The Six Levels Of Investing

by John Burley with additions by Robert Kiyosaki

In five years, John R. Burley achieved what most people would consider impossible – he became a multi- millionaire. He bought 133 properties using none of his own money. Currently he has well over 100 properties which generate a positive cash flow in excess of $25,000 U.S. per month.

John is a consummate businessperson with vast knowledge in the areas of investments tax deduction asset protection and real estate.

In this article he categorises six types of investors and explains the traits that keep them at that level.

THE BORROWER

This person solves their financial problems by borrowing money. Often, they even invest with borrowed money. This person lives their financial life with their head in the sand like an ostrich. They essentially have no investments or savings. They are completely unconscious about money and they're spending habits.

Often they have high debt. They spend on credit cards and then roll that debt into a long-term home equity loan, so they can clean up their credit cards and begin charging again. They like the idea of "low down, easy monthly payments", they think spreading debt over a long period of time is smart, always kidding themselves that they'll work harder and pay off their bills some day. They believe the value of their home will always go up. They spend everything they make and then some. All they know is consumption. If they have money it gets spent. At best, they survive on a monthly basis.

When asked what their problem is they will say that they just don't make enough money. That if they just made more money they would-be OK. The fact is that in many cases they are now "starving" on what they just "dreamed" they could make five short years ago.

They fail to see that the problem is not necessarily their income (or lack of it) but rather their money habits. They believe their situation is hopeless and have given up all hope. This person lives in complete financial denial. Unless they are willing to change, their financial future is bleak.

THE SAVER

This person puts aside a small amount of money (usually) on a regular basis. The money is in a very low-risk, low return’s such as a cheque account, savings account, or term deposit. If they have a retirement Account they have it with a bank or in a credit union cash account. They usually save to consume rather than to invest. (I.e. they save for a new TV, stereo, holiday, etc.)

They are very afraid and unwilling to take any; risk. Even when shown that in today’s economic environment cash investments give a negative return (after inflation and taxes), they are still unwilling to take on any risk. Their idea of an aggressive investment is a Cash management fund. (The financial advisory industry loves this type of person because they can prey on their deep need for security and make huge commissions.)

Although this strategy worked well for our grandparents (when inflation was low and the temptation to consume was controlled) it no longer works in today’s economic environment.

Let's get real; the days of old are gone. No longer do you work for the same company all of your life then retires with a nice pension. And unlike our grandparents, few people today are retiring to live in the same home (that has no mortgage) that they've been in for the past several decades. In addition, our grandparents were able to receive full Social Security benefits with minimal contribution. Thus for them, saving for the long term worked. Over the course of their lives by diligently saving (no investing) and only paying cash they were able to retire and live a comfortable life.

Would that be true today? Doubtful, and here's why:

1) Inflation

2) Consumption

3) Taxes are higher

4) We'll live longer

5) It is predicted that Centrelink will meet its demise by the year 2010 – 2020

6) The younger generation will not want to pay 20-30% of their wages to keep the baby-boomers alive

THE PASSIVE INVESTOR

This investor is aware of the need to invest. They even participate in the company retirement plan (Top up Superannuation etc.). Sometimes they even have outside investments in cash management funds or stocks. Generally they are intelligent people. They make up two-thirds of the country that we call the "Middle Class". However, when it comes to investing they are financially illiterate. They fall into two classic categories.

The first category is those who have "Gone into a shell". They have convinced themselves that they don't understand money and never will. They say things like, "I'm just not very good with numbers"." I'll never understand how this (fill in the blank) investment works." I'm just too busy to follow everything." "There's too much paperwork." "It's just too complicated." "I prefer to leave the money decisions to the professionals." "It's too much of a hassle." Etc. etc. etc.

Because of these beliefs they have very little idea where they are invested or why they are what professional trader's call 'PIGS'. They squeal a lot and then run into their own slaughter. They buy high and sell low. Why?" Because they're so cautious, they always wait until it's too late. That is why they are called "pigs". They come to the market and get slaughtered.

They have no principles or rules for investing. They follow the market like sheep. They look at the stock market, or any investment market about the same way they look at a Las Vegas craps table. It's just luck. Throw the dice and pray.

The second category is those who have decided to become VICTIMS. Like the people who have 'gone into a shell' they are intelligent people. They are searching for the 'secret' to investing. They are always looking for new and exciting ways to invest. They are not afraid of risk (they find it exciting and often search for it). They operate on 'hot-tips' instead of diligence and study. They are easy 'marks' for brokers. They jump into commodities, Initial Public Offerings (IPO'S), small stock, petrol and oil, cattle and every other investment known to mankind. They like to use 'sophisticated' investments techniques such as margins, puts, calls and options. They jump into the 'game' without knowing who the players are and who makes up the rules.

These people are the worst investors the planet has ever known. They always try to hit a 'home-run'. They usually 'strike-out'. When asked how they are doing they always are 'about even' or 'a little bit up'. The fact is that they have lost money. Lots of money. Often huge amounts of money. This type of investor loses money over 90% of the time. They never discuss their losses. Just the big one that came in during the 'collapse of '93'. They just keep coming back for more. They think that all they need is just one 'big-one' and then they'll be on easy street. Society calls this person an 'incurable gambler'.

THE ACTIVE / PASSIVE INVESTOR

The fourth type of investor is a successful investor. This type of investor is fully aware of the need to invest. However, unlike the passive investor, they are actively involved in their investment decision. They have a clearly laid out long-term plan that will allow them to reach their financial objectives. They invest in education before actually buying an investment. They take advantage of periodic investing and whenever possible invests in a tax advantaged way.

Please understand this type of investor is not what you would think as a big-time investor, Far from it. It is doubtful that they are investing in real estate, Stocks, petrol and oil, or any other exciting investment vehicles. Rather, they take the conservative long-term approach of investors such as Peter Lynch of Fidelity's Magellan Fund Fame (the biggest and greatest mutual fund in history) and Warren Buffet (reportedly the world's number one investor).

If you are not yet an active passive investor get yourself there as fast as you can. What does this mean? This means that you sit down and map out a plan (i.e. how much per month for how many months at a realistic rate of return that will get you where you want to go. At what age do you plan to stop working? How much money per month will you need? How long do you plan to live?

Please understand that a long-term plan that reduces your consumer debt while putting away a small amount of money (on a periodic basis) into a top mutual fund will give you all the money you need to retire wealthy, if you start early enough and keep an eye on what you're doing.

At this level keep it simple. Don't get fancy. Forget the sophisticated investments. Just do solid stock and mutual fund investments. Don't try to outsmart the market.

Stop waiting for the Big Deal. Get into the 'game' with small deals (like mutual funds). You can always move up to a bigger game, but you can never get back the time (and money) you lost waiting for the big game.

My advice today is 'Start Today'. Don't wait. Call a good stockbroker and start putting money away (even if it's only $50.00 per month) for yourself. The longer you wait the more you waste your most precious asset…the asset of time.

THE ACTIVE PARTICIPATING INVESTOR

This level is the level where hundreds of John Burleys students have gone. These people start on either a part-time or full-time basis and many have become successful Private Investors. These are the investors that begin to buy investments ‘wholesale’ rather than ‘retail’. They do this by putting their own deals together for their own use. This level of investor knows that bad economic times or markets offer their best chances for success.

They get in when others are getting out. They hopefully know when to get out. They are very clear on their own ‘principles’ and their ‘rules’ of investing. The vehicle of choice might be real estate, businesses, or stocks. They have a plan and specific goals. They study on a daily basis. They read the paper, read magazines, subscribe to investment newsletters, and attend investment seminars.

They actively participate in the management of their investments. They strive to optimise performance while minimising risk. It is normal for this type of investor to have long-term annual rates of return of 25%-100% plus ROI’S. They understand money and how it works.

RICH PEOPLE WORK HARD TO HAVE THEIR MONEY WORK HARD, while poor people and the middle class work hard for their money.

Their main focus is on increasing their assets. They understand that only by doing this they will create the cashflow required for the true financial independence.

THE CAPITALIST

Few people in the world reach this level of investment excellence. In Australia less than one person in a thousand is a true capitalist. This person's main purpose is to be a good steward of their money. Their money's sole purpose is to make more money. They are the 'movers and shakers' that allowed Australia and other great countries to become great financial powers. These are the Fox's, Packers, Murdoch's and Stokes. It is the Capitalists that provide the money that create the jobs, the businesses; the goods that make a country prosper. Most contribute millions, if not billions, to charities and educational institutions.

A true capitalist does not buy investments. A true capitalist creates investments and sells them to the market. A true capitalist knows how to use other people's money and other people's time. In good economic times, the true capitalist does very well. In bad economic times, the true capitalist gets even richer. A capitalist knows that chaos means new opportunities. They are most often early, being involved in a project, product, company, or country years before the masses find it popular. Returns of 100% to infinity are expected. That's because they know how to make money without money. They can do this because they know that money is not a thing, but merely an idea. John Burley is a trainer and investor. He is also the author of a number of audiotape programs including the Secrets of Professional Investors Made Easy with Robert Kiyosaki.

First printed in Pow Wow News, Spring 1997