000 racked up, so durr, it's three big ones.

**Breakdown:** Twelve months divided by \$3000 is \$250 a month, which is roughly \$60 a week.

Follow through this process with all the most important goals you've chosen. These goals will become the basis of your Barefoot Plan.

### **Now that you're set ...**

Most people spend more time watching television than planning what they want out of life and who they want to become. But if you've followed the drill in Step 1, you should now have in front of you a list of the things you'd like to achieve before you find yourself in sandals and socks. If so, take five, go pour yourself a drink and congratulate yourself for being one of the few people in this world who consciously plans their future.

You may be a little overwhelmed by the fact that you're going to have to earn a ton of money to achieve all of this, but don't stress – if you've been realistic, I can help you get there a lot quicker than you'd ever imagine.

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The rest of the steps are designed specifically to introduce you to the tools, strategies and products that will enable you to achieve the goals you've set for yourself, and to give you practical advice on how to sort out your finances immediately.

In the years that I've been teaching this plan, the feedback from people who've achieved their goals in record time has been phenomenal. Now it's your turn.