INVESTMENT CHECKLIST

This checklist is a guide for you to work out if you should be investing or not.

In particular, investing can be scary for someone who is uneducated in this area. People lose money all the time in bad investments, or hear horror stories about the stock market, property market, options trading, futures, etc. and don’t know what is best to do.

At the same time, people know that doing the “same old same old” and following the same system everyone else is using isn’t necessarily going to make them rich.

On top of that, if you are at a later stage of life, and haven’t made the right decisions in the past, it is harder to play “catch up”, eg. if you are 50 years old, and own your house but not much more, you are well behind the 8 ball. To give you an idea, a 50 year old person would need $4 million in assets by age 62 to be getting $100,000 per annum income in today’s dollars, NOT INCLUDING their own family home. So basically, that 50 year old person would need to make $4 million in 10 years, or on average $400,000 per year.

That is not impossible, but as you can imagine, it requires a very different investment strategy and level of education, compared to a person in their early 30s who wants the same income. They have the value of time up their sleeve.

Here are some basic checklist points to assist you.

General

This is for you to work out your investment strategy, and where you want to go in general. You need some idea about your level of risk tolerance, where you want to go, the stage of life where you are at, etc.

1. What is your main focus … asset growth or income/cashflow?

2. What is your age bracket? From my experience, as a very general guide, this has some bearing on what you should be investing in.
   - Ages 20-40 … you have more risk tolerance, and more energy, and often tend to be entrepreneurially focused. Starting business, or buying property, and having money set aside to start a family, etc. are all common here.
   - Ages 40-55 … this is the period of your life of highest income earning potential. The focus is often on savings, preparing for retirement, buying property and shares, and more conservative investments and assets to give income for retirement
   - Ages 55 plus … focus is now on retirement, and often conservative assets, like property, shares, and even cash or bonds

3. Do you have a particular affinity with any type of investment, eg. property, shares, cash, which you understand better than others?

4. How well do you handle financial losses on a scale of 1 to 10 (with 1 being really well, and 10 being really badly)?

5. Do you have a regular savings plan in place already?
6. Have you saved at least 3 months of living expenses in cash for a “rainy day”?  
(generally if you have not done that, you should not be considering any investments 
other than savings in cash, or buying property, and should probably see a good financial 
advisor to help you get started)

7. How well do you understand what you are thinking of investing in?  
As you will see from the Warren Buffet checklist below, it is critical if you are buying 
shares, or property, you understand what you are doing, regardless of how good your 
investment advisor is, or the “hot tip” you have been given, as that is the fastest way to 
lose money. As an example, if you want to buy gold or silver, or have heard it is a good 
thing, make sure you either do some study on it, to understand the markets, the 
direction, where it is going, the level of risk for you in buying gold and silver, or make 
sure you find an investment advisor who really understands the market (eg. if you are 
wanting cashflow, gold and silver is not a good investment, as you make no cashflow, 
however, it may be right for you if you are looking for asset growth as the main focus of 
your investment strategy).

8. Do you have an investment plan in place? If not, have you done one before?

9. Are you good at sticking with a plan and being disciplined?

10. Do you prefer to have someone manage it all for you, or would you prefer to study and 
understand and oversee the control of everything you invest in (this determines if you 
are better off using managed funds, or buying property under careful supervision, as 
compared to doing your own education and research, and doing it all yourself).

All these questions will give you a good starting point.

**Property**

With property, it is difficult to have a set checklist, because it depends upon so many factors, 
 ie. why you are buying it, the type of strategy you are using.

In particular, there are a number of different property strategies:

- Buying a residential property to live in
- Buy and hold residential property
- Commercial property
- Buying and selling (“flipping”) commercial or residential property
- Off the plan property
- Doing property developments
- Vendor financing (ie. instalment contracts, or lease options)

All of these have different requirements, and things to watch out for.

We will shortly be releasing a checklist on these different areas. Stay tuned, as anyone who 
is a member of this program will get access to the checklist as and when it is released.
Buying Shares or Investing in a Business

Warren Buffet is one of the greatest investors alive when it comes to buying businesses, and getting rich. Indeed, his Berkshire Hathaway annual reports are still read by many today to work out what is the best investment direction for the next year.

This helps anyone who is wanting to buy shares in the stock market, or else to buy into a new business, or considering a franchise, or anything of the kind.

I have taken Buffet's points, and put them into a simplified checklist.

**Business**

1. Is the business easy for you or anyone to understand? ☐ Yes ☐ No

2. Do you know and understand how the business actually makes it money or does it just "sound good"? (As an example, one reason why the great fund manager Peter Lynch invested in Walmart was because his wife and all her friends were raving about how good it was, and easy to buy, and he realised if all the ladies loved it, it would grow) ☐ Yes ☐ No

3. Has the business been going a long time profitably and have a proven track record of performance (not just a start up)? ☐ Yes ☐ No

4. Do people think it has great long term prospects (eg. Apple keeps releasing new products, and is considered by many experts to have a great long term future)? ☐ Yes ☐ No

5. Is the business so good, even an idiot make money in it (eg. MacDonalds)? ☐ Yes ☐ No

6. Does the product still have a strong market (as opposed to becoming obsolete and the company management not doing anything about it, eg. Kodak)? ☐ Yes ☐ No

7. Does the business need a lot of money invested to make it grow further (it shows where the company may need to borrow, or get more investors in the future)? ☐ Yes ☐ No

8. Can the company freely increase prices (as opposed to being price-sensitive)? ☐ Yes ☐ No

9. Does it have strong competition? ☐ Yes ☐ No

10. Does it have a high quality management, both in terms of skill and integrity? ☐ Yes ☐ No

11. Is management open and honest with its shareholders, even with bad news? ☐ Yes ☐ No

12. Has management resisted the temptation to grow too fast? (Companies which grow too fast often don't build the systems to keep up with it, and their overheads and costs get bloated and they get into trouble later on, or have to borrow heavily.) ☐ Yes ☐ No
13. Does the company have a “wow” factor in its business model, ie. something which makes it stand out from the rest of the marketplace (eg. Southwest Airlines)?
   ☐ Yes ☐ No

14. Does the company give generous stock options and high salary to its executives which are not based on performance? (This indicates companies which are overpaying their managers, and suggests a fat lazy culture that is more focused on making their executives rich rather than their shareholders and investors.) ☐ Yes ☐ No

Financial tenets

15. Does the company make a good return on its shareholders money? ☐ Yes ☐ No

16. Does the company have much debt compared to equity, ie. a small amount of debt compared to the assets it has? ☐ Yes ☐ No

17. Has the company had consistent earnings growth above the stock market average in most years or only some of them? ☐ Yes ☐ No

18. Does the company have attractive profit margins (which are better than its competitors or industry)? ☐ Yes ☐ No

And a couple of bonus ones for you financial buffs …

19. Is the value of discounted earnings greater than the current market value? ☐ Yes ☐ No

20. Does it still make sense to buy the shares, even after you discount them to a rate equal or greater than the 10 year bond rate (risk free rate)? ☐ Yes ☐ No