



ULTIMATE WEEKLY WEBINAR SUPPORT PROGRAM



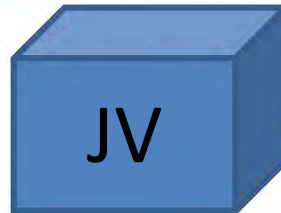
Michael & Sara Franks

ULTIMATE WEEKLY WEBINAR SUPPORT PROGRAM





Evaluating a Deal



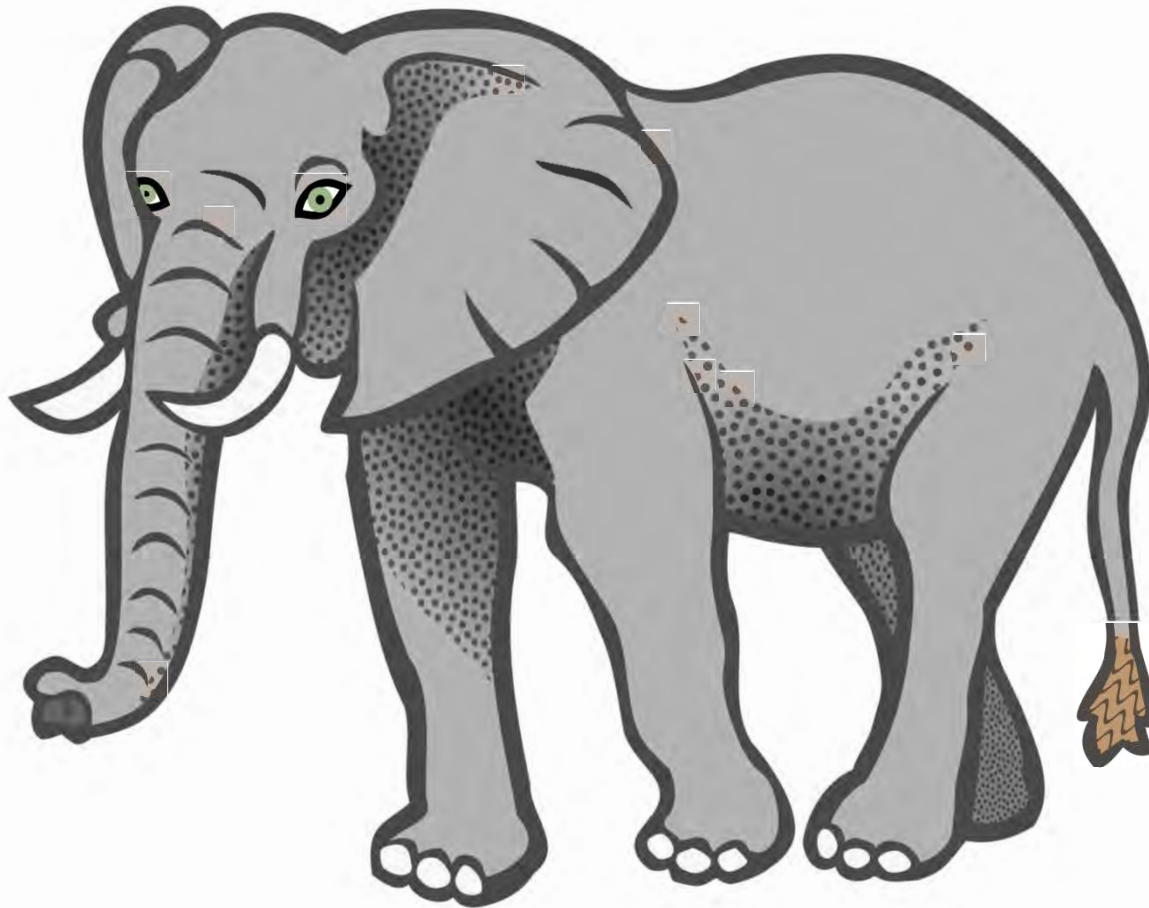
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Evaluating a Deal

- The following is general information.
- It is not intended as personal financial advice
- It's purpose is to provoke ideas so that students can size up deals to fit into their own plans.



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Evaluating a Deal



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Purchase Deal Types

- ❑ Just 2 Required Outcomes from Investment
- ❑ **EQUITY** or Chunk Deals – Those that put chunks of money into your bank 
- ❑ **INCOME** or Cash Cows – Those that provide you with cash flow. 

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Purchase Deal Scenarios

- ❑ Only 12 Purchase deal scenarios.

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Purchase Deal Scenarios

- Only 12 Purchase deal scenarios.
- There are other deal scenarios not involving purchase but we are not going there today. Maybe the topic of another webinar?

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Purchase Deal Scenarios

HOLD EXIT

- Buy below market price and keep. (all or part)
- Buy below market price, do something and keep. (all or part)
- Buy at market price and keep. (all or part)
- Buy at market price, do something and keep. (all or part)
- Buy above market price and keep. (all or part)
- Buy above market price, do something and keep. (all or part)

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SELL EXIT

- Buy below market price and sell. (all or part)
- Buy below market price, do something and sell. (all or part)
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Purchase Deal Scenarios

HOLD EXIT

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SELL EXIT

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- Buy at market price and sell. (all or part)
- Buy at market price, do something and sell. (all or part)
- Buy above market price and sell. (all or part)
- Buy above market price, do something and sell. (all or part)

Which category does your purchase deal fall into?

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Evaluating a Deal

“What is a Good Deal?” – A question that we have been asked many times.

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Evaluating a Deal

*“A Good Deal is a deal
which potentially delivers
what my written investment
plan specifies and needs at
this time”*

- NO PLAN?

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What do I need to start developing a Plan

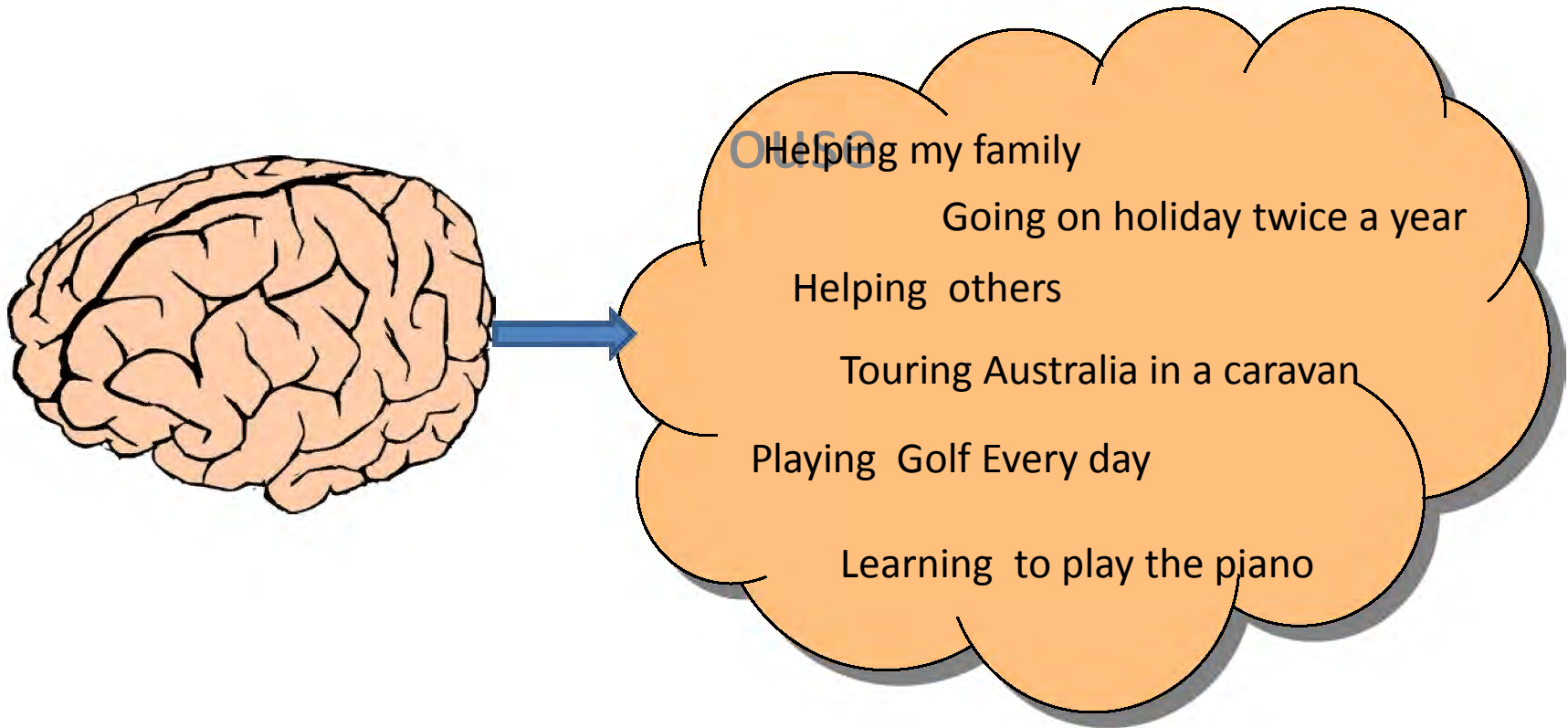
- WRITTEN LONG TERM GOAL/S**
- FINANCE AND STRATEGY REVIEW (FSR)**

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Goal setting Recap

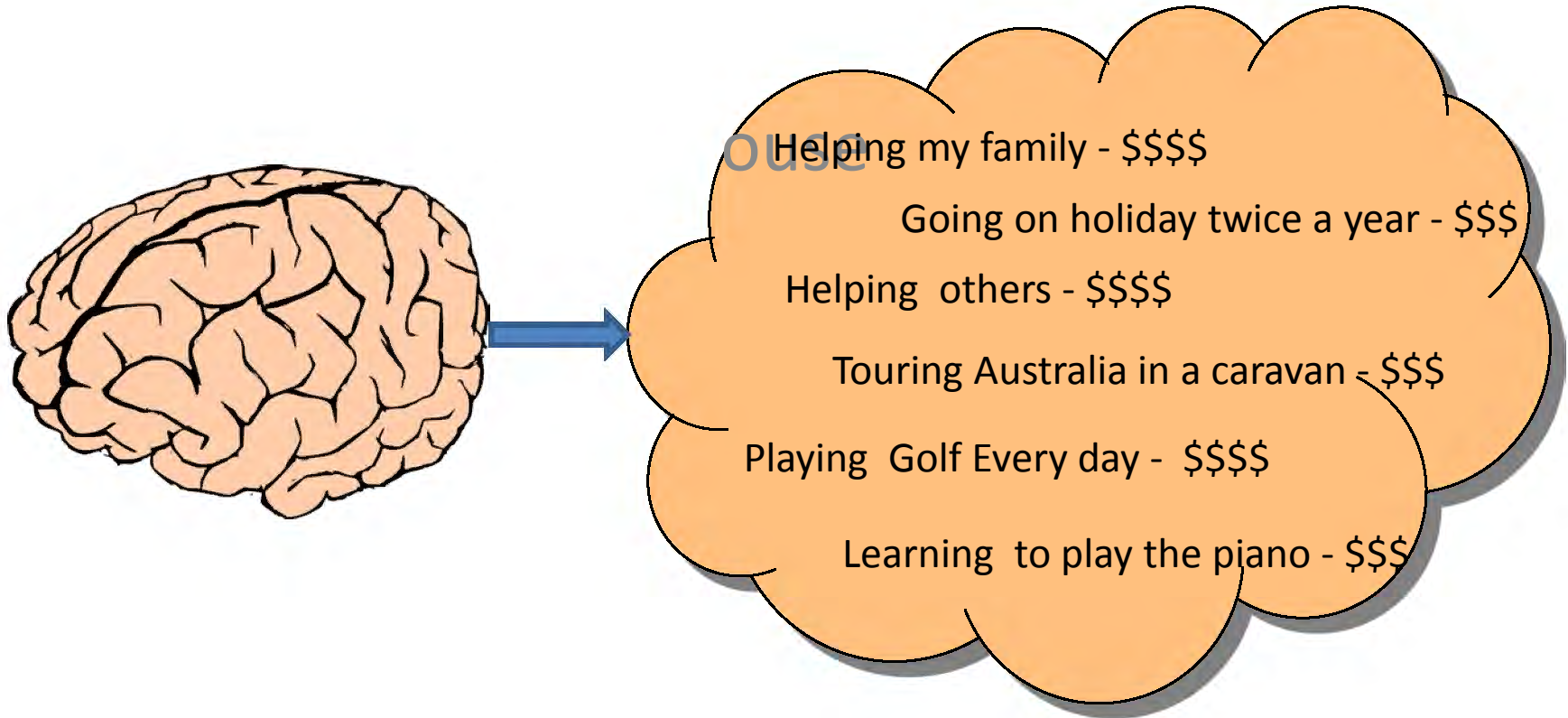
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Goal Setting



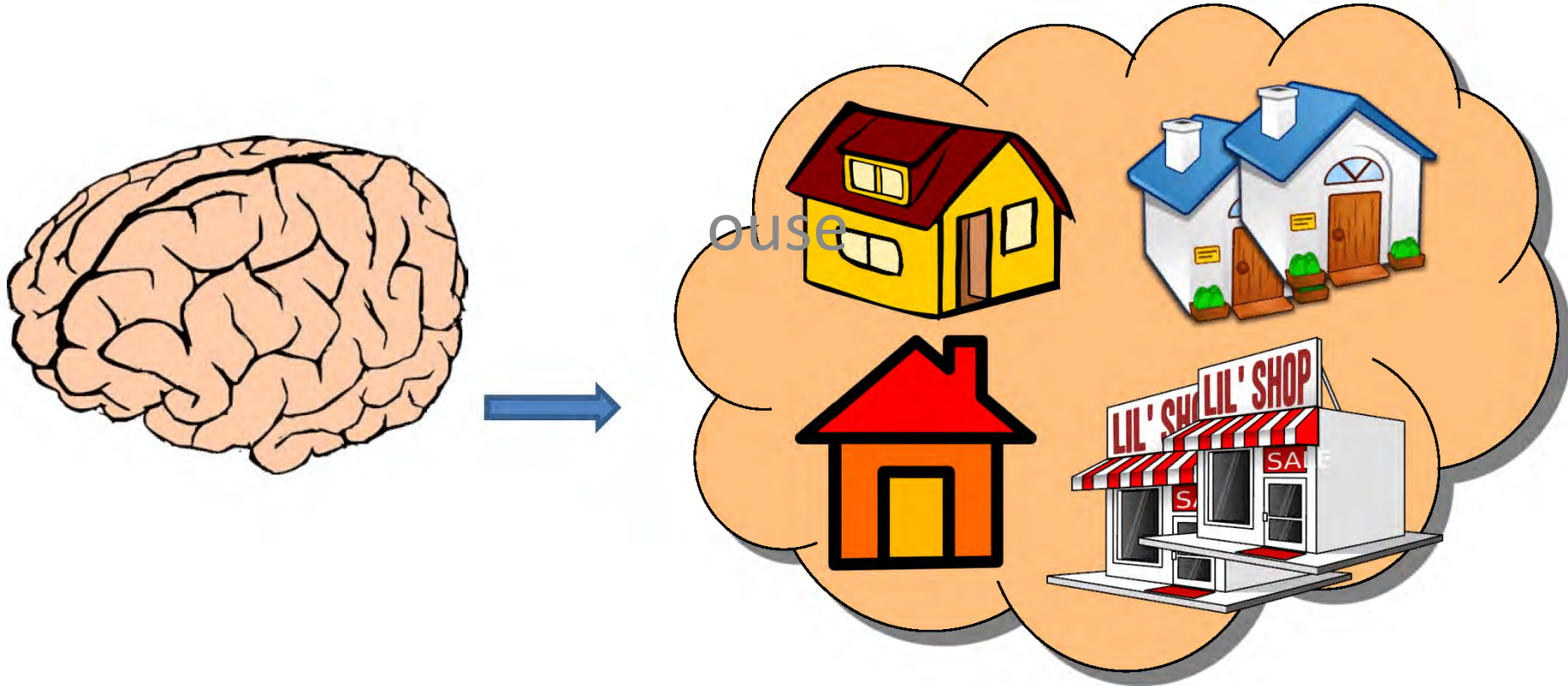
It is 20xx and I am enjoying

Your Goal Visions



How much will these activities or pursuits cost in total?

Converting your Goal Visions

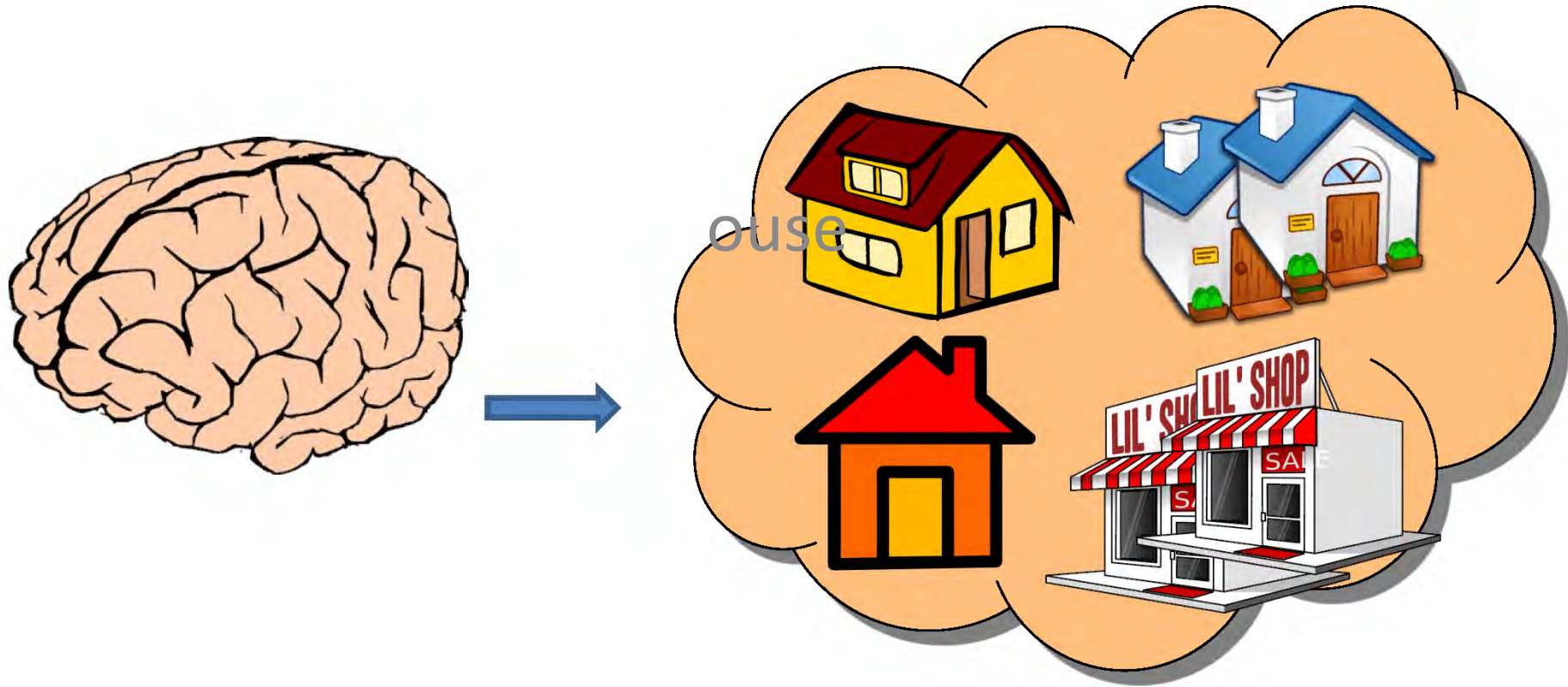


Convert the sums of money required to carry out your pursuits into a required TOTAL INCOME stream. ie.

It is 20xx and I own 4 properties without loans that give me \$xxxxk in income

NOTE that ideally these properties are debt free – ie. No Bank loans

Goal Visions to Property Types



Note that only 4 INCOME properties have been chosen – scale up as required later.

Research Your Goal Vision Properties

- At this point you need to research the market to understand how each type of investment performs. Each of you will have your own preferences. These are the 4 properties that will provide your **INCOME** at Goal Achievement.

Volatility?



Where?



Growth?

Yield?

Prices?



What?

Market?

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FSR Recap

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Define your Starting Finances

Get a Finance and Strategy Review (FSR)

Available Working EQUITY (**AWE**)



Max Loan Capacity (**SERVICEABILITY**)



Under \$200k AWE – EQUITY WEAK

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Develop Your Plan

- Plan your **INCOME** properties first (suggestion - focus on just 4 properties)
- Place these 4 properties on a time scale (yours)
- Understand the numbers for each of these properties – equity needed to Buy, CASH FLOW etc.
- Planning of **EQUITY** deals will emerge from doing the above. (these will initially provide equity to assist buying your **INCOME** properties and ultimately reduce the loan debt on your INCOME properties.

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Plan Observations

- ❑ A plan will need to include BOTH **equity** and **income** deals (Unless the starting AWE is huge)
- ❑ **Equity** deals will almost certainly outnumber **income** deals.
- ❑ A plan needs to track both **EQUITY** and **INCOME** positions going into a deal and coming out of a deal.
- ❑ A good plan will strengthen either your **equity** or **income** position after every deal.
- ❑ The next deal needs to be considered when planning the current deal.

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SAMPLE Finance Management

Suggestion Only: (Use/modify/... to develop your own plan)

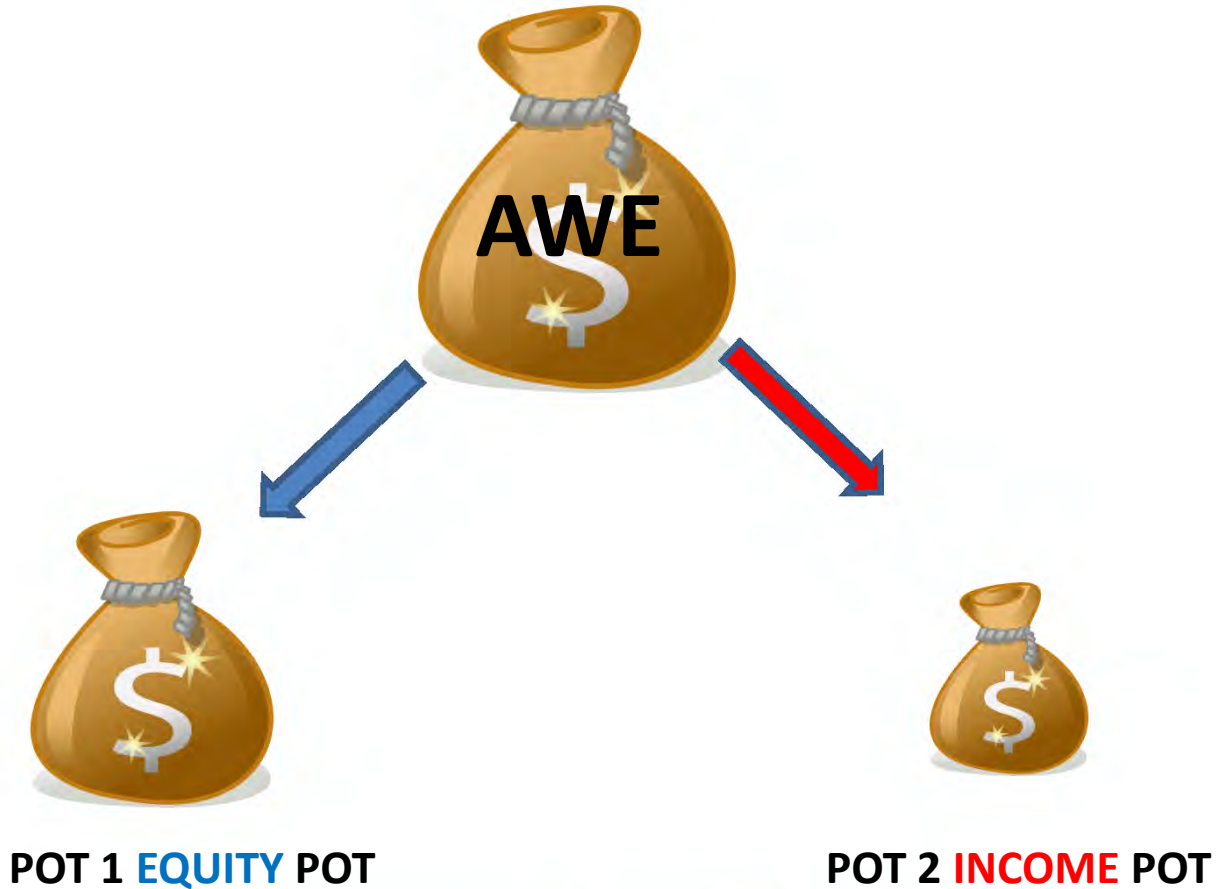
Divide the AWE into 2 pots:

- Pot 1 for **EQUITY** generation
- Pot 2 to be used to acquire **INCOME** property
- Only use funds from the assigned pot.
- Equity gained from deals can be divided between the 2 pots
 - The resultant tax liability portion can be distributed to Pot 1 or an offset account and Pot 2 the balance of funds.
- Use Pot 2 to fund your **INCOME** property purchases.

Example Only

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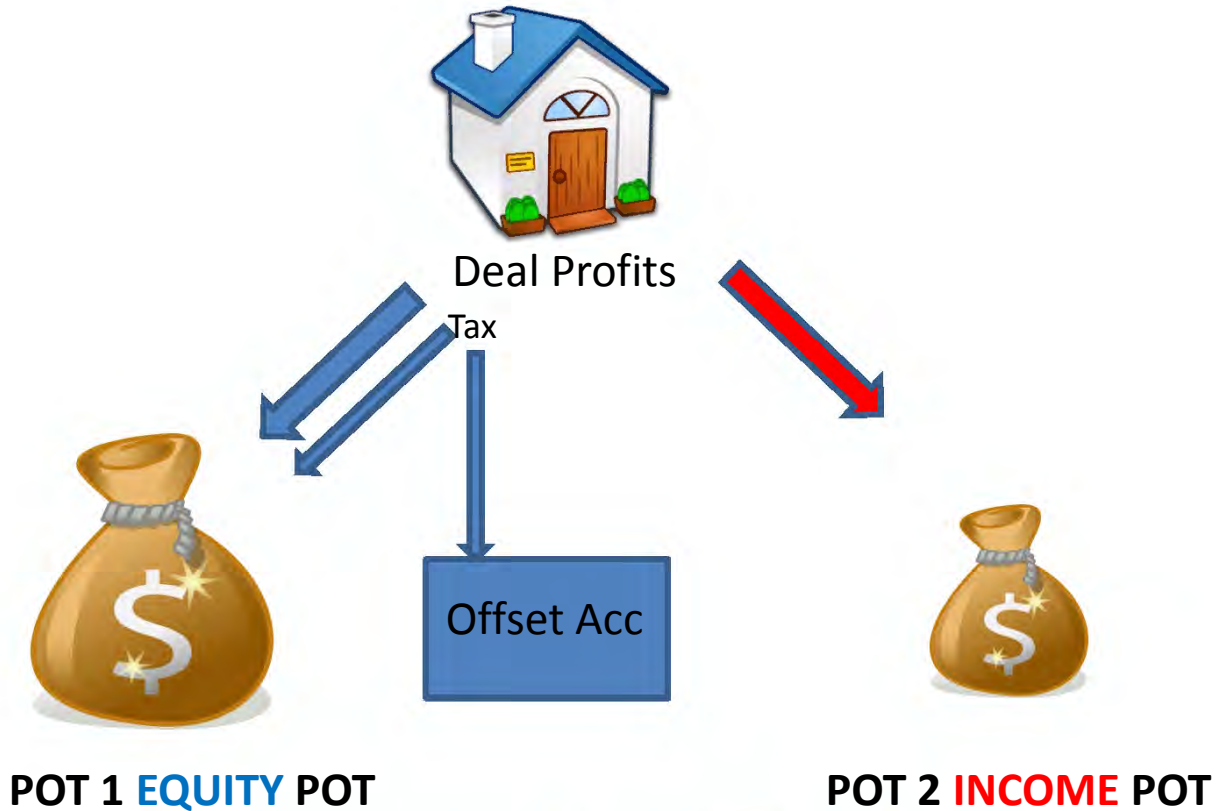
SAMPLE Finance Management



Example Only

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SAMPLE Finance Management



Example Only

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SAMPLE Planning Guidelines

WHEN PLANNING

- PRIMARILY Consider deals as being an EQUITY deals for MANUFACTURED GROWTH.
- The decision to HOLD should be made on the amount of EQUITY or CASHFLOW and the impact on future borrowing serviceability.
- Favour PPR deals over Investment deals.
- Work with expectations of LOWER LVR's for borrowing.
- Aim to become your own Bank.
- Why? – APRA, Bank Lending, Serviceability

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SAMPLE Planning Guidelines

- Plan to Acquire just 4 income earning properties.**
- Plan for these 4 properties to have NO DEBT.
- Have a vision for the different property types, price brackets, yields and locations of these Income properties. Know the amount of potential income that these properties will deliver at GOAL time
- Realise that this plan will require adjustment over the goal period

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Written Investment Plan

- A written plan will specify the 2 TYPES of deal that will be undertaken.

a) **EQUITY** – ‘Chunk Deal’



b) **INCOME** – ‘Cash Cow’



NOTHING MORE THAN THESE TYPES NEED BE SPECIFIED IN THE INITIAL STAGE OF PLANNING – YOU WILL DRILL DOWN LATER ON THE SPECIFICS WHICH MATCH YOUR INVESTOR PROFILE

- Guidelines for entry price range based on:
 - a) Available Funds
 - b) Any planned activity spend.
- The preferred **EXIT** strategy for each deal (*subject to lending*)
- Alternate **EXIT** strategies for each deal (*subject to lending*)

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SAMPLE Written Investment Plan

2017 ←———— Years to Goal Achievement —————→ 20xx

Goal
Visions

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SAMPLE Written Investment Plan

2017 ← Years to Goal Achievement → 20xx

INC

INC

INC

INC

Goal
Visions

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SAMPLE Written Investment Plan



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SAMPLE Written Investment Plan



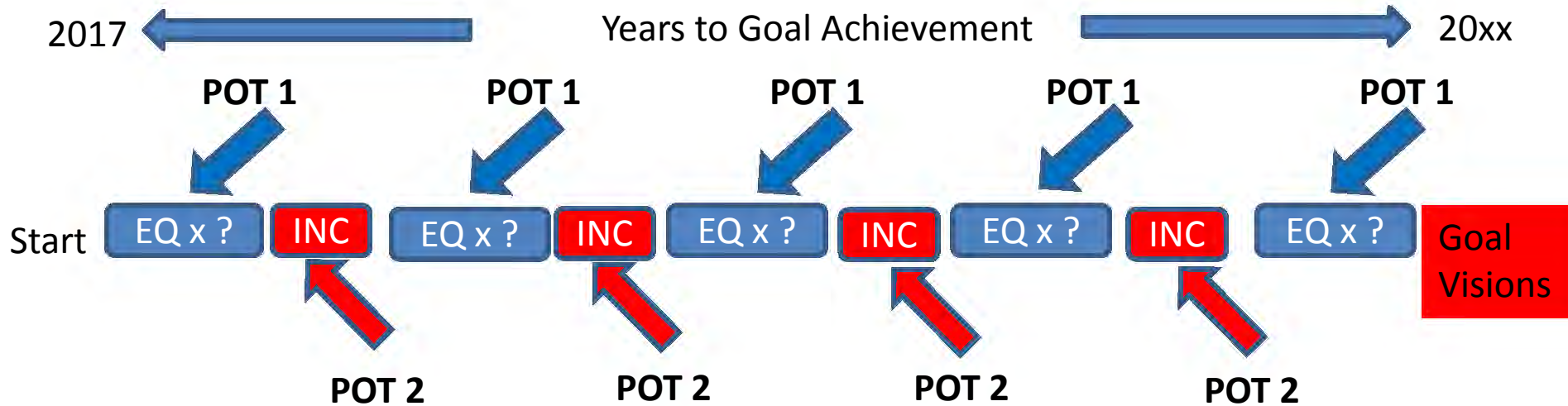
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SAMPLE Written Investment Plan



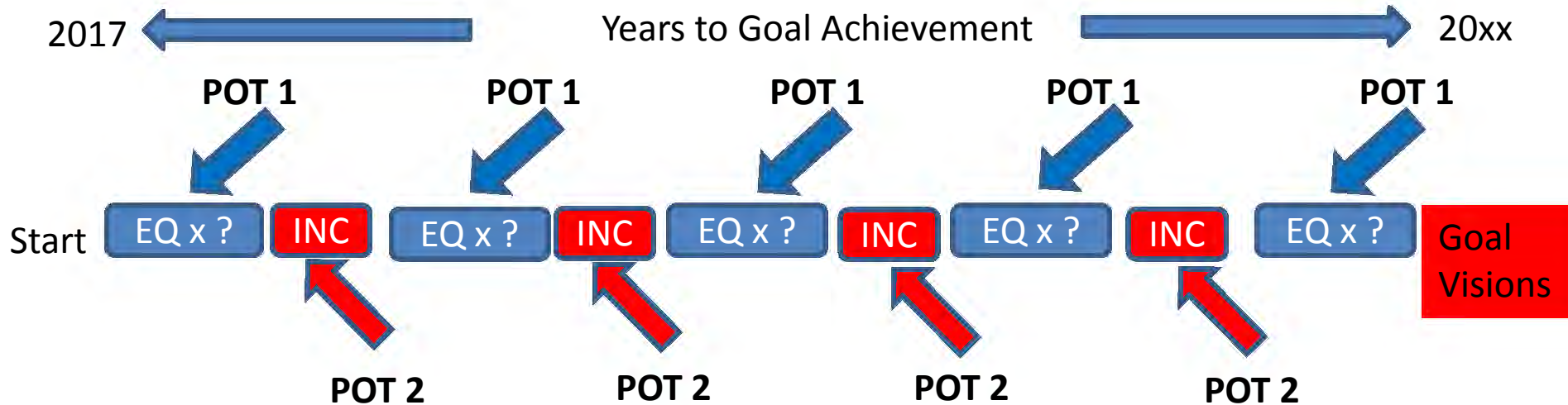
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SAMPLE Written Investment Plan



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SAMPLE Written Investment Plan



- Each deal performs a distinct function
- Use funds from Pot 1 to process your chunk deals
- Distribute your profits from chunk deals – Tax liability to Pot 1, balance to Pot 2
- Equity figures entering and exiting each stage should be planned.
- Some stages can be doubled up – EQUITY AND INCOME deal

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GUIDELINE 1

An Investment deal MUST produce:

EQUITY



INCOME



BOTH EQUITY & INCOME



NEVER

NO EQUITY OR NO INCOME



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GUIDELINE 2

- ❑ Formulate your own definition of an **equity** deal. (Remember that Natural Growth **IS A BONUS – NOT TO BE RELIED ON**)

For example:

*A deal is an **EQUITY** deal IF it can MANUFACTURE clear => \$30k plus or minus \$10k (insert your own definition)*



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GUIDELINE 3

- ❑ Formulate your own definition of an **income** deal.

For example:

*A deal is an **INCOME** deal if it can produce cashflow => \$5k per annum plus or minus \$1k. If it fails this test it is not an INCOME deal
(insert your own definition)*



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GUIDELINE 4

- ❑ An EQUITY deal should only be HELD if its cash flow is positive or neutral **NOW** – **AND** by refinance you can at least get back the amount of equity that you have put in **AND** by holding it you do not affect your serviceability for future borrowing##. If neutral there must be further **IMMEDIATE** potential for either manufactured **EQUITY** GROWTH or manufactured **INCOME** GROWTH

##Consult your ILN rep to assist you

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Pick a Deal from your Written Plan

- Pick the next deal TYPE from your plan.
- Concentrate on just finding this type of deal based on your personal investing profile.
- Focus on asking OPEN questions in order to gather figures and information.
- Gather ALL of the figures and facts (not promises or pipe dreams).
- Analyse the deal using the spreadsheet.
- Don't burn other deal types that you find – consider spotting for others.

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Information Gathering

Gather the numbers concerned with **EQUITY**



Gather the numbers concerned with **INCOME**

Gather information about any potential upside to **EQUITY**. Make Notes



Gather information about any potential upside to **INCOME**. Make Notes

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Collate your Figures



EQUITY		INCOME	
STARTING AVAILABLE WORKING EQUITY	\$250,000	Current Value	\$380,000
Buy Price	\$380,000	Weekly Rental Income	\$420
Deposit CASH	\$76,000	Vacancy %	0.00%
Deposit BORROWED(LOC)	\$0	Total Borrowings	\$304,000
Bank Loan Amount	\$304,000	Annual Gross Rental income	\$21,840
Stamp Duty & Legals CASH	\$22,500	Annual Gross Rental Yield % (based on current value)	5.75%
Stamp Duty & Legals BORROWED(LOC)	\$0	Expenses %	32%
Strategy Duration months	3	Annual Net Rental income	\$14,851
Holding Cost	\$3,420	Annual Net Rental Yield % (based on current value)	3.91%
Strategy Cost(CASH)	\$25,000	Loan Interest Rate %	4.50%
Strategy Cost BORROWED(LOC)	\$0	Annual Interest Payable	\$13,680
EQUITY USED	\$123,500	CASH FLOW (NO LOAN DEBT)	\$14,851
Selling Price/New Value	\$590,000	CASH FLOW	\$1,171.20
Agent Selling Costs %	2.20%	CASHFLOW POSITIVE, NEUTRAL or MEGATIVE \$, D, C	Neutral or Positive
Selling Cost \$	\$12,980		
Legals %	0.50%		
Legals Cost \$	\$2,950		
After Sales Proceeds	\$574,070		
EQUITY AVAILABLE FOR REDRAW IF KEPT (ASSUMING 80% LVR)	\$127,264		
REVISED AVAILABLE WORKING EQUITY FOR NEXT DEAL IF KEPT	\$253,764		
PROFIT IF SOLD	\$143,150		
REVISED AVAILABLE WORKING EQUITY FOR NEXT DEAL IF SOLD	\$393,150		
FULL AMOUNT OF EQUITY AVAILABLE ON REFINANCE	Yes		

Note that this is a simple calculator and GST calculations are NOT included.
Michael & Sara Franks - Coaches

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Spreadsheet

- ❑ Here is the actual spreadsheet which you can use to assist you in assessing the deal.

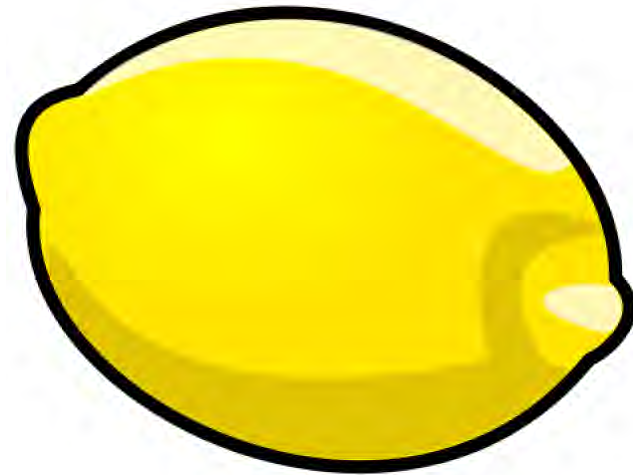
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Match to GUIDELINE 1

- Is it an **EQUITY** deal?
- Is it an **INCOME** deal?
- Is it an **EQUITY** and **INCOME** deal?

OR

- Is it a big fat LEMON?



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