Title:
How to Rip Off the Rich and Make Yourself Wealthy

Word Count:
791

Summary:
Why not use the power of leverage, and use other people’s money to help you grow wealthy, rich and financially independent..

Keywords:
wealth, property, investment, pension, retirement, financial freedom, how to get rich

Article Body:

In this day and age of uncertain pension plans, rising unemployment, and a general feeling that however hard you work, doesn’t it amaze you that your bills just somehow seem to keep pace with your earnings?

Want a solution? Then use Other People’s Money to make yours!

So, how does this work then, and how can it make you wealthy?

Let me use a real live example. About a year ago, my friend Mike and I purchased an investment property each in Middlesbrough. He paid for it out of his savings, I paid for it using ‘Other People’s Money’.

Mike is not a risk taker. A nice bloke, but he likes to take everything very carefully without taking any risks. So he thought, by paying cash for his property, he was minimising his risk, as he would not have to be dependant on tenant incomes to meet his repayments. But, he was not trying to WIN, and unless you at least try to win, you will, out of definition, Never Win!

So lets examine these two investments side by side – Mike with his cash deal, and me with my ‘Using Other People’s’ deal.

Mike drew his £100,000 out of his savings account (where it was making around 5% per annum anyway), and luckily got a tenant in place the day after he completed. So from Day 1 he was earning some £500 a month from his investment.

Now me, I borrowed 85% of the money to purchase my apartment, which was going to cost me some £430 a month with an interest only mortgage. And, as luck would have it, it took me two months before I got my first tenant, also at £500 per month.

So, in the first year, Mike earned £6,000, which, after tax, generated him around £3,600 in his pocket, as he had no outgoings such as a mortgage to offset his tax liability.

Now for me, as I had a two month 'void' period with no tenant, my income from rent was just £5,000. Now, as I was paying £5,160 a year in mortgage, I had no tax liability, but looked like I lost £160 in revenue on balance. If I had had a full year's tenancy, I would have actually made a surplus income of £840.

But now let's look at the capital gains from both of us.

Mike, who was getting 5% in his savings account with his £100,000, saw his property go up in value by some 10% last year. So he made double that in his property, and actually gained some £10,000 in equity in his property, or a 10% growth on his investment, using all of his own money.

Now me, being a tight-wad, and never likes parting with money, especially my own, also saw a 10% appreciation in the value of my property.

But look, as I had only used 15% of my money and 85% of other people's, my deposit of £15,000 had returned me £10,000, or a 67% increase in my investment.

If I had managed to get a deal where I only needed say 5% down payment, my £5,000 initial investment would now have returned me some £10,000, or a 200% increase in my capital.

What does this mean? Well, if Mike wanted to buy another 9 houses, making a portfolio of 10 such houses, he would have to use (if he had it) another £900,000 of his own cash, or ONE MILLION of cold hard cash that could have been earning at least 5% in any old savings account.

Well OK, if Mike had bought another 10 houses, and they were all fully tenanted, he would have generated an income stream after tax of around £36,000 per annum, or a 3.6% return on his investment. The return on his capital would have been £100,000, or 10%.

Now suppose I were to buy another 9 such properties, but this time, using a lot more of ‘Other Peoples’ money?

Well, I would have had to invest £50,000 of my own money, alongside £950,000 of other people’s money.

My net revenue income would have been around £8,400, but by the properties all increasing in value by some 10%, my £50,000 would have generated me some £100,000 in increased equity, or 200% return on my investment.

After three years, I could probably sell say four of those properties, and assume the growth was 10%, 5%, 5%, and then excluding my deposits, I could have withdrawn some £85,100 from the deal, to re-invest or to buy a few luxuries – but my choice – and still have equity in the region of £127,650 plus my deposits left in my other houses.

The important thing here to realise is that I have actually created this extra £85,000 in cash and the remaining £127,650 equity, mainly by the use of other people’s money!

Just think how much Mike could have made if he had invested his whole MILLION alongside 20 MILLION of other people’s money.