

Property's big role

DETAILS Denis Mason, 34 from Sydney

PROFILE Recently married and planning kids

QUESTION What's the best wealth-building strategy to hit the \$1 million mark?

SOLUTION Canny property investment is the way to go, says financial adviser Sam Henderson

Denis and Ruth have been putting all their spare money into a mortgage, so they have only around \$120,000 left to pay on their two-bedroom apartment. Their fixed home loan for 50% of the mortgage expires next month.

They want to move to a bigger home in a few years but are unsure of the best approach given that Ruth will take time out of the workforce or work part-time when they have children. They have no other investments. They have never been strict budgeters and Denis describes their spending as "semi-carefree". SUSAN HELY



TO DO LIST

Leading financial adviser Sam Henderson put together the following plan. Henderson says it will take Denis and Ruth five years to achieve millionaire status if they include their house but 12 years if they exclude it.

In 15 years, by the time Denis is 50, the Masons will have assets of \$1.8 million apart from their home, and an income of \$85,000 to \$100,000 a year.

STEP 1: Switch to a variable rate when the fixed rate expires and get the best rate.

STEP 2: You will need a new house within four years or around the time of baby number two. This house is likely to be in the vicinity of \$1.1 million and you will need to extend the mortgage to around \$450,000. Pump most of the excess funds into the mortgage until it is repaid in full within eight years.

STEP 3: Consider a line of credit with the ability to add sub-accounts for further property purchases, such as the St George Portfolio Loan or Commonwealth's Viridian account. Get the maximum discount for a professional package – you just have to ask!

STEP 4: Build a small share-based portfolio on the side to provide liquidity and flexibility. I suggest holding it in a "managed account", where an adviser manages direct shares and listed funds for you but all the assets are held

in your name. You can transfer the shares or funds when you need them without having to liquidate the whole portfolio

STEP 5: Gear the managed account via the line of credit against the house, but only to a maximum of 50% loan to value ratio. The low sharemarket is a fantastic opportunity to purchase some great companies at huge discounts, but stick to the top 50 stocks. Make sure you talk to an adviser and read all investment documents before proceeding.

STEP 6: Pay off your current unit before making any significant increases to super. When you reach \$150,000, set up a self-managed super fund and establish a "debt instalment trust" within the super fund, borrowing 70% of the value of a property, and have the property repay itself well before you can legally access your nest egg at age 60. You can probably buy 2-3 properties in your super fund as well as investing via a managed account, to provide diversity and meet the investment strategy rules for a self-managed super fund.

STEP 7: Buy two investment properties around \$400,000 (plus one more in super) to build assets by age 50. Properties could include one to two-bedroom established (not new) units in inner-city suburbs. I like art deco, four apartments in a block. They are large like semis and sell well. Do this in years seven and nine to allow yourself time to build a family and repay your home.

STEP 8: Take out life insurance inside your super funds and income protection outside the super fund. Make sure you get your wills drawn up in the event of death, and powers of attorney so someone else can sign documents on your behalf. Ensure guardianship is in place for the children.

STEP 9: There is plenty of room for travel; I'd recommend it. Life is short and money is there to enjoy and provide choices, so enjoy it with the whole family.

• Sam Henderson is CEO of the fee-for-service, independently owned firm Henderson Maxwell.

