SFP CASE STUDY

Investing proceeds of property sale

OVERVIEW

Investing proceeds from the sale of property can be pivotal decision in achieving financial goals and objectives. This case study illustrates the advantages of developing a well thought through strategy to simplify Rob and Julie's situation and ultimately provide them with financial independence and enhanced peace of mind in retirement.

STARTING POINT

- Rob and Julie, just turned 50 and are considering selling their investment property to reduce headaches they've had with their tenants, reduce debts and to simplify their finances.
- The investment property is valued at $850,000, with current debt of $400,000.
- Interest only mortgage repayments $385 per week, gross rent $710 per week, other property expenses $7,500 pa
- Total net income $9,420 pa, representing 1.10% pa income return, added to their taxable income.

CLIENT OBJECTIVES

1. Generate passive income that will grow well into their retirement.
2. Spread risk and no longer have all eggs in one basket.
3. Continue to grow wealth and minimise tax.
4. Simplify financial affairs.

IDENTIFIED RISKS

1. Clients felt they understood property better than company shares.
2. Shares valuations are known daily, property valuations only confirmed at a sale.
3. Erosion of capital's purchasing power if kept in cash over long period of time.
4. Client's lack of experience in share investing was making them nervous.
5. Lack of confidence in investment strategy can result in poor investment decisions

SFP WORK IMPLEMENTED

- Provided thorough practical education on investment fundamentals (initial and ongoing)
- Recommended clients to sell their investment property.
- Invested proceeds of sale (approx. $400K) in diversified portfolio of Australian and international companies, with high liquidity, at low ongoing cost.
- Designed a roadmap to show client how to achieve desired lump sum of $850K in 9 years' time.
- Generated average dividend income of 5.5% pa and re-invested all of it for 9 years via standing purchase instructions.
- Utilised surplus cashflow to make regular contributions to further enhanced the capital.
- Selected a flexible platform (wrap account) with quality reporting distinguishing between income and growth returns to help improving client's confidence and understanding of what they hold and why.
- Managed client's investment portfolio via investor behaviour program to ensure rational investment decisions and to maximise compound interest over the long term.

ACHIEVED FINANCIAL OUTCOMES

- Achieved desired goal of $850K in 7 years (2 years earlier).
- Additional $130K in accumulated capital in 9 years.
- Achieved over 4.5% greater annual income returns, compared to investment property
- Minimised risk by spreading assets between several countries, industries and top companies in each industry.
- Minimised tax by generating franking credits, resulting in tax refunds directly back into the portfolio.
- Provided ability to draw down on the portfolio and help clients reduce working hours and transition smoothly into retirement.
- Removed all debt prior to retirement.

VALUE CREATED

Removed previous headaches clients were experiencing with tenants and ongoing management and cost of investment property.

Ability of income to increase to offset future increases in cost of living will provide them peace of mind they will be able to sustain their lifestyle well into their retirement.

Built clients wealth in less stressful, debt free and tax effective way, while increasing income returns.

Provided peace of mind by decreasing risk and spread client's money from one asset to a diversified portfolio of assets.

Simplified financial affairs and better clarity of financial decisions, resulting in client's confidence in the course of action.

Clients were able to retire earlier using funds outside super to fund desired lifestyle.

ASSUMPTIONS

This Case Study is illustrative only and is not an estimate of the investment returns you will receive or fees and costs you will incur.
This Case Study is based on the following assumptions:

a. Generated average dividend income of 5.5% pa and re-invested all of it for 9 years
b. We have not taken into account any underlying fees, costs or tax implications of the scenarios mentioned in the case study.
c. Any surplus cashflow is reinvested to further enhanced the capital.
d. The investment property is valued at $850,000, with current debt of $400,000.
e. Interest only mortgage repayments $385 per week, gross rent $710 per week, other property expenses $7,500 pa.
f. Total net income $9,420 pa from investment property, representing 1.10% pa income return.

GET EXPERT HELP

Speak to one of our financial advisers at Sydney Financial Planning, contact our team to make an appointment to get started.

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