

RE-INVESTMENT OF SURPLUS

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In general terms there is no set formula for successful re-investment of surplus, otherwise we'd all be rich.

The reason being that most people have a different ceiling level of 'Risk Tolerance', which in itself can make you very comfortable or very average.

i.e. Those who prefer to deal in cash, have a small mortgage, have savings on fixed interest, or P.O. bonds, would be considered to have a low ceiling of risk tolerance and vice versa.

Those who have numerous plastic cards and use them unsparingly, have a number of hefty mortgages, deal in equities, futures or some such, would be considered to have a high ceiling of risk tolerance. On the other hand, they could be clever, desperate, or a combination of all three.

Another reason why there is no set formula for successful re-investment or surplus is that our consecutive Governments have, in the past few years, implemented radical changes resulting in loss of confidence or at

least, confusion.

i.e. devalued the dollar  
de-regulated industry  
changed the tax system

All in all making the business of getting richer very risky.

At this stage I would like to make clear that I am not in the same league as Economic Advisors, Fund Managers, Bank Managers, Accountants, Solicitors or Share Brokers. I took an unorthodox method of re-investing my surplus and to some extent these people were of assistance but, to be fair, most of my success is due to old fashioned hard work and basic commonsense, a bit of negotiating nous, and good timing.

**CASE STUDY (My Story)**

**BASIC PHILOSOPHY:**

**You can't do two things properly at once.**

Some years ago under the Muldoon Government, my Company had a tax problem and one way to solve it was to become a Queen Street Farmer.

#### DEER FARMING:

I decided to become a deer investor - all monies spent on purchase of animals was total tax deduction.

Through our accountant I made contact with an aspiring deer farmer who fitted our criteria exactly. He was an expert in his field, he was meticulous in animal husbandry, he was ambitious, and after outlaying all his money on land, buildings, and fences, he was broke.

Between us we drew up a contract, he did all the work, I supplied the money; at year's end we split progeny 50-50.

This set-up allowed me to go full barrel on the logging contract creating tax bills which I wrote off buying yearling hinds at an average of \$1,300 per stock unit.

After 3 years, the Muldoon Government was on the verge of collapse and the Lange Government was advocating a major tightening up in Agriculture. So, we sold out at an average of \$3,300 per hind.

Two months later the venison market crashed.

There are some Golden Rules to be observed here:

1. Stick to what you know best, i.e. logging.
2. Pick the right men to push the barrow for you.
3. Buy as close to the bottom as you can.
4. Sell early.

#### GOLD BULLION:

I then invested all those profits into Gold Bullion which was on the rise due to the Middle East crisis heating up - and I promptly broke all

the rules, with predictable results.

I purchased over 5 kilos of Gold Bullion and watched it go up in value, then I watched, in dismay, as the Kiwi dollar rose against the US\$, trimming ounces off my kilos as it did so. The pundits were wrong - so was I.

I sold the whole lot back to Auckland Coin and Bullion suffering a small loss and learning a large lesson.

**Stick to what you know best!**

#### EQUITIES - SHARE MARKET:

1984 - The beginning of the boom.

Through a colleague of mine I became interested in the share market. He had studied the market for a number of years and had invested a small way on his own with much success.

He had the basic ingredients: knowledge, experience, and a cash shortage.

So - another contract was drawn up.

I was to supply cash, he managed the port-portfolio, taking 10% of all profits. He margin traded to give us extra leverage and for the next two years our investment grew with the bull run. Early in November 1986 I sold 50% of the shares, two weeks before the peak, and 30% in March 1987.

To this day, I still retain 20% of the portfolio which was badly mauled by the crash. I am pleased to say that I adhered, within reason, to my Golden Rules.

1. Stick to what you know best, (through all this time I hauled logs to capacity, creating cash flow and cash

surplus).

2. Pick the right man to push the barrow for you.
3. Buy as close to the bottom as you can.
4. Sell early.

#### INVESTMENT IN PROPERTY:

Property, as far as a Logging Contractor is concerned, would be far the most suitable investment for these simple reasons:

That provided you buy right (i.e. location, long lease, construction) your purchase is virtually trouble free.

1. If you run the property with negative cash flow, the interest you pay is tax deductible.
2. It is acceptable collateral for borrowing purposes.
3. It will give you a positive cash flow later on.
4. It allows you to concentrate fully on your job.
5. It gives you a feeling of satisfaction knowing that your money is working for you.

#### ANOTHER METHOD OF INCREASING SURPLUS:

I used to believe that owning your gear out-right was the be-all and end-all, that once it was paid for, you were made - on easy street. It's time to correct that.

Owning your own gear can be otherwise viewed as throwing your money away.

Who wants to own a big piece of steel and rubber that depreciates every day.

Sell your gear, lease new ones, realise your capital and put it somewhere where it will appreciate!

I now operate a Shell Company - all machinery leased, all capital realised and re-invested into property and equities. This is not to say that I have no faith in logging or that my Company will have no growth - quite the contrary.

If I can generate more cash flow through increasing crew size and log production then I will have more surplus to re-invest.

#### CONCLUSION:

There is a logical conclusion to this story.

My Company has run the gauntlet in high risk, high return investments, starting with agriculture (deer investment), investment in Gold and Bullion, Equities, Share Market, and finally to good, solid bricks and mortar. We've been through booms and busts!

I have taken an infant Logging Company with an original \$13,000 deficit and turned it into Tasman Forest Limited, Murupara, largest single supplier of logs.

It now has a net worth of \$1,300,000 and a gross of \$2,100,000, most of this being property.

As loggers, it could be fairly construed we've been there done that! and we've still got a long way to go.

