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Instant cash flow strategies

Rule out guessing and taking tips as they are a big no-no in the stock market.
But guess what most people do?
They guess or they take a tip.

At the commencement of this chapter I will point out that my intention is not to provide financial advice even though I am licensed in general advice for shares and derivatives by ASIC in Australia. My intention is to educate by providing readers with a range of financial strategies for their consideration.

Readers should not invest moneys or take other action by relying on the material contained in this book or any support material, but instead should satisfy themselves independently (whether by expert advice or otherwise), of the appropriateness of any such action.

Buying Shares

The first thing we are going to look at on the share market is understanding at what price to buy a share and whether the share is good value. There are two forms of analysis for the share market. One is called technical analysis and another is fundamental analysis. I tend to use a little bit of both but I think one of the reasons I have been successful at share investing where many others have not been is because I keep it very simple.

One of the reasons I helped other people to be successful is through teaching them a very simple format. I think a lot of people think life is difficult and complicated, and if something seems too simple, there must be something wrong with it or it can't be that simple. I believe the greatest mistake many people make is they think to be wealthy and successful is rather complicated.

I won't say it is easy - it requires focus and commitment, but it is simple if you just allow it to be simple and not complicated. Humans have an amazing capacity to complicate things.

The first thing we are going to look at is buying some shares. Some readers may already own shares. We are going to treat shares and share trading as a business, so if we are going to invest in a business, we want to look at how to determine what price to buy the shares at. When you purchase shares, you are really buying into a business.

Let's say we have a share called XYZ. Now XYZ doesn't really exist, so don't try to look it up on any share indexes. That's just an example. Let's say it trades on the Australian Stock Exchange (ASX). The first thing we want to do is find out some information about the share (business). A lot of the necessary information can

be obtained through the newspaper or via the Internet for free. There are also numerous share trading software programs available. When trading shares I want a profitable enterprise that ideally works without me and what I love about the strategies I use in share trading is they take 15 or 30 minutes a month to manage, yet produce phenomenal cash flow.

That's a good business, so let's look at what we can do. If we look in the newspaper, it will tell us that XYZ in the past has traded up to as high as say \$26 in the last 12 months and it has been down as low as say \$12. If you didn't know that information and someone said XYZ share is currently at \$19, would you buy it? In order to make a decision on buying the share with only that information, most people would basically have to guess whether you should buy them or not, or take a hot tip if you don't know its previous highs and lows.

So rule out guessing and taking tips, as they are a big no-no in the share market. And guess what most people do? They guess or they take a tip. We never want to do that. We don't want to be guessing about our financial future or taking someone's hot tip. We always want to make sound common sense decisions.

Warren Buffet, the world's greatest investor and billionaire, also teaches this. His decisions are very sound, based on common sense and a lot of people lose sight of common sense. I think it is because common sense is one of the uncommon things there is on the planet.

But if you just found out that the share price has been up to \$26 and down to \$12 in the last 12 months trading and is currently at \$19, the question is now would you consider buying the shares? We don't know everything about the share, but we do have an indication of its price range. Potentially the price has been much higher and lower with \$19 somewhere in between.

This gives you more of an idea without having to guess whether you should buy, just by knowing this information that you can access quite cheaply from the newspaper or Internet.

If you use technical analysis, you can go to a range of websites which will give you a lot of share information for free, such as:

1. www.quicken.com.au - go to the welcome page and become a member of market monitor - it's free.
2. www.stockwatch.com.au
3. www.comsec.com.au
4. www.stanford.com.au

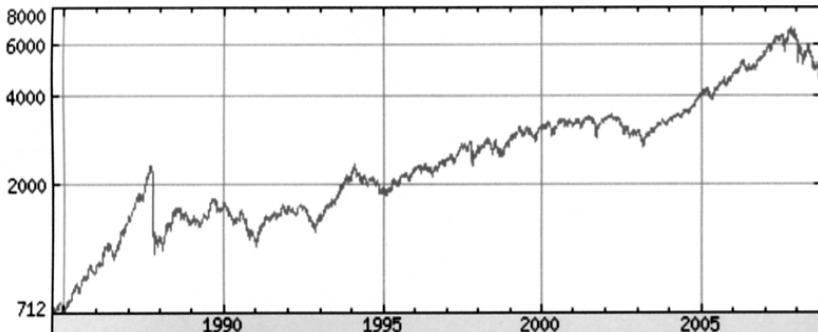
Technical analysis will show the day-to-day charting or week-to-week charting of the share prices and will help identify the share market trends to occur in patterns.

Two things you must understand that drive the share market are the emotions of humanity - basically fear and greed. For the share market to rise, what emotion do you think is generally driving that? You probably guessed it, greed. Greed drives the share market up.

What emotion tends to drive the share market down more rapidly than when it usually goes up? You guessed it, fear and we have seen that recently with the panic and fear after the September 11 attacks and the US sub-prime fallout when the share market crashed. But when more common sense prevailed, it started to pick back up and many investors saw great trading opportunities.

It is interesting to note since World War II there has been something like 27 crises that have caused the share market to drop suddenly. It is interesting to note that on each of those occasions, the share market has rebounded to a higher price index than its previous high.

The share market is often driven by fear and greed. A major cause of many people losing money when investing is they become too greedy.



A chart showing the Australian all ordinaries index share movements over a period from 1985- September 2008

The first strategy we will look at is technical analysis. We talked about basically finding out the high and low price of the share, also a little bit of fundamental analysis on what the share does, what the company does and whether it makes a profit. It is handy

to know if it is making a profit and whether it is one of the larger and stronger companies on the share market.

I always stick to the larger and stronger companies that are usually making a profit. This can reduce your risk significantly. You can then look at the low and high prices for the previous twelve months to gain an indication of whether you are paying too much for the share or are getting it at a much better value and price.

That eliminates a lot of risk to start with, not all the risk but a lot of it. You can also paper trade the shares in the beginning to build up your confidence. Pretend to buy - and see how much you would make on paper. A good full service broker can also help with fundamental analysis, giving you information on current profit positions, etc. on the particular share.

Warren Buffett's share selection methodology

I use Warren Buffett's share selection methodology - he has three basic criteria.

1. He never buys a company that's not making a profit. Sounds simplistic but how many people buy a share on a hot tip and never check if it's a profitable company?
2. He never buys a company he doesn't understand how it makes its money.

Why? Well if he doesn't understand how they make their money then how can he predict its likely future? For instance Buffet didn't buy Enron shares as he couldn't understand how they were making money. Nor could anyone else for that matter, not even Enron executives.

Buffet was criticised for missing out on the dot com boom before the boom turned to the dot com crash.

Critics said Buffet is old school, is losing his marbles, he simply doesn't understand the future, all because he refused to invest in dot com companies despite their share prices going from a few cents to up to \$100 or more in less than a year.

But he stuck by his three point criteria and as a result he couldn't understand how they were making money. Generally that's because they weren't and many never did.

So he avoided the dot com crash as a result as he sticks to fundamentals. My belief is if it works for Buffet it works for me.

3. He never buys a company that he considers over valued. This can be a more difficult assessment and becomes a judgement

call. But ideally he is looking for companies the share market is under valuing so he can get a bargain.

Buffett says to look at buying a share as if you were going to buy the entire company. Some may say that's all right for Buffet to say as he usually is buying the entire company. However it is still good advice.

If you were buying a newsagent, corner store or restaurant you would check if is profitable and check if the accounting is reliable and you would want to understand how it makes its money.

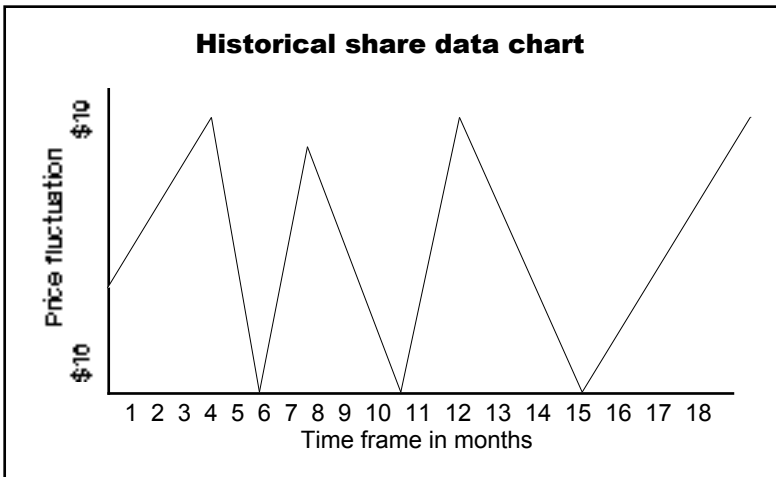
Even if it was profitable and you understood how it makes its money if it is only worth \$250,000 you aren't going to buy it at \$300,000 but you would want it at say \$200,000 below value. Make sense? Buffet keeps to this simple criteria and has become a billionaire as a result.

Channelling

The second strategy we want to look at is a concept called channelling. I didn't invent this strategy, but it is a strategy many top investors use. If you follow the charts of many shares, what you will find is that they trade in patterns. For instance, let's say a particular share has been as low as say \$16 and has been up to as high as say \$19 and then it ran back down to say \$16, back up to \$19, then back down to \$16, back up to \$19, back down to \$16, then back up around \$19.

We start to notice that it is following a pattern. In this case, this share would be called channelling sideways because it is going in a sideways movement. Sometimes they may channel upwards or they may channel downwards. If you become aware of the share forming a pattern, the next time that share is around \$16, the question is whether you would consider buying it, and the answer is possibly yes. By knowing that information you are more likely to want to buy it at \$16 than pay too much for it at \$19.

Obviously if it gets up to \$19 you can make another decision. Are you likely to sell it? If you are using common sense, the answer would generally be yes and you can see you can make a potential profit, in this case you are making close to 20%. You bought it around \$16; you sold it at \$19. Could you simply then instruct your broker the next time that share price falls to around \$16 to buy it again? You could do that and when it approaches its peak of \$19, sell, and repeat that over and over again.



Let's assume this share XYZ channelled up and down four times in a year and let's say you're making 20% profit every time you bought and sold that share. After the fourth time, it would equal a potential total of 80% per annum in profit. You can see how by adopting some unique strategies, you can potentially increase your returns dramatically. That's a strategy many top investors use and it is one to consider by keeping it rather simple.

Some shares may channel up and down four times within a month, let alone a year, though four times a year is much more realistic. This strategy sounds fairly simple but it is one many people would fail to take on board. Often they don't even check to find out whether this share has been up, down or sideways. What they would often do is buy the share at around \$19.

The reason they would do that is because everyone is talking about this share, it's great, all their financial advisers or brokers say it's good and it's been going up. So they buy it and they tend to buy it at a peak when everyone else is buying it. It is going up because most people are buying it but we want to learn to do the exact opposite. That would be a good time to be selling.

Doing the opposite to what most people are doing requires you not to be concerned with what other people think but to have a decision making process where you are confident with your decision and can go against the majority of opinions. Greed would stop some people from selling at \$19 and fear would stop some people from buying at around \$16 because as it drops back down, everyone is selling the share.

The more people are selling, the more the sentiment or market opinion would be that the share is going down and most people would be advised by their broker or advisor not to buy. That would often be an opportune time to buy, doing the opposite to most people. Then, obviously when it goes back up towards \$19, if greed kicks in, greed will cause you to stop selling because you think what if it goes up to \$21, which it could easily do? You don't sell and it could go the other way and you could miss out on your profit.

The golden rule I always follow is you can't go broke by making a profit. If you sold it at \$19 and you bought it at \$16, you made \$3 profit even if it took off to \$21. You potentially missed out on \$2 extra profit but you have made \$3 profit. As Henry Ford used to remind his doubters, "You can't go broke making a profit."

Remember fear and greed will be your greatest enemies in the share market and that's why a lot of this book has been devoted to developing the right mindset.

Remember fear and greed will be your greatest enemies in the share market and that's why a lot of this book has been devoted to developing the right mindset. People tell me they just want the strategies, but I guarantee if you don't adopt and develop and work on your mindset, then you will have a much more difficult time applying the strategies because your emotions will interfere with common sense decisions.

If you have already invested in the share market, you would probably agree with me that this is the most difficult part. In a later chapter, we are going to look at some strategies to make sure you can be more effective with dealing with your emotions when investing.

Leverage

The third strategy we are going to look at is a strategy called leverage. Obviously let's say Bill and Mary only had \$15,000 invested in the share market that could buy them 1,000 shares that are worth \$15 each. If they were able to get leverage, in other words use other people's money or borrow some money for shares, they might be able to double that and buy 2,000 shares worth \$30,000. This could potentially increase their returns.

They would now have 2,000 shares working for them instead

of just 1,000 and in a moment we can show how they could potentially double their income. How would they do that? Some people may have a bad credit history or have been bankrupt before or can't borrow money.

Let me make a statement here - virtually anyone, as long as you are 18 years of age, can borrow money in this country to invest in the share market. Even if you have been bankrupt or you have a bad credit history, you can still borrow for shares in most cases.

I would not suggest going through the banks because they would make it very difficult, but through stock broking firms, many of who will allow you to borrow money. All you need to have is a deposit, in this case a deposit of \$15,000, to enable you to borrow another \$15,000.

That deposit has to be in cash or in existing shares, your parents' shares, or someone else's shares to be able to access that additional money as a loan to you. The interest rates are usually quite reasonable, just 1% to 2% above the variable home mortgage rates.

Increasing your leverage can increase your potential returns, however it can also increase your potential losses if you fail to do things correctly. You need to be aware of that and to consider whether that is an appropriate strategy for you. Further on in this book, we look at different asset allocations and risk profiles to help you determine what is appropriate.

When you are gearing, you should always seek professional financial advice on any investment as to whether it is appropriate to your situation. You may be able to borrow up to three times your deposit, e.g. on a \$15,000 deposit you may be able to borrow another \$30,000, for a total of \$45,000 (3,000 x \$15 shares).

Remember if you borrow for shares, always keep at least 50% deposit to avoid or reduce the chances of a dreaded margin call. A margin call is a request from your broker giving you 24 hours to put more money into your share account to top up your deposit in the event of shares dropping in value to cover your eroded deposit, otherwise your shares can be sold.

An example of another leveraged strategy I use is where I recently borrowed \$2 million (100%) to invest in the share market. I have this capital protected by insurance so my \$2 million exposure is fully protected.

Insuring your shares

Our fourth strategy is the concept of insuring your shares. I often ask people whether they would consider investing in the share market if they could insure their shares, so that even if there was a major crash or the market fell down, it wouldn't bother them because they couldn't lose money.

A lot of people say, "Yes I would invest in the share market. I didn't realise I could use insurance like that."

Remember that people's greatest fear about investing in shares is the possibility of losing their money. Potential investors are able learn strategies where they can protect the downside risk, which takes a lot of the stress out investing in shares and makes it more enjoyable. Then we can start to enjoy the game of life and the game of investing. After all that's all it is, a game. The key is how you are going to play and whether you are going to play the game to win. To insure shares, you can't ring up your local insurance company tomorrow and say, "I am reading this book and Jamie told me I can insure my shares. Can I get an insurance quote on my shares?"

They are probably going to say, "What are you on? You must be on drugs, obviously you can't insure your shares with us."

The word insurance is not the technical word for it. Insurance is just to help you understand the concept of what you can do and the way shares would be insured through stockbrokers as only stockbrokers can do this.

Generally, what you would be doing to insure shares is buying put options: in other words you would be paying money like an insurance premium via the stockbroker through the share and options market. Someone would take your money and they would make a guarantee to buy your shares from you at the current price if they were to fall in value.

Let me give you an example. Let's say you bought 1,000 shares at \$16. You could pay, say 30¢ per share as an insurance premium, for which the technical term would be buying a put option. Your broker would do that for you.

In other words, you would be paying 30¢, as you bought your shares at \$16, they might be trading a bit above that but you want them insured at \$16 because you realise that the share price might fall.

At 30¢ per share by 1,000 shares, it is going to cost you \$300 in insurance premium to insure those shares for a period of time. It

might be for a period of 1 month, 2 months, 3 months, etc. Just like insurance, it depends on what period of cover you want. Obviously the longer the cover, the more expensive it will be. What happens is that someone else is making a promise to the market that they will buy your shares if they fall below that price in the period of time for which you have taken out the insurance cover.

That means you can sleep well at night knowing that if the share market falls and the shares drop to \$13, it doesn't matter because you can exercise your insurance rights at any time once it is below the \$16 until your insurance expires. You will receive \$16 for your shares, even though the shares are only worth \$13. The other great thing about this strategy is it can potentially make you money and we will look at that next.

The way down strategy

The way down strategy, is a strategy my brother-in-law became very good at. He didn't have a lot of money to get into the share market so he started with a strategy where he could make money on the way up as well as make money on the way down in the share market, without even owning any shares in the first place. It sounds too good to be true but it is possible.

You can actually make money in the share market without even owning shares and by learning how to trade the options market. When the word options is mentioned, many people go into a cardiac arrest and think, "I have heard about options, they are highly risky."

Most things that people don't understand are often perceived as highly risky. And yes, options can have a risk element to them if they are misunderstood and not utilised properly. Obviously this is a strategy that is not recommended for everyone.

To be a successful options trader requires a very high level of mindset and usually requires you to focus for half an hour to an hour a day on your options activities, sometimes more. Some would say that's better than a job, where they work 8-10 hours a day; and often people make much more money trading options than they would in a normal job.

My brother-in-law who used to work in the army was able to use this strategy and he was able to replace and double his income by working 30 minutes to an hour a day after investing in initial training, learning how to use the strategy and practicing on

paper for a period of time to become proficient enough at it to generate profits.

The way down strategy is very simple. You can actually buy insurance just like the previous example without even owning shares. If you think the share market might be likely to fall, you could buy some insurance, which is the same thing. You might pay 30¢ for that insurance premium to cover the share price at \$16, even though you don't even own the shares. You just want to buy some insurance because if the share price falls down to say \$13, that insurance you paid 30¢ for could now be worth approximately \$3.30 as insurance.

The contract goes up in value if share price falls, as it is now more valuable for people to have. In other words, you have outlaid 30¢ and you could now sell that insurance for \$3.30. If you had purchased 1,000 of those insurance premiums, your outlay would be \$300, but you receive a \$3,300 return less any fees.

You can see that you have made not just 10% on your money, not 100% on your money but in excess of 1,000% on your money and that could occur in a matter of a few days or a few weeks. You can also see, for how a small outlay you have made potentially large amounts of money. In this example, a further benefit is if the share price doesn't go down, all you can potentially lose in that transaction is your \$300 outlay, or the 30 cents per share insured.

The way up and the way down strategy

The sixth strategy is also a strategy my brother-in-law does very well, and I call it 'The Way Up and the Way Down Strategy', because you can make money on the way up and on the way down in the share market without owning any shares in the first place.

To make money on the upward, it is simply a reverse scenario to the previous strategy where you are able to buy what is known as 'call options' (explained in more detail later in the book), which would give you the right to buy a share at a certain price. The reason you would do this, is you might outlay 30 cents to be able to buy the right to buy the share at say \$16.00 at the end of the month. If it is currently trading around that price, you would do this if you believed the share is going to take off to maybe \$17 or \$18.

If it did go up by the end of the month to \$18, then that particular call option that you paid 30 cents for could now be worth say \$2.30. In other words you have outlaid 30 cents or \$300 for a 1,000 of these shares and they are now worth \$2,300. That could occur in a week or several weeks. You can see how you could potentially make massive amounts of money as a return on your investment and the only risk is the initial outlay.

This is an ideal strategy for those who are willing to spend some time, but it also requires much more intensive training. You would require the ability to understand technical analysis and would require appropriate software.

We have helped many Australians with 'The way up and the way down strategy' through our training programs and many of these people are now effectively working half an hour to an hour per day, five days per week. It is quite exciting, as many people have even generated a full time income as a result of learning 'The way up and the way down strategy'.

However, this strategy is not something I generally do because I personally don't like sitting in front of a computer too much and it requires too much of my time. I would prefer to dedicate that to the next strategy that I am going to show you which only takes 5 minutes per month as opposed to 30 minutes to an hour per day and has less risk involved. The other thing is that the strategy is not suitable for everyone. I would imagine less than 30 percent of people would be ideal for it if they were trained properly.

The majority of people who are good at this strategy are females who tend to be much better at this particular strategy than males. I am not sure why that is but I think women tend to follow the instructions/recipe whereas males tend to want to change things and don't do what they are meant to and obviously that leads them to losing money.

The next strategy though, is I believe for nearly everyone and is what I am most excited about, so I will share it in some detail.

'Renting' shares

I call this strategy 'Renting' shares. Renting is a word that I created as an educator to teach Australians how to utilise this strategy and as a result I have been able to communicate this in very simple terms to tens of thousands of people and now many seminar presenters and brokers use the term 'Renting' shares genetically. There are thousands of people now that as a result

have been able to generate a part time or full time income from this one strategy. It is certainly worth being aware of even if you have never invested in shares before or whether you are currently.

You could be absolutely amazed and potentially shocked at how much money you are missing out on by not knowing this 'Renting' shares strategy. First of all, before I go into the 'renting' shares strategy, it is important to have the right mindset and understanding to make this strategy work because if you look at this from the wrong angle, you are not going to achieve the results you want. One of the keys to this and why I think I have been so successful with it - and more successful than many people - is that I have kept it extremely simple.

However many people now claim to teach this strategy. But be aware. The reason it has worked so well for myself and my students is I teach it in combination with other strategies and this creates a synergistic effect that significantly increases the profit potential as opposed to those doing it as a sole strategy.

I don't even use software to do this and it takes me literally 15-30 minutes per month or less, often only 5 minutes.

I have been using this strategy for long enough now that it has proven itself to be a safe and effective strategy, even through major crises such as the stock market crash after September 11th, 2001. I have done this through the good times and potentially bad times and the strategy has still held sound.

In fact since the Global Credit Crisis and Stock Market Crash of November 2007, this strategy has become even more profitable than ever. This is due to the volatility and also the ability to buy shares at very low prices compared to in the boom years.

If we combine it with some of the other things we have been talking about, I don't know a more ideal strategy for beginners or even advanced share market operators to generate a cash flow from the share market for a reasonably low outlay. It is a much safer investment strategy than the majority of strategies available on the share market.

I believe this to be one of the safest share market strategies available if carried out correctly. To achieve the correct mindset for this strategy, I treat renting shares as a business, just as I would treat a normal business. I also treat property as a business and I think this is one of the keys to why I have been successful at it.

Let's compare a traditional business. What would be required?

What would be the risk? What would be the capital and resource requirements, etc.? Then we will compare that to a renting shares business and I am sure you will start to see, like myself, that it makes this strategy look even better when you understand your alternatives. First of all let's look at a traditional business. If you were going to buy a restaurant for instance, your capital outlay could quite easily be as much as \$100,000, sometimes millions.

The risk factor to borrow for a traditional business, I would say is definitely high. The bank would want security over the business itself and ideally they would want security over your property. You have to put up security and that's one of the reasons it is high risk - security is required.

Income potential. Let's look at income potential. In the first few years of a traditional business, is the reality of even getting a salary out of the business very high? Generally not, so expect a low income initially, although if businesses do well they have the potential to provide you with a good income in the longer term.

Hands-on. Is it hands-on? In a traditional business, it is definitely hands-on, as you have to be there to run it unless you know how to implement systems to have it run without you.

Lifestyle. What about the lifestyle element? Does the business provide a high lifestyle? Not unless the business itself is your lifestyle because usually you are going to have to spend maybe 5-7 days a week at the business.

Stress levels. Are the stress levels in a traditional business high or low? I am going to suggest generally not low, always fairly high.

Staff. Do you need staff? Generally you require staff so your stress levels are definitely going to be higher. My millionaire mentor said, "You know, having staff in a business is like running an adult day care centre".

I thought that was quite humorous until I actually had companies with a lot of staff and realised what it means. But having staff is actually worse than an adult day care centre because in a day care centre you would actually be paid money to look after them. In a business with staff, you actually have to pay them and you still have to look after them and often they

make very expensive mistakes. Having staff is a major difficulty and a major cost factor and it can be a real challenge in business.

Location. As far as location goes, we are going to have to say it is a fixed location. In other words, you can't work from anywhere in the world if you buy a restaurant. You have to be in the particular area where the restaurant is running. So it is a fixed location that affects your lifestyle as well.

Return on investment (ROI). The return on investment (ROI). You have to get your money back first so we are going to say low ROI.

Ability to liquidate. Another thing to look at is the ability to liquidate. Can you liquidate quickly and get the majority of your money back? Well, I would say no. In most traditional businesses you could pay \$100,000 for the business and try to sell it a year later. If it hasn't been managed properly, you could struggle to get a buyer. It is not very liquid and could become worthless. So it is very hard to liquidate and the resale value is generally difficult to increase, unless you are an experienced marketer.

Let's compare this to a share renting business. What we are going to do is come up with some money to run a business, so let's compare it with a traditional business.

Renting shares capital. As far as capital to start a renting shares business is concerned, the capital required can be quite low. You can do this on as little as 1,000 shares so you are going to need at least \$15,000 (you could do it for as little as a few thousand dollars) but I am going to suggest \$15,000-\$20,000 as an ideal amount to get started with this strategy.

You can come up to any amount of money but let's say you are able to come up with \$100,000 so we can keep it comparable to a traditional business. \$100,000 could be \$50,000 from a line of credit from property and \$50,000 in a share loan (margin loan) - whatever combination is best for you.

Risk factor. On the other side of the column, what we are going to look at is the risk factor. The risk factor to be able to borrow money for a renting shares business is very simple. So we should

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Recent update

Due to the global credit crisis and the stock market crash in 2008 which has continued into 2009 many people have become afraid to invest in the stock market which is ironic as shares can now be bought at a fraction of the prices people were rushing to pay for them at the peak of the boom in late 2007.

For instance, due to the global credit crisis, cash flow strategies and 'share renting' are now more profitable than ever. By using leverage and also insuring their positions an average Australian with \$150,000 in equity could have made \$30,000 in January 2009 and again the following month.

That's a massive return and much higher than the typical \$7500 to \$18000 per month suggested above and this is possible due to the volatility at present. This means as little as \$15,000 of capital leveraged and insured can still generate up to \$3000 in rental income for the month on certain shares. I cover these current examples in detail at 21st Century live 4-day seminars.

See www.21stcenturyacademy.com for more details.

Hands on. Do you need to be hands on? Basically you need 15 minutes per month and your overhead (another category we forgot to put in, let's put in overhead), which for a traditional business is massive. The overheads involved in renting shares I am going to suggest is virtually nil.

Other than your shares themselves, the only overheads are going to be your time for 15 minutes per month and buying the newspaper, ideally *The Australian*, it shows how much you can get for renting your shares out in the share section. (Most brokers you call about renting shares though won't have a clue what you are talking about, as 92.5% of brokers are not accredited for renting shares.) The more brokers that we teach at our seminars, the easier it will be for you to access a knowledgeable broker.

Lifestyle. We are also going to look at the lifestyle element. Obviously as you only have to work 15 minutes per month, your lifestyle is great for two reasons because:

1. It doesn't take up a lot of time, and
2. You can still generate other forms of income through your job

or other businesses, and the great thing about it is that you can do this from anywhere in the world.

When I have been on overseas holidays, it is just a matter of an SMS or phone call back to my broker once a month to be able to run this business from anywhere in the world. I was on an African safari for six weeks and was able to SMS my broker with instructions to make more money in a few minutes than the entire safari cost. You can also do it on virtually the majority of share markets around the world, if you want to.

But I am going to suggest the Australian share market for our example. If you are in New Zealand, I suggest also using the Australian share market. Obviously if you are reading this book in other countries, you will look at your share market to see if it is suitable for this strategy.

So the lifestyle element is great. What better career than one where you generate income without having to work - except for maybe 15 minutes a month when you look in the newspaper? After looking in the newspaper, you then make a phone call to your broker who can provide additional assistance - not difficult is it?

Location. Location is not fixed. As I mentioned you could be anywhere in the world, on an African Safari, skiing the slopes of Whistler, or lazing on a Caribbean beach - it doesn't matter.

Return on investment (ROI). In any business, return on investment is a major key performance indicator (KPI). With this strategy 15% to 30% percent per annum is quite realistic return on investment. If you were going to use leveraged (i.e. margin loans) the returns on your initial outlay could become as high as 50%-60%, or more, some months up to 100%.

You are potentially looking at 2%-5% per month if you do this effectively and if you insure your shares you protect your downside. I only ever use these strategies with insurance in place. The reason is that I believe the market will suffer a major crash within the next 5 to 10 years and with insurance in place, I am guaranteed to profit from it, rather than be a victim of a manipulated crash.

Risk factor. I consider this a low risk investment if you understand how to minimise the risk, however, there will still be risk and it is important you become educated first. In order to learn how to utilise these strategies in detail, I highly recommend attending the seminars 21st Century Academy conducts for its' members in Australia and New Zealand.

21st Century Academy members also have access to numerous share experts who trade all the time using these strategies and accredited stockbrokers who are fully licensed by ASIC to execute these strategies.

You can also learn how to utilise these strategies by purchasing the Homestudy DVD that forms part of the 21st Century Homestudy Membership which shows you in detail - log on to www.21stcenturyacademy.com

Ability to liquidate. The ability to liquidate is important. Let's say you want to sell your business and close up shop 'quickly', so to speak. Can you liquidate your business? The good news is you can liquidate your share business.

Generally the way we are going to do it is in 30 days or less and there are always likely to be buyers because you are going to do this with quality larger, stronger companies that are making profits and trading on the Australian Stock Exchange.

You can liquidate and often you get your money back, sometimes even at a profit from your capital. So if you invested \$100,000 in quality larger, stronger companies, it is likely that in six months' time there will be buyers, not like a business where you may not get even \$1 for it.

If a quality larger, stronger company slips, they often tend to come back to where they were or continue rising with some exceptions. Resale value, which we talked about, is usually very good and you can control that to a degree.

If we compare a traditional business to a renting shares business, it is obvious the clear winner is a renting shares business and it certainly sounds too good to be true. However life can be too good to be true if we become educated and understand what we are doing.

We can minimise our risk and maximise our return, where many other people completely miss out on these opportunities because they are not open minded enough to educate themselves and rely on their so called financial advisors, who often are too

embarrassed to admit they don't know how to utilise these strategies so they cover up by saying it is too risky. They say don't do it, to cover up the fact they don't know what you are talking about. I promise you this will happen if you are not careful.

That's why you need to become your own investment expert. Read books, go to seminars, practise on paper then trade in small amounts initially until you build your confidence and adjust your mindset. The effort to learn is worth it. Remember it is more risky to not be investing. The statement should never be, it sounds risky, why isn't everyone doing it?

"Risky compared to what?" my millionaire mentor always asked when people claimed it sounded risky. There is a risk either way. The question is what risk are you prepared to take, as everything carries some level of risk and investing intelligently often has the lowest risk?

Let's use an example. The first step to having a renting shares business is that you buy some shares. If you have some existing shares, you may be able to do this on those shares. Not all shares can be rented out and we will go through some examples and how you can determine that.

Let's look at XYZ shares. We are going to have to buy this particular share so we will only do this with quality, stronger companies that the ASX allows share renting on. Generally we need to know a little about the company, that it is making a profit and some basic fundamentals. We will choose what price we will pay for the share, we have looked at the high and low for the last 12 months (which you can read from the paper) and we know in recent times that XYZ shares have been up to say \$19 and down to \$16.

Obviously the more ideal time to buy that share is at \$16.00, so let's imagine we go out and buy the share when it is around \$16.00. To utilise this strategy, you must have a minimum of 1,000 shares, so 1,000 shares will involve an outlay of \$16,000. If you don't have \$16,000, you may be able margin loan some of that amount.

However you could go back to the 8 steps on how to come up with the money. So you buy 1,000 shares also known as one contract. One Contract = 1,000 shares and this is the minimum you will need to utilise this strategy. You can buy shares to do this with for as little as a couple of dollars each but ideally you want to make good premiums. I am going to use \$16.00, because that is

a fair value for shares on which you can make very good returns.

Let's assume there are two people, one on either side of the equation. I'm going to explain what I do and then on the other side of the equation is what my brother-in-law does, his name being Simon.

The renting shares strategy is exactly the opposite of what Simon does. We talked before about what Simon does. He is able to rent other peoples' shares and potentially make money when they go up or down without even owning any shares. I have explained to you what Simon does as you may wish to do the same, and I will also to help you understand what we do.

What Simon does could be called a high-risk strategy, even though it can be minimised but it would still be considered a high-risk strategy. I am going to suggest that the strategy we are going to utilise is low to medium risk level. There is still risk involved but we can manage a lot of that risk and we will look at how to do this.

Say the share price is \$16.00. Simon, the person who would pay rent for shares, may have a belief that this particular share is going to go up to \$17.00 per share by the end of the month - let's say this month is December, so by the end of December, he is willing to place a calculated bet and right now he is willing to pay 44 cents as a rental premium to be able to control this share for a particular month as that is the current market rental value at \$17.00.

When you utilise this strategy of renting out shares, you generally do it either in the first few days of the month or the first week of the month because rental premiums are higher then. How do you find out your rental premiums?

You find them in the newspaper, or you can ring a stockbroker, if you can find a good broker. Unfortunately 92% of stockbrokers in Australia are not accredited to do this strategy; only 8% are accredited and this can be a challenge to find one that not only understands the strategy, but also capable of executing it.

But if you can find a stockbroker who knows how to do this, they can tell you over the phone exactly what the rental premiums are. They vary up and down every single moment, depending on supply and demand, which determines how much rental you will obtain for your shares. (A reminder that 21st Century Members have access to our Brokers).

We are going to rent our shares out and Simon believes the shares are going to go up to \$17.00 by the end of December, therefore he is willing to pay the rental price on these shares, which is 44 cents to us, so we put our shares on the rental market and we receive 44 cents for the month.

What does that mean? We have 1,000 shares x 44 cents = \$440, which you will receive in your share account virtually immediately and that money will be yours to keep - that monthly premium is yours - it is your rent. Is that a good thing? The answer is obviously yes.

As a share trader you could do that and many people who own shares could have been doing this - if they haven't, they have missed out on the monthly premium.

How many hours do you have to work for \$440? What happens with Simon? Why would Simon pay 44 cents to us to rent our shares? He is not going to do it because he is a pleasant brother-in-law; he is going to do it because he can potentially make a profit.

Let me explain how he could potentially make a profit, however you don't even need to understand what Simon does because it really has no bearing on us. We are just renting out our shares and collecting the rental money, thank you very much. We take on the low risk and they take the high risk. But Simon would pay 44 cents, as he believes the share price is going to go up.

Let's say it did go up. He may be able to resell the rental premium for which he paid 44 cents back on the rental market to someone else for 88 cents, for instance, if the share price was to go up. He has now traded a rental contract that he bought from us, via the stockbroker and the options market to someone else who was happy to pay 88 cents because the share price has gone up. If the share price goes up the rental value also goes up. He has paid 44 cents and perhaps he can sell that for 88 cents a week later and double his money.

That's one of the reasons why he would do that: however he also takes the risk that if the share price goes down, he has paid 44 cents for a rental contract that he may only be able to sell a week later for 30 cents or possibly less depending on the share price, so he could suffer a small loss.

I have heard some people say if you are making money from the market, it means someone else is losing, though I personally

don't accept that at face value. That is such a poor money mindset and inaccurate.

The above example with Simon shows how we have made some rental money and he could also make some money as well and he is prepared to take a risk and lose some of the time. All you need to understand is that if the share price goes up the value of the rental contract will go up, not that this affects you - you have been paid your 44 cents upfront which you get regardless of what happens to the share market after that; that's the good thing.

There are really only three things that can happen in this scenario. The first thing is the share price stays the same, so you get to keep the 44 cents rental and repeat the process the next month and continue repeating the process. That's it.

The second thing that can happen is that the share price can go up. Let's assume the share price goes up to above \$17.00. Now \$17.00 is important because that's where you rented the shares out. Simon paid 44 cents for the rights to be able to buy your shares if they were above \$17.00 at the end of the month (the end of the month is usually determined by the last trading Thursday of the particular month), so let's assume the price does go above \$17.00.

If the share price goes up above \$17.00 you must be aware of what can happen. If your shares go above the price you have agreed to rent them out for, then they can be sold. Another word for your shares being sold in the Market is being Exercised.

If you ever hear people talking about having had their shares Exercised it doesn't mean their stockbroker took their shares out for a walk around the park for some exercise; it simply means they have been sold. I don't know why they don't just say they have been sold, I think it is just a language to confuse the masses about the share market. But there is nothing confusing about it; your shares have simply been sold. Is that a good thing or bad thing?

Let's look at it. Your shares would be sold at what price? Your shares would actually be sold at \$17.00, the reason being that you took the rental premium at an agreed price of \$17.00. That means Simon could, if he wanted to, purchase your shares at \$17.00. Let's see what happens there. You bought the shares, you own the shares at \$16.00 and now they have gone up to \$17.00. If you sell them for \$17.00, you make an additional profit of \$1 per share. So you multiply \$1 per share because you are now

rented out your shares, you only lost 6 cents per share which means you are better off. So it acts as a type of buffer as well which reduces your risk on the share price.

Next month if the share price was to go back up, you have regained your paper losses and all that money then becomes profit. So the third thing that happens is still a good thing, it acts as a buffer, reduces your paper losses which means you are better off doing this in that example for the month than not doing it because if you didn't do it you would miss out on the 44 cents.

Let's go through those three things again.

1. The first thing that happens is you rent out your shares, you receive your 44 cents on 1,000 shares, you make \$440 and we have decided that that is a good thing: that is additional income. At the end of the month you can do the very same thing the next month. You simply rent out your shares again.
2. The second thing that can happen, if your share price did take off above that agreed price of \$17.00, only then can your shares be bought from you and they would most likely be exercised. You would receive \$17.00 for your share which means you would make an additional \$1 profit per share x 1,000 which is an extra \$1,000, plus you still get to keep your rental money totalling \$1,440 less fees.
3. The third thing that can happen, if the share price did go down, is say you were happy to buy the share at this price, you've accepted that it can go up or down, so you are not going to panic and jump out of a window as a result.

You are still going to rent out your shares and the rental premium is going to help offset any potential paper loss.

The other thing you are going to consider is that every month you take a rental premium, you are actually buying your shares at a discount. In other words, you paid \$16.00 for these shares and you received 44 cents in rental straight back, which means your real buy price for that share was not \$16.00 but rather \$16.00 less 44 cents which comes to \$15.56. You actually purchased your shares at a discount.

Let's say you were able to rent out your shares for the next month and are able get 56 cents as rental prices fluctuate by the second due to supply and demand. Your cost price of that share is no longer \$15.56 or \$16.00; it has now dropped to \$15.00. You

can see after you do this for numerous months the price/cost of your shares is getting less and less.

So even if the share market did suffer a downturn you have basically hedged yourself against that downturn because you received premiums and reduced the cost of your shares, which makes this strategy a far safer strategy than not using it.

You can also insure your shares so it doesn't matter if the share price drops. You received 44 cents in rental and you could take some of that money, maybe 10 or 20 cents, as an expense and buy insurance.

I often buy cheap insurance, at perhaps 5 to 10 cents, to protect my shares at say \$2.00 below where they are trading: i.e. if they are trading at \$16.00, I can buy insurance (a put option) at 8 cents per share to protect them at say \$14.00. If the market crashes, then my shares are protected at \$14.00 so my maximum loss is \$2.00, i.e. $\$16 - 14 = \2.00 .

So even if the share market did suffer a downturn you have basically hedged yourself against that downturn because you received premiums and reduced the cost of your shares, which makes this strategy a far safer strategy than not using it.

I am happy with a \$2.00 exposure because four months of rent at an average of 50 cents per month equals \$2.00, so I could potentially recover my losses.

You could insure shares at \$15.00 or \$16.00 as well, however it would simply cost you more in premiums. It depends on the level of risk you are comfortable with. That way if the shares fall it doesn't matter, you can't lose a lot of money because they are protected. The good news is you can receive more than 44 cents on some shares.

The highest I have ever received is \$1.51 on some shares on the Australian market, which I was able to do consistently.

In the US market, you can obtain premiums up to \$5.00 and higher. Dependent upon the shares that you use, you can get higher and lower premiums. If some shares are cheaper, obviously only a small rental premium of 10 cents may be available, but if a share price is very cheap, you can trade a large number of them and still earn a significant rental income.

Selling insurance

This strategy is like becoming an insurance company. You get paid money simply for making a promise you may never have to deliver. I often use this strategy combined with renting shares as it is a great way to buy a share at a discount and often generate monthly cashflow while hardly outlaying a cent, saving interest on margin loans and brokerage fees on share purchases.

For instance, say XYZ is trading at \$16.00 and I wish to buy it. Instead of buying it, I could make a promise to the market that I agree to buy XYZ at \$16.50 if it is below that, up to the end of say the next month. Just by doing that, you will receive insurance money from others via your broker, i.e. people wanting to insure their shares may have to pay \$0.70 per share to insure their shares at \$16.50.

That means you can receive \$0.70 per share or \$700 per 1,000 shares you promise to buy. This means your real buy price is \$15.80, not \$16.00 if you have to buy them, i.e. \$16.50 less \$0.70. If XYZ share rises above \$16.50, then you don't have to buy the shares unless they drop below \$16.50 before the end of the particular month, in which case if they did you could be exercised, meaning you have to buy the shares at \$16.50 but you get to keep the \$0.70 or \$700 in premiums.

However, then you can immediately rent your shares and maybe pick up say \$0.50 in rental premium meaning your real buy price has dropped to \$15.20, a significant discount. I make it a must to insure my positions with this strategy, usually at \$2.00, below current share price (usually less than 10 cents) minimising my risk with this strategy.

Otherwise, you could have unlimited downside if the share crashed in value and that is a risk you are best to avoid. To utilise this strategy though, you must have the ability to purchase the shares if required. The key question is whether you are willing to buy these shares if you have to. If you are, then it is fine. If not, then don't use this strategy.

Another strategy used by 21st Century members is where traders promise to buy shares but never have to buy them. Some clients have made over \$60,000 a month in a rising market with this strategy. However it is an advanced strategy that I will not detail here. There is also another strategy for buying shares at a significant discount that is difficult to explain but is taught at 21st Century live seminars.

Developing your financial education skills

My millionaire mentor would often advise me to add more value in order to create wealth. One way to do that is by developing your financial education skills he told me. Those skills are:

1. The ability to think creatively and solve problems.
2. The ability to communicate more effectively.
3. The ability to market an idea or concept and bring that idea to reality and commercial viability.
4. The ability to negotiate.

Summary

In summary, we see investors becoming more and more involved with renting and insurance strategies. At one stage our accounting practice viewed this style of investment as one to be used by speculators. Today, these strategies are just as likely to be used by long-term investors managing risk, investors buying shares on margin or in a self-managed super fund.

These strategies are being used in a variety of ways by investors to profit from a rise or fall in prices. The most basic strategies adopted by our investor clients are renting and insuring shares as a way to generate instant cash flow.

Insurance is being used to offer protection from a decline in market price or as a hedge against rising prices. Selling insurance and share renting has enabled investors to buy shares at a lower price, sell shares at a higher price or create additional income. The versatility of these strategies has made the concepts described in this chapter very popular with investors looking to build and protect long-term wealth and generate instant cash-flow to replace or supplement their job income.

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