Duplication

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Duplication is the idea that you can repeat the investment process to ensure you have sufficient wealth in retirement.

There are many things to consider when creating a strategy that can be duplicated. For example, how often you are able to reinvest, how frequently you can borrow from financial institutions, how the risk of your current portfolio affects your ability to continue to increase your portfolio and how much are you required to accumulate based on your current circumstances.

When you apply for a home or investment loan, it often happens that the amount you are eligible for is different from the amount you should borrow.

Depending on your circumstances, your borrowing capacity may excite or disappoint you. In some instances financial institutions will advise that you are able to incur a high level of debt and this creates a positive emotional response - but don't act so fast, this can be detrimental, but more on that in a moment. On the other side of the coin, banks may give you an estimate of your borrowing capacity that does not meet your expectations and can leave you feeling that there are no viable options at that level. However, the best way to think about your borrowing capacity is what it allows you to do in years to come.

For example, a high borrowing capacity may mean that you are able to purchase a $900,000 unit in the inner suburbs of Melbourne - great! But maybe not. Did you know that rental yields on units that price are often below 3% meaning that you will have to fork out some of your own money to sustain the loan. This will effectively put a strain on your finances and severely limit your ability to continue to invest in the future. On the other hand a low borrowing capacity doesn't mean you can't invest at all, it simply means you have to find something within your price range. This can have the benefit of having better rental yields and the ability to invest in a second property sooner in the future! Diversification is a key factor in the success of an investment portfolio and without the ability to duplicate, diversification is impossible.

Make no mistake, a good borrowing capacity is not a bad thing, and in fact it does give you more options, it is simply important not to abuse it. To give yourself more options you should do everything you can to boost your borrowing capacity. There are small things that can be changed before applying that will greatly increase your chance of receiving a higher borrowing capacity which is why it is always best to speak to an experienced professional before applying for any type of loan whether it is a personal, home or investment loan.

Borrowing too much at the wrong time can potentially set you back years. This is because everybody's circumstances are unique and there are many factors that need to be considered and your specific goals and objectives can change what you should be doing at each stage of your journey.

Many people actually have the ability to invest right now and are unaware of it. If you have been paying your mortgage for a few years you may be able to actually utilise the equity built in your home as a deposit for another property. A common misconception is that using your equity as a deposit is somehow riskier than saving for a deposit. In fact this is not the case. Using your equity as a deposit simply increases the loan on your home. When it comes to the risk of default, it is irrelevant where the deposit comes from as the banks still have title over both of the properties in any event.

A Lot of people start a family and buy a family home and after 10 years they usually see the following happen:

> At a modest annual capital growth rate of 5% a $400,000 house would be worth just over $650,000; and
> The mortgage would have reduced from somewhere around $360,000 to $287,000.

This opens up the opportunity to borrow extra against your home to enable you to invest which not only helps you build your wealth at a much faster rate and may carry serious tax benefits!

Experts say that using more than 30 percent of of your income towards your mortgage repayment can lead to mortgage stress and taking yourself to this level with one purchase will greatly hinder your ability for further investment.

DID YOU KNOW?

Only 2% of Australians own more than one property while the average Australian would need at least 5 average investments to fund a comfortable lifestyle both before and in retirement.

The first step in determining how often you will need to duplicate your strategy is figuring out what income you will need in retirement.

First, consider your normal spending, your debts and your income. Then you have to consider your lifestyle goals such as holidays and other purchases such as upgrading the car every 5 years or so.

As an example, the yearly realistic expenses for the average family with a paid off home and 2 cars paid off would be around $75,000.

A break down of these costs can be found below for an average couple. As an exercise you can fill in what your expenses are compared to the average in the empty boxes provided.

Expenses	**Realistic Annual Average**	**Your Own Annual Average**
Council Rates	$4,032	$
Vehicles Expenses: Petrol, Registration, insurance, Servicing, Continuous Upgrade every 5 years	$19,929	$
Phone/Internet/Subscriptions	$3,420	$
Utilities: Water, Electricity, Gas	$4,896	$
Groceries	$14,610	$
Misc Spending/Recreation	$12,001	$
Gym/Club Memberships	$360	$
Holidays	$15,000	$
Other	$4,896	$
TOTAL	**$74,248**	**$**

Once you work out your total figure you can then work out the wealth you need to be able to create to achieve that lifestyle.

If we work on the realistic average you would need to achieve an annual income of $75,000 then you would need roughly $1,500,000 in paid off assets (assuming you know how to get a good yield on your investments).

However, it isn't as simple as just accumulating your total figure because not all investments can give you a consistent 5% return, especially if you have never worked with a professional. In actual fact the more expensive a property the lower the rental yield, as can be seen in the below table.

This table shows average rental yields against property value across the Australian market.

Property Value	Rental Yield	Annual income	Annual income w/ $1,500,000 Portfolio
$1,500,000	2.4%	$36,600	$36,000
$750,000	2.8%	$21,000	$42,000
$500,000	4%	$20,000	$60,000
$400,000	5.2%	$20,800	$78,000
$300,000	5.6%	$16,800	$84,000

these are average figures, rental yield against property cost will vary from area to area

This is why it is important to not only consider your overall goal when making investment decisions but you should also be considering your next move and how it affects your ability to invest in the future.

This is why it's important to speak to an experienced professional to ensure you select investments at the right price range, appropriate to your overall goals and timeframe.