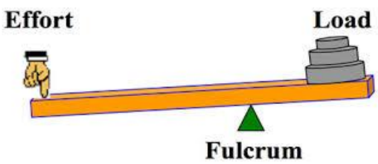
Another powerful principle of wealth creation:

'The Power of Leverage'

Inspirational financial education and guidance to help you plan and create the life you want to live!

The Power of Leverage.



Do you remember those early science lessons when you were taught how levers multiplied the mechanical force (input) to produce a far greater output?

In other words, a small effort (input) can be multiplied into a large effort (output) through the principle of leverage.

Financial Leverage (also known as gearing), uses the exact same principle to multiply the investment potential by using borrowing (debt) to finance a large part (sometimes all) of a deal.

Leverage is very common in property investment and often used in business investments such as acquisitions. Investors will often refer to it using *Other People's Money* (usually the banks) to build wealth as it finances the majority of the deal.

Used correctly, Leverage, just like compounding, is a wealth magnifier.

How to take advantage of financial leverage

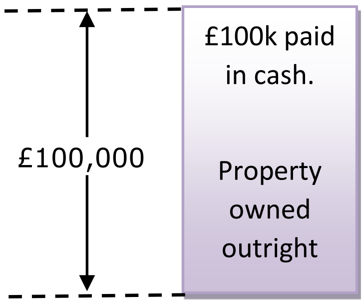
We'll focus on the most common use of leverage ~ property investment. The banks like lending for property investment purchases as they see it as a safe and secure investment for themselves and will typically lend 75% - 80% of the current market value.

Let's assume you have £100,000 to spend on property and look at different options:

Option 1.

You could buy a £100,000 property outright, nothing wrong with that at all if that's what you want to do as the rental income from your tenants is then all yours to keep after paying any insurances and taxes which creates a monthly passive income. **This is a straight cash purchase.**

1.

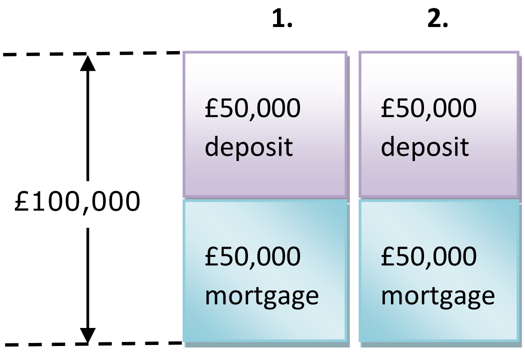


Result: you've invested £100,000 and now own £100,000 worth of property with a monthly passive income.

Option 2.

You borrow £50,000 by way of a mortgage and put down £50,000 of your money as a deposit. You use the rental income to pay the mortgage, insurance and taxes and keep what's left as a monthly passive income. **This is a leveraged purchase**.

However, as you have £100,000 to invest, you can acquire 2 individual £100,000 properties using this approach as follows:

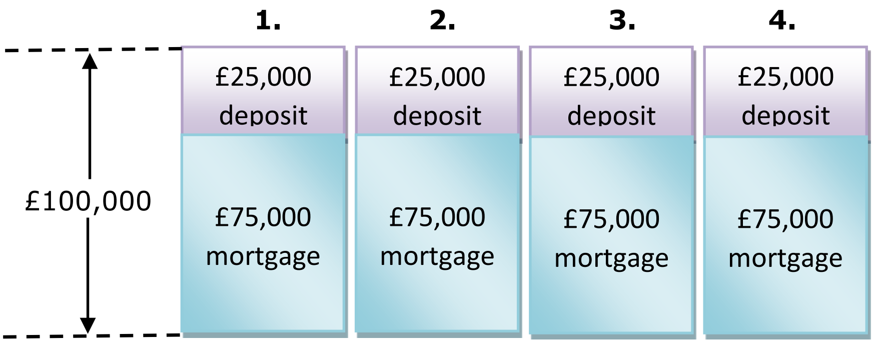


Result: you've invested the same £100,000 and **now own £200,000 worth of property.**

Option 3.

As the banks will typically lend you 75% of the purchase price and you have some big investment ambitions, you choose to split your £100,000 into 4 separate £25,000 deposits and purchase 4 x £100,000 properties using a £75,000 mortgage on each.

You once again use the rental income to pay the mortgage, insurance and taxes and keep what's left as a monthly passive income.



Result: You **now own £400,000 worth of property** using the same £100,000 you started with.

Return on Investment (ROI)

Let’s assume you were investing for the long term and working on the basis that property historically doubles in value around every 10 years (we’ll cover that in detail in Section 13), let’s assume all the properties have doubled in value to £200,000. Now let’s have a look at the actual return on your investment with the 3 options.

Option 1.

100%

A. Initial Investment = £100,000
B. Total Value of **1** property owned after 10 years = £200,000
C. Total value of mortgages = £0
D. Total equity increase (B – A) on initial investment = £100,000
E. Return on Investment (£100,000 invested with £100,000 growth) = **100% ROI!**

Option 2.

200%

A. Initial Investment = £100,000
B. Total Value of **2** property owned after 10 years = £400,000
C. Total value of mortgages (£50,000 + £50,000) = £100,000
D. Total equity increases B – (A + C) on initial investment = £200,000
E. Return on Investment (£100,000 invested with £200,000 growth) = **200% ROI!**

Option 3.

400%

A. Initial Investment = £100,000
B. Total Value of 4 properties owned after 10 years = £800,000
C. Total value of mortgages (£75,000 x 4) = £300,000
D. Total equity increases B – (A + C) on initial investment = £400,000
E. Return on Investment (£100,000 invested with £400,000 growth) = **400% ROI!**

All 3 options start with the same initial £100,000 investment but option 2 doubles (200%) the return over the same 10-year period and option 3 quadruples (400%) the return over the same period through the power of leveraging. **Powerful stuff!**

Historic growth

Did you know...UK property has averaged just under 8% annual growth for the last 80 years which effectively means it consistently doubles in value every 9 - 10 years?

This means that £100,000 property in the example would be worth £200,000 in 10 years, £400,000 in 20 years, and £800,000 in 30 years and so on! This takes some believing but I’ll demonstrate it for you in Section 13.

What I want you to take from this is: with just a small input (sometimes nothing, more later) you can acquire a property that has the potential to grow significantly in the future.

That is the power of leverage.

Section 6 Summary

Leveraging allows you to purchase the majority (sometimes all) of an asset with someone else's money and you get 100% of the assets gain in value.

More info: you'll find a lot more detail on property leveraging in section 13, '*How to Build a Significant Property Portfolio.'*

Final Thought:

Leveraging is a very powerful tool to dramatically increase your investment returns and when combined with the effects of compounding, creates a very powerful combination for wealth creation, I highly recommend you use it to create lots of future prosperity!

As mentioned early, sometimes you don't even need any money as you can borrow 100% of the purchase cost if you have the right knowledge and strategy.

Wishing you all the best,

Asha x

Final Word:

"The two greatest motivating forces are inspiration… and desperation… It's your choice"