

Going overboard

Ellen Schafer



The day Judith and Greg (not their real names) signed a contract in 1999 to buy their \$310,000 Buderim home they thought they had gone completely overboard. The 4 bedroom home was \$40,000 more than they intended to spend on a home and it put their mortgage repayments \$280 a month over their desired budget.

They tried to rationalise the bigger mortgage a dozen different ways but deep down they still felt guilty. Judith, a school teacher, had to cut back her salary sacrifice into her super and Greg had to agree to work the occasional Saturday for his employer to meet the higher mortgage repayments.

I am sure the above story is familiar to many readers. The lending institutions do tend to loan more than most people feel they can comfortably afford to pay and personal restraint becomes a necessity. In hind sight, 7 years later, we know that Greg and Judith actually bought their home at the right time (before property prices went through the roof) but they didn't know that at the time.

I think that sometimes we do have to go the extra mile to get the things out of life that we really want. The big issue is whether or not we can see our way clear to pay the inevitable price of doing something unprecedented. We need to ask ourselves what are the risks involved and are they worth taking. To Judith and Greg their home was very important to them.

It was more than just a place to sleep and eat. They had 2 small children and their home was the focal point of their family's existence. So they were prepared to pay the price to get something they really wanted. Two months ago the bank valued their home at \$710,000 and they still had a mortgage of \$156,000. With the increase in their wages over the years they have gradually found their mortgage repayments much more affordable and Greg is no longer working extra hours and Judith has

been able to salary sacrifice for the last 2 years as well as make some additional payments to reduce the mortgage. Now, let's look at their history from a wealth creation point of view.

The only purpose for creating wealth is to be able to afford to do the things that we want to do in life and Judith and Greg have been living in the home of their dreams for the last 7 years. They now have an asset which has grown significantly in value and is sitting in a capital gains tax free zone.

Greg and Judith who are in their late thirties and have two school age children recently became clients of ours. Judith is no longer salary sacrificing into super because she is using her salary sacrifice money to help fund a \$300,000 investment loan. She still gets the same tax deduction she was getting when she was salary sacrificing because all of the interest on the investment loan is tax deductible. It's not as though she and Greg don't believe Super is a good thing but they decided gearing to invest gave them greater choices down the track to do some of the things in life that they wanted to do before retirement. They used their home as security for the new investment loan and now they own a blue chip share portfolio.

It would appear that the self discipline required to meet the larger home mortgage 7 years ago has stood them in good stead to take on another financial challenge.

Greg and Judith came to a FREE investment workshop earlier this year. We are holding a similar workshop where we will explore the good, the bad and the ugly of borrowing to invest. If you are interested in attending this workshop you should **ring Cathy on 5445 6044** or register on line at www.esafinance.com.au to book your seat as soon as possible as numbers are limited.

If you have a partner it is imperative that you BOTH attend. The workshop begins at **6pm on Tuesday 3rd July** and goes for approximately 3 hours with a break at half time when a light supper will be served.



Fortune favours the brave

FINANCIAL STATEMENT	
Last Trade	Change
Jun 8 - 8623.29	0.00 (0.00)
Day's Range	Bid
0.00 - 0.00	N/A
1-Range	Earn/Shr
	N/A

Owning a blue chip share portfolio could be easier than you think



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