BE A REAL ESTATE HEAVYWEIGHT

95 Experts Show You How

Special Editor's-pull - Chapters 1-10

Is Real Estate right for you?

Find out now by reading these selected 10 chapters introducing you to eliminating your job, choosing the best market options, and savvy pointers to avoid common mistakes.

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This book will guide you through the latest principles of commercial and residential real estate investing, marketing methods, finance, foreclosure, technology, and much more!

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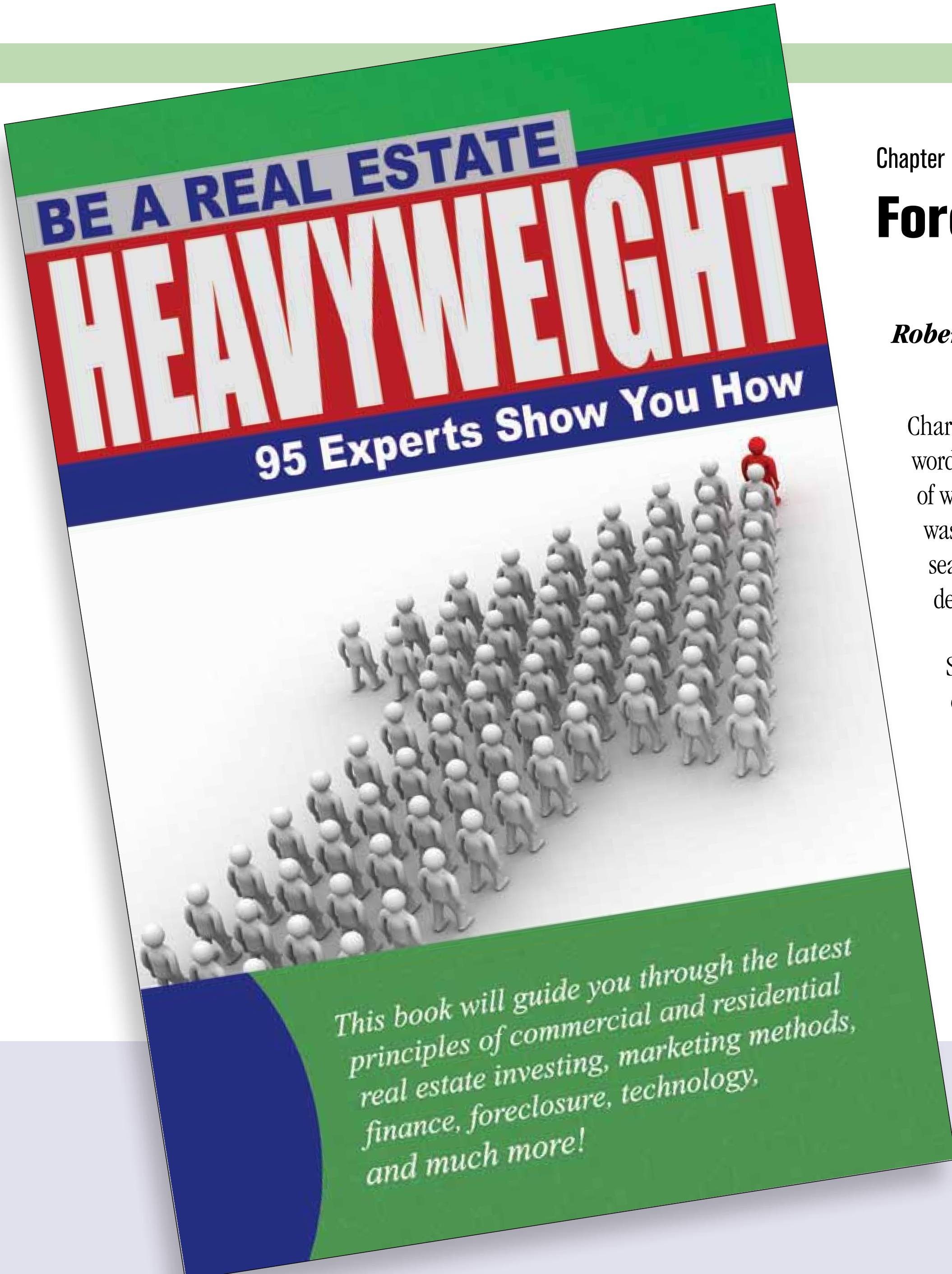


Chapter 1

Foreword

Robert Irwin

Charles Dickens in his epic story, A Tale of Two Cities, begins with the words, It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us. . .

Sounds as if he were talking about our current economy and especially today's real estate market!

As I write this, housing prices are continuing their drift downward, having fallen as much as 40 to 50 percent in the hardest hit areas of the country (states like Florida, California, Arizona, Nevada, and Michigan). Government officials are still mentioning the "D" word (depression) in speeches. Deflation of our currency is occurring at an alarming rate while tremendous government stimulation hints at a super-inflation following not far behind. Consumer spending is down, job loss is up, and bankruptcies are occurring at a greater rate than at any time since the Great Depression.

If everything seems catastrophic, however, take heart. Just as Dickens wrote, it is also the "best of times," so, too, are there great opportunities. I'm speaking, of course, of real estate investments. For those with the gumption to make lemonade out of lemons, there's never been a better time to invest in property.

Consider the U.S. population is growing by about 3 million a year. That's an enormous rate of increase and all those people need some place to live. That means that hidden beneath the falling prices is a huge pent-up demand just waiting for a stable market to unleash itself. (By some estimates there's close to $9 trillion on the sidelines just waiting for a sunny day!)

Further, and something every investor should pay special attention to, is the ratio between housing prices and rental rates. (After all, the lifeblood of real estate investing comes from rental income.)

The traditional relationship between rental income and housing prices is about 20 to 1. (That gave rise to the 5 percent rule-of-thumb: Never buy a property unless you can rent it annually for at least 5 percent of the purchase price, so a $200,000 home should rent for about $10,000 a year.)

During the housing bubble that lasted roughly between 2000 and 2006, that ratio went as high as 33 or 34 to 1. (If your rental property brought in $10,000 a year, you could end up paying as much as $340,000 for it.)

In other words, during the bubble when you bought a rental property, you couldn't hope to break even on the income. Rather every rental bought quickly became an alligator, eating you up with negative cash flow.

Now, because of the drop in housing prices, that's been reversed. Rentals are once again approaching the "magic" 20-to-1 ratio. Once again it's possible to buy and to get enough rental income to sustain the property.

Perhaps most important of all, the price of housing has reached its long-term trend line. If you were to chart housing prices from the end of World War II through today you would see a saw-tooth generally upward trend (at about 5 percent a year), then a huge spike up that was the housing bubble, and a dramatic pitch downward, that is today's slump. But at the end of that slump, you would see the trend line just where it's supposed to be as if the bubble hadn't even come along.

That doesn't mean that prices won't continue downward for some time. They may, indeed, drop below the long-term trend line. But for now, they are roughly where they should be, given 70 years of history.

The Opportunity

As I noted, for the investor who has the foresight and the gumption to see clearly when others are lost in the fog, this can be the best of times. Once again it's possible to buy property at a reasonable price. Finally sellers are willing to negotiate reasonable terms. Once more, you can step in and make money—potentially big money—by buying low, holding, and eventually selling high.

Let me tell you a little story. The year was 1992. The mood the country was dark; it was recession times. Of course, the economic slump was not nearly as severe as recently, but it was still tough. Unemployment was nearly 9 percent or higher in some areas. Some states were in a deep, dark recession pit.

The housing market had tanked, with prices falling in most

Robert Irwin

states. (In parts of California, the prices dropped 30 percent.) But worst of all, most of the thousands of savings and loan institutions in the country were rapidly becoming insolvent. The government had decided to shut them down, and take over their assets—an enormous amount of real estate.

To get rid of that property the government back in 1989, created the Resolution Trust Corporation (RTC). The RTC immediately set about disposing of homes, commercial, office, and other types of property. It sold individual properties and dozens of properties at one time in large lots, all to the highest bidder. These bidders were corporations, but also groups of investors and average citizens like you and me.

The prices were low, very low. After all, the real estate market was way off and who would want to buy? The future looked grim. Some said it would be a hundred years before prices rebounded.

Who would buy, indeed?

Actually, some very savvy people bought.

They bought low and held. They held those properties for 10 years and then you know what came along? The real estate bubble of 2000 to 2006. And they sold, often for three times or more what they originally paid for the properties. They made fortunes. Those who took a chance during hard times were the ones to profit when good times came along.

Were they lucky? Probably.

Did they look like geniuses? Certainly.

Did they do something extraordinary? No, not really

What they did was just common sense.
They bought low and sold high.

Most who took advantage of the opportunities the RTC and the economic climate of the early nineties offered never thought they'd see the like again. Most figured it was a once in a lifetime occurrence. Take advantage while you could, but the chances of such an opportunity hitting again were almost nonexistent. Or so they thought!

And then came the real estate bubble of the new century and more importantly, its recent collapse and the falling prices we're seeing today. Suddenly the "happy hunting ground" of real estate was reborn. As if by a miracle, the chance to get in at rock bottom prices appeared once again. Those who missed the previous train had another come along.

But, what's best of all, few were taking advantage of the situation. After all, the common wisdom is that it's just the beginning of the end—that the whole real estate market will simply collapse and prices will continue to fall, I suppose, eventually to zero.

What nonsense!

I can't tell you when, but I firmly believe that in the future real estate prices will not only return to their former highs, but will exceed them! I believe that those who have the courage and foresight to act when the market is down will reap enormous benefits when it eventually turns up.

The key is to avoid listening to common wisdom, which I've found is almost always wrong. Listen instead to common sense. If it tells you that this is an opportunity, then it may very well be right.

Chapter 1
Foreward

Robert Irwin

You Need a Good Guide

It's all well and good to get enthused about making your move into the real estate market when it's down. But how do you learn the mechanics of doing it? Where are you going to find out how to get the financing you need, learn to determine true values, uncover the location of suitable properties?

You can't just look at the rules of the past. Time has moved on and the rules have evolved. What's needed is a strong resource to give you the information you need to make an informed investment. What you need is a guide to today's opportunistic real estate market.

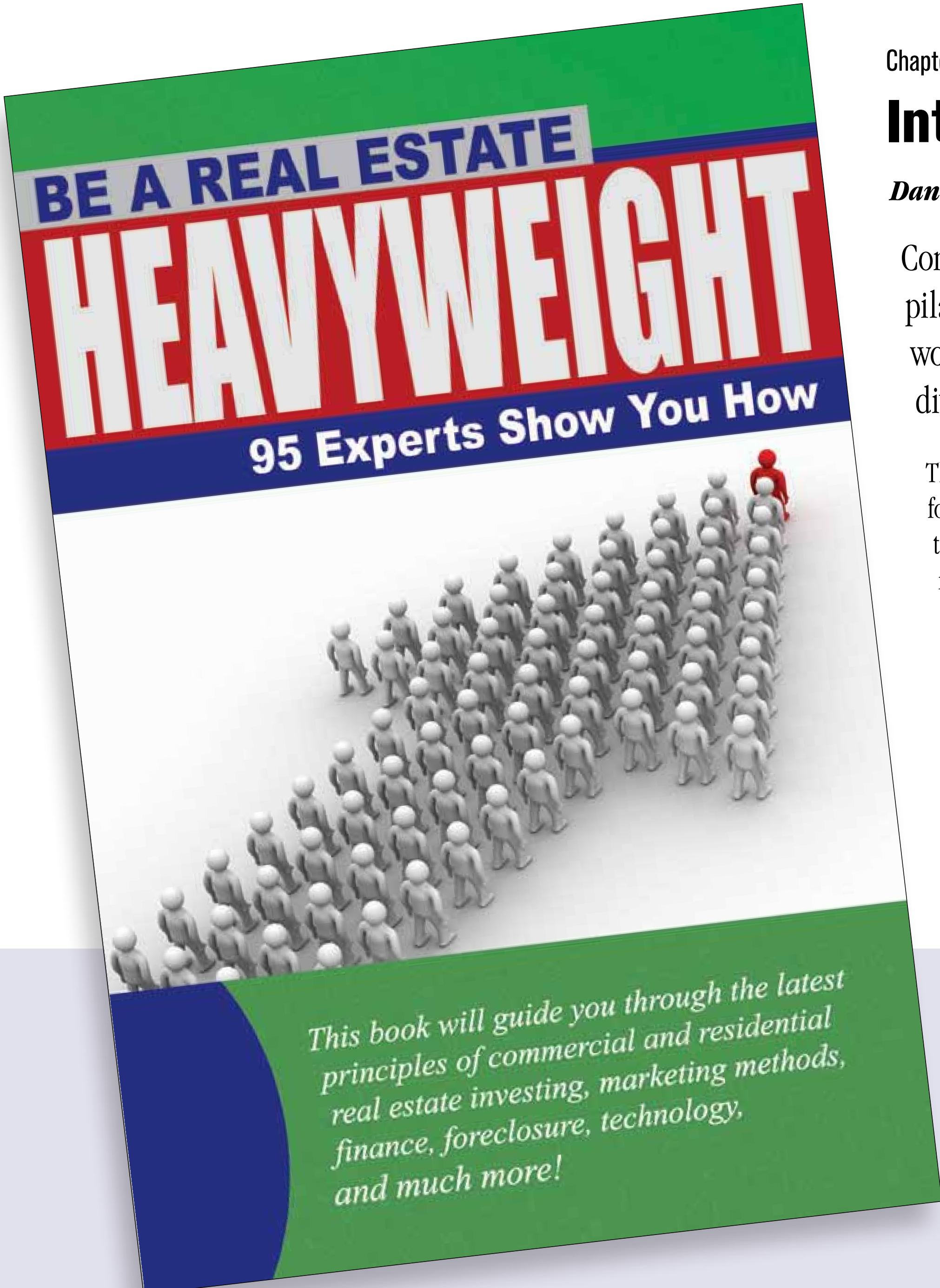
What you need is the compendium Dan Auito has put together with dozens of expert articles by leaders in the field.

The reason I agreed to write the Foreword to this book is that I so much admire Dan's idea in putting together the information that real estate investors need. Providing knowledge for the new world of buying and selling real estate seems to me to be a great and worthwhile achievement.

I'd like to see this valuable tome on the shelves of every real estate investor.

Robert Irwin

Robert Irwin is one of America's most respected experts in all areas of real estate and the author of more than 60 books in the field. His *Tips and Traps* series for McGraw-Hill have sold millions of copies. He is a real estate broker, contributing editor to numerous magazines, and reliable leader for investors, home buyers, and sellers.



Chapter 2

Introduction

Dan Auito

Compendium: A concise yet comprehensive compilation of a body of work; a summary of larger works which allows you to weigh together the individual facets which make up the whole.

That's what this real estate heavyweight training manual does for you: It provides you with the latest, most up-to-date real estate training and advice available today. 95 industry leading real estate professionals have agreed to give you their current perspectives, insights, tools, suggestions and assistance to help you make sense of today's changing real estate markets.

Each of these 95 handpicked industry leading real estate professionals have contributed from 10 to 30 pages of their most current hard-hitting information to date while adding the tools, resources, contacts, forms, MP3s, videos, e-books, and more, to fully deliver to you the strategies, angles, and tactics that they are using now to make very good livings in these changing chaotic real estate times.

I have to be honest: These last couple of years have been a living hell for a lot of real estate investors. We have all seen the markets fall, the defaults climb, the credit markets collapse, and a variety of aberrations and market corrections taking place. I have been doing real estate for 23 years and basically sold off my holdings in 2005–2006. Since then, I have been watching, investigating, researching, and contemplating my next entry back into the real estate market.

I consider myself lucky; I'm not *forced* to do anything to have to *make* money. As a result of learning how to do real estate correctly, I can continue to take my time in formulating plans to capitalize on the next cycle, which is really getting ready to come into full swing regarding buying assets at severe discounts as this market bottoms. These rapid changes create confusion, uncertainty, and a feeling of becoming overwhelmed at times with everything that needs to be considered. I had to ask myself, "How the heck can I get up to speed and take advantage of new opportunities without getting burned?"

This led me back to doing what I do best: *networking*! As a result of a book I wrote back in 2005, http://www.thecitruscountyclassifieds.com/downloads/2/fsbo-ebook.pdf and a website I built to support the readers at www.magicbullets.com, I have been privileged to meet and get to know the best and the brightest people in real estate. These people are intelligent, motivated, talented, articulate and successful, and they truly are giving of themselves toward others. These are my mentors and trusted friends, the people I look to for advice, guidance, orientation, feedback, and support.

I trust them and know they know what they are talking about. I know they actually do what they say, and I can reach them if and when I need to. You can find and reach me everyday through my real estate investors' website above, as well as a brand new one at www.REIHUB.com . That is why this compendium of real estate advice, feedback, insight, suggestions and support exists!

I need it, you need it, we all need it—and it has to be up-to-the-minute, relevant, accurate, comprehensive, organized, understandable, and actionable. We need to be able to find and use the information that we know will work if we choose to work that specific angle in our current real estate market environments.

I could have just as well named this book *Dan's Personal Mentors*, but we all know that it has to be about the reader (you) so I named it *How to Be a Real Estate Heavyweight.* After all, if you follow and emulate those who are, doesn't it stand to reason that you can become one too? I don't know what is important to you personally at this very moment, but I am offering you 95 trusted and capable advisors who, through combined effort, are here and willing to offer you their skills, training, insights, and resources, which will allow you to create your own plan using timely information that works.

I'm also supposed to justify value and tell you why you should buy this compendium of resources. Let me just get it out of the way so we can move on: Each of these authors is delivering, on average, at least $97 worth of material. So let's do the math: 95 authors x $97 = $9,215 worth of value being offered to you for $79 dollars! That's basically buying each author a $1.17 cup of coffee for three hours of them sitting down with you and spilling their guts to you in their thirty-page chapter!

Price in my mind is valued in time, not dollars. I despise people being taken advantage of by purveyors of worthless rehashed information and materials that can be found anywhere on the web by giving someone your email address or contact information. Nothing gets me more upset than to have someone promise me something only to bait and switch me into buying yet more bull crap. I absolutely promise to you: I will never ever put you in that position. Your time is too valuable and so is mine.

(That's my value proposition, folks; I'm done justifying.)

My mission here is to support, encourage, and facilitate each author's ability to deliver to you as much quality information related to their specialty in real estate as possible. Many of the individuals I am about to present to you don't write courses for a living; they are busy doing what they are saying, not just writing about it! That is why each author has been given access to a professional real estate industry copy editor before submitting their article.

You're getting cutting-edge information that in many cases has never been written about or given out before, by experts who have come very close to perfecting their individual talents and specialties relating to real estate investment in some way, shape, or form. Our designer has formatted a 2,500-page manuscript into a smooth-flowing book that can be easily accessed, scanned, referenced, and printed for your learning benefit.

This compendium is designed to protect you as well as educate and support you. I want you to truly understand why I'm doing this:

I'm determined

It's a mission

It's all consuming

It needs to be done

And I'm the one who can do it. I've turned down some who have asked to contribute, and I have put others on hold, pending a second edition if you will first read this one.

This compendium will give you many examples of what not to do as well as things that you should consider. It will give you great access and insight into these caring experts and their professions. It will also introduce you to people who really care about your success and sincerely offer you their help. Many of these contributors are giving you additional resources and downloads that single-handedly cost more alone on average than the $79 price you're paying here. I'm damn proud of this compendium and its authors, and I want you to know it.

Some of the authors have nothing to sell. They're here purely to give you their advice, insights, and suggestions. Others do have courses, boot camps, webinars, seminars, products, and services, and they have been instructed to offer you those resources at wholesale as they are offering you their resources direct. There is no middleman, no salesman, no affiliates; it's between you and them. They have cut standard pricing in half. The bonuses alone are worth thousands.

Every author is here to protect, support, and educate you in gaining perspective in their respective fields of expertise. Each author is accountable to you, me, and every other contributing author. I'm confident you'll see their spirit emerge as you begin reading their works.

There are 95 of us working to give you the freshest perspectives, insights, tools, methods, and advice with regard to today's practices and current real estate conditions. This project is a 90-day turnaround from start to finish. A traditionally printed and published version would take at least a year and five full reams of paper to print. It would cost you hundreds of dollars, minimally. You can't buy anything more timely or relevant than this manual at any price.

I hope at this point that I have given you a satisfactory explanation as to why this compendium of the latest real estate advice, information and resources has been produced. Now we can get on with showing you how to use this massive resource to your tremendous advantage.

* * * * *

Using the table of contents in conjunction with the rear reference index, you will be able to easily find each and every subject quickly and efficiently in logical sequence (novice toward advanced). By going digital, we are able to keep costs down; we can provide hyperlinks; and we can instantly deliver additional e-books, mp3s, podcasts, videos, websites, seminars, whitepapers, contracts, forms, checklists, and volumes of information that would be impossible to print and deliver the old-fashioned way. When you want to read, take notes, or create your own working manuals simply point, click, and print the manuscript quality chapter of your choice from your printer. If you want to burn your own copy to disc or buy the DVD for $99 and take it to your local printer to create a hardcopy, feel free to print and bind the entire resource.

My vision from the start of this project was to create a resource that explained everything that is being used successfully in real estate today. If you've backed off real estate or haven't acquired new reference materials in the last year, then this manual is going to be a godsend for you. It's going to bring you up to speed and put you in touch with the professionals who can help you get back in safely using the new market approaches that are working in today's new reality of real estate investing. The old ways of doing business have changed drastically over the course of the last few years. I look at the hundreds of books on real estate on my shelves and shudder at the fact that all the information, no matter how good it was, in most cases no longer applies. The fundamentals are sound but the strategies, tactics, methods, and procedures have all changed. If you are ready, I'd like to take you up to warp speed using the Internet and the wisdom of 95 experts and friends of mine to show you what's working today.

We begin with a foreword by Robert Irwin http://www.robertirwin.com/. Bob keeps up with real estate trends; his latest book is The Armchair Real Estate Investor. I'm flattered to say he asked me for advice in writing it and I have a signed copy! Bob is a prolific writer, author, and advisor to millions through his books at McGraw-Hill. I've asked Bob to break down today's real estate investing landscape to help give us a general overview of what we are currently looking at across the country and what he feels is yet to come.

Bob starts us off with his market perspectives and sets the stage for our other 94 real estate authors to follow with their own perspectives, ideas, insights, and advice.

Our second chapter comes from a very close friend and confidante Steven Cook of www.flippinghomes.com fame. Steve has written what I consider to be the actual lead- off chapter that begins to ask you what you're willing to give to achieve success. The title of his chapter is "One-Year Job Elimination Plan." Within Steve's pages, he tells you what it will take to transition from a JOB (Just Over Broke) to a career in real estate. Steve keeps it real and actually shows you exactly what it takes to break the grip of working for the man in some dead end job while you make someone else rich. Steve's plan will cover the common things that successful and financially free investors do well and then it will help to lead you down that path.

Chapter 2

Introduction

Dan Auito

Your third chapter has been written by my friend and PhD candidate who works for a high end real estate financial firm, Stephen Nault presents: "The Past, Present, and Future of the Credit Crisis and its Economic Implications for Real Estate." Steven does an outstanding job of giving everyone perspective on how our current financial markets play into the big scheme of things. You may have already read his chapter before seeing my comments here so you know how incredibly valuable Steven's ability to clearly explain how world financial mechanics defines how we invest in the current and future markets.

Chapter four comes to you from a truly gifted man, a mentor to the mentors; a coach's coach, a core competency expert. Jon Goldman has hired professional journalists, course writers, and editors to help him craft his chapter for you. Jon is here to help you reveal what your natural gifts and talents are and how you can take maximum advantage of your strengths to absolutely be your best at whatever it is you where born to do, naturally. I've gently asked Jon to angle his incredible genius at finding core competencies geared toward a real estate career.

Chapter five is yours truly, giving you the briefest of overviews regarding the overall layout of this massive volume of cutting-edge advice from some of the absolute best real estate investing minds in the business today, most of which are millionaire's many, many times over.

Loral Langemeier is known as the "millionaire maker" and has helped dozens if not hundreds of people become millionaires through her mindsets, systems, and support structures. You must prepare yourself to receive and manage wealth, and Loral is here to completely guide you through this critical process. I hand-picked Loral because I know she has the power to get through to you and actually help you make this happen. T. Harv Eker, Mark Victor Hansen, Jay Conrad Levinson, Bob Proctor, Brian Tracy, and Chet Holmes all endorse Loral as the millionaire maker.

From this point on the manual starts to really kick in with the nuts and bolts of how-to advice—and how-not-to advice too! We begin with six seasoned investors totally deflating any potential hype. Their job is to orient you while they expose and explain the shams, scams, charlatans, myths, and other untruths that are routinely used to persuade and convince the uneducated in parting with their hard-earned and limited dollars when first starting out in real estate. These authors then take you to the next level and show you the correct ways to begin investing, using experience to guide you in doing things the correct way from day one. It's not only the money you lose but more importantly the time you lose in doing it wrong in the first place. You can't afford to make too many initial mistakes on start-up. It's critical that you get off to a good start and see results early on so you can believe and achieve while growing in your ability to use and compound upon what you learn and earn from the start.

Mike Collins, Roger Salam, Nick Cifonie, Jarom Adair, Peter Vekselman, Preston Ely, and a true schoolmaster, Mr. Tyler Hicks, will ensure you don't screw this up! Between these seven seasoned experts giving you multitudes of safe, alternative roads to choose from, you will initially be guided in charting the rest of your life's course. This is so important, I have sought out and chosen only the very best to write for you in these initial guiding chapters. You cannot afford to guess or hope; you must know what works and what doesn't. I feel ultimately responsible for you here, and I take and make these choices with extreme care. These are the best in the biz today.

Chapter 2

Introduction

Dan Auito

Real estate is fundamentally based upon mathematics. The numbers often tell the story, and they have to work or you will lose money. Another close friend of mine is Frank Gallinelli of www.realdata.com fame. Frank is delivering the fundamental formulas and standard practices he teaches to college students and hundreds of thousands of investors who also read his books about cash flow and what every investor absolutely has to know concerning how income property investments really work. Frank eliminates the hype and shows you how to do real estate strictly by the numbers. What a fantastic opportunity to have Frank fresh off of his latest book drilling down and getting you accustomed to crunching real estate numbers. Thank you, Frank! You're awesome, buddy.

Next we bring you to the bleeding edge of technology beginning with basic internet marketing mechanics for real estate investors, social networking 101 and 2.0, web 2.0, business systems, lead generation, automation, and joint venturing, all while the authors progressively take you to the highest levels of internet tech available today! We end these chapters by ensuring you have the tools and knowledge to establish your own strong web presence using websites, blogs, and SEO as basic tools. You're getting cutting edge material here. Think about this: How would like to be able to plug in whatever it is that you do into a fully automated web submission system that syndicates your content to over 1,000 places on the web at once! I'm going to show you that system before we are through.

Your instructors are Dan Stojadinovic, Sam Bell III, Than Merrill, Josh Brown, Ross Hair, Duncan Wierman, Trent Partridge, Charrissa Cawley, Heather O'Brien, Jarom Adair, and Peter Kolat. This is a phenomenal line-up of pure talent; nowhere else will you ever find these people in succession driving home the strategies, tactics, and first-hand experience like you're getting here. This is really incredible, and you will be amazed at how these experts are using technology and the web today.

If technology overwhelms you, then have no fear. I have brought in David Oswald to show you how to outsource it all! I also have a surprise guest who will absolutely blow you away with the one-push button application.

Our next dream team will be focusing their efforts on educating you in how to market for both buyers and sellers. As a successful investor it is mandatory that you are able to find both buyers and sellers in large quantities. These seven authors will show you how to find qualified buyers while building lists for the specific types of real estate you buy and sell. This is all part of our mission to turn you into a marketing and sales machine, while also teaching you to time the market to keep ahead of the curve.

Here is your stellar line-up of talented lead-generating experts: Richard Roop, Heather Seitz, Charrissa Cawley, Kathy Kennebrook, Steve Jackson, John Ybarra, Larry Goins, Matt Gerchow, Ross Hair, and Kent Clothier. They are going to supply you with systems, techniques, and proven practices that will guarantee you a steady stream of high-profit margin properties filtering in one end while you sell those same properties in some cases before you ever even take possession of them on the other! Again this is another extreme power team that has never before been presented all at one time; you really are in for a fantastic learning journey. This type of rapid-fire learning allows you to take best practices and design a program you tailor make for yourself.

The next phase of training introduces you to another good friend of mine, Richard Max. Richard is an absolute authority on credit repair, restructuring, and restoration. You may need to raise your own FICO scores to qualify for tighter guidelines in lending than the "no doc" loans of yesterday. Richard will show you how to systematically get those numbers up, and you may also use these methods to help your tenants and future buyers improve their scores so they can qualify for loans of their own and cash you out as well!.

Foreclosure is such a hot topic and encompasses so many fields of expertise, it makes sense for us to get it on the table sooner rather than later. Fortunately for you, we have the best practitioners on the planet showing you every facet of this growing problem and how to solve and profit from each phase.

Foreclosure begins with notices of default being sent to property owners who fail to make their payments when due. The order usually goes from pre-foreclosure to workouts and loan modifications. If these fail to resolve the issue, foreclosure proceedings are set in motion. This often leads to short sales and working with loss mitigation departments due to many of today's properties having negative equity, which in turn prevents them from being sold for what is owed. This has resulted in some institutions going belly up and/or selling packages of bulk REOs for pennies on the dollar in order to clear their books. I'll let the experts explain these subjects in explicit detail for you in their individual chapters so that you will completely understand and know how to find these deals, negotiate them, and fund them for substantial profit.

Pay special attention to Alexis McGee's chapter as she worked extremely hard to deliver the ultimate foreclosure breakdown. Coach Pat Martin, Paul J. DeCosta, Don DeRosa, Cory Boatright, Mike Gusler, Mike Nicholas, and the Cornerstone Group are industry titans as well and have delivered extreme value for you. These experts are the absolute authorities on all things foreclosure. After reading this section, you will have all the knowledge, contacts, resources, and information necessary to immediately begin to capitalize on the current and coming boom in this arena—blueprints and mind maps included! This is the most powerful team of foreclosure experts ever assembled in one volume. Do a Google search on their names and see for yourself; they are modern-day legends.

With the current credit crunch and tightening of lending guidelines you're going to be seeing the use of private money being used to finance all manner of real estate deals. Here is where the next group of money masters comes in to show you how to find it. Lou Brown, Larry Harbolt, Alan Cowgill, Josh Brown, Dustin Mathews, Mark Walters, Eddie Speed, Tom Henderson, Michael Morrongiello, David Leach, Kenny Rushing, Frank Jreij, Mark Dransfield, Trace Trajano, Mike Beecroft, Greg Winfield, Doug Mahoney, Lindsey Bennett, Lou Castillo, and MA Enterprises together make up the greatest virtual mastermind council on finance ever assembled. This is another incredible team of experts who will ensure money never becomes the major roadblock to your success. Money is always available for the excellent real estate deals. These experts will ensure you understand how your deals can be funded and in a great many cases will provide resources to get you those funds.

Now we turn our attention to the subject of investing in commercial real estate. So many new investors and real estate agents for that matter seem to gravitate toward residential real estate investing when they first start out because it seems less complicated and costs less to buy, generally speaking. That's a myth, however, and these experts are here to fully explain to you that specializing in commercial real estate is no harder to learn than residential and often results in your earning considerably more money as a result of using more leverage over time.

Terry Hale, Dave Lindahl, Jason Gilbert, and Jimmy Devine are what we call heavy hitters—or BTOs (Big Time Operators). These masters buy into big projects and make millions on their deals. They are all here to show you how to do commercial real estate in some way, shape or form as a result of their individual experiences in this arena. Jimmy D alone gives you more than forty years of perspective from his many years of developing and deal-making in the commercial arena. If you're just starting out, I encourage you to take the commercial route, especially if you find after reading this section that this form of investing suits your style and temperament. It is very lucrative and should not be summarily dismissed as too difficult. . .it isn't!

Consider too the possibilities of investing offshore. Doug Crowe shows you how his commercial investments are making millions.

Regardless of which type of property you invest in, commercial or residential, both often come with tenants. This means property management and landlording skills will be necessary in keeping those tenants happy and paying the rent or lease payments on time as agreed. Landlording is a skill, an art, and a science. Jeffrey Taylor is the authority on land lording and runs the largest landlord support network on the planet at www.MrLandlord.com. When you need landlording education or materials, you won't find a larger and more comprehensive resource than Jeffrey's website. His forum members are the best and the brightest and can tackle any question a new landlord may have.

My specialty over the years has been rehabbing distressed properties and renting out multi-unit and single family homes for long-term autopilot profits. Coach Pat Martin, Chris Chico, and Jamel Gibbs are here to show everyone how to turn trash into cash while turning junkers into riches. These three seasoned pros are turning great profits in less-than-the-most desirable property arenas and have developed cutting-edge methods that can be used to do deals other less knowledgeable investors routinely walk away from.

Our next topic deals with options, wholesaling, and no money down deals. These experts are here to show you how to pull money out of thin air (sort of)! Real estate is all about control, and option contracts are one of the best ways to control property while in many cases never owning it. If you have $10 you can write contracts that allow you to control very desirable properties.

Tim Randle Chris Chico, Mark Jackson, Josh Brown, and Mike Butler have agreed to give you almost every possible angle regarding wholesaling property while using options to control and limit your risk to virtually zero. These masters are here to show you every technique in addition to giving you the tools, contracts, forms, information, and follow-up support you'll need to start locking down deals immediately.

Continuing on with nothing-down dealmaking techniques, we bring in Claude (The Mentor) Diamond of www.theleasepurchase.com and Brian Gibbons of www.REIEntrepreneur.com. Claude and Brian are the lease-to-purchase authorities, and they are here to show everyone how to make money with real estate you don't even own. How's that for nothing-down deal-making?

Moving on, you'll meet four more good friends: Jim Mitchell is the "biker who buys houses subject to the existing mortgage" at www.rementors.com. David Leach of www.creativefinancingsecrets.com is will reinforce your understanding of "subject 2 investing," along with Todd Morgan of www.sub2wealth.com, Michael Warren finishes off this subject for you by giving you a broader perspective with his judgments, liens, and options overviews. Between these four masters of their crafts, you too will be taking ownership of properties without personally being responsible for the existing loans and obligations on them. For the investors here that who poor credit or no credit, these methods offer excellent avenues for investing with no money down. Jim has actually had people pay him to take their homes.

Chapter 2

Introduction

Dan Auito

In the next chapter, I'd like to introduce you to another friend of mine, Arcadio Diaz of www.arcadiodiazjr.com. Arcadio is the most knowledgeable and supportive mentor and provider of a complete turnkey system for investing with nothing down in probates that I have ever seen. With baby boomers and their parents getting on in years, this is a growth industry and one in which every investor should consider getting schooled. Many don't realize this but there are actually ten times as many probate properties as there are foreclosures! Arcadio provides you with everything you need to begin doing probates tomorrow, and he actually works with you in partnership to help finance and get your deals done. Give Arcadio a listen if you have an hour or so to learn, go to http://xiosoftpresenter.com/?eventid=5273193.

While we're on subjects that encompass courthouse research, we should also introduce you to our next investing expert, good friend, and trainer in tax lien investing, Darius Barazandeh of www.theinformedinvestor.com/. Darius is a Texas attorney who gets the job done. He will show you how to own property at a fraction of its true value or alternatively earn 16 to 50 percent returns on your investments every year. Darius will show you how to get guaranteed high rates of return on secure investments that insure you'll be paid the interest on your liens or else you'll end up owning those properties at very deep discounts. Forget the stock market; Darius is here to show you some very secure ways to get very high rates of return safely every time.

In the next segment, you will get to meet one of the greatest people I have ever had the good fortune to know and personally work with: Chris Krimitsos of http://thewealthbuildingannex.com/. This dynamic individual attracts like-minded, high-energy networkers like a magnet. In addition to heading up his "Wealth Building Annex," which brings in stars like Jay Conrad Levinson, Jarek Robins, Brian Tracy, and others, Chris is also lecturer, speaker, and presenter who has absolute mastery at creating stampedes of buyers for homes he schedules for auction. Chris is here to show you how to pull off auctions selling properties that otherwise would not or that have not sold, and get top dollar for them. When all other methods fail you can always unload your dogs using Chris's auction methods to get the highest price fast. (John Ybarra presents for Chris.)

Now that we have ensured that you will always be able to unload even the worst property you buy, I'd like to introduce you to another friend who has mastered the art of turning dead leads into cash. Ron Gelok has never published his methods but has agreed to show you how he does this through his own chapter here in the compendium. Don't discard leads that you can't work a deal on for some reason or another. Instead, sell them or forward them to others in different industries that can use that lead and generate a profit from it. They in turn will give you a commission. I've seen what Ron has done and this alone will be worth the money you invested to get this book. (Dead leads on average are worth $450 to $500 each!)

Stefanie Blackburn comes up behind Ron with her chapter on creating multiple streams of income in real estate. This will enhance your ability to see how you can create great cash flowing rivers of income to your bank accounts. And if that isn't enough, we absolutely smash the barriers to your establishing hundreds of joint ventures through affiliate marketing with Ray Higdon's excellent advice on joint venturing.

At this point, you should be well-positioned to begin making serious money if you really are motivated to take action. Our next expert (another friend, go figure) is William Exeter of http://exeterco.com/. William is a master facilitator in the art of the "1031 exchange." William advises and structures real estate trades that allow you to exchange "like kind" property for more expensive property. In doing this, William shows you how to roll every penny of capital gain into the next property, while you defer paying anything to Uncle Sam. This allows you to compound the leverage you wield by putting every penny you make from one investment right back into the next larger deal. The very wealthy use this method routinely to defer paying tax basically forever. William will explain it all in detail in his own chapter.

Now that you are potentially making hundreds of thousands of dollars per year, I would be remiss not to offer you protection from liabilities and taxes so again we have the absolute best in the business at your finger tips, giving you the best information available today! We start with Tim Norris, showing you how to insure everything, and then William Bronchick and Darius Barazandeh, showing you how to structure your business from an attorney's standpoint, which is followed by our very own Albert Aiello who actually trains IRS auditors on how to do their jobs.

The only thing left for me to do is to support you in life's classroom with two true life coaches and friends: Paul Finck in the East and Tim Taylor in the West will be available to you to ensure you achieve balance and prosperity in everything you strive to do.

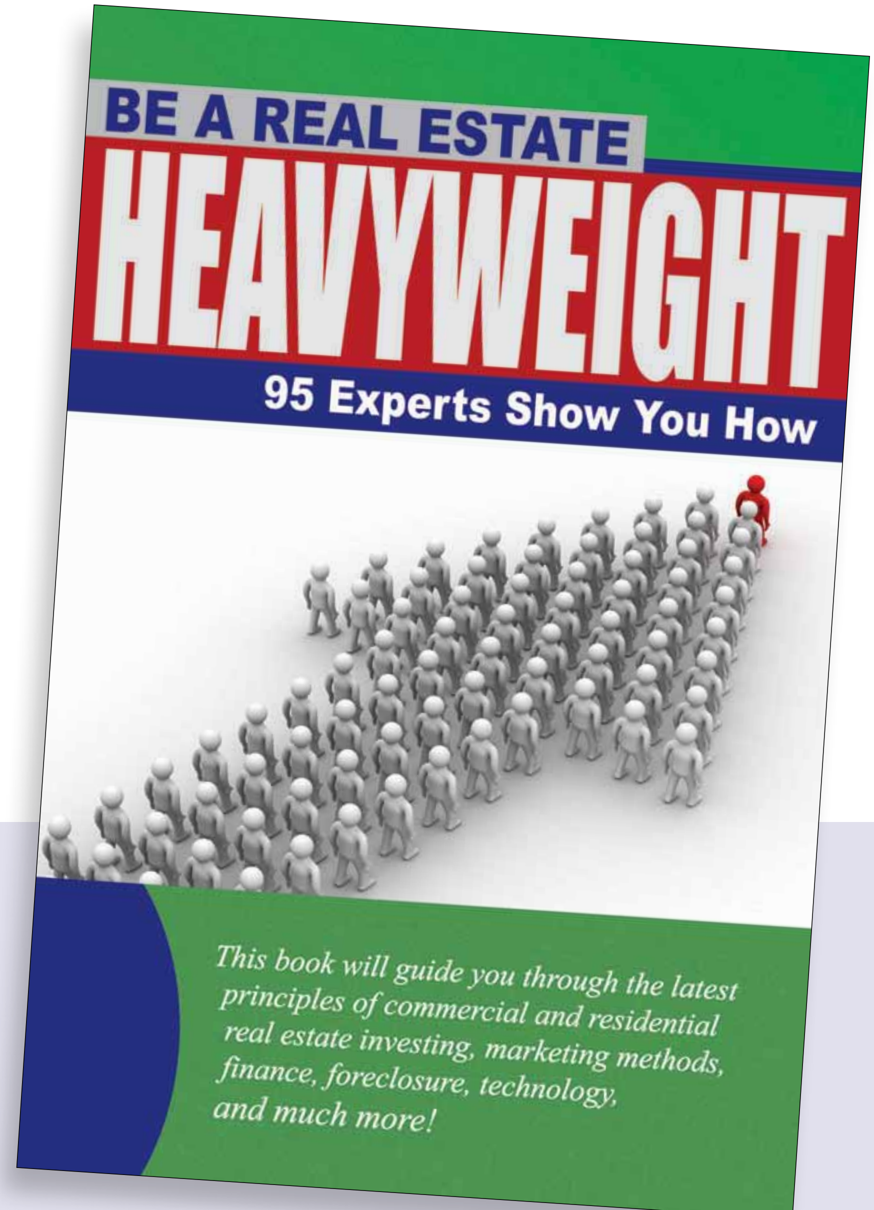
You are now positioned to begin investing safely again using today's cutting-edge methods, tools, advice, support, insights, and resources. Go invest!

Dan Auito

Chapter 3

One-year Job Elimination Plan

Steve Cook



Introduction: If you have an entrepreneurial spirit like me, you probably have grown up with similar thoughts to what I had. I remember being in school as a child dreaming of being able to get out of school and going to work to make money.

I would dream of all the neat things I could buy (that my mom wouldn't get me) and all the exciting places I could go with that money. That job and weekly paycheck just couldn't come fast enough! Did you do the same? Today, I look back and wonder if I was just a foolish kid or if I was crazy. Let's face it; there was a point in time when we all wanted a job. We all desired to go to work and the prospects were exciting. Then one day, the dream turns into drudgery and we began to dream of the day that we didn't need a job anymore. If you are in a position where your job is a drudgery, this One-Year Job Elimination Plan is designed to teach you how to eliminate your job and use real estate investing to provide for your needs and make you financially free.

The dictionary defines a job as: "Something that has to be done. A

Chapter 3

One-year Job Elimination Plan

Steve Cook

task or undertaking that requires unusual exertion. A specific duty, role or function. A regular remunerative position." These definitions are downright depressing. As human beings we never like anything that "has to be done." I'm sure that if we studied the above definition as children, we may not be so anxious to get a job.

If we look at a thesaurus, it refers to a job as: "Assignment, engagement, posting, calling, employment, pursuit, profession, trade, vocation, opening or slot." These synonyms don't make the picture any better. What was it in our foolish youth that made us desire a job? It's just one of those things that we wanted because we didn't have it. Unfortunately, the job desired in youth is now despised by many in adulthood. Jobs can be a blessing and we should be thankful for them, but they aren't always what they were cracked up to be. Sure, there are people who love what they do, but I would imagine that if you are reading this, there is some discontentment with your job.

Often people say job stands for "just over broke." That normally hits home with people who are pursing this field of real estate investing. Because I teach others how to invest in real estate, I regularly hear, "If I could just make enough to replace my job." Learning how to invest in real estate is one thing, but using investing to replace your job is a completely different story. Job replacement requires a plan. You can aimlessly pursue investing and hope, with a little bit of luck, that in a year you will be able to leave your job. The alternative is to set up a plan that will virtually guarantee you the ability to leave your job in a short period of time. Because it's been my goal for years to teach people how to become financially free through real estate investing, I've put in writing a one year plan of how to eliminate your job and become financially free.

This plan will not discuss the steps or techniques of real estate investing, but will solely focus on how to eliminate your job through real estate investing. I have students all across the country who have learned the techniques of real estate investing and do profitable deals, but few get to that point where they are financially free. They struggle getting to the point where their real estate investing income is adequate and they feel comfortable leaving their jobs. On the other hand, I have students who have left their jobs, become full-time real estate investors where investing is their primary source of income and the way they intend to make their income for the rest of their lives.

Having seen both sides of the spectrum, I've been able to analyze the difference between the students who do very well and those who just do. This plan will cover the common things that successful and financially free investors do well and then it will help to lead you down that path. I'll show you how to not follow in the footsteps of the students who never end up leaving their jobs. It will discuss the students who are able to leave their jobs, become stellar real estate investors and achieve true financial freedom, as opposed to those who turn real estate investing into their job.

Why Eliminate Your Job?

Let's ponder this question: "Why are people so fascinated with eliminating their job?" I think for so many people the thought of leaving their job provides them with a sense of freedom. First, they wouldn't have a boss. I remember when I was going to leave my job to become a full-time real estate investor, the thought of being able to walk in and say, "I'm giving my two week notice" was extremely satisfying. I even used to daydream about telling my boss that I'm done! Many people I've met would love to be in that situation.

Second, many people don't feel like they're making what they're worth in their current job. They believe they are worth more, but someone else is dictating how much money they're allowed to make and the amount of time they must put in. Additionally, their good efforts are making somebody else much wealthier. Third, some people think a job interferes with the other important things in life. For instance, they don't get to spend the amount of time with their family that they'd like to. They miss going to their children's sports games, sharing holidays and often show up on the backend of birthday parties because the demands put upon them by their job. Understandably, there are a lot of people who don't want to miss those times anymore because we can't go back and make them up. Many times our jobs are so demanding that sacrificing time with our families seems to be the only option if we desire to keep our jobs. I believe that's why there are so many people fascinated and desiring to eliminate their job.

Why Hold a Job?

Why do we have jobs? It's actually a very simple question with a very simple answer. We have jobs because we need to generate income to survive. When most of us got out of school, we went off and got a job. It was time to start providing for ourselves. We needed gas money, a roof over our heads, food for our bodies, and clothing on our backs. Some of us even had families that we needed to support, so we got a job. In my opinion, that's what a job is for—it provides for our needs and is a noble thing. If we were all going to work and do our jobs for those reasons, it's a great thing.

We also work because we get satisfaction and it provides a purpose in our lives. Many people enjoy their work. Although some people end up in dead-end jobs or ruts doing things they don't want to do, there are others who are very satisfied with what they do for a living. I believe if everybody was satisfied and enjoyed their job, nobody would look to eliminate their job. But when it comes down to it, there are many people out there who would love to do something different than what they do today. Maybe the job they're interested in won't provide enough money. For example, there are people who would love to be teachers, shaping and molding kids, but the salary is too low. There may be others who would love to do volunteer work and not have an income at all, but they must work to pay their bills and maintain the lifestyle they're living.

Outside of providing for our needs and finding satisfaction or purpose, the other main reason why people do the work they do is debt. The debt we have dictates what we do for a living. This is so true, particularly here in America, for so many people. People who want to end their jobs and do other things cannot because they are saddled with debt. If people did not have debt, there are many who would be doing something different. There are many people across our country who hate their jobs, but continue to do something they can't stand because it's the only way they can earn enough money to support their current lifestyle, a lifestyle they have created for themselves. It's natural to see why so many of these people to take an interest in real estate investing in the hopes of eliminating their jobs and living the life they believe real estate investing can provide.

Once upon a time, there were employers who valued their employees and their employees' desires. Such an employer is not extinct, but is certainly an endangered species. Today, employers demand more of their employees. In this competitive world, employees are expected to do more, produce more, and be more efficient. Often this can be at the expense of spending quality time with the family. The trade off is that you will earn more money, but there are many people who can tell you that the additional money is not worth the time away from family. It would be great if you had a choice, but you usually don't. Either you work extra, or your employer will find someone else that will.

Real Estate Investing As a Tool

Real estate investing is something that can provide much of what you are looking for in life. It can provide freedom, time, a good income, purpose, and satisfaction. If real estate investing is done the wrong way, it simply becomes another job that you hate. The purpose of this plan is to teach you how to do real estate investing the right way so that you'll be pleased to eliminate your job and become a full-time real estate investor, not how to replace the job you have right now with real estate investing, which you may come to dislike as well.

There is a myth that many people believe that if you have a ton of money and no job, you are living the good life. From my experience, and there are many people who can attest to this as well, having a lot of money is not necessarily the good life. There are many people who can tell you that not having a job is not necessarily the good life either. Sometimes you can be as bored without a job as you can be with a job. On many occasions I have tried to slow down my real estate investing business so that I can really enjoy life and basically do nothing. However, when I sit or slow down, I end up bored and end up taking on more work.

Because real estate investing is something that I enjoy doing and find satisfaction and purpose, I find myself doing more deals to fill my time. Most people need to fill their time and are going to do so with some type of work. But the key is to fill it with the type of work that you want to do. It's important to end up doing something that you want to do. If you're reading this plan, I assume that real estate investing is something that interests you, and when done the right way, is something that will fulfill your financial needs and be satisfying and purposeful.

Myth of Money

Money is something people believe will make life good. This is the myth of money. Having made a good deal of money myself, while certainly not being the wealthiest of people, I can attest to the fact that making a lot of money is not going to make you happy. The same issues I had in my life prior to having money are still there. The same types of struggles are still there. If anything, money can create more stress in your life. Having a lot of money requires you to do things that people without a lot of money don't need to do. When you upgrade your lifestyle, you normally get a bigger home and more assets and have to protect those assets. This often includes worrying about estate planning, dealing with asset protection and insurance and handling more complicated taxes. When you have more money you begin to take on more responsibilities. Money itself is not going to make you happy or buy happiness. Money just makes it easier to write more checks.

Types of Money

Real estate investing is a tool that will help you generate the income you need in order to eliminate your job. The goal with this plan is to show you how to do that within 12 months. There are two different types of income that real estate investing will generate. The first kind is active income. This income is earned through buying and selling properties. If you purchase a property for $50,000 and sell it for $70,000, you are going to make $20,000 less whatever costs are involved. This is a one-time profit that is not going to continue to generate more income. It will never make more money for you again once the property is sold.

However, the same property that is purchased as a rental with tenants can make $200 per month, after expenses come out, and will continue to make money as long as you are renting that property out. It won't make the large sums that selling the property would make, but it consistently generate income as long as the property is maintained and rented out. This is passive income.

There are people who say that if you are buying and selling property, you're not a real estate investor. I tend to disagree because in order to buy and sell, you still have to invest your resources. You may be getting a larger return back, but you're still investing your knowledge and finances into a deal. Let's call it "short term investing."

Coming Up With Your Plan

Before you can do anything like eliminating a job, you need to develop a plan. The One-Year Job Elimination Plan is a "big picture" plan. It requires combining a number of little goals to come up with the one big plan to set you free. If any area of your life that plays an integral part of the "big picture" plan is left untouched, then your results will be lackluster.

There are two key things to give serious consideration to. First, you need to evaluate your needs. You need to know how much income you absolutely, positively need to make. These are not your desires or how much you need to go on vacation, but what you need to make ends meet. This is the bottom line number that you need every month to pay your bills. Develop your monthly budget and determine how much you need to generate each month in order to survive.

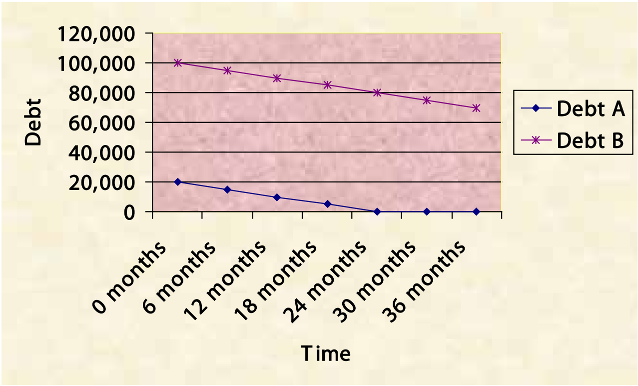
The second thing you need to do is determine what you want your life to look like—one year from now, five years from now or ten years from now. Come up with your plan, a picture of your life. This is such an important step and something so few people ever really do. Most people don't have a clue what they want their lives to look like or where they want to be years from now. They just know that they don't want to be where they are today. They want things to get better, but they don't know what better is or even what it looks like for them. If you don't know where you're going or where you want to be, you can't possibly set up a plan to get there. Anything that you do without a finish line in mind is going to keep you running in circles.

But also keep in mind that the finishing point doesn't mean that's the end and everything stops. Your goals, wants and desires are going to change, but you need to have a goal in mind so we can set up a plan to get you to that point. Otherwise, you won't be any further along years from now then you are today, although you'll probably be in a different place, but you won't be where you want to be. Today is your starting point of working towards the finish line. Take some time to write you're your thoughts on the My Life: Where I Want to Be in the Future page at the end of this document to help you determine what you want your future to look like.

As you work through your budget, focus on your current spending and debt patterns. If you are someone who spends excessively, has a lot of debt, or has a very high income job but must keep it to maintain your lifestyle, then your road map is going to be a little bumpier. You undoubtedly can achieve your goals if you are willing to make some sacrifices. I have never seen anyone become a very successful, full-time investor while trying to maintain their current lifestyle, particularly when their lifestyle was one in which they lived beyond their means. Every person I've seen who has become extremely successful as a real estate investor was willing to make sacrifices. They were willing to give up the luxuries of today in order to have them comfortably tomorrow. They learned that making money wasn't the only solution to getting the life they wanted, but they had to learn to handle money appropriately. If have a lot of debt, chances are that you do not know how to handle money, and you must learn before you'll ever achieve your financial goals.

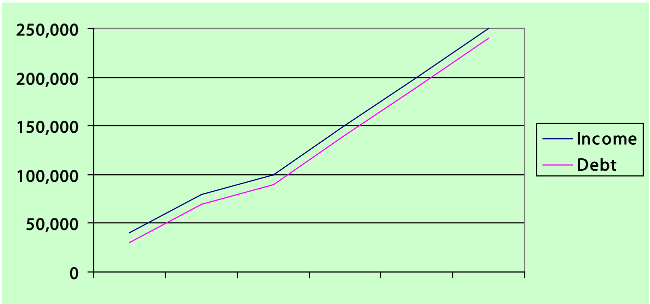
Here are a few illustrations to look at that will help you understand my points:

Graph 1: Debt/Time Ratio

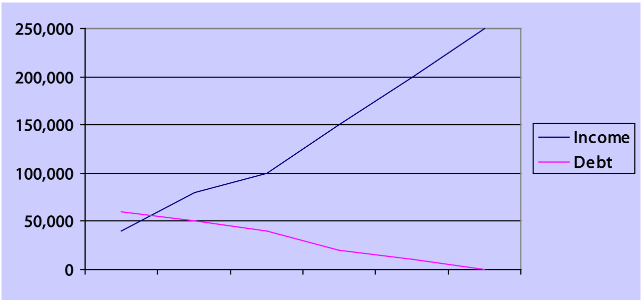


A person with little debt can be out of it within a year, but a person with a lot of debt will take much longer to get out of it. Obviously, the more debt you have, the longer it takes to pay it off. If you have debt, you are basically a hostage to it. It is the reason that you work your job today; it dictates whether or not you go on vacation, how long you work, where you eat, and what you buy. I don't believe that there is anything good about debt. You didn't incur your debts overnight, and chances are it's going to take some time to pay them off. But keep focused on your goals and how rewarding it will be when you get to write that final check toward the pay off of your debts. Please realize that paying your debts off slowly is a good thing. If you can pay them off too quickly, you may not learn to appreciate how much it means to not have debt. I've seen people make quick money, pay off all of their debts, and then run up their debt again. They didn't learn.

Graph 2: Income/Debt Ratio



Graph 3: Income/Debt Ratio Scenario 2



Some people will increase their lifestyle with more money from real estate investing and also increase their debt. The graph depicts the income line increasing gradually, but expenses remain high and increase with more income. Another trap that too many fall into is keeping their jobs and increasing their income with real estate investing, but not reducing their debt or even maintaining their current expense level. Unfortunately, they've increased their lifestyles while they still have their jobs and need their jobs and real estate investing to maintain the life they have built. Leaving the jobs becomes impossible because they have increased their debts while investing.

Many Americans also do this when they get bonuses or promotions. With a new job comes a new house or a bigger and fancier car. They soon become a hostage to the life that they created and then they need their job. These are the people who can't sleep at night when their employer starts talking about downsizing or layoffs. If you had no debt and some money in the bank, you wouldn't worry as much if your employer was considering downsizing.

Make it, keep it mentality.

Then there is the successful investor. This is someone who doesn't only know how to do deals, but they also know how to manage their finances. As this graph reveals, they pay down debts as their income rises, thus needing less and keeping more.

I once had someone tell me that the reason I had no debt was because I made a lot of money. This person honestly believed that this was true and many of you reading this believe the same thing. I corrected this person and explained that the reason I had money was because I had no debt. You see, if I make $50,000 per year and have no debt, I have $50,000 a year to do whatever I want with. If you make $50,000 a year and have $50,000 a year in debt, you can't do anything more then pay your debts. We make the same amount of money, but I can invest mine, go on vacation with mine, and enjoy mine. You simply have to go to work so you can pay what you owe.

Sacrificing for the Future

Many people I know who have been very successful in real estate investing have done well, but still live paycheck to paycheck and are far from being financially free. They still have something that dictates what time they have to be up in the morning, when they can go on vacation and how long they can go. They basically still have a boss telling them where and when they can do something. That boss is their debt. It dictates what they do, when they do it, how they do it and how long they do it. As long as any of us have debt, we will need income.

It's also true that the more debt you have, the more you're going to have to work and the less debt you have, the less you're going to have to work. Debt can influence how well we sleep at night. It seems that those who have the most debt breathe to work, work the most, and often have greater health risks from overworking and stress. I believe people with little to no debt tend to be the happiest people around because they don't have this financial burden bogging them down.

You may be wondering now, "How and why do some people reach financial independence and others don't?" My experience and observation is that the individuals who were able to eliminate their jobs and get to the point of financial freedom started out with very little debt or were willing to make sacrifices today with the future in mind. They were willing to change their lifestyle and reduce the amount of debt they had or money they needed, so they could more quickly achieve their goals and have real estate investing provide for them.

What did these people do? They sacrificed their current lifestyle and disregarded what others may say and think of the downsizing. They ignored the American culture, which values having more things, owning bigger houses, driving expensive cars, taking extravagant vacations, and so forth. For example, a person who drives a BMW or Lexus and shudders or is embarrassed at the though of getting rid of that vehicle to drive a Chevy Cavalier or Kia will struggle with making the sacrifices I'm talking about. If you are more concerned with impressing others than living the life you want to live or living a life of peace, this will be a very difficult task for you. You may be able to do things without making any sacrifices; however, you need to look at graph number two. As income increases, so does debt and financial freedom becomes a distant dream.

Before I go any further, let me bring up something to help some of you who may be struggling with this. First, you need to be honest with yourself. For example, most of you with expensive vehicles are working a job where at least one week's salary out of each month going to pay back someone else who loaned you the money to drive an expensive vehicle. The "rush" that you got from your car when you first bought it has worn off. Maybe you don't care much about it yourself any more. It's a car. It will do the same thing for you as a Toyota Corolla, except the Toyota would allow you to sleep better at night because the payments are easier for you to make. But for those willing to make sacrifices, there is great reward and much to look forward to. Here's some good news, the people I know who were willing to make sacrifices had to do so for about two years. For a measly two years, they set aside their desires and became financially healthy. By the third and fourth year they could do all the things they wanted to do. All the things those who are not willing to make sacrifices can never do. They can go on vacations, sleep well at night, pay cash for cars and toys and give generously and cheerfully to charity.

Debt hinders financial freedom. If you're willing to make sacrifices, you're well ahead of the game. If you're willing to drop your monthly debt and needs to as little as you possibly can, you will be far ahead of everyone else and becoming financially free will become much easier for you than someone who is not willing to do it. In fact financial freedom becomes very simple as your debts decrease. Once you start making those sacrifices, you will realize how empty many of the things you're giving up really were. When I gave up cable TV I really didn't want to do it, but I needed to knock my debt down by $60 a month. After a few weeks of not having it, I realized that I didn't miss it. I gave up cable TV eight years ago, and I still don't have it today because it's not an important part of my life. I also gave up the idea of driving really nice and expensive vehicles.

When I was eliminating my debt, I went out and bought a car for $3,000 cash so I didn't have a car payment. Was it a pretty car? No. Was it a car that most people would be embarrassed to take someone on a first date out in? Sure. But it did the same thing as a $30,000 car— it brought me to my destination each and every time. Today, I drive a Volkswagen Jetta and a Volkswagen Passat. Often people are surprised by that (I think they expect me to have a Mercedes or a BMW). I could certainly drive what society says are much nicer vehicles, but I drive these cars because they run on diesel and get much better gas mileage. Ultimately, they're less expensive and will last a lot longer. It doesn't bother me that there are people who think I should be driving something different. I don't care if my neighbors look at my vehicles and think they're better than me because my goal isn't to impress them. I know what I have and the life that I live and stand secure in it.

How to Reduce Your Budget

Are you willing to make the sacrifices that are necessary in order for you to be a successful investor? If you're not, that's fine, but it will take you a lot longer to get to a point of financial freedom. For those willing to make the sacrifices, we need to design a budget and carefully review your needs. How much money do you need each and every month to make ends meet? Consider what you can cut out of your budget. Do you have two or three car payments? I know a family that has three vehicles, but one is always sitting in the driveway because they only have two drivers in the household. If you've got three vehicles and two drivers, you can get rid of one car.

I know a guy who had a Porsche as his weekend car. He frequented a certain restaurant where I found him one night sitting at the bar. After striking up a conversation, I asked him why he was always at the bar, and he said he was hiding from the bill collectors. If he went home, his phone would be ringing off the hook from all the collection companies. This guy and his wife made over $200,000 a year, but were living a lifestyle of people who made much more. They were a very young couple who about five years before were making around $40,000 a year. During that same conversation, I asked him what life was like when he made only $40,000 per year and he said, "Life was great!" When they were making $40,000 a year, they lived the lifestyle of making $40,000 a year. But now he spends all his time in a bar trying to hide from people because they were spending more money than they were making. The Porsche, as the weekend car, was certainly contributing to their problem. Unfortunately, he bought into what society teaches—bigger and more expensive is better.

There is another couple I know who owned a BMW and Lexus. They were not willing to give up their cars to better themselves financially; in fact, the very thought of doing so was appalling to them. They feared that everybody, including their family, around them would see them as failures if they got rid of one or both of the expensive cars. Their cars, along with the debt, were more important to them than becoming financially free. If you've got two vehicles, you've got to evaluate if you really need both, and if so, are these the exact cars you need to keep. Can you make it with something cheaper? Can you sell one of the vehicles, take profit from it and buy another vehicle for cash so that you don't have a car payment? Again, the goal here is to reduce your debt so that real estate investing can set you free in a shorter period of time.

Another item to look at is your home. Giving up a home is a very tough thing for a lot of people and many don't even want to consider it, especially if it means going from a large home to a smaller one. If you have more of a home than you can afford or need, it's an area that can be cut from your budget. Society tells us that we have to have a bigger house to have more room or that it's not right to bring your kids up in something small. I grew up in small houses. My parents and grandparents all grew up in small houses. What is considered a normal size house in today's market was a very opulent house 30 or 40 years ago. Please don't fool yourself into believing that you need to have a bigger house. If you're not willing to give up your house or a large home that requires a lot of maintenance or much bigger payments than you need, then you don't really want to be financially free or free from your job. Give some thought to these things and get your priorities straight.

I'm not saying that everyone has a house that is more than what they need, because some people live very modestly. One of my best friends and his wife decided to sell their house and move into an apartment. They had a very nice home in a middle class neighborhood; however, they realized the home was more than what they needed and they were serious about becoming financially free and making the sacrifices that were necessary in order to live the life they truly wanted. This is a couple who knew what they wanted their lives to look like in five years. They made this step even though many of their friends criticized them and asked what in the world they were doing. After making some sacrifices and being a real estate investor for two to three years, this couple was able to buy a house that none of their so-called friends could buy and were able to live a life that none of their friends could live. Now their so-called friends want to know exactly what it is that they do. Making sacrifices by putting off luxuries today and getting your debt down is going to help you to become financially free much more rapidly.

Monthly Budget

In designing your budget, be sure to identify the debt that you can get rid of and reduce your monthly needs as low as possible. Here are a few other things to consider in preparing and reducing your budget: Be sure to look at little things like the cable bill or phone bill. For example, eliminate or reduce having all the options on your phone like call waiting, voicemail or call waiting. You may not even use many of these options and certainly don't need to spend money on them. Are all the cell phones in your household necessary? Look at how often you're going out to eat and where. Are you paying for club memberships that you're not using? Do you spend too much on clothes and shoes that you really don't need? Can you find free entertainment or inexpensive activities for fun? Do you subscribe to magazines that you really don't read or can do without? Check out the local library to see what reading materials they have for free. Whatever it may be, get rid of all the things that you don't need.

I'll Sacrifice! Now What?

Some of you will realize that you don't want to change your budget; others will find you don't need to change it; and the rest of you just need to reduce it some. Once you've identified your expenses, you now need to decide how soon you want to be financially free. How soon do I want to eliminate my job? How soon do I want real estate investing to take over and be my source of income to survive with? Consider if you want it to be one year, two years, or five years from now. However long it is, you then need to decide how much money you need to make with real estate investing to provide your monthly needs.

For example, you've gotten your monthly expenses down to $3,000 per month and you want to free yourself from your job within one year. The next step is to decide how much money real estate investing needs to make you over the course of the year in order to replace that $3,000 per month. You can use passive income made from rental properties to generate the $3,000 per month to cover your expenses. If you don't want to go the rental property route, I typically recommend putting at least one year's worth of salary in the bank. Using the same example, that would be $36,000. Do deals that will put at least $36,000 in the bank so that you have one year's worth of income put aside to tide you over until you do your next deal and start replenishing it.

The example I've used of $3,000 per month is a fairly low amount of monthly expenses and probably unimaginable to a lot of people. Be encouraged; it was unimaginable to a lot of people who have already done it too! Whether your number is $3,000, $4,000, or $2,000, generating that amount per month through passive real estate investing (i.e., rental properties) or active real estate investing (i.e., buying and selling properties) is a very easy thing to do. Let's not make this more difficult than it needs to be.

If you can get your income down, it's very easy to make the amount of money that you need to set yourself free. If your necessary income is at $10,000 per month, that's $120,000 of cash that I recommend you put it the bank or $10,000 per month of positive cash flow that you would need to make before you could free yourself from your job. Let's analyze that real quickly; if you need to put away $120,000 and are doing deals that make you $20,000 each, you need the money from six deals without spending any of the profits. If you're looking at rental properties, let's assume that the properties you want to take on will generate $250 per month in income. Therefore, you would need 40 rental properties in order to replace your income so you can be free from your job.

Even as an experienced real estate investor, picking up 40 productive rental properties in one year that will net $250 each per month is very difficult. If I needed to generate $3,000 per month, I would need 12 rental properties generating $250 each in income per month. Twelve rental properties are much easier to acquire and manage than 40. It's still not necessarily a very easy task, but certainly easier. I tend to recommend that you do a combination of having cash in the bank and putting together some passive income, depending upon what your goals are. I've done both and actually prefer to make as much cash as I can and invest my money in other ways such as lending money.

You need to have your plan, know where you want to be, and know that if you're going to do it all with passive income, and you've got a high amount of debt and a high amount of needed monthly income, you will need a lot of rental properties. Forty rental properties can become a job unto themselves, particularly if they are high management. If they're low-income rentals and a high management type of area, it will become your job. If you have 40 high quality rentals, then that income can become fairly passive. You need to give consideration to where you want to be, how much time you want to invest in order to become financially free and to eliminate your job.

Adjusted Monthly Budget

In adjusting your monthly budget, be sure to put in the amount of income you need per month to service your monthly debt. This is going to be the adjusted amount and fairly low number, if you're willing to make those sacrifices. Next, you need to look at the amount of active income that must be generated in order to put that amount of money in the bank to cover one year's income (If you feel more comfortable with two year's income, do that—it's just a higher goal, but still one that can be achieved.) or the amount of passive income you need to make in order to use rental properties to eliminate your job. Once you've come up with the amount of active income, you need to break it down further.

Let's say you need $50,000 per year to cover your debt, and you want to put one year's income in the bank in order to leave your job. Keep in mind that this money is for your living expenses; it is not to be used for real estate investing itself. Determining how you're going to make that $50,000 is your next step. You can make $50,000 by doing 10 deals that make $5,000 a piece, five deals that make $10,000 each, two deals for $25,000 each, or one deal that makes $50,000. You need to decide how much time you're going to put into this or how much time you can afford to put into this while you are still working your job.

If you are in a position where you want to do deals with as little risk as possible and want to make $2,000, $3,000 or $4,000 per wholesale deal, then it will take you quite a while to save enough money, without spending your profits, to free yourself from your job. If you're averaging $3,000 per deal, you need to do 17 wholesale deals in a year if it's your goal to leave your job in a year. Of the 17 deals, it's best not to spend the money or reward yourself for your hard work. Remember the key is to sacrifice now so that you can leave your current job and work toward financial freedom.

Planning properly is what so many people fail to do. If your annual debt in proportion to your income is very low, say around $20,000, you are in a position to do smaller deals if you choose. If your annual debt is at $100,000, small deals are likely never to get you to your goal. You have to do bigger deals to generate the cash to put away that will allow you to survive for a year while you go out and do real estate investing full-time. Passive income works the same way. The more rentals that you need to have in order to replace your monthly debt, the more likely you are to do bad deals in order to hit that number. The fewer number of deals you need to do, whether passive or active income, the better off you're going to be.

I recommend that if you need $50,000 that you shoot to make $60,000 or $70,000 because you will spend some of that money. When planning you have to be realistic. As a part-timer, your capabilities are limited, and you can probably only get done two deals per year. That's okay because you can achieve your goals with only two deals. You just have to make sure that the deals will make enough to hit your goals. You would need to make $30,000 to 35,000 per deal in order to put that kind of money away. If you're going after deals that make $10,000, you will need to do six or seven deals in a year. With a full-time job doing six deals a year is not easy. Even doing two would be a challenge.

Hopefully, you understand what I'm getting at here. If you need to make $100,000 or even $150,000 per year and you're working a full-time job, I recommend working on deals that will make you six figures. Doing deals at $20,000 is going to take you a very long time to reach your goal. The same thing goes for rental properties or other types of passive income. It's okay to make $20,000 per deal, but you have to be realistic. On a part-time basis, you can probably do two to four deals per year. It's going to take you more than a year to achieve your goal of putting away one year's worth of income and even longer to put away two year's worth.

If building passive income is your goal, you must realize that buying properties that are already rented and performing are going to get you to your goals much quicker. If you buy vacant properties, you will have the time of repairing and finding a tenant involved. This costs time and money. If you have no cash to put into rental properties, you are going to have to either buy creatively, or do deals to generate the cash for your rentals. Keep all of this in mind when putting together your plan.

Sticking to Your Plan

The problem with earning extra or more money is that we tend to spend more as we make more. Very few people will maintain their spending habits as their income increases. Along with making more money, just about everybody spends more money and lives a different lifestyle. One of the problems many people have, especially if you aren't willing to make sacrifices, is the temptation to spend the money from real estate investing as you make it. If a person makes $30,000 on a house, you are likely to spend that money. But if you're willing to make the sacrifices and not spend it, you can get out of the rat race relatively quickly when you can put away chunks of cash like that toward your future.

The bottom line is that in order for you to be financially free, you must learn to manage your money. You absolutely, positively cannot be financially free if you don't know how to manage money. Some of the highest income earners in the world go bankrupt shortly after their income stream stops because they didn't manage their money. People who know how to manage their money can take $500,000 and be set for life. There are athletes with $50-million contracts and three years after retiring, they're managing a McDonald's because that's all they can do. It happens time and time again. The same thing goes for lottery winners who frequently end up bankrupt because they have a lot, spend a lot, and don't know what to do with it. Those who can't manage their money work for somebody else. They work for somebody who knows how to manage money. There are many, many people who need that paycheck coming in every single week because they don't learn how to manage the money they do have. They can never get out of their job because they don't know how to control their spending or are not willing to make sacrifices.

Either you have to learn how to manage money or it will manage you. It will be one way or the other. It all goes back to debt again. It will keep you up at night, it will dictate where and when you work, what holidays you have and what vacations you go on, how long you go and what you buy for gifts for your family. You manage it or it will manage you.

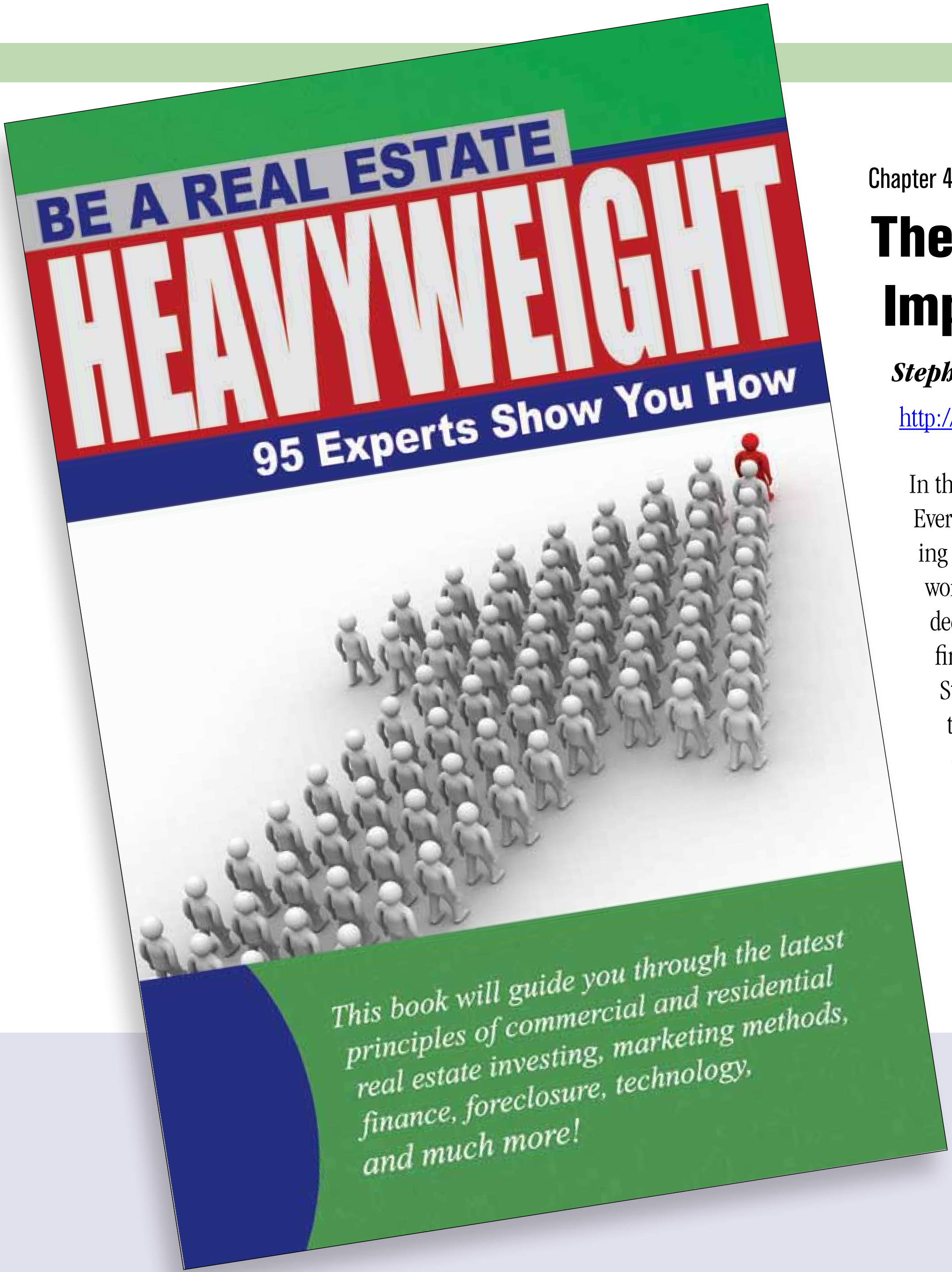
Conclusion: No Job and Financial Freedom Can Be Yours

My plan in becoming financially free involved reducing or eliminating my debt. By doing that, I reduced and eliminated my need to have a job. We certainly still have needs like eating, keeping clothes on our back, and running utilities in our home. However, real estate investing can very easily meet those basic necessities when there are no other debts involved. I want to emphasize again that if you're willing to make sacrifices and pay the price for two years of your life, you will be able to leave your job, go on vacation whenever you want and do all the things you want to do for the rest of your life. That doesn't mean you won't work, but you will work because you want to. You will master money and not allow money to master you.

One of the mistakes I made when I got into real estate investing was trying to make enough money to replace only one month's income at a time. It's easy to see why people want to generate a plan to come up with enough income for one month at a time. Many people's business plans focus on generating enough capital to get through the month. The problem with a plan like that is that you don't ever tend to get ahead. If you get the amount of money you need down to $30,000 per year and do one deal that nets you $100,000, you've got enough income to keep you going for the next three years even if you didn't earn another dime. If you only went after a deal of $3,000 to cover your monthly expenses, you immediately have the burden of how you will earn next month's $3,000 on your shoulders. My example may be a little bit extreme, but it doesn't have to be. If you do a deal for $30,000 and you need $3,000 per month, you've got 10 months' worth of income behind you and 10 months to generate more income and get further ahead. You need to decide if you're willing to make the sacrifices to make it that easy on yourself.

The beautiful part of it all is that once you get your income from real estate to surpass your financial needs, you're free to do whatever you want to do. You're free to do what you want to with your excess time and income. You can do more of what's been earning you money or you can look to other avenues to generate income, even multiple streams of income.

Blessed investing!



Chapter 4

The Credit Crunch And Its Implications For Real Estate

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In these economic conditions it is obvious that hard times are upon us. Every night when you turn on the news it seems like there is nothing positive to be found. On the surface it is easy to conclude that the world is in a state of disrepair. The stock market has experienced declines of historic proportions and people have been in a state of financial panic as a result. The problems currently facing the United States and the world, as a whole, can be very complex. Through this work I hope to clarify the past, present and future of the real estate market by using a common sense and economic approach.

It is important before getting into more specific information, to define the purpose of the real estate industry and its role in society. Real estate can be many things to many different people. To one person it is a place that they call home, and to another it is a place of business. It is where people raise their family and experience the greatest pleasures in life. To another person real estate is a symbol of financial stability, and a monument of achievement. Some choose to invest in real estate, compared to other options, to take advantage of the unique characteristics and upside potential that real estate provides.

In the larger realm of commercial real estate, the possibilities are endless. One business may use their physical location to manufacture products while their neighbor may be operating a family dry cleaning business. In selecting their locations businesses have unique needs. To one business, such as a retailer, location might be their biggest concern. To another business, such as an e-commerce retailer, cost effectiveness and internet connectivity will be their priority.

It is valuable to identify the true importance and unique characteristics that real estate offers investors. While it would be easy to only focus on the specific topic of real estate, it is important to identify the role that real estate plays in our economy. The backbone of our capitalist society is business. While it sounds elementary on the surface I think it is important to understand that the performance of the real estate industry is directly correlated with the performance of the economy. It is this correlation with the economy that will be the core of this analysis. While some economic indicators may not seem to have a direct relationship with real estate, it is hard to find any significant piece of economic data that does not provide insight into the performance of the real estate market.

It will be essential not to overcomplicate things, and to remember the basic principles of economics and business throughout this investigation. Sometimes people deviate from the obvious and overcomplicate the subject for themselves and others. Basic laws of supply and demand will stand in the forefront of this analysis, but this simplicity will not be accomplished using oversight or generalities. Specific historical and empirical evidence will be the foundation of each section. This historical information will highlight the true nature of the real estate fallout and resulting global credit crunch.

It is now confirmed that the country entered an economic recession at the end of 2007. Some people have even compared the credit crisis to the great depression. One major difference between the great depression and the credit crunch of 2008 was the way the Federal Reserve responded to an inevitable market contraction. This recession is like none we have seen in recent history because the instability occurred in the financial sector of the economy.

Financial institutions serve as the backbone of business and instability, or even perceived instability, in the financial sector, can bring an entire nation to its knees. All business relies on the efficient transfer of both real and financial assets. Financial institutions act as the facilitator of these transfers. When financial institutions fail and this process is disrupted the negative effects extend into all areas of the economy.

The Global Capital Markets (A Look at Cause and Effect)

One factor that has played a significant role in the build up and fall out in the financial sector of the U.S. economy is globalization. Globalization is the term often used to describe the increasing interdependence between economies of different nations. It is the process in which international markets and cultures become increasingly intertwined, thus, allowing instability in one market to ripple across the globe.

The increasing use of technological innovations such as intercontinental telecommunications lines, the internet, and open markets has allowed the process of globalization to increase rapidly in the 20th century. Globalization is often measured by the amount of time it takes an event in one country to effect another. If negative information becomes available to investors in one country, because of globalization, that information has the ability to influence investors in other nations almost immediately. Although these effects do not always create a proportionate movement in the financial market of the second nation, empirical evidence shows that the effects are present. This process of globalization has connected the world's financial markets and provides important insight into the causes of the current global financial crisis.

In the 2009 Economic Report of the President this fact was made clear. In this report the Council of Economic Advisers identified that the root cause of the current global financial crisis is a result of increased savings by developing countries, during the late 1990's. Although this is not to say that it was the only factor, it did set the stage for such a large crisis to occur. Without these savings from foreign investors the real estate boom would not have been possible.

Savings Overseas Increased the Supply of Loanable Funds in the United States

The savings accounts of individuals and businesses overseas increased the supply of loanable funds in the global capital markets. Most of this savings came from Middle Eastern and Asian countries. Asian cultures by virtue have been known to be frugal and unlike American consumers they place a strong emphasis on savings. Following the 1990's these developing countries began to recover from their own financial crisis. With increased income in these previously very unstable countries, individuals chose to save and invest their money, rather than spend it domestically. Much of these funds were invested in low risk American assets such as U.S. Treasury Bonds, debt securities issued by Fannie Mae and Freddie Mac, mortgage backed securities and other financial instruments.

When a person, or more likely an institution, buys U.S. Treasury Bonds this transfers money from their country to the U.S. This increased supply of money created a surplus in the U.S. financial markets and interest rates began to fall as a result. Foreign investors are drawn to U.S. Treasury Bonds because they are the most secure investment in the world. Because U.S. Treasury Bonds are backed by the U.S. Government they have a 0% risk of default.

This massive inflow of foreign investment placed downward pressure on interest rates. One way to think about interest rates is to view it as the "rental rate" charged for using somebody else's money. When there are a lot of people willing to let you to use their money this causes interest rates to go down. Like with anything when the supply goes up, the price (in this case interest rates) will go down. This general rule applies most of the time although anomalies do occur.

In a speech on March 10, 2005, Ben S. Bernanke (Chairman of the Board of Governors of the United States Federal Reserve) stated that the United States is the world's largest economy because of its heavy reliance on the international capital markets. The United States is a net borrower in the global financial markets. This fact is confirmed when you hear news of the United States rapidly increasing national deficit. When an entire nation spends more than it produces, that spending must be financed by other countries.

An easy way to visualize this transfer is; Americans earn money, or take out credit, to consume products and services. Much of that spending is on foreign goods. When an American spends money on a foreign good it sends those U.S. dollars spent to the foreign country. The people in that country do not spend this money but instead invest it in American financial instruments. This re-introduces that money to our economy where it is then loaned out again. The borrower spends that money, probably on foreign goods again and a cycle is created. This effect of reintroducing the money back into the U.S. economy increases the money supply, which drives interest rates down, and makes credit easy to obtain.

Foreign Capital Lowers U.S. Interest Rates and Stimulates Growth

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When interest rates go down it creates a good environment for businesses. When businesses analyze the decision to pursue or deny additional projects, interest rates play a crucial role in that decision. A simple way to picture this decision is; if a company wants to engage in a project that they anticipate will produce a 8% profit margin, but the interest rate (cost of borrowing money) is 7% that leaves them an actual return of only 1%. It is not likely that the business would pursue this endeavor; the risk outweighs the potential return. Assume now that interest rates are at 2%, with the same 8% profit margin; this same project now provides a much more advantageous return of 6%. This project will likely be pursued purely because interest rates are lower. In summary when interest rates are low this is good for the economy because it allows businesses to pursue more projects.

When companies take on more projects this creates a laundry list of benefits. Some of the more obvious positive outcomes include; job creation, increased sales for suppliers to that company, increased tax revenue, economies of scale, research and development, and when profits are strong companies are more apt to donate to their communities as well. For real estate investors, business growth creates a sustainable demand for real estate.

The Technology Boom of the Early Millennia

Something that many people remember about the late 90s and early millennium was the expansions in technology stocks, and the resulting tech boom. A large reason that very risky technology companies were able to obtain financing was in part because of to the excess funds available to them in the financial markets. Investors perpetuated this tech boom by throwing investment dollars at any company name that ended in dot-com. These investors including venture capital and angel investors were throwing money, by the fist-full, at a trend. Stock prices during this time, as a result, were greatly over priced and when the market realized it those stocks came crashing down.

A large reason investors were willing to take on this additional risk was because the economy was booming. With the return on low risk assets being driven down by the large inflow from foreign economies, investors looked for higher returns in other investments. Even though the risks were high and market participants knew they were chasing assets that were fundamentally overpriced, it was hard for investors to resist. Investors simply did not care about the risk because the upside potential was too great to miss out on.

Alan Greenspan called the .com boom a prime example of "irrational exuberance." This technology boom started its run up in 1995 and lasted until 2002. The area of study that focuses on the way investors will sometimes ignore risk, and throw fundamental valuation principles out the window, is referred to as behavioral finance. Behavioral finance theorists focus on the human element of the financial markets. Behavioral finance attempts to explain why market participants will sometimes ignore risk and begin acting irrationally. This basic understanding of behavioral finance will help to describe the actions of mortgage brokers, underwriters, and bond rating companies in the way that they dealt with subprime mortgages. They too are guilty of seeking profits without appropriately calculating the associated risk.

The tech bubble and the real estate bubble that followed are, fundamentally, not that different. A major difference though is that the subprime mortgage fallout had the capacity to bring financial institutions to their knees, while the tech bubble only affected those individuals that held an interest in those companies. Financial institutions serve as the backbone of the economy while flash pan technology companies do not. Therefore when the tech bubble busted it did not create the domino effect that the real estate bubble did.

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The Real Estate Bubble: Destined for Failure

Up to this point I have provided you mostly with the details of how the credit markets operate, and the affect of globalization. You have a basic understanding of how the supply and demand of money effect business investment and influence economic performance. At this point, with this foundation being laid, it will make it much easier for you to visualize the events that led to the creation and fallout of the real estate market in the United States. I will now turn our attention to the actions of lenders, businesses, individuals, and regulatory agencies, that created the real estate boom experienced from roughly 2002 through 2006. You will see a storm beginning to brew and the full implications of the current credit crisis will be made real.

The Secondary Mortgage Market: Fuel for the Fire

Like in the example of the technology bubble the real estate bubble was a direct result of analysts miscalculating risk. They were able to do this because of the enormous supply of money available to them in the global capital markets. In the financial world there are two markets that financial institutions conduct business through; the primary market and the secondary market. A topical understanding of these two markets will help you understand a primary underlying factor that helped create the real estate bubble.

An easy way to describe these two markets is to explain individually each market. The primary market deals with the originators of mortgage loans. Originators are the people that you and I deal with. They are the people who create the loan, and that person is motivated to do so for one of two reasons. They are either writing the loan with the intent to hold it, in their own account, until maturity; or to sell it in the secondary market. When the underwriter intends to hold the security until maturity the success of that loan relies solely on the ability of the borrower to make their payments. When the mortgage originator writes the loan with the intention of selling it in the secondary market their priorities change.

When the originator of the loan does not intend to hold the loan until maturity, but only to sell it in the secondary market, this isolates the originator from default risk. Default risk is the risk that the borrower will not be able to make their payments. Once the originator sells the mortgage in the secondary market they no longer hold an interest in the ability of the borrower to pay back the loan. Their profit is only derived from the fees they generate during the origination process. In many cases originators would not even require proof of income statements, such as the previous year's tax return. How could the originator accurately analyze the borrower's ability to pay without requiring proof of income statements? The answer is they could not.

A problem arises when the originators profit does not depend on whether or not the loan gets paid. They were willing to turn their head in order to make a paycheck. These irresponsible lending practices took place throughout the entire mortgage market, which allowed the problem to grow into what Jim Rogers (Founder of the Rogers Raw Material Index) has referred to as "the worst bubble in credit we've ever had in American history."

Financial Engineering and Credit Rating Agencies

The secondary market for mortgage loans was very active, due in-part, to a process known as *securitization*. Securitization is the term used to describe the process in which a financial engineer will take a group of securities and combine them to create a new security. That new security can be traded as a whole, and in this example, the new security is called a *consolidated debt obligation* or *mortgage backed security*. This process of securitization increased the demand for individual mortgages, because they were needed to serve as the underlying asset of mortgage backed securities. The demand for mortgage backed securities was also very high because, on the surface, they offered instant diversification and the ability for investors to participate in the mortgage market without having to select mortgages individually.

After the mortgage backed security is created it is sent to a credit rating agency such as Moodys, Standard and Poor's, and Fitch. The role of these credit rating agencies was to evaluate the very complex mortgaged back security and to give it a bond rating. Bond ratings assist buyers by evaluating the default risk and other risks associated with bond investments. These rating agencies have come under a great amount of scrutiny for their oversight and underestimation of risk on mortgage backed securities. This oversight was created by many factors but those details will, without much reward, quickly confuse the subject. For our sake we will simply say that the rating agencies did not perform their job properly.

The role of the credit rating agency, as it pertains to mortgage backed securities, was to evaluate the default risk on the underlying assets. Once the credit rating agency placed its stamp of approval, in the form of a credit rating, it was believed that the rating was accurate. Unfortunately these credit rating companies often underestimated the risks associated with many mortgage backed securities. This oversight did not become apparent until those loans began to default at an increasing rate.

The Creation of a Perfect Storm

Up to this point you can see that there were two things happening in the area of real estate financing. Lenders had excess funds that they were very anxious to lend out. Interest rates were low and therefore payments fell within the budget of most Americans. Originators began to overlook the credit worthiness of their clients. Those loans which were not evaluated properly in the origination process were stamped as being low risk by credit rating agencies. Buyers of mortgage backed securities, as a result, believed mortgage backed securities were less risky than they actually were. In summary there was vast oversight throughout the entire industry of real estate financing. This activity created the beginning of a global credit boom, which had a profound effect on the U.S. housing market in particular.

The Regulatory Environment: Subprime Mortgages

Another factor that also drove lenders to reduce the minimum credit requirements of their lenders was the Clinton administration's amendment to the Equal Lending Act. The amendment was called the Community Reinvestment Act (CRA) and was designed to help provide customers with poor credit a path to homeownership.

The CRA put pressure on Fannie Mae to reduce its credit restrictions on individuals, and forgive them for their past credit problems. While this is not the sole reason for the current crisis it did set the pretenses for financial institutions to justify lending to poor credit customers. This example is not to take the blame off the institutions that originated and distributed the bad loans, but to educate you on the regulatory environment that these institutions were operating in. There is a huge difference between forgiving somebody for their past credit problems and flat-out approving people for loans that they could not afford.

As lenders became more lenient and more people were approved for mortgage, this injected millions of eligible buyers into the market. The demand for housing was instantly stimulated, and demand soon exceeded supply. This supply squeeze placed upward pressure on prices. People were buying homes as fast as the lenders could push through the paperwork. According to the S&P/Case-Schiller National Index home prices rose 11 percent during 2002 to 2003, and jumped to 15 percent growth in 2004 and 2005.

Chapter 4

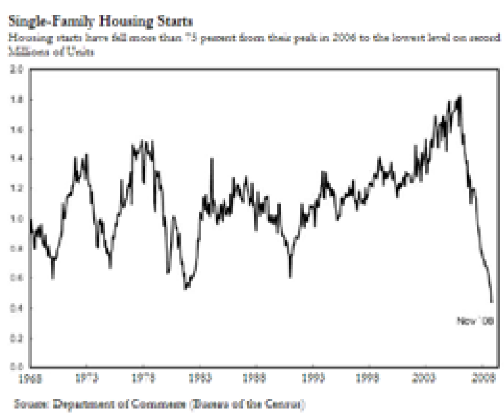
The Credit Crunch And Its Implications For Real Estate

Stephen C. Nault

Real Estate Prices Begin to Soar

With the prices of homes increasing it also allowed existing home owners the opportunity to refinance and extract the equity from their homes. People refinanced their homes for many reasons. They could pay off their credit card debt, build an addition on their existing home, or sell their house and move into a new home. Those people who did not extract the equity in their home were wise in their conservative effort. As you will soon see those higher prices were drastically overinflated and thus were not sustainable. This ability for people to refinance also helped other areas of the economy. People would often extract the equity from their home to purchase other items; all areas of the economy benefited from this new source of easy credit.

During this period of rapid growth home builders were also quick to respond. The number of single family housing starts was pretty much stable at around 1.1 million from 1993 through 2002. With the supply squeeze driving up the prices of homes, single family housing starts grew steadily between 2002 through 2007. New housing starts peaked at around 1.8 million units per year in 2007. As you can see in the graph to the right this represented an all time high.



Adjustable Rate Mortgages: Consumer Oversight

Generally speaking there are two types of mortgage loans; fixed rate mortgages and adjustable rate mortgages. They are both intrinsically linked to the prime rate. The prime rate is the interest rate that banks charge their best customers. As a customer's credit rating decreases banks will require a higher interest rate to compensate them for the additional risk. The worse a customer's credit score the higher the premium will be. Assume that the risk premium is 3%; the bank would refer to that loan as "prime plus 3%."

With a fixed rate mortgage (FRM) the interest throughout the life of the loan is, as the name implies, fixed. It is fixed because your rate will stay the same without regard to movements in the interest rate. Fixed rate mortgages are good when interest rates are low because when interest rates increase your rate will remain low. When interest rates increase, if you have a fixed rate mortgage, this is bad for the bank. For this reason banks prefer adjustable rate mortgages, especially during times when interest rates are low.

The interest charged on an adjustable rate mortgage will "adjust" when interest rates change. This is desirable for both lenders and borrowers depending on their expectations. When interest rates are low this is beneficial to the lender. This is because when interest rates do go up, the payments they receive will increase accordingly. This protects them from interest rate risk. On the other hand when interest rates are high this would benefit the borrower. When interest rates begin to drop their interest rate will be reduced accordingly.

For this reason many of the loans that banks were offering their customers were adjustable rate mortgages. To entice borrowers to choose this option lenders offer lower rates on their adjustable rate mortgages. This is an example of the tradeoff between risk and return. When the lender eliminates a risk they are willing to forgo the additional return they could have received on the fixed rate. As an example if fixed rate mortgages were offering a rate of

6.5%; an adjustable rate mortgage could be offering a rate of 5.5%.

On the surface this seems like a good deal and I believe borrowers assumed that if interest rates went up they could simply refinance before it got out of hand. Either that or they did not understand how adjustable rate mortgages worked. The only reason any person should consider signing an adjustable rate mortgage is if they believe interest rates will go down. Although interest rate forecasting is a very complicated art it is easy to assume that when interest rates are at an all time low, you should not believe that they will likely go lower. With an adjustable rate borrowers become subjected to interest rate risk, instead of the lender.

In addition to lower rates across the board, banks would also use teaser rates. Teaser rates helped place payments within people's budgets, but were scheduled to increase in the future. These teaser rates were not originally created to intentionally hurt the borrower, but they eventually did get used this way. The methodology behind these loans was that the lender could serve those individuals who expect their income to increase in the future. Unfortunately, like many things that are designed to help people with unique situations, it lost sight of its original purpose. People's incomes did not increase over this time period, and I do not think that borrowers correctly understood the reason these loans should be used. They probably just assumed they could refinance, of course I am assuming they thought about their decision. I blame both lenders and borrowers for this oversight.

The Collapse of the U.S. Financial Markets: A Phased Analysis

Now that you have a general understanding of what caused the real estate boom that occurred between 2002 through 2006 we can focus on what caused the collapse of the U.S. financial markets. To summarize, the main contributing factors that created the real estate bubble were; increased availability of credit, reduced standards for home mortgages, the secondary market for mortgage securities, and demand that exceeded supply in the housing market.

From September 2007 to April 2008 I was the host of a finance talk radio show called "The Morning Bell with Steve and Jon" which aired on 88.7 WJMF. In that program my co-host Jonathan Kneath and I attempted to help our listeners think independently about many issues facing themselves, investors and business. While I was preparing for a show about the subprime mortgage crisis I developed a two phased system to help simplify my delivery. It made sense then and it makes sense now.

This analysis was made around November of 2007, and both my co-host and I believed that things were going to get much worse in the financial world. Unfortunately our economic forecast was correct, and although our outlook was very negative, neither of us at that time knew exactly how bad it would really get. While I do think we accurately predicted the recession (using a very broad definition) we never could have imagined that it would require a 700 billion dollar bailout from the U.S. Treasury Department.

Phase I: Individuals Begin to Default on Their Mortgages

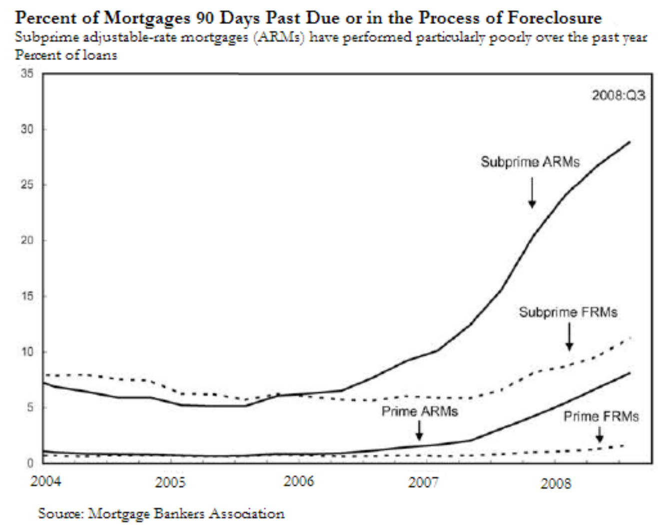
The first phase was initiated by the Federal Reserve when they increased interest rates in 2006. This move was designed to help curb worries of rising inflation and to burst the real estate bubble. This was an unavoidable and necessary move. I do not think the Fed realized how widespread the damage would be. Had they been able to predict the full scope of their actions I think they would have created a better infrastructure to deal with the negative externalities. They basically just busted the bubble and left it to the market to pick up the pieces.

Only with the advantage of hindsight am I able to be this critical of their decision. I think their philosophy was correct at the time, but their calculations were heavily skewed. I believe the complicated nature of mortgage backed securities tainted their ability to see into the underlying securities. They probably calculated the real estate fallout based on the outside appearance of these assets which was heavily miscalculated and did not accurately represent the underlying mortgages.

This increase in interest rates caused the monthly payments on adjustable rate mortgages to increase. With interest rates on the rise refinancing was not an option. These individuals might have considered trying to refinance but they were now faced with higher interest rates across the board, and therefore it would not solve their problem. As interest rates began to increase so did foreclosures, especially in the area of subprime mortgages. As you can see in the graph to the left, this increase in foreclosures began around 2006 and began to rise at an incredible rate starting in 2007. Subprime adjustable rate mortgage foreclosures exceeded 30%.

Because there were so many outstanding adjustable rate mortgages in the market, this multiplied the volume of homes that were going into foreclosure. Another factor to consider here is the inverse relationship between real estate prices and interest rates. When interest rates increase home prices decrease. This made the option of selling very difficult for borrowers who were facing foreclosure.

With foreclosures on the rise this increased the supply of homes for sale. This placed downward pressure on home prices and placed many borrowers "under-water". The term under-water is often used to describe borrowers who currently owe more than thir home is worth. Traditionally, at least theoretically, if the home is worth more than what is owed the seller would simply sell the property and pay off the loan. This would at least leave their credit score uninjured by the foreclosure. This was not the case here. Even those who might have been able to afford their payments began walking away from their mortgages. Home price appreciation began to decline in 2005, and prices began to fall in the third quarter of 2007.



With supply driving down the price of homes this made it difficult for lenders to recover their losses by selling off the assets. Lenders were lending money to people who were not able to make their payments and as a result they dug their own grave. The loan to value ratios being used by lenders was an additional factor that prevented lenders from recovering their losses. Lenders would often finance at a loan to value ratio of 110%. This means they would finance 110% of what the home was worth at the time of the purchase. This was justified by the fact that home prices were appreciating at a rate of 15% a year. But just because something can be justified it does not make it a sound business decision.

Lenders could not sell the property to break even. These mortgages were originated during the real estate bubble and prices were at an all time high. Their ability to recuperate their losses in the down market as a result was slim to none. With every foreclosure sale they were often just trying to cut their losses, and were forced to sell these homes for less than what the borrower owed. Banks are not in the real estate business and therefore cannot ride-it-out until the market turns.

Phase I: The Regulatory Answer, Too Little Too Late

In addition to the supply of real estate being pumped into the market driving down prices lenders also put a virtual halt on new mortgage loans. This meant that even those individuals, who were still willing to buy, often were unable to get financing. Part of the reasons banks put the brakes on their lending was common sense business practices, but the other part was a piece of legislature called the "Mortgage Reform and Anti-Predatory Lending Act of 2007."

In a nutshell this act was created "to amend the Truth in Lending Act to reform consumer mortgage practices and provide accountability for such practices, to establish licensing and registration requirements for residential mortgage originators, to provide certain minimum standards for consumer mortgage loans, and for other purposes" (H.R. 3915, 1). This act forced best business practices on lenders, as a matter of law.

One provision requires the lender to base their loan approval on the ability of the borrower to repay the loan. As I described earlier the ability to repay was previously not a priority. This piece of legislation was developed to help protect consumers from acquiring loans they could not afford. The belief here was that, it is difficult for individuals to turn down a bad mortgage when money is waiting on the table. I think a lot of people associated getting approved for a mortgage as tantamount to being able to afford the mortgage. If they were not able to afford it why would they be approved? I believe this was the mentality of many people who never before took on loans they were unable to afford.

This Act also protects consumers from unscrupulous practices by mortgage originators. This is a typical feature of a lot of business regulation. They regulate to protect the consumer because they assume that businesses are smart enough to protect themselves. This act served the dual purpose of protecting consumers and also regulating against poor business decisions by lenders.

The government would be very interested in this dual purpose because of the widespread consequences of poor lending practices. When individuals start defaulting on their mortgages this is bad for the economy at a macroeconomic level (the financial institutions) as well as a microeconomic level (the displaced families). Although this act was a move in the right direction by regulators the harm had already been done. It was too little too late.

As an interesting side note, there were special interest groups (one being "Freedom Works") that claimed that this Act was discriminatory towards lower wage families. Freedom works stated that this act stripped lower wage families from their "right" to own a home. I think this statement by Freedom Works speaks loudly into the psyche of our American society. My argument to them is that nobody has the right to something they cannot afford. This Act, at its core, will protect low wage families from being subjected to the pressure of taking on loans they cannot afford. It can be argued that somebody has the "right" to jump off a bridge, but it does not mean that we should allow them to. In summary this Act lives by the principal of good sound business decisions, protection of the consumer, and the promotion of a better America for all people rich or poor. I just wish it had been implemented earlier.

Phase II: The Global Credit Crunch Affects Business

Phase I consisted primarily on the reasons that people began to default on their mortgages. Phase II involves the resulting effect on business. Phase II can be pictured as the aftershock that was caused by people defaulting on their mortgages. Businesses rely on the stability of financial institutions not only as a safe haven for their cash assets, but also for financing their operations. When businesses are unable to access credit it greatly reduces the ability for businesses to function, or can even drive businesses into bankruptcy.

I would like to talk in general about how financial institutions record assets and liabilities. Assets for a bank are liabilities for borrowers. When a bank holds a loan this is recorded as an asset for them, and a liability to the borrower. The value of the debt asset can be calculated using numerous valuation methods. To make a very complex valuation sound simple, they evaluate the assets using these general criteria; time until maturity, interest rate payments, amount of debt, value of collateral, and risk.

Risk can be placed into many different categories, but the one we will focus on here is the risk of default. The way risk is analyzed is very complex but for this purpose we will keep it simple. Investors are risk adverse, which means they do not like risk and demand a higher rate of return on riskier assets.

The way to get a better return when buying fixed assets (bonds and mortgages) is to pay less for them. So when a fixed income security has a higher risk of going into default it will put downward pressure on the price of that asset. This is easy to visualize in the following way; when you buy a fixed income security you are actually buying the payments that will be made on that loan. If there is a 50/50 chance that the loan will default you would not want to pay more than 50% of what the loan is worth. If you group enough of them together and only half default you will break even.

As homeowners began defaulting on their mortgages the value of their assets began to drop dramatically. This is because analysts adjusted the value of their assets to reflect the now highly probable risk of default. Banks were also highly leveraged during this time, and in some cases they were leveraged up to 96%. To put that number into better prospective if a firm is 96% leveraged that means that they only actually paid 4% of the book value for their assets. You can view that 4% as their buffer against market downturn. Just like in real estate if you own a $100,000 house and only paid $4,000 down you would be 96% leveraged and 4% away from being under-water.

Leverage provides companies the ability to multiply their returns because of the use of other people's money. But on the other side of the coin leverage is highly sensitive to down markets. You can view that 4%, which the company invested, as its buffer against market declines. The market can decline 4% before it will threaten the solvency of the company.

With mortgage defaults on the rise these highly leveraged financial institutions began to feel the squeeze. They could not sell the loans because they were now worth less than what the company had them on the books for. This becomes especially problematic for financial institutions because over 95% of their assets are financial assets. Financial assets are assets that only exist as a claim on something else. Where a home is a real asset, a mortgage is a financial asset. In other words financial do not have any intrinsic value. At the end of the day it is just a piece of paper, which gives its owner the legal right to collect. If the debt cannot be collected on it is just that, a piece of paper; a used piece of paper at that.

Banks and financial institutions also have to maintain minimum solvency ratios for government regulators. When the value of their assets falls it becomes difficult for banks to maintain those minimum solvency ratios. If they fall below this minimum threshold they risk losing their charter and being seized by regulators. This decline in the value of their assets caused many banks to become insolvent.

While issues of insolvency were made public with the failure of financial institutions like Bear Sterns and Washington Mutual, I am sure there are many that suffered to a lesser degree which did not make headlines. Perceived instability in the financial markets is just as bad as actual instability. Unless failure is eminent, financial regulators do not make insolvency issues public. If regulators announced that a bank was facing insolvency issues in its future this in itself would guarantee that institutions failure. This is because the perceived instability would create a rush on the bank that would cripple the institution, even if it could have possibly been saved.

Banks Stopped Lending to Each Other

Before the credit crunch banks would often lend money to each other at strategic points in time in order maintain these minimum solvency ratios. Prior to the credit crunch banks would often give each other short term loans so they could maintain the minimum requirements set by regulators. Banks that had excess funds would loan to those that were experiencing a deficiency. These loans are short term and measured in days, not months or years. Because of the widespread effects of declining asset values for all financial institutions, few had surplus funds available and those that did were reluctant to lend them. Because all banks were feeling the squeeze equally interbank lending was not possible. With banks no longer lending to each other this also caused widespread worry about the stability of our financial system.

This might seem like an issue that is isolated purely to the financial system, but the larger problem lies in the financial systems inability to serve its customers who also demanded loans. Banks were not able to lend even their most qualified customers money. The money banks had was retained.

Liquidity as it pertains to banking is the amount of cash it has available to pay its depositors. With people defaulting on their loans this caused an unexpected shock to the expected cash inflows that banks relied on. In short they were not in a position to take on additional debt because this would eat into their cash reserves which were already at unacceptable levels.

Recession as a Result of the Reduced Availability of Credit

With limited availability in the credit markets for business, as well as consumers, this caused growth to halt across most industries. With businesses unable to finance their operations through the credit markets this led to recession. Recessions are a normal part of the business cycle and are identified as two consecutive quarters of negative growth. Negative growth simply means that the growth rate is declining, but it does not mean that it has stopped all together. For example if the growth rate has been at 5% for a number of years, and then it shrinks to 4% this would be a recession. I point this out because I think that many people do not recognize the fact that recessions do not mean the economy has shrunk it just means it is not growing at the same pace.

Nevertheless recessions are not good and if the problem is not solved an economy can slip into a depression. As I am writing this (January 2009) the economy has been in a recession for about a year. Recessions are difficult to identify until after the fact. Sometimes a recession is not identified until after the recession is over. This is likely not the case during the global financial crisis. In an interview with CNBC the Council of Economic Advisors Chairman, Edward Laizer, stated that economists don't see the economy recovering until the fourth quarter of 2009.

As I mentioned before, the success of business and real estate are directly correlated. In the realm of commercial real estate this causes businesses to contract, or worse, go out of business. Following the massive growth experienced throughout the 90's and into the millennium this has left many buildings vacant or for sale. With more supply of commercial real estate available, this places downward pressure on prices as well as rents. With more options available to prospective tenants businesses gain the upper hand at the negotiation table and they are looking to cut costs.

The Larger Realm of Institutional Investors (REITs)

When people begin losing confidence in their investments this causes people to irrationally sell out of their positions. Many people that lack the knowledge to invest directly in assets will often choose mutual investment vehicles such as mutual funds, index funds, and real estate investment trusts. These type of investments offer investors the peace of mind that their assets are being professionally managed, using the best resources available in the industry, by a team of financial analysts and industry specialists.

Real Estate Investment Trusts (REITs) are the mutual investment vehicle that allows individuals to invest indirectly in the real estate market. Many people will choose to invest in REITs over purchasing real estate directly because of the convenience and ability to isolate some risks. When you purchase real estate directly you are responsible for managing the property and all the other duties that come with real estate investing. You can choose to hire a Property Management Company but this will incur fees which will cut into earnings. Also when you invest in real estate directly you expose yourself to a very illiquid asset. This list goes on and on, but these are the more prominent concerns people have when they consider investing in real estate directly over choosing to simply invest in a REIT.

By deciding to invest in real estate indirectly through REITs individuals can free themselves from these types of risks and hassles. They will still receive the unique growth potential and tax benefits of direct real estate investments, but they also gain liquidity. Liquidity is a major advantage of REITs over investing in real estate directly. The disadvantages is that you also have less control over when you buy or sell the assets, and as you will see in a minute, you are subjected to the behavioral influences of the other shareholders.

Mutual investment vehicles take money from many investors in exchange for shares in the fund. That fund then invests directly in assets such as stocks, bonds, and for REITs real estate. These investment companies retain some ratio of cash on hand so they can distribute earnings and deal with a normal volume of people selling in-and-out of the fund. They perform all these functions and charge investors a fee which is based on the % of assets under management. Fund managers are motivated to increase the value of the portfolio because it will give them a larger pool to extract fees from.

When the market takes a hard hit and investors worry about losing their money, this increases the amount of people who are demanding cash by selling their shares back to the company. Once those cash reserves begin to dry up, the company is forced to sell its assets in the down market. By selling in the down market this turns a loss on paper to a realized loss which causes more people to become pessimistic and sell out of their positions.

While the individual holds a very liquid asset, represented by shares in the REIT, the investment company still holds a relatively illiquid asset. With investment companies needing to dump their assets this also puts a large supply into the market. This supply is not typically individual houses; REITs have much larger sums of money and typically invest in larger properties such as skyscrapers and malls. It is hard to find a buyer for properties of this size, and their listing further places downward pressure on prices.

While REITs do have their advantages and disadvantages they serve as a good source of information for real estate investors big and small. This information can be found in the prospectus of the REIT. The prospectus outlines the investment strategies of the fund and will offer insight into the real estate market that can be hard to research on your own. Institutional investors base their forecasts on the best data available, data that would cost you and me thousands of dollars a year.

I warn against using these prospectuses for more than just general insight. For example if the fund manager is predicting that they are expecting the next year to be full of opportunities, I would not take that advice. At the end of the day the prospectus is a very strong sales tool for these funds, and for that reason I would use them to gather information but not to look for specific investment ideas. Like anything you read you must always analyze the motivation of the writer.

The Current Recession and Other Areas of Interest

When businesses begin failing this causes the unemployment rate to go up. Unemployment is bad for those individuals who are directly affected, but it is also bad for people that are not directly affected. For this book I did an analysis of unemployment rates from 1948 – 2008. I analyzed that data looking for trends and highlighted periods of particularly high volatility. I measured the range in the unemployment rates year-over-year to try to identify those years that had the most dramatic increase or decrease.

In February 2008 unemployment was at an annual low at 4.8%, unemployment then climbed steadily until reaching its highest point in December at 7.2%. This indicates a range of 2.4%. This is the most dramatic range since 1949 which had a range of 3.6%. Even the recessions of the 1980's did not cause such a dramatic change as the current credit crisis. The average range over the years I analyzed was less than 1% per year. All data was retrieved from the Bureau of Labor Statistics. If you would like to further analyze this data and other economic indicators; I have them available for free on my website. That address is http://www.stephennault.com

High unemployment is of particular interest to real estate investors because it is directly related to the consumer confidence index. The consumer confidence index is calculated monthly and measures consumer sentiment. It gives insight to how people feel about the economy, and their future expectations. This basically gives insight to the behavior of consumers. When consumer confidence is low this means consumers are pessimistic about the economy. When people are pessimistic they are less likely to spend or invest their money. This economic indicator can represent many things to many different people.

In a January 2009 survey the Conference Board cited that consumer confidence is at a historic low. Some points of interest in this report were; only 6.4% of people believed business conditions were good, and 47.9% said business conditions were bad. In regards to unemployment 41.1% of people believed that jobs were hard to get, and only 10% expected their income to increase.

There is an undeniable link between consumer spending and economic growth. One indication of consumer spending is the monthly sales for retail trade and food services. This indicator is generated by the U.S. Census Bureau and adjusts for seasonal variations and holiday spending. In December 2008 sales were recorded at $343.2 billion, a 2.7% decrease month to month. To place this information into context this was a decrease of 9.8% from the December of 2007. This is a significant drop and offers insight to the many retail chains that have suffered over the past year, such as Circuit City, Tweeter, and Linens and Things.

What Does All This Mean? My Conclusions and Recommendations

If you found my economic analysis and commentary interesting you can find a wealth of information on my website. That address is http://www.stephennault.com and you will find blogs, my personal podcasts, my professional profile, links to economic indicators, and up to date commentary on the real estate market. The best part for you is I enjoy what I do and my compensation comes from the enjoyment I derive in organizing and providing this information. For that reason it is free. Maybe one day I will succumb to the financial pressures of the world and develop something marketable, but for now I find satisfaction in educating others. I also enjoy hearing from likeminded individuals, and would love your input. My personal contact information is available on the site, and I invite you to use it.

At this point I would like to transition from the very economic and historical information and present to you my personal insight. The following conclusions are founded in the facts that I have presented so far and will serve as the justification for my assumptions. This is the area where I am forced to expose myself to your criticism, and present you with my personal opinions. I hope you will find insight in and possibly put into action some of the methods I describe.

I will try to identify the areas that will interest you as a participant in the real estate market, or as a casual observer. I will present information that will help you through this readjustment period, as well as into the future. I will highlight areas where I have found success, and provide commentary on those areas in which I have had no direct participation.

This information will serve many different purposes for many different people. Whether you are an existing owner, or a prospecting investor, I will try to accommodate both perspectives whenever possible. Even if the information does not pertain to you directly I think you will still find value in it. If you combine this knowledge with the knowledge from the other professionals in this compendium, a fusion of knowledge will begin to occur, and that knowledge will be much greater than the sum of the individual parts. Most of the information I present here will be geared towards real estate investors, and not towards the interest of somebody who is looking to buy for their own consumption. My area of expertise is commercial real estate investing and management, so my commentary on the housing market will be kept to a minimum.

It is obvious that we are experiencing a huge readjustment period. The real estate markets have been shaken drastically, and I think it will offer a unique opportunity to investors. That opportunity does not come without its risks, but if you play your cards right and stick to the fundamentals, opportunities will emerge. Gone are the days of flipping houses to turn a quick profit. For those who position themselves correctly and posses the knowledge and drive to be successful, I think the real estate market will be prosperous. The key here is those with the “knowledge to identify the opportunities” and the “drive to execute on those opportunities”. This new market will require entrepreneurship and patience.

Unlike recessions of the past, this recession is unique for many reasons. As an investor you should pay close attention to the major economic indicators and use them to indentify future economic expansion. Although market timing is almost impossible and historically has proved to be futile, it is helpful to understand the basic indicators. Business cycle analysis is a very useful tool and you should pay very close attention to information released by the Business Cycle and Dating Committee.

Every economic indicator in isolation is almost useless. But with a little knowledge you can combine multiple indicators and identify general movements in the economy. By doing an economic analysis yourself, you can isolate yourself from the spin of the media. "I tell myself what I think about the data I analyze", and for that fact alone it is more reliable. Even if you are new to this type of analysis, or find the material to be dry, subscribe to a few podcasts or listen to talk radio on your drive to work. Books are great, but for some topics, such as economics it often becomes very dry very quickly. Economics is one of those things that I think gets more complicated and less applicable as you become more educated about it (unless you want to become a PhD on the topic). This is good because it does not require you to spend years studying just to become an observer. In other words you don't need to know how to conduct an econometric analysis just to understand the basic principles and use economic indicators.

What Does the Credit Crunch Mean for Me?

With the credit crunch in full swing it will be the number one factor in today's real estate market. The credit crunch will affect the ability for buyers to get financing, as well as the ability for sellers to find qualified buyers. Banks are no longer loaning at the same loan to value ratios they had in the past. This means that banks will be demanding higher down-payments, and will require the buyer to share in the risk of default (losing their down-payment). By requiring a down payment they ensure that you have some skin in the game and provides a buffer if the market continues to decline. Their priority is to ensure that borrowers will not benefit by defaulting, and also keeping the value of their collateral backing higher than what they have financed them for. Borrowers will not walk away from their debt obligation and if they do the banks will be able to recover their losses when they sell the property.

Banks are also, again, reluctant to lend to those individuals who have poor credit ratings and high debt to income ratios. As a result of this tightening it also reduces the ability for investors to use leverage in their favor. The way investors use leverage to their advantage is by purchasing a property which has a capitalization rate that exceeds their cost of debt financing. Capitalization rate is commonly referred to as the *cap rate*. The cap rate is derived by dividing the value of the property by the annual net operating income. Net operating income is found by subtracting your operating expenses from your gross income.

Let's say, arbitrarily, that your cost of debt financing is 6.5% and the property has a cap rate of 8.5%, this spread would provide you with a 2% return on your debt. This is good for investors because it allows you to make money, on the money which you have financed. This is the power of using other people's money.

This change in the financing environment really isn't much of a problem to overcome, and I feel is a move in the right direction. Like most things, leverage is only good if consumed in moderation. The challenge now is that banks will require larger deposits. This requirement does not put investors at a disadvantage it simply requires them to put down more cash before they acquire a new property. This larger down-payment will also reduce the monthly payments, only widening the spread between their income and debt expenses. It is not lost money. If you cannot afford the down-payment, real estate investing is not a sustainable option for you; in this market. At the end of the day this change only requires the investor to have more money tied up in the investment. By not relying so heavily on leverage they will also not be as sensitive to market downturns.

One opportunity in this new environment is derived from the instant equity investors will have in the property, represented by their down-payment. Obviously this would not be possible if the value of the property drops between now and the future, but I think the following is a sound strategy either way. If I purchased a property today and the bank is only willing to finance at a 75% asset to debt ratio, I would be required to provide a 25% down-payment. Two years from now, if the market turns and banks are willing to finance up to 85% I could then extract that 10% and re-invest it in the form of a down-payment on a second property (or in other assets). This method would work, but I think you should be precautious before simply taking my word for it. I do not want to inspire anybody to take one good deal and turn it into two bad deals. Do your homework, and be sure you have a very sound knowledge in the area of real estate finance before starting to flip your money in this manner. A strategy like this one, employed incorrectly, could spell disaster for a novice.

Interest Rates Are Low and Properties Continue to Drop in Value

As I mentioned in the beginning of this analysis, real estate prices and interest rates are inversely related. Historically when interest rates go down real estate prices go up. It would normally be considered irrational to see real estate prices drop along with interest rates. This environment presents an interesting opportunity for those with the ability to capitalize on it.

With worldwide markets taking a huge hit in the fourth quarter of 2008 it has left many people with dwindling investment accounts. In a matter of 3 weeks they quite possibly could have lost all the earnings they gained over the previous years of prosperity. Even those people that were heavily diversified were not protected. Diversification only works if one asset rises in value to offset the loss in another asset. When the entire market declines diversification does not allow you to counter your losses but only prevents your losses from exceeding market losses. This presents an interesting opportunity for those who might have been able to maintain their savings, or those who were not heavily invested through this downturn.

As we just discussed in the previous section you will need to have money available in order to enter the new, post credit crunch, real estate market. The good news is that you have the opportunity to enter into a market like none other. You have the unique opportunity to purchase a home at a discounted price, while still financing it with a low interest rate mortgage. You can have your cake and eat it too. Of course I would not just jump on every property you can handle, only jump on those in which you can truly buy at a bargain price. Your returns could quickly get stomped out by just one bad deal amongst a handful of good deals.

The New Idea of Buy and Hold

I am confident in saying this now; gone is the day when flipping houses is a smart decision. If you are thinking about trying to flip a property I invite you to take your money into your back yard and burn it. At least in your back yard your losses would never exceed 100%. The only reason flipping houses was possible in the past was because of the supply squeeze created by the buying frenzy. I'm sorry I got a little carried away there, telling you to burn your money; I have just heard a few people utter the word "flip" recently and I could not believe the words I was hearing. I told one of them that he would be better off running to the roulette tables and throwing his money at black, at least he would have a 50% chance to double his money.

If you are planning on trying to capitalize on this down market you will need to be able to weather the storm. Just like when you go camping, you need to prepare for the worst but hope for the best. Before buying any investment property in this market you need to ask yourself; can I afford this property if it becomes vacant? How long can I afford to float the mortgage on the vacant property? If you cannot stomach these risks you should not invest in real estate during this market. Another option could be to form a partnership and share the risks with another party, but bad partnerships can pose unique risks of their own. If you choose to partner with somebody in this real estate market be sure they are aware of the market and have similar objectives as you.

Some Insight Into Supply Squeezes and Absorption Rates

The opportunities that were present during the housing boom were created by the increased availability of credit, which created a supply squeeze. While supply squeezes are good for short term gains they do not create sustainable growth. Developers were quick to respond during this squeeze and this has left us with a huge surplus in many areas of real estate (remember the graph representing single family housing starts presented earlier). With a huge surplus available in the market this gives buyers and renters a better position at the negotiation table.

A popular method that many investors use to try to identify hot markets is absorption rate analysis. I will give you an example of this type of analysis using my home state of Rhode Island. This methodology can be easily applied to any area, so bear with me if you have no interest in my tiny home state. The following numbers are approximate and only apply to commercial office space. Rhode Island currently has a surplus of 2.3 million sq ft which represents a 16% state wide vacancy rate. 900k of this is in the city, and 1.4M is in suburban markets. From 2003-2007 Rhode Island had a positive absorption rate of 157,000 sq ft; basically in good times the state absorbed commercial office space at a rate of 157k sq ft per year. Following the economic downturn Rhode Island currently has a negative absorption rate.

If we look at that information quickly it can be confusing. But with a little thought you can see a picture emerging. If you apply some basic math you will find that even during economic expansion Rhode Island would have to wait 14 years before it filled all of its current vacancies. This number does not take into consideration how long we will experience negative or slower absorption rates, and this is assuming no new construction for 14 years (highly improbable).

You can use the absorption rate for more than just identifying the relationship between supply and demand. You can use it as a general indicator of business growth and as a measure of demand. In this example, with absorption rates in the negative, this means businesses are contracting or going out of business. Investors can use this information, comparatively, to gauge their ability to raise or even maintain their existing rental rates.

If you are considering purchasing an office building you will likely consider the current rental rates that the property is fetching. If you take those rates for their face value you could be making a huge mistake. If those tenants signed their lease 3 years ago (in a very different environment than today), it is likely that you will not be able to fetch the same rates today. Three years ago demand was much higher, and the supply was smaller. Local Note: development companies in Rhode Island have been criticized for building much too late, and there were a lot of projects that did not finish until the market had already began contracting.

Stick to the Fundamentals

Before you consider looking into specific properties you should consider the three L's of real estate; location, location, location. Try to identify areas that are experiencing sustainable growth. Sustainable growth is directly correlated to the performance of local businesses. While supply squeezes offer quick profits, they lack the sustainability offered by prolonged growth in the local economy. Regardless of what type of real estate you are investing in, the success of the surrounding businesses will generate sustainable demand in all areas.

Think about this for a minute, sustainable growth by businesses will create opportunities for all categories of real estate. This brings us back to the fundamentals of supply and demand. When the economy is growing in an area, this increases the demand for products, services, and housing. A growing economy will sustainably boost the quality and density of your surrounding demographics.

One indication of a hot market can often be seen when big box retailers move into town. If a Wal-Mart, Home Depot, Best Buy, and others think it is a good location for their business, it is likely a good location for other businesses. While one could argue that they would present an enormous amount of competition, I think the implication of their presence outweigh the risks that they bring. Obviously you would not expect a local coffee chain to rent next door to a Starbucks, but a bakery might see the Starbucks as an asset. If the bakery and Starbucks share a similar customer demographic, the presence of the Starbucks can be used to identify a hot market for baked goods as well. It pays to be different, but sometimes it pays to be the same. You don't need to re-invent the wheel just to move something from A-to-B, but it can pay to take a different route to your destination.

A Primer in Real Estate Finance

When considering purchasing a property it is important to identify the reason you are taking on that risk. For investors you are taking on that risk to earn an acceptable return. You should have a fundamental understanding of real estate finance through all stages of the acquisition, maintenance, and leasing. When you buy an investment property you are basically buying the expected stream of cash flows you will receive from that asset. The key word here is expected.

By determining the amount of income you expect to receive after expenses, and discounting those cash flows to their present value, you can identify the purchase price you should be willing to pay for those future cash flows (based on a required return). If that sounds complicated to you, I ensure you it is not. This will provide you with only half the price of the property. The other cash flow you are purchasing is the future value you expect to extract when you sell the home at some point in the future. I have models and in depth information available on my website which goes into further detail about these fundamental valuation methods. All the "market pricing" in the world will not help you when you're only earning a 2% annual return on your investment. This type of fundamental analysis will make or break you in today's market. If you are unfamiliar with time value of money concepts or how to apply them to real estate, I strongly suggest that you research the topic further. Knowledge is power and when you invest in yourself your returns are guaranteed.

How Does the Economy Affect Your Tenants?

I think the importance of picking the right tenants for your property is an often under analyzed decision by many people. Be sure to fully understand the local laws as they pertain to selecting worthy tenants. Obviously you cannot deny somebody based on the fact that they have children and you think it may interfere with their ability to pay you rent. The last thing you need is a lawsuit from somebody claiming you treated them unfairly. By understanding these laws you will be keen not to open yourself up to litigation.

When renting residential properties I think it is more important than ever to analyze the ability for that person to pay, and look at their credit history. Simple questions like "what do you do" can be couched into casual conversation and provide a wealth of information about a person. I do not have any personal experience in residential leasing but I have consulted with individuals who have had problems filling their vacancies with quality tenants. For this reason I will leave it up to other sources in this compendium to advise you in the specifics of residential leasing.

You will have more freedom when considering leasing to business customers. Because this is the field that I specialize in, I have a bit more to say about it. With business customers it is much easier to obtain documentation of their financial situation. Businesses usually have unique needs that may require you to do a build out. When build outs are involved it is very important to do a credit check and you might even want to go as far as to ask to review their financials.

The real return generated by investment properties comes mostly in the form of rents received. When you can raise rents, relative to your expenses, this increases the return on your property. With the economy currently in a recession this will limit your ability to raise your rental rates so you must capitalize on the things we know about our tenants. I will start this discussion with an analysis of commercial leasing, and then will relate that conclusion to the challenges in residential leasing.

There are two ways to use the economic information discussed here to help you succeed in the down market. You will undoubtedly like to keep your existing tenants, as well as look for new tenants. With businesses struggling in almost every industry this will not come without its challenges. When business is down this leaves companies with less earnings and it may begin to impede on their ability to fulfill their debt obligations.

In times like this it is difficult to simply rid yourself of problem tenants. When times are good, and demand for commercial real estate is high, tenants are much more disposable. Obviously keeping within the terms of the lease, if a tenant is unable to pay, it is your objective to replace them with a tenant that can pay. With vacancies on the rise and business suffering, this mentality has to change. It is more important now to truly understand your breakeven point.

If a tenant is having problems fulfilling their obligation and they ask for a 50% reduction for a month or two, you are more likely to take the 50% than the guaranteed 0% if you kick them out. But what if your breakeven point is at 60%, with that knowledge you can negotiate more effectively and accommodate the struggling tenant. Obviously you do not rid them of the obligation but only defer the lost revenue until they can turn their business around. This is obviously the worst case scenario, but you should know what your breakeven point is just in case. Obviously your specific situations will not be this cut and dry but I think you see my point.

When acquiring new tenants you should also look at their ability to fulfill their debt obligations. They also typically, depending on their business type, will request some degree of build-out. Before sending them a letter of intent or discussing any aspect of the build out, it gives you the opportunity to discuss their financial situation. It is not uncommon to discuss business with new tenants and simple questions like "how long have you been in business" and "how has business been" can be casually couched into conversation, without exposing your true reason for asking. If they express hardships, which people are less shy about in down markets, you might want to be very careful before you invest any money in a build out or otherwise. A credit check and review of the company's financial statements should also be conducted.

Another good idea is to diversify your tenant base across many industries, and use the information you know about the industry to analyze sustainability. Even with the best lease you are not protected against bankruptcy. By diversifying your tenant base you do not expose yourself to the risk of all of your tenants simultaneously running into financial trouble. For example if all of your tenants are in the financial services or mortgage brokerage industry, you would probably not be very happy right now. Some companies could also be threatened by living next door to their competition. So diversification helps protect you and please them. Obviously this is very general, and one exception would be the medical industry; they like being close to each other and benefit from close referrals between specializations.

Leveraging Your Existing Tenants

With vacancies in commercial real estate on the rise, this means you must be more creative in your marketing efforts. Gone are the days when you would simply put your listings on Loopnet® or Costar® and wait for business to come knocking on your door. You need to be the guy wearing a red suit in a room full of people wearing black suits. Figure out what your advantages are and capitalize on them.

Don't discount the power of your existing tenants. In commercial real estate you have the ability to create lasting relationships with your tenants, both professional and personal. They probably know you by name, and view you a valuable resource. If you do not have this relationship with your tenants, I suggest you read "How to Win Friends and Influence People" by Dale Carnegie. People should be glad to see you, and look forward to doing business with you personally. You create the desire in them to want to know you, and they will feel pleasured when you contact them for any reason.

Using this personalized approach has allowed the company I work for a very competitive edge for many reasons. They look forward to speaking with us and enjoy the personal attention we give them throughout all stages of the relationship. As a result of this type of relationship our tenants are very receptive to our communications. Whether it is a notification for maintenance or asking them for referrals they are always pleased to hear from us. The power of word of mouth marketing is greater than any advertisement you could ever purchase. Your good reputation combined with a little incentive can go a long way. One way I have tried to fill our vacancies, in this down market was the development of a referral program.

I have recently started visiting my tenants and I came to them with an offer. Like everything I do this offer is mutually beneficial. It benefits me because it will help me fill my vacancies, and it helps my tenants because they can earn significant savings on their rent payments. I say savings on their rent payments because you do not want to start writing checks to people for referrals. You do not want to create a new category of expenses for your company, and a credit can easily be reversed if for some reason a deal does not go as planned.

In leveraging your existing customer base you should be careful not to put yourself in a position of liability. You should be very careful in structuring the terms of your promotion. If you are new to this type of thing please be careful, you might even want to consult a lawyer's opinion on the specific terms. You do not want to violate any local laws or expose yourself to any undue liability.

Some basic considerations in organizing this promotion would be the actions that need to happen before the credit will be issued. For example: Will they get the credit when the person moves in, or following the new tenants first rent payment? Is the reward proportionate to the new business gained? Should current tenants who are past due be eligible for the promotion? Will you have minimum leasing requirements that must be incorporated into the referred tenants lease? These are some of the basic considerations you should look at when organizing the promotion. I do not want you to take this information without precaution, this like most advise, is subjective to your specific situation and may not be suitable.

Lease Terms in a Down Market

Another factor to consider when signing a new tenant is the term of the lease. If you have dropped your price to accommodate a tenant, but expect rents to rise in the future, you will want to sign shorter leases. There will be a trade off although, because shorter leases will make your tenant base more volatile. Something else to consider when negotiating the term and price of the lease is how customized the location will have to be to accommodate that tenant. If, for example, you had a psychologist leave your location and a prospective psychologist calls to inquire about space, you should be quick to offer them the vacant suite. Similar business needs will require similar styles in their location. By not drastically remodeling the space it will help you save on build outs. Without putting down a huge investment into customizing the space, you can afford to reduce the term of the lease. Short lease terms will be beneficial when the market does turn because it will give you the opportunity to renegotiate with them or seek a new tenant.

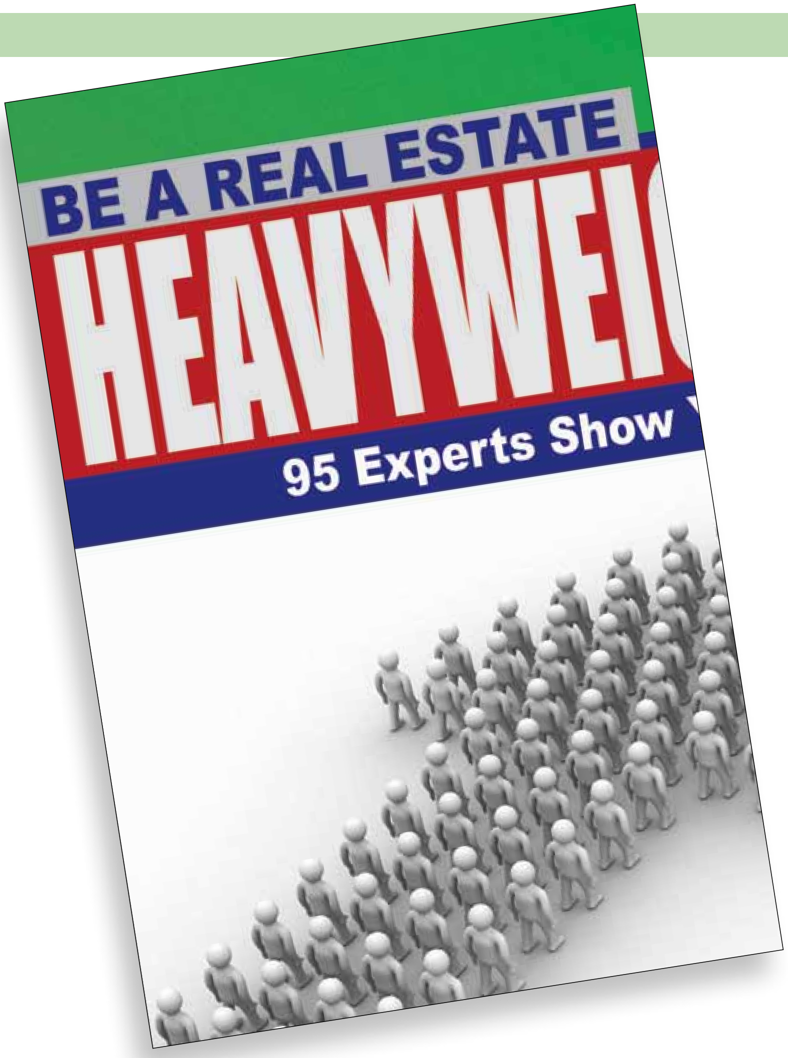
I Would Like to Thank You

I wish you the best of luck in your future endeavors and hope that the information I have provided will, tangibly, help you succeed. I believe the knowledge I have provided here is fundamental common sense, which is sometimes not that common. Hopefully this information will help you better your business through both good times and bad. People often discuss how bad the economy is, but rarely offer any insight into how or why it is bad. If for no other reason, I hope this reading will enable you to carry meaningful discussions with your friends, family, and business relationships.

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong." —Warren Buffet

Thankfully Yours,

Stephen C. Nault
www.stephennault.com



Chapter 5

Finding Your Sweet Spot in Real Estate Investing

Jon Goldman

WARNING! Before you read any other chapters in this collection READ THIS FIRST.

Wait. Did you see that? Yes, BEFORE you read anything else, make sure you read this first. Here's why. Because the problem is there are SO MANY paths in real estate it's nearly impossible to determine which one is right for YOU. Unless. . .you take a few minutes to work through this chapter first. So please do yourself a favor and read on.

Will you make the same mistake as so many others who are interested in making money in real estate investing? Take a look, you will find many different angles presented by gurus. They all look so good, and many of the gurus have made money with them. But, and here is the big rub. . .just because their path worked for them DOES NOT MEAN IT WILL WORK FOR YOU.

Here's why. You see, real estate investing is like getting married. It has to be the right fit for you. For you to be successful you must find your sweet spot. Unfortunately, until now it has been so confusing because no one ever orga-

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nized, compared, and contrasted the different approaches and matched them to your unique strengths and weaknesses.

The grass is always greener on the other side. . .until. . .you walk over and get a little closer and see all the brown spots. You see, what others present as the "best" way to be successful means that is the "best" for certain types of people with certain skill sets.

Wouldn't it be great if you knew exactly what the best way of making money in real estate is and what is the best fit for you personally so you can succeed? Finally, here is a way that you can know exactly which path will work and which path you should stay away from like the plague (even if it looks great, with greener grass). When you know what to stay away from and what to focus on, you will have tremendous power and energy and your chances of success will multiply by 15 fold.

> "Finding Your Sweet Spot is all about figuring out what you're best at, leveraging those strengths and building a business around you."

Let's, get started…

If I could help you make more money and make it faster, would you want to read on?

Then keep reading because I'm about to reveal to you the secret to make more money as a real estate investor and help you find your niche so you can reap the benefits—fast! And you'll have much more fun doing it.

Imagine that! Earn more money faster than you would have otherwise and enjoy every minute of it.What's the Secret?

I call it Finding Your Sweet Spot. It's all about figuring out what you're best at, leveraging those strengths and building a business around you. And compensating for what you are lousy at and what you should stay away from. Unfortunately, it can take some people years to figure those things out on their own through trial-and-error but I'm going to give you the secrets to Find Your Sweet Spot in these next few pages so you can avoid the long torturous process of figuring it out for yourself.

It takes one to know one. . .

First, I think it's important to tell you a little bit about myself. You see, I've been in your shoes. I'm a real estate investor as well, but more importantly I'm a business coach to some of the biggest names in the real estate investment industry as owner of Brand Launcher.

I'm also known around the world as the "Lumpy Mail Guy" for the unusual, attention-grabbing marketing mailings I've done for real estate investors such as mailing prospects a bank bag, or a coconut or a message in a bottle. But I really outdid myself when I mailed a watermelon! I've got the pictures and a near 100% response rate to prove it. Who can't help but see what letter is attached to a watermelon?!

I'm also author of *How to Double Your Income in Real Estate Investing with Lumpy Mail and Targeted Promotions*, the *Secret of the Watermelon* and the *Real Estate Launch System* just to name a few. I'm even giving away my single best promotion for real estate investors that has brought in $47 million to date. It's yours FREE at www.BestoftheBestREI.com

Just a few years ago, I sold out of my $24 million promotion company to pursue my passion—helping other entrepreneurs and investors turn around their businesses and their lives.

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You see, I got so frustrated seeing creative, intelligent business people get "stuck" that it propelled me to create a company focused solely on supporting business leaders retool their businesses at my Brand Launcher Center for Unstucking.

The Center was built to help business people actualize their greatest potential through a meticulously crafted and honed Unstucking™ & Launching system that helps you find your sweet spot—a process that I'm about to walk through with you in just a moment.

For more information about how we help real estate investors get "unstuck" go to www.BestoftheBestREI.com.Does the Process Work?

You bet. But don't take my word for it. See for yourself.

"It's made an immediate impact on the business. Our sales were up 65% last month," says John Tarr of State Financial Services in Phoenix.

Why is this so important? Because when you play to your strengths you are MUCH more profitable and happier. You are passionate, energized and attract the right deals and people.

Adiel Gorel, CEO of the well-known International Capital Group in Los Angeles has helped people invest hundreds of millions of dollars in real estate. He was skeptical of the process too, but says, "The movement that took place in our company has been astounding. I put our company on a totally different level."

"The movement that took place in our company has been astounding. I put our company on a totally different level."

Adiel Gorel, CEO, International Capital Group

The same process that I'm about to reveal to you also helped Shane Durley of Helping Hand Real Estate in Orlando increase response rates to 28% in his marketing.

Super Star Investors like Ron LeGrand, Jeff Kaller, Richard Roop, and many more all have used our system. Regular guys like Dan Hedges in Tulsa and Jason Adams in Oregon routinely make $30,000 a month using our strategies.

And Real Estate Master Eric Ondrick who already enjoyed tremendous success and was featured with his wife on the cover of Money Magazine's Silver Anniversary called it the "best business investment I've made in my business in the last 10 years." Dave Mehar in Texas consistently gets a 22% response rate and is happy as a clam doing what he loves.

I have many more success stories I could share but there's no time to waste, so let's get started.Getting Started

This is where most business leaders make their first mistake, and this is what separates the advice I'm about to give you with everything else you may have heard or read so far.

Most real estate investors, or any other entrepreneur for that matter, try to figure out what business or product to launch by figuring out what everybody else is doing. They go after things that look "hot" right now regardless of whether it's right for them or not. They'll look at where there may be little or no competition or how to produce something cheaper than another competitor.

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WRONG! The first place to begin is with you—not your market. (We do need to understand what the market needs or desires, but now is not the time. That comes later.)

We want to start with your strengths and your passions and leverage the things you do best. Why would we start there? Because you have unique, God-given talents, skills and expertise no one else in this world has. That's what makes you different from everyone else, and that's exactly what will make you different from everyone else in the investment world.

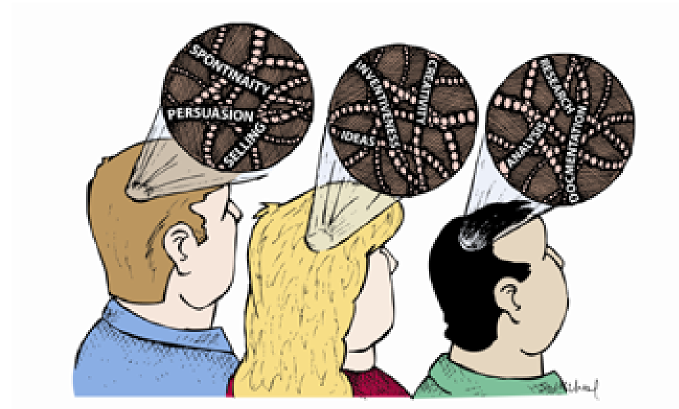
Build your world around your strengths. Picture an archery target and you're in the middle. Everything else—your marketing and sales teams, your staff, and your systems—all revolve around you. The secret is that the business begins with you and everything supports you.

Otherwise, you may get stuck working on something you don't enjoy or you're always scrambling to find ways to mask your weaknesses. In the end, you're just left with a glorified J-O-B, and that's not why you go into this business.

Next, you'll need to leverage your skills to create what I call a Big Zig—a big, bold, powerful brand that screams, "I'm not like the rest!" Finally, you'll want to develop a business strategy using what I call Freedom Teams and Freedom Systems as you grow. The secret to running your business and growing is to actually spend less time in it, and more time on it.

Your "Sweet Spot" begins with you

Your Freedom Teams and Systems will actually free you from your business so you can spend more time on the things you enjoy and do best.



Your core competency is part of your DNA. It's the gift or gifts you've been genetically encoded with and do better than most other people; they're your reason for being.

Unfortunately, I simply don't have the space to reveal how to build a Big Zig and your Freedom Teams, but I explain it in detail in my new kit, *The Best of the Best Marketing System for Real Estate Investors* (www.BestoftheBestREI.com). More about that at the end of this chapter. In the meantime, the most important thing is to identify your sweet spot.

Picture a target, like the one above. At the center are you and your strengths. From there, we will build your marketing tools and finally your Freedom Teams and Freedom Systems.

It All Begins With You

As you can see, it all starts with you. Whether you're already an investor and looking for a new niche or just getting into the business, this is the most important place to begin.

It all starts with what I call your core competency. Each of us is blessed with gifts that give us our unique skills and talents that enable us to do things better than most other people. These traits and skills make up our core competency.

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If you're looking for a competitive advantage, you already have it. It's just a matter of leveraging your core competency and putting it to work for you. Easier said than done, right?

Well, using the same techniques I use with my clients, I want to help you figure it out in these next few pages.Why Bother?

Good question. You may have been doing just fine not even trying to figure out your core competency until now. But I've found that people who understand their core competency and leverage it are rich.

Now let me define rich. I'm not talking only dollars and cents, but that's nice too. Rather, I define rich as people who love what they do. They're happy with their portion. Is it that simple? Almost. If you follow the advice I share that has worked for thousands of other business leaders, your chances of happiness are infinitely greater.

When you are doing what you love combined with the right business process and the right marketing system, then you will be rich in many ways.The 4 Ingredients of Core Competency

Just because you may be good at something isn't enough. I'm a decent Ultimate Frisbee player, for instance, and even played for one of the Dutch national teams in my earlier days, but that doesn't mean I should quit what I'm doing and play Frisbee all day. Although that does sound nice!

There are four ingredients to follow for something to truly be a core competency. It must be something you can do:

- Nearly perfect every time.

- Consistently.

- Passionately, so much so that it launches you out of bed in the mornings.

- And you get paid well to do it because you're providing value.

The first element of a core competency is often the most overlooked. There are plenty of things you may enjoy and may do well, but for a talent or skill to be considered a core competency it must be one that you do with near-perfect performance.

Someone like Tiger Woods, for instance, is a great example. Tiger Woods is an awesome golfer and he does it nearly perfect every time. When he is playing his game, he is so on. Even though thousands of people are watching his every move from the gallery and there's millions of dollars riding on a putt, he doesn't pay attention to any of that. And he's the best in the world at it.

He also does it on a consistent basis — the second ingredient for something to be a core competency. It's one thing if you go out golfing and get an eagle on the first hole. That doesn't necessarily mean that you can do it on a regular basis. So, what makes him great is that he can do it on a consistent basis and with near-perfect performance. And for someone who works as hard as he does at his game, he expresses his passion for what he does and gets paid very, very well to do it. Obviously, golf is his core competency.

But not everyone can be like Tiger Woods and there are many more examples of people who work in their core competency that you've probably never heard of before.

One client who I worked with, whose name is David, is a real estate investor. After working with him, we determined that the one thing he does better than anybody else is analyzing a deal. He just loves the art of the deal.

The one thing that he can do really, really well, is value properties quickly and accurately. Just by looking at the numbers, the specs, comparable properties in the market, and other data, he knows right away what kind of offer to make on the property. No one can take a large number of deals and do it faster and better than he can.

The four ingredients of a core competency are those things you can do:

Nearly perfect every time.

Consistently.

Passionately, so much so that it launches you out of bed in the mornings.

And you get paid well to do it because you're providing value.

Other people don't have that same core competency. Using the process I'm describing to you we determined his core competency and put him in the center of the circle so all he does now is analyze deals.

Now, he's not so great at the selling process and he's not so great at the negotiating process. Those things are done by other people on his team. But that's okay, because he's got a skill that's tremendously valuable. He sets up the parameters for the deal and he says, "Look, if they accept the deal, here it is. Go work it out with them. If they don't, then this is the deal-breaker and the deal-maker." He can set those parameters quickly when other people can't. It's one thing to be able to do something well (ingredient #1). It's another thing to be able to do it on a consistent basis (ingredient #2). To help you figure out what it is you do at or near perfect performance and consistently try The Near Perfect Performance Wizard.

Exercise #1: The Near Perfect Performance Wizard

Before we can help you find the perfect fit in real estate, let's take a look at who you really are. This way you start from the inside out. Your core competency is your special gift. It's your innate talent. It seems effortless to you and it's something that gives you energy and attracts other people to you. This exercise will help you begin to uncover the clues to your core competency. As you go through the exercise, don't limit your answers to just focus on real estate investing. Just list as many answers as you can as they come to mind. We'll refine them later.Step 1: My Skills and Talents

Write down those things that you feel you're good at doing. (Examples: building, fixing, researching, talking with people, writing, speaking, etc.)

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Step 2: My Interests

List those things that naturally compel you and interest you. Include things that you daydream about. (Examples: working around the yard, fishing, shopping, dining out, networking, traveling, reading, etc.)

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Step 3: My Strengths

Write down the things that you feel you do better than most other people. Think about positions you've held in the past whether it's been at work, in clubs or in associations. What role(s) did you excel in? For what activities or roles did you earn recognition? Make a list in the column on the left. Then, on the right, grade yourself on a scale of 1 to 10, (1 = I did well at this one time, but most of the time I don't do well at this at all; 10 = I always do well at this).

Strengths1 - 10

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Step 4: My Near-Perfect Performance Trait

Let's find the common denominator now from the list you just made. Do you find something that's common to most of the things you just listed? This common denominator will, no doubt, be an activity that comes naturally to you and one that you graded as an 8 or above. This is ultimately going to be used as an activity or service that you provide in business that meets your prospects' needs. It's okay if you don't see the connection yet.

Write the common denominator(s) here: ____________
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Next, add "ing" to the end of the word(s) you listed above that you feel suits you best and finish this sentence. The thing I do with near perfect performance is: _____________________________.So far, we've talked about the first two criteria you need to operate in your core competency: (1) do something with near perfect performance, and (2) do it on a consistent basis. **What's your passion?** Here's the third criterion. You must be passionate about whatever it is you want to pursue. Your passion is what will get you through the rough times and the challenges you'll eventually have to face.

Chapter 5

Finding Your Sweet Spot in Real Estate Investing

Jon Goldman

When you are passionate there is no stopping you. You are creative, happy, effective, powerful and most importantly—profitable.

However, there's risk involved. And many people don't take the risk to get involved with something they're deeply passionate about. Most people think, "You know, I've got to make a living." That's true; you do have to make a living. But we're blessed, at this particular stage in history, at this particular place geographically in the world because if you're running your own business or you're even working for someone, you do have the ability to do what you love and get paid very well for it.

> Your passion is what will get you through the rough times and the challenges you'll eventually have to face.

For example, helping others grow their businesses is something that I love doing. My particular core competency is I'm pretty good at diagnosing a problem and finding creative solutions. I'm a change agent. And I'm pretty good at doing facilitation. So, I've built my business around doing those things that are in my core competency.

I'm totally passionate about helping others actualize their greatest potential. These are things I can do with near-perfect performance, on a consistent basis. To me, I can't believe I get paid to do this. It's a wonderful, wonderful thing.

One Man's Passion Became a Career of Helping Others

My dear friend, student, real estate investor, and the man behind the creation of this book, Dan Auito, is also passionate about sharing his expertise in real estate, and he's passionate about helping other people. In fact, his last name means "help" in Italian.

He discovered real estate investing while reading William Nickerson's book *How I Turned $1,000 into $3 Million in My Spare Time* as a young helicopter pilot in the Coast Guard. "Reading that one book showed me the way," Auito says. He had always enjoyed working on his own home and felt he could rehab the homes. And since he was good at working with people, he felt he could find tenants to lease the properties to and serve as a landlord.

From the moment he got started, he was hooked. "I realized that real estate was what turned me on," he says. "It was like a light switch that had only one position—on!" He's totally passionate about real estate and people and even admits to dreaming about it and calls it an "obsession." His wife thinks he's nuts, but she also supports him.

While still in the Coast Guard, Auito bought and sold single-family properties and condos while moving from state to state. When he finally retired from the service, he bought a mobile home park for $80,000 and sold it one month later for $145,000 and never looked back. A few weeks later, he sold a piece of property for $294,000 that he bought three years earlier at just $72,000.

In his 23 years of investing, he's stuck to one core principle: "I treat my tenants like family, and I only rent out properties that I would want my mother to live in."

All of his properties are located in neighborhoods where he wouldn't be afraid to live or have his kids play in. None of his properties are located along a major road where a child could get hit by a car. When he rehabs a property he guts the kitchen, bath, flooring, walls, and fixtures. He tears out anything that is rotten or has mold and starts with a clean slate.

He puts in Anderson double-pane windows, ceramic tile (not vinyl), high quality carpet, and new paint, and he also landscapes the property. "I'm in it for the long haul," he says. He wants tenants who will stay in the home for years to come and prefers lease-to-buy options. When marketing the home, he even prices his rent $10 to $20 below the average so he can be sure prospects are coming to him first and he can select the best one. In 23 years, he says, he's never had a bad tenant or who didn't pay. How many other serious investors can claim that?Here Is Why Some Succeed and Others Fail

So why is he one of the most successful investors today? Many other investors probably started at about the same time Auito did, but there are very few who have enjoyed as much success as he. Why?

To understand what made him successful, we have to look at the ingredients that made up his core competency. Investing is something he did with near perfect performance. He understood how to find properties, rehab them and rent them at a profitable price. He also did this consistently. And he has a passion for real estate. Last but not least, the market pays him really handsomely for his work because he is providing value. And he loves it!

He has a passion for helping people and found his niche in rehabbing single-family homes. And the fact that he takes great care in gutting a property and turning it into something he would want his mother to live in, has made him very successful.

The same is true for my friend Lou Brown, one of the most successful real estate investors in the country. Growing up really poor in the south, he remembers his interest in real estate beginning to develop at 6 years old when his Aunt Mabel started buying properties and renting them out. She never had to pay her own mortgage, and within a few years she owned five homes and had one the nicest homes in the neighborhood.

Today, Brown continues to use a buy-and-hold investment strategy of accumulating assets—a strategy that he says has served him well in good times and bad. "Money kind of disappears but as long as I have assets that I can pay down, I can create dependable, predictable streams of income," he says.

His passion? "I like creating deals that solve sellers' problems and create a whale of a profit for me too," Brown says. "And when I can do both, that's a win-win."

> "I realized that real estate was what turned me on. It was like a light switch that had only one position—on!"
>
> *Dan Auito, Halfshire Press*

He has a mastery over contracts, creating systems and loves the art of the deal."What do you enjoy doing more than anything else?"

When I ask clients this question, I usually get a blank stare. That's because we don't usually give ourselves the time or permission to follow our passion.

We're too busy blindly following advice of others who seem to know more than we do. The problem is, they all have a hidden agenda. Making sure that their advice or system is the right fit for you is not part of it. That's your job, to be discriminating and to give a big "no" to most of the opportunities that come your way. Only say "yes" to those that really fit. This requires more strength, clarity, and restraint than what most people have. And if you didn't read this you might follow blindly like a sheep lead to slaughter too. Unfortunately, for every real estate investor who makes it there are 280 who don't.

Here's the problem: We become so laden with responsibilities that we aren't able to really visualize our passion, let alone act on it. Or maybe we had a passion for our work and now we've traded up to a different job position that makes more money but falls outside of our passion zone. Thinking about our passion can get in the way of our day-to-day responsibilities for fear it can take us off track. Or maybe you feel your passion won't pay the bills.

But as you'll see in the next exercise, there's a very good chance you can incorporate your passion into your responsibilities as a real estate investor. Contrary to taking you off track, understanding and implementing your passions can arouse a vitality that will exceed your wildest dreams.

> "I like creating deals that solve sellers' problems and create a whale of a profit for me too. And when I can do both, that's a win-win."
>
> Lou Brown, Real Estate Investor

I've heard it said that you can have a job, a career or a calling. If you have a job, that's fine. Your passion probably resides outside of the sphere of employment and your job pays the bills. If you have a career, you may be able to find excitement in your work, pay the bills and gain a feeling of accomplishment as your career develops. If you have a calling, you're lucky enough to have found all three. You should get down on the ground right now and thank G-d, you are one of the fortunate few. You advance the cause of the issue you feel most passionate about, develop a career in the field that means the most to you and pay the bills to boot. You'd do this job if you were independently wealthy. That's what many of the authors in this book have found—a calling.

It's exactly what Auito found too. By pursuing his passion, he found his calling.

So, what would drive you to get up in the morning? What would you love to do? How do you know what your passion is? Try taking The Passion Wizard to help you find your passion.

Exercise #2: The Passion Wizard

This is an important next step to discovering which real estate investing path is right for you. If you don't do it, you risk running down the road to ruin. You're likely to discover that after years of work you have been going down the wrong path and it may be too late to start over again.

So take the time now. You are designing a life. Just like a tailor is careful to measure twice before he makes a permanent cut. You too should take the time to figure out who you really are and discover where your passion is. It will be the greatest gift that you can ever give to yourself and the world around you.

The way to discover your passion is to think about those things that you sense you're genetically coded to do. If you are a religious person, your passion is what triggers the question, what was I put on this earth to accomplish?

Some say, "Do what you love and the money will follow." That's true, but only if the following are also true:

1. You have an entrepreneurial spirit

2. You're prepared to make an investment

3. You have a system

4. You're tolerant of risk. Because the truth is wealth flows from passion combined with the previous four requirements. The way that we hone in on identifying your passion is a multi-step approach. Step 1: What Is Your Unique Talent?

(Incorporate all applicable questions in your answer. What activities do you like to do? This may help you identify your talents. You may not even think of them as unique. In fact, you probably think your talents are ordinary precisely because you are so good at them! What comes easily and naturally to you may be extremely difficult for others. Caution: Don't start thinking about how to translate these activities into real estate investing, yet. Your list can be random and completely unrelated activities. In fact, they should be unrelated. We are all multifaceted. We'll see a picture emerge from the various talents you write down.)

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Example: My friend Lisa did this exercise and she came up with seemingly very random answers and in no particular order. She liked: de-cluttering, cleaning, and organizing; driving long distances; touring new homes, participating in classes with certain teachers; healing herself and others; taking care of others; investing in the stock market; becoming knowledgeable of how a system works (understanding how the part integrates into the whole); exercising and managing the household expenses.

Step 2: What Interests Are Calling You?

(Allow for a couple of hours. Take an evening and walk into your nearest library or Barnes and Noble–size bookstore. When you are just inside the door, put yourself on autopilot and act as if you were a magnet to see what you gravitate toward. What section did you choose first? What books did you pick up? Do you have a background in this field or a natural curiosity? Where did you go to next? Write down these fields of interest in a list.)

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Example: Lisa has an interest in health, real estate, mind-body medicine, psychology, religion, literature, and finance. Step 3: What Language Do You Already Speak?

(Out of the list of interests that you have, we now want to figure out which groups you identify with, and most importantly, whose language you speak. For example, if you enjoy gardening, you probably already speak "garden-ese". If you are an attorney, you can speak "legal-ese". When you identify with a specific group, you naturally speak their language and you can relate to them.)

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Example: Lisa is very comfortable talking about health issues, real estate, religion, and accounting.

Show Me the Money!

Let me address the question everyone asks me: "How do I figure out if I'm going to be able to make money in real estate from my core competency?"

Glad you asked, because this is where you find your sweet spot. The sweet spot is where you're working with near perfect performance, consistently and you're passionate about the work you're doing and just as importantly, the market is willing to pay you well to do it! That's your sweet spot.How a $100,000 Crisis Turned Into One Investor's Amazing Discovery

Remember, I told you how most people find their sweet spot through trial and error? Real estate investor and one of my students, Jason Rodriguez, found his niche when he suddenly found himself over-extended by $100,000 that needed to be paid by the end of the month one day.

To get that much cash fast he began wholesaling properties. Fortunately, he found he was a natural at it. "I think fast and these deals are fast," says Rodriguez, who made the $100,000 he needed in just one month and now runs three multimillion dollar businesses from his office in Oviedo, Florida. As someone who is able to structure deals quickly and find buyers, wholesaling was a perfect fit.

Tom Zeeb also loves the wholesaling niche, but it wasn't until as he got nearly "wiped out" as a landlord. As someone who's good at marketing, negotiating, and closing deals, he had finally found his sweet spot and is now doing about 18 deals a year averaging more than $24,000 each as head of Profitable Partnerships in Washington, D.C.

You see landlording looked great to Tom. He fell for the bait because he didn't check it against his core competency. This led to a disaster.

"I tell my other investors all the time, 'Look in the mirror and be honest with yourself,'" Zeeb says. "Who are you? What are you good at? What are you not good at? And concentrate on the things you're good at and stay away from the things you're not."

Paul Forsberg found he was good at buying and selling land. A one-time commercial fisherman who knew many of the men on the crew of the Andrea Gail that was lost at sea off the coast of Nova Scotia and was the subject of the blockbuster movie, The Perfect Storm, Forsberg later went into buying boats out of foreclosure and selling them to fishermen.

While on a 32-day voyage delivering a boat to San Diego, he read about how to invest in real estate. "I figured if I could buy and sell boats, I could buy and sell homes," Forsberg says. A month later he bought a mobile home park and after that he bought a dozen properties. These sorts of deals were at best just "okay" for him. But his real sweet spot was buying and selling vacant land. Once he discovered it, he was much more profitable and happier to boot.

"And the minute I got away from that and I got into flipping houses, I lost," he says. "You have to know and understand marketing to sell land and that's what I'm good at."

Although Lou Brown knows how to flip houses it's not his core competency. Instead, he prefers predictable, stable streams of income. That's why he likes to invest in single-family homes and rent or lease them to tenants. That, he says, makes best use of his core competency as a problem-solver and his desire to create dependable sources of revenue.How to Use the Core Competency Matrix to Find Your Sweet Spot

Finally, what you have been waiting for. You are now ready to take the last step to figure out the perfect real estate investing path that is custom made for you. Your next step is to figure out how to make money in real estate investing from your core competency.

> "Who are you? What are you good at? What are you not good at? And concentrate on the things you're good at and stay away from the things you're not."
>
> Tom Zeeb, Profitable Partnerships

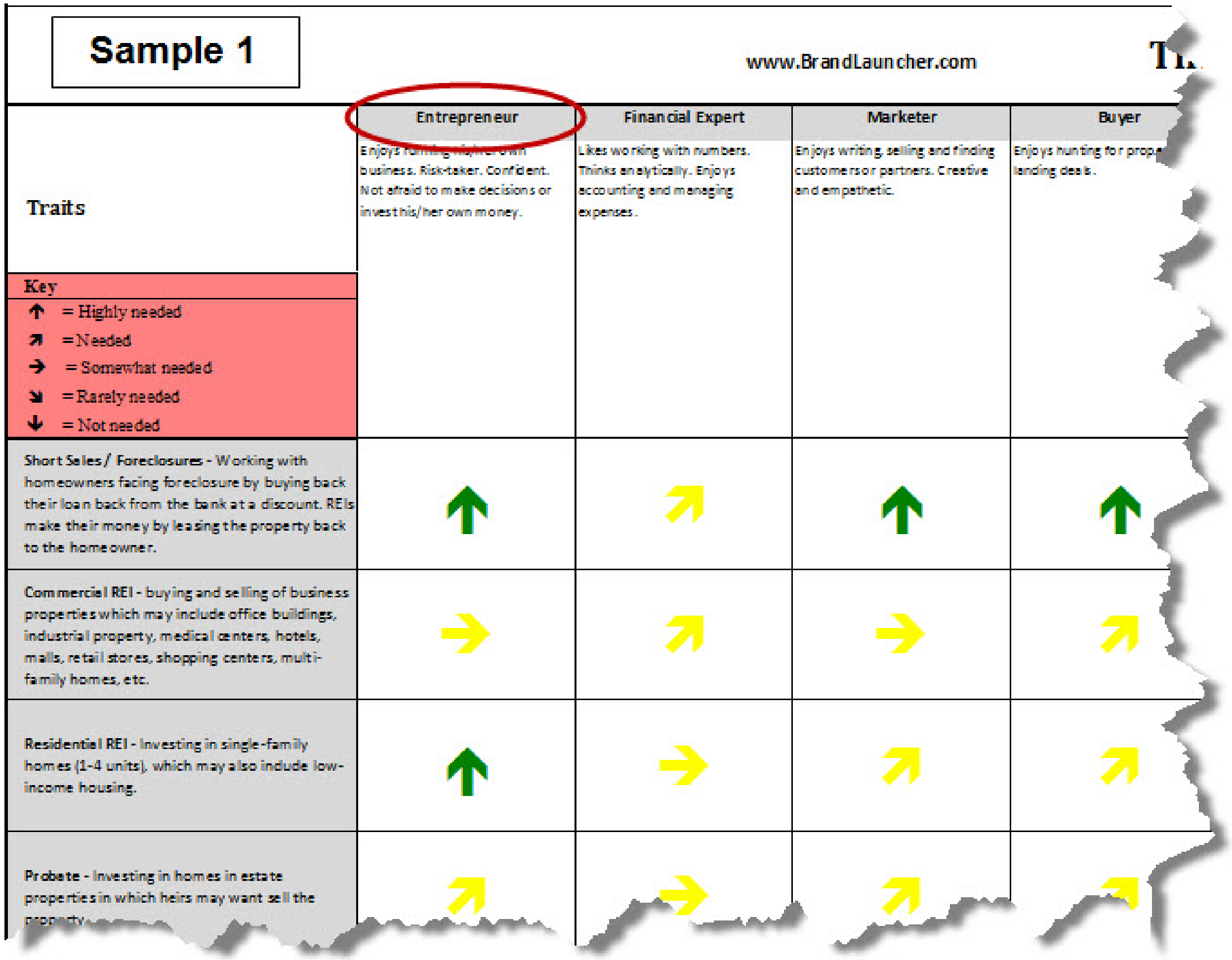
Take a look again at your answers to the Wizards. Your answers help define your core competency. It's now simply a matter of trying to determine where you can best leverage your strengths in real estate investing. And fortunately, in real estate investing, there are a wide range of roles you can get involved in and each requires a unique set of skills and traits.

We can do this very easily by matching your traits with those I've included in the Core Competency Matrix. At the top, I've listed the many different roles and traits for each that are often involved in real estate investing. And along the column to the left, I've listed the various types of investing you can do and the degree to which those traits may be needed.

Caution: Don't feel you have to have every one of the traits for a particular type of real estate investing. In fact, most don't! For instance, you don't have to be an expert in marketing, buying homes, landlording and investing in order to do short sales. Those traits are needed, but they all don't have to be done by you.

If you have all those traits, terrific. If not, you'll need to partner with someone who has those skills that perhaps you lack or don't want to get involved in. The secret is to find your strengths and design your business around them.

Step 1: Circle the traits at the top of the column that are similar to your strengths that you determined from the previous exercises. Take for example, one of my clients who we'll call Phil. He's an entrepreneur and loves to start new businesses and is not afraid to take a risk. He's a great starter, but not a great finisher. He's also a good networker, home appraiser and he loves to negotiate. He even negotiates his dinner bill at the restaurant to the embarrassment of his wife! So for him, at the top of the chart, he circled "Entrepreneur," "Networker," "Home Appraiser," and "Negotiator." (See Sample 1).

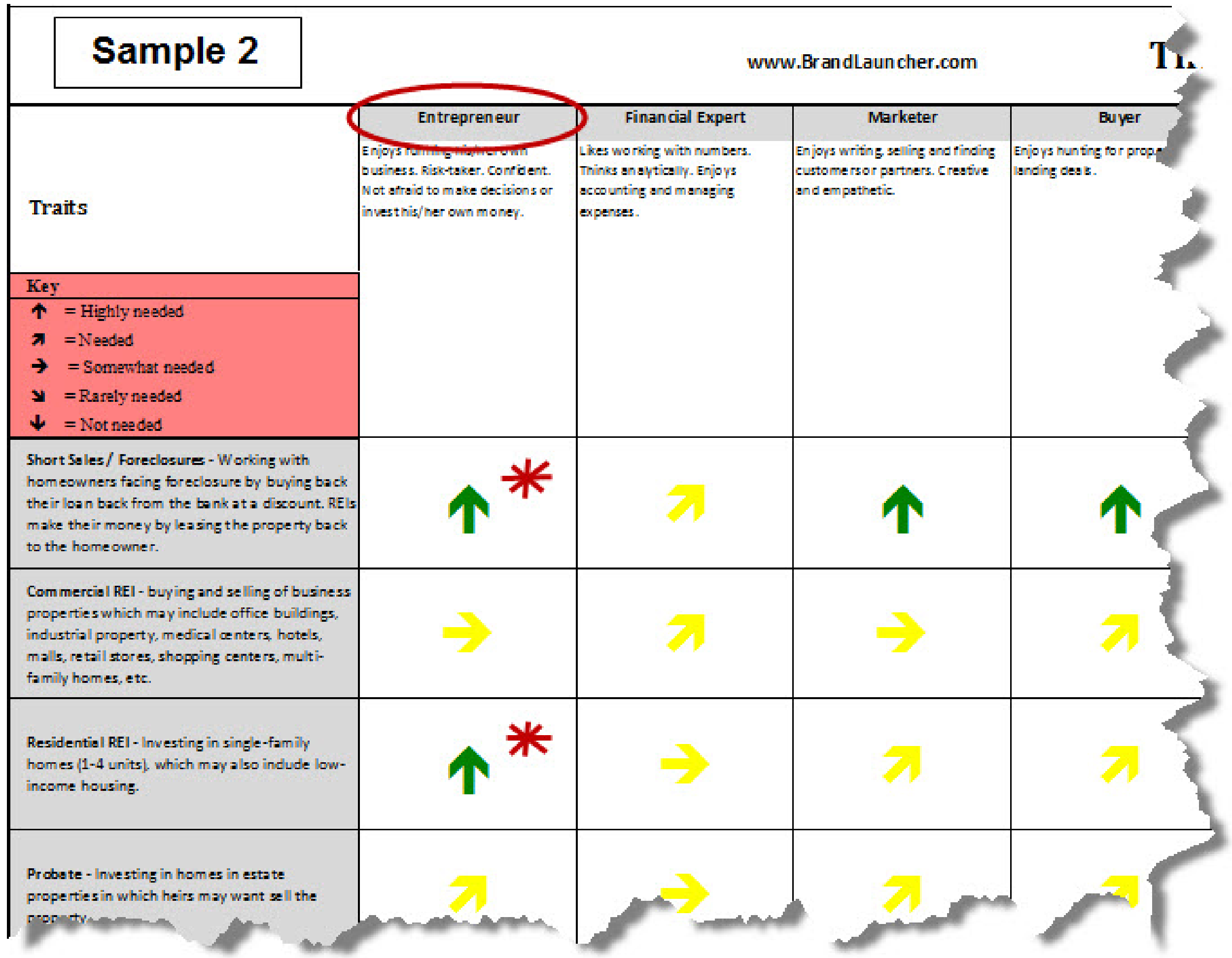


Sample 1

www.BrandLauncher.com

Traits	Entrepreneur	Financial Expert	Marketer	Buyer
	Enjoys [illegible] business. Risk-taker. Confident. Not afraid to make decisions or invest his/her own money.	Likes working with numbers. Thinks analytically. Enjoys accounting and managing expenses.	Enjoys writing, selling and finding customers or partners. Creative and empathetic.	Enjoys hunting for prop[illegible] landing deals.
Key ↑ = Highly needed ↗ = Needed → = Somewhat needed ↘ = Rarely needed ↓ = Not needed				
Short Sales / Foreclosures - Working with homeowners facing foreclosure by buying back their loan back from the bank at a discount. REIs make their money by leasing the property back to the homeowner.	↑	↗	↑	↑
Commercial REI - buying and selling of business properties which may include office buildings, industrial property, medical centers, hotels, malls, retail stores, shopping centers, multi-family homes, etc.	→	↗	→	↗
Residential REI - Investing in single-family homes (1-4 units), which may also include low-income housing.	↑	→	↗	↗
Probate - Investing in homes in estate properties in which heirs may want sell the property.	↗	→	↗	↗

Step 2: Look in the columns of the traits that you circled and put a star beside each arrow pointing in the "12 o'clock" position. (See Sample 2.)



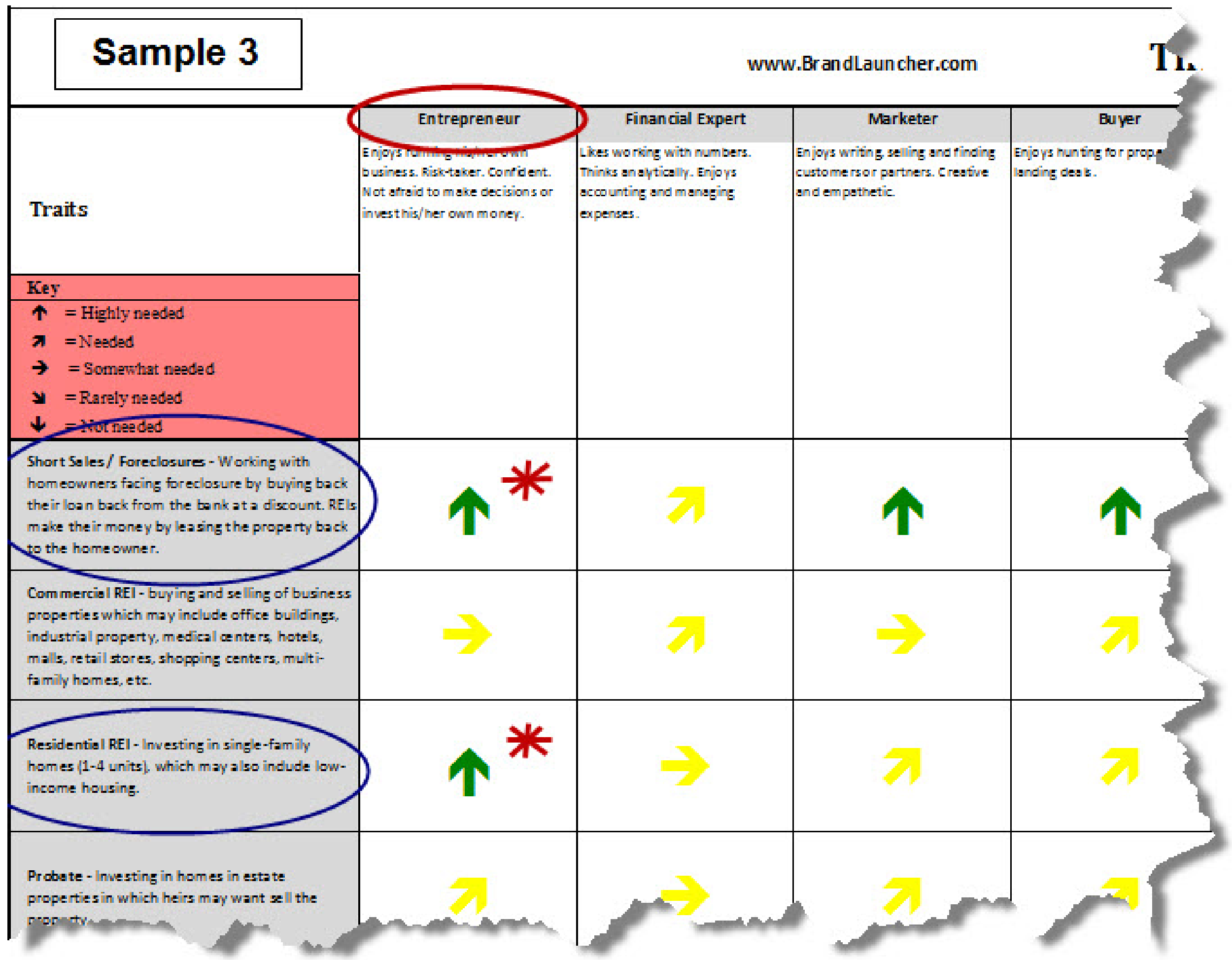
Sample 2

www.BrandLauncher.com

Traits	Entrepreneur	Financial Expert	Marketer	Buyer
	Enjoys running his/her own business. Risk-taker. Confident. Not afraid to make decisions or invest his/her own money.	Likes working with numbers. Thinks analytically. Enjoys accounting and managing expenses.	Enjoys writing, selling and finding customers or partners. Creative and empathetic.	Enjoys hunting for prope... landing deals.
Key ↑ = Highly needed ↗ = Needed → = Somewhat needed ↘ = Rarely needed ↓ = Not needed				
Short Sales / Foreclosures - Working with homeowners facing foreclosure by buying back their loan back from the bank at a discount. REIs make their money by leasing the property back to the homeowner.	↑ *	↗	↑	↑
Commercial REI - buying and selling of business properties which may include office buildings, industrial property, medical centers, hotels, malls, retail stores, shopping centers, multi-family homes, etc.	→	↗	→	↗
Residential REI - Investing in single-family homes (1-4 units), which may also include low-income housing.	↑ *	→	↗	↗
Probate - Investing in homes in estate properties in which heirs may want sell the property.	↗	→	↗	↗

Step 3: The rows to the left will tell which niches within real estate investing may be suited for you because the traits that you identified as your strengths are “highly needed.” So for Phil, looking at the arrows that he starred, niches best suited for him are Residential Real Estate, Luxury Homes, and Flipping and Wholesaling. (See Sample 3.)

Here’s what great about doing this exercise. This saves him a ton of time and trouble. He knows where he has the best chance of success. Especially at the beginning he won’t waste a lot of time chasing deals in others niches that are not the right fit for him. That’s why—THIS MUST BE THE FIRST THING YOU DO BEFORE YOU READ ALL OF THE OTHER CHAPTERS IN THIS COLLECTION.



Step 4: Look at the other traits needed within the niches that use your strengths. The more strengths in a particular niche, the better your chance of success. If there are traits that may be a weakness for you in a particular niche, you may want to partner with someone for whom it is a strength.

Phil is lousy at some of the other roles such as managing the finances or marketing. That's fine. Those roles are still needed, but they don't have to all be done by him. He hires someone to help him in those areas has a partner who is strong in those areas.

We also have not included every possible avenue in real estate investing; you may need to modify this for other niches. As you can see, it all begins with your core competency and pursuing your passion. But as you grow, you'll find yourself totally pulled in a lot of directions—away from your core competency. If you expect it, you can be ready to do battle and retrench yourself even though others are telling you to do something different. Resist the urge. Forge yourself. Be strong. Have the courage to say, "no" to others and stay true to only working in the areas of your core competency. Know that by doing this you will most likely become very successful, profitable and find the happiness that you are seeking. The secret is to build a team around you that will support you so you can continue to leverage your skills.

Remember, start with you in the middle. Your core competency is in the middle of that circle. The second circle around you is about finding the sweet spot in the market. Outside of that circle, are your freedom systems and freedom teams. These are the people who will support you and keep you free to do what you do best. They will free you from the business and allow you to work on the things you enjoy most and make money while doing it.

But it all starts with you.*Special offer just for readers of this chapter…*

The single, best marketing promotion

that has brought in $47 million

for real estate investors—is yours FREE!As a way of saying thank you for taking the time to read this chapter, Jon Goldman is giving away his biggest and most successful marketing promotion he's ever used with his REI clients. And with $47 million already credited to this ONE marketing piece, it really is the best of the best! Best of all, it's FREE!

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Learn how to market to your sweet spots. Whether you need it done-for-you or if you want to do-it-yourself, it's all available for you in his new system. You also get the tools to build your Freedom Teams and Freedom Systems. Perfect for real estate investors who work in the following markets:Short sales

- Commercial
- Foreclosure
- Probate
- Online lead generation

- Bank REOs
- Offline lead generation
- Wholesaling
- How to sell quickly
- And much, much moreFind out more at www.BestoftheBestREI.com

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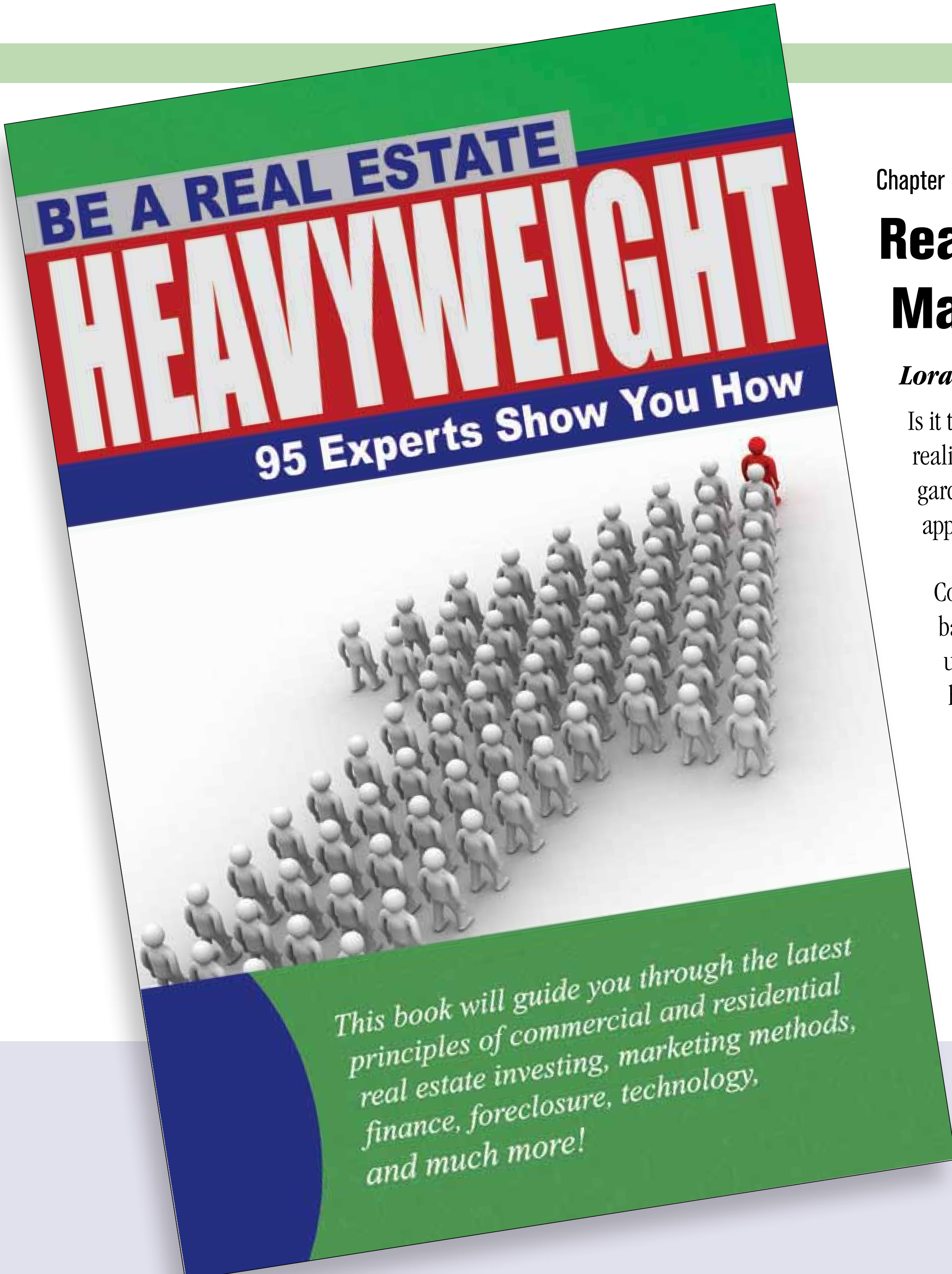


Chapter 6

Real Estate as Your Cash Machine

Loral Langemeier

Is it the right or wrong time to invest in real estate these days? I realize that it can be scary with questions in everyone's mind regarding when the market will bottom out, when it will start appreciating again, or if it will ever truly recover at all.

Considering the turmoil in the market, you may be tempted to back off, or stay away from investing in the first place. That's understandable. Even some seasoned real estate investors have made that choice. Interest rates are up, housing sales are down, many properties are still overvalued—you name it, there's a lot of doom and gloom in the news out there.

However, let me tell you. . .the news that real estate investing is dead or dying is "greatly exaggerated." In reality, **real estate is FABULOUS!** My team and I are still investing in real estate today.

In fact, we've stepped up our game!

I'm Loral Langemeier and I became a millionaire at the age of 34. Real estate made a great contribution to my portfolio. And today, **opportunity abounds.**

Chapter 6

Real Estate as Your Cash Machine

Loral Langemeier

With falling prices and rising inventories, we find ourselves in the best buying position in a very long time.

The greatest transfer of wealth takes place in recessionary times. Particularly when real estate (and businesses) can be bought at "garage sale prices"—even pennies on the dollar in many cases—this is the right time to invest.

With a strategic tactical plan that fits the current economy, the knowledge of how to choose the right properties and put together deals, and the right team with experience on your side, you can make a higher return on your money today than you can anywhere else. You can invest in today's real estate market and make excellent profits by taking appropriate advantage of the current situation.

While it's trickier to find a great transaction opportunity in an up market, it's easier to sell and achieve a higher profit. In the opposite market, a downturn, it's easier to find a great transaction opportunity at a low price, but it's harder to sell. The great news is that in either case, the profit margins are significant.

History tells us that the lower housing prices drop, the higher they could rebound in the future.

The fact is real estate investing doesn't have a clear-cut set of rules that you can follow to guarantee success. You need to do your due diligence in the market and develop a sense for locating the best investment opportunities.

Unfortunately many would-be buyers lack the credit to get a mortgage today. Home values are sinking and the market is flooded with properties for sale in every neighborhood.

But what's bad for sellers is good for buyers!

Today, more than ever, we need strong credit and more money for larger down payments—we need partners or a team to provide that. Investors routinely use other people's money (OPM), other people's credit (OPC) and even other people's time (OPT). I'm an advocate of these tactics and of investing teams. Your chance of success is greatly increased.

I get asked a lot about how to find a credit partner or get other people's money, or time, to start with. My response is always—ask. There are people who have pristine credit, money, and/or time to invest.

Traditionally, buying real estate has been 10–20% (sometimes 30%) down and good credit. So, you're going to have to have it. Ask. Get in the conversations. We do it all the time. It's not odd for us to ask people in our group, "What's your credit score?" We actually talk out loud about a lot of things that most people don't.

These economic times have resulted in people having lost a fortune in the stock market. Now a lot of money is moving to real estate, gas and oil, private equity, and buying businesses (a lot of businesses are at garage sale prices as well).

What's unique about this economy is that there are extraordinary values out there. You can pick up so many assets for pennies on the dollar. But, don't do it without a team. You absolutely need a team to help and support you.

If you have good credit, and good history, you can get financing. It's more difficult, but not impossible. Credit is loosening.

One of the many myths going around is that it's difficult to get a mortgage in this economic climate. The underwriting has been tighter than it was. However, it's a good thing, not bad, because we don't want to go through what we have in the recent past. The lenders' tightening up on credit is going to make it better for all of us in the future.

If you have a W-2 job and you want to quit and go into real estate, don't do it. You won't be able to get a mortgage. The lender needs to see proof that you have the ability to repay the loan. There's no such thing anymore as no doc, unsubstantiated stated income loans. You have to have substantiated income, tax returns, a job. Lenders don't want to say no anymore than you do. They need to make deals as much as you do. So keep that in mind.

Let's talk a bit about foreclosure.

Foreclosure is a situation, not a strategy. You shouldn't be looking at someone's foreclosure as a strategy for you to purchase real estate. What you want is to be able to solve problems. That's what the situation is, and you as the helper can maximize the opportunity by coming up with a strategy. As the investor-helper, we have to come up with the strategy to support getting out of the situation.

When you're facing that situation, know that your returns have to be realistic. While you were waiting to get a property at 50 cents on the dollar, someone else bought it at 60 and they made a 40% profit. So don't get paralyzed and limit yourself to investments that you can make by having unrealistic expectations. Get in there and start working and the returns will flow.

If you have the ability to buy for pennies on the dollar, and buy a foreclosure property in time to save the deal for the current owner, there's a way to help both sides.

Even if people are losing houses, they have to live somewhere. As investors, you can buy that house and rent it back to the owners. They get to stay in their house and possibly buy it back from you at a profit for you down the line. It's a great opportunity to purchase at a huge savings and have that debt service covered for you, and save your tenant's credit, too. You can help yourself and help the seller.

Some people think buying foreclosures is heartless or capitalistic. That's not necessarily the case. Someone is going to buy the real estate, why not you?

Here's a perspective about the foreclosure market that you need to consider. A majority of these people have always been renters and never owned a home before. With their properties purchased in the last few years, they put nothing down, got an interest-only loan, and didn't have good credit. Many got in at a 480 credit score. All this means that they don't have an owner's psychology. They had no idea about taxes, insurance, and everything that goes along with homeownership. They never truly "owned the home."

There's a part of reality, harsh but true, that needs to come into this conversation.

In the strategy mentioned above, it helps people stay in their homes and gives them an education. We have a lot of great groups of people at LiveOutLoud.com that are employing that strategy, helping and educating people who never really knew how to own a house—people who always had that renter mentality instead of the owner mentality.

There are also ways to equity share and allow more of these folks to stay in their house and still make a profit.

In addition to helping the individuals and families by using this strategy, you're also helping to preserve the integrity of the entire neighborhood. That's what's happening in a lot of subdivisions and neighborhoods across this country. One or two houses go into foreclosure or are involved in a short sale, then the value of all of the other properties on that street or in that neighborhood are adversely affected. Property values go down.

I've heard of cases where neighborhoods get together, knowing that there's going to be a foreclosure or someone's going to lose their home, and they form a team to purchase the property. They allow that person to stay in that home. While that's a wonderful and generous thing to do, they're also doing it to preserve the value of their own homes. They don't want to see their own property values go down.

The subprime mortgage fiasco helped cause the condition that we're in today with the foreclosure rates so high. In addition, people didn't seem to look ahead and realize that homeownership means far more than renting from the bank. People bought houses they couldn't afford and agreed to terms that would normally be scoffed at. This resulted in the huge pool of "homeowners" who walked away from their properties and left them for the banks to try to offload.

Often banks don't work with the homeowners to help them stay in their houses. They end up taking back houses that aren't worth what has been paid—and they sell them for a lot less.

Let's talk about some of the statistics today, because they are truly shocking.

1. One out of every 200 homes in the United States is going to be foreclosed upon in the foreseeable future.

2. Every three months a quarter of a million families enter into foreclosure.

   This opens up enormous opportunities for investors to do equity sharing, lease options, and rentals, which ultimately helps these families, considering the alternatives. If you can help keep them in their house, you can do that. Some of these people have gone through so much, and their credit score has taken such a beating that the only way they can even get back into housing is to have an investor help. Some don't even have the credit score to get them into an apartment.

   Private investors help in a lot of ways. More people keep their homes with them than these interesting deregulated government programs that tried, and failed miserably.

3. One child in every classroom across America is at risk of losing their home due to foreclosure.

Those are stunning statistics! In consideration of these facts, there are strategies for investors that can assist in ending, or alleviating, this travesty.

Today we're at a crossroads in our economy and in our country—as well as many countries around the world. Consider the perfect storm for capable, qualified investors: fear, supply outweighing demand, price compression, and stricter mortgage loan financing.

> The phrase perfect storm originates from the 1997 book The Perfect Storm which refers to the simultaneous occurrence

> of weather events which, taken individually, would be far less powerful than the storm resulting of their chance combination. Such occurrences are rare by their very nature, so that even a slight change in any one event contributing to the perfect storm would lessen its overall impact. (Source: Wikipedia)

This perfect storm in real estate offers the greatest impact for investors in the market today. While the ship and crew in the book were lost at sea due to the perfect storm, investors have the chance to not only profit from this storm for reasons I cover in this chapter, but they can potentially help **rescue the ship**.

My team and I want to help you figure out how to make your money and get into the real estate strategies we're talking about.

First, realize that there's no "secret" to investing successfully, but you do need ability, and ability comes through education and experience. So the first question is, do you know enough to minimize risks and maximize profits in any given economy?

Look at how real estate has performed as an investment over the long haul. It has outperformed the stock market over time. Cycles in real estate are normal. While most of us haven't seen this particular performance in our lifetimes, history repeats itself, and downturns are followed by upturns—every time!

If you can hold on to an investment property, you'll be so far ahead of the game, you will one day look back with glee that you saw the potential and capitalized on it. Homeownership will continue to be the great "American Dream" and homes will always have value.

Most people who buy their first investment property do so with the idea to sell it. It's the old "fix and flip" mentality—they purchase a home, put a little makeup on it for some forced equity, and then flip it. That's harder and harder to do these days because you have to have someone to flip it to. Of course, the first person you would want to do that to is another investor.

Today we need to have multiple strategies and a sequence.

The flip is the number one exit strategy, but in today's market, if you don't have another investor to flip it to, you would want to find an owner/occupant. And there are ways to do that.

The first way would be to do it on a lease option. This means you would lease the property back to the individual with an option to purchase it, or to reclaim the property in the future.

The next strategy might be to help to finance it. You would either do a seller carry back to help that person, or partner up with them, in financing the property, or you can do a subject to. If it's already under a mortgage, you could assume or purchase that property subject to their current mortgage allowing them to stay in the house.

The final strategy would be to rent it to a tenant, hopefully by supplying that tenant with a little education on a first-time homebuyers program. Or you might help them rebuild their credit or reestablish their damaged or compromised credit by staying for a couple of years and paying you rent to assist them in finding financing at a later date.

There are many options.

I know a lot of you have wanted to get into real estate for a long time, or step up your game, but are in a situation that holds you back. I understand that. I hear about it nearly every day.

Chapter 6

Real Estate as Your Cash Machine

Loral Langemeier

Let me start by reassuring you that your current circumstances are not indicative of your future results. I repeat, your situation is not **any** indication of what your future results could be. But you need to start planning and living as if you're moving toward the future. Bob Proctor was the one who taught me this skill the best. . .you live where you want to live.

Some of you have regular jobs and you either want to make additional money or replace your job. You can do that eventually.

Some of you have become unemployed. Congratulations—get a Cash Machine, let's make some money! Then you can get in the real estate investing game.

But some of you are just really stuck. You're emotionally stuck, you're physically stuck, you can't even imagine moving forward. The answer is not going to come from my chapter, or from this book. **The answer is going to come from what you want to do in the future.**

You have the capability to make this particular time the best planning time and best restructuring time. What this chapter and this book can do for you is to help you figure out how real estate can help you meet your goals.

Here are the four steps that I say over and over to people in these situations:

- **Most of you have got to go make new money.**

  What I'm seeing every day is that most people are trying everything to stop their bleeding situation. Whatever situation you find yourself in now, you're stopping your life to handle it versus creating new money to stop the bleeding and move forward.

- **You've also got to focus on finding new credit partners, or repairing your credit.** Let me tell you, you're going to have to have cash and credit in this market.

- **You need to build a wealth account**, and accelerate that account, so you can gather it up and take advantage of this market before it turns around dramatically.

- **And learn to buy real estate** because today's reverse will roll up and you're going to make hundreds of thousands of dollars from your investments.

Again, you're going to have to make the money, while you're solving your issues. Focus on keeping that money and creating your wealth account, learn to buy, with a partner or a team, and you will have a generational wealth plan of a lifetime.

This could literally be the time where you will look back 20 years from now and say that it was **this time** that you moved forward so dramatically. You got off the couch, didn't really know what you were doing but you said yes and figured out how—and created extraordinary wealth for your family.

The time is now!

There's never been, in most of our lifetimes, the opportunity that's out there today.

Find out where you are, and where you're going. Prepare yourselves to come out on the right side of this opportunity.

It is a fact, as I mentioned before, that the greatest transfer of wealth happens in recessionary times. Now, what's interesting about this is it's not just an American recession, it's global. So we're seeing opportunities across the world. Live Out Loud Australia is wide open and running. We do partner deals up into Canada. The UK, Australia, Mexico, and Central America offer worldwide opportunities.

The world is on sale!

If you're not postured or have no idea about our conversation, you've got to start learning. That's your first step.

You've got to start the conversation about money and real estate. But the amount of due diligence, work, and risk that you take on without a team is great. There's a lot of opportunity but you could take on a lot of hits and risk if you don't do it with a team, with the proper strategy, and in the proper market. Using a proper strategy around your money rules is going to help you find some of the best opportunities you will see in a lifetime and the playing field is very changed. So, again, what was sure and what was risky is very different. You want people with good experience.

On my team, we probably have 200 years of combined experience! Not everything is perfect all the time—not every project will ever be 100% perfect—but because we have the brilliance of multiple people and multiple talents on our team we will always find solutions, always be creative, and can always share resources, which is why it's so critical.

One of the things we're adamant about is treating your real estate as a business—a cash machine. So many people think that real estate investing is a nighttime hobby that they do for an hour or two. I know, because when I first started it was a nighttime hobby for me. I'd work my cash machine all day and around 5:00 or 6:00 I'd switch to investor calls and talk to people about buying real estate. But I was tired and wasn't as focused. People would miss the calls; it was dinnertime. And that kind of casual, hobby-like behavior is why I had casual, hobby-like results at the beginning. Then I switched my day around.

I'd be up at 5:30, working out on the treadmill, talking on the phone to people on the East Coast, talk, walk, talk, walk, all the way to the West Coast. Then around 9:30–10:00 I started my cash machine. My portfolio changed completely because I put it as a priority. I handled it like a business with full bookkeeping, full legal team—that's when you're going to see a drastic difference. I share this because so many people are doing this as a hobby.

It's sort of like a surgeon who goes to school for 8–10 years. You've got to learn market analysis, how to do due diligence, appraisals, inspections, titles. You've got so many players on the playing field that you have to quarterback. How are you going to quarterback if you've never even touched the field?

It's not that you can't do it. We just want you to be very serious about it and partner with people, like we do at Live Out Loud. That's what we do every day.

Some of you say, "I want to do this every day. I want real estate to be my cash machine."

You can. You really have to plan your strategy well in advance. Are you an active or passive investor? And, are you really going to run this as a business?

I believe that you should be a passive investor first so you start learning and get to the field. See all the usual suspects, how the game is played. See the different markets and understand the distinctions between them. Then start moving into real estate as a cash machine.

We have a three-day event called **In the Streets.** When people first come they're all excited and feel that real estate is their thing, but then they see how much work is involved and how much knowledge is required. That's when they see that becoming a passive investor first makes a lot of sense. They partner with someone who enjoys the work, and they do it all day, every day.

The underlying theme with our real estate cash machine, and our sharing of the knowledge with our community, is that we include in our teaching the downside as much as we do the upside.

Real estate is a wonderful investment and a good sound one over time. It's an investment for people to build wealth. You're not going to get rich quick. Of course, you're going to run into a deal every once in a while where you're going to pocket a good chunk of change and it's going to seem too easy to believe. But over time is the best way to build your wealth. It's by buying real estate and holding on to it. When you hit a hard spot, have that team around you that can come up with a solution to your problems and go beyond them.

Real estate is a lifetime journey. It's one of the assets that everyone I know who's wealthy holds a portion of in their portfolio. It's really important that you take it very seriously.

Real estate is on sale. In 3–5, maybe 7 years at worst, you could be a multimillionaire if you decide to play the game. So your choice today is to make that decision of who you want to become. Who are you going to be a year from now?

Some of you today are in huge credit card debt. By the way, my view of huge credit card debt is that you want a big life, you just didn't know how to get it done. So you put your big life on a credit card instead of making money, which is the formula of the wealthy. So it's not bad, it's just a little tangle you got yourself into and I'm not going to make you wrong, like a lot of folks on TV. What I am going to say is you now need to go make some new money. New money is going to help fund your way out of this little mess you made. Then in the future, because you have the ability to make money, I can promise you credit card debt isn't going to be a problem.

So, as best you can, and for those of you who already have **Expression of Your Power,** which is a program I did with Bob Proctor, start thinking and backing in—a year from now—who do you want to say you've been? How much real estate do you want to say you purchased? What is it you want your cash machine to be?

Back in. Say, "I'm going to be making XX dollars per month," then this and this. . .you're going to see a path. You can't see much from where you are. You know that saying "think outside the box"? It's a little hard to do when you're inside the box!

That's where your team is critical. Your team will help you stop feeling overwhelmed.

We teach real estate investing. We have an 8-week 90-minute webinar series. We have 2½-day workshops. We have tours in different parts of the country, where we take you out on a bus and show you how to buy. We have a very comprehensive real estate education program at Live Out Loud.

Your first action as a new investor, or an investor who hasn't had great results, is to start learning. Read my *Wealth Cycle Investing* book. It's a fabulous book. It's the second book I wrote. It will help you start being in the kind of conversation you should have, with a more intelligent approach.

The primary thing you have to do is take action. Avoid analysis paralysis. I've seen it. I've been a speaker on so many real estate stages and at so many real estate investor clubs and groups in high primary market across the country, and it was consistent. . . .

The first thing I would ask is, "How many of you actually own a primary residence?" A bunch of people would raise their hand. Then I'd ask, "How many of you own investment real estate?" This is shocking—these are investment clubs—but **maybe** 25% would raise their hand. So I'd ask, "Why are you among the people who are in the richest conversation and not in action?"

And so one of the assignments we give you is the "if you haven't put in an offer, you'll never buy real estate" homework. There are so many people who live in this analysis stage.

Five months later you've missed opportunities all over again. You will not buy if you don't talk. If you don't put in offers, you'll never buy real estate. If you don't go sit eye-to-eye across kitchen tables and negotiate with people to stay in their home, or partner in their home, you will miss opportunities. If you never do any of that, and you should never do first-time by yourself, you might blow it, you probably will. Go with somebody else. Be what's called the bird dog. You're following a pro around and you're seeing what they're doing. There's a specific talk track that you need to have when you sit across the table and it's very emotional conversation from somebody who's losing their home.

You have to trust your instincts. There's a collapse that happens, do you trust your instinct, or are your instincts so far away from you because you have so much fear around even moving? I see it a lot. People just don't trust their intuition because they just don't know and they're scared to death. Again, how do you move through that? You get a teammate who knows more. You have to be able to know your money rules enough to recite them, including your due diligence, your risk versus reward, don't put too much money into one project—you have to know all those pieces. You have to carefully review the numbers in the deal. I have 3–5 people review every deal before I do it, in this economy. I did it before but even more now.

One of the biggest traps you could fall into, obviously, is doing it alone. Don't try to be a lone ranger. Ask for help when you need it. Too many people get tangled up simply because they never asked for help.

If anyone ever tells you that they know all about real estate that there is to know, run away as fast as you can! We all learn something every day. No one knows it all. That's why you need to build that team around you. With a team it's hard to get into a situation you can't solve.

Another mistake is thinking you found the deal of the day. The deal of the day means risk, because your urgency means you're playing with emotions and not numbers.

Everything is negotiable

Some of you are saying that you can't do anything, you can't get a loan, you don't have the credit But we have helped so many people partner. I've done it many times—I might be money, or I might be credit. It is completely up to you how you want to structure the deal, but you've got to learn.

One of the questions that we are always asked is, "How do you cut the deal?" How do you know what credit gets, what cash gets, what the deal maker gets? Say 4, 5, or 6 of us get together and we buy an apartment building. Who should get what portion?

The answer is, everything is negotiable.

The first step is get into action, start moving your feet toward what it is you want. Speak from the position of what it is you want, not from your current circumstances.

No one is going to knock on your door and ask you to buy their house. You have to be the one who's out there in the streets.

Too many people never do anything about it. They get all the books and go to all the seminars, they know all the terminology, but then they never use it.

Go out and talk to people. Look at real estate. Do investors intend to buy every house they look at? Absolutely not. But they look at a lot so they know what not to buy. That's where you make your distinction. You have to look at enough to know what you want by calling it out with what you don't want.

Know that you can't help everyone, but talk to people in the real estate industry and you'll see that deals come to you because, all of a sudden, you're the expert.

Today we enjoy lots of homes to choose from, we have time to browse, and typically, we have the advantage in negotiations.

I'm not saying there isn't risk. With any investment comes some level of risk. In general, the more risk taken on, the higher return on investment (ROI) an investor should expect to receive. While risk is not as easy to quantify as the expected ROI, there are numerous ways to minimize your risk as you build an investment portfolio that meets your personal objectives.

Below, in no particular order, are 16 possible action steps for managing your investment risk level. Note that the more of these you implement, the greater ability you will have to manage risk.

- Collecting an experienced, reliable, and honest team
- Educating yourself about each and every investment
- Learning the vocabulary of each investment and its asset class
- Getting comfortable with the numbers
- Diversifying into other assets, sectors, and/or industries
- Communicating well and often with your team and the investment sponsors
- Building your own experience and confidence by taking action (NO analysis paralysis)
- Narrowing in on specific, targeted, direct investments that meet your personal needs
- Achieving expertise, through team and knowledge, in each asset
- Clearly defining and sticking to your Money Rules
- Doing due diligence for each and every investment
- Maintaining your management systems for your wealth
- Keeping legal contracts current

- Ensuring complete and detailed financial records
- Continuously putting revenues and expenditures into entities
- Pursuing proper tax strategies

Remember, your job is to **lead** your wealth—**not** to do everything above by yourself. This is the primary reason that you should have a team.

A Wealth Cycle Investing Worksheet may be used to evaluate each of your investments. This will help you frame your investment decisions for direct asset allocation. Think of this as an asset evaluator. It may look complicated at first, but it is going to get very simple very quickly.

It can be downloaded here for your reference, and you can use it for every deal you do. Additionally, although software for modeling stock and bond portfolios has been around for years, there has been little available for direct asset investors.

To fill this void, we have developed the Millionaire Asset Accelerator™. This software enables you to input different direct-asset-investing scenarios and provides you with graphic models for your decision making. More information on this is found at www.liveoutloud.com/assets.

Below is a brief explanation of each aspect of the Wealth Cycle Investing Worksheet.

Setup: Getting Your Money and Structures Ready

Getting your money ready and creating the structures for the deal are necessary steps in initiating an investment. In Wealth Cycle Investing, you constantly manage your pipeline of available cash. It's not enough to invest and wait for the checks or, worse, let the money be reinvested for you without your say. Millionaires go make money.

In order to accelerate your wealth, you need to constantly take the money you make from one investment and put it into other investments. Managing those funds and understanding how much is available and when it is available is all a part of the process. You can classify money as A, B, and C money.

A money. This is cash that you have on hand in your Wealth Account; it's usually available in less than 30 days.

B money. This money takes 60 to 90 days to become available. Most likely it's in an IRA, in your home equity, or in a fund or place that will take some time and effort to turn into usable cash.

C money. C money is the least liquid of your funds. It's the money that's wrapped up in another investment, such as the property you're waiting to cash out or your 401(k).

All your money must be classified so that you can put it into a plan for investing. Wealth Cycle Investing doesn't let your money sit still or allow you to forget that you have money coming in from this or that source. If you pay attention to the cash that you have coming in and classify it, you give your money the chance to always earn for you. This constant management of liquid assets can be a huge psychological shift for many investors, but it's worth the effort. As with anything else, once you get used to it, it becomes another part of the process.

In the worksheet, you'll see that when you're making an investment, you must decide where in the pipeline this money is going to come from. This is your source of funds. The money for a deal can come from making more money and putting it into a Wealth Account that provides funds for investments. It can also come from a true self-directed IRA account. Or perhaps it's out of the pockets of family and friends. These are A-money sources and are usually available right away.

Money can also come from working with a commercial source of funds, such as a bank; or from other investors, by leveraging one's ideas, time, energy, experience, money, or credit with other people's money or credit. This money may be available immediately, but many times it's B money. Restructuring one's assets is also a good source of B money, especially if the investor is converting lazy assets into supercharged assets.

Money will also come from the liquidation of other investments you made. This is C money, waiting to be released until the asset has gone through its life cycle. This would be considered the restructuring of an existing asset.

Setup also includes the creation of entities and the habit of running your revenue and expenditures through these entities. Structuring your companies and creating tax strategies in order to retain and manage your wealth are important building blocks in Wealth Cycle Investing.

Money Rules

Before you look at any investment, you must establish your own personal Money Rules. Then, as you complete each worksheet, you can determine how well the projected rewards and risks of that particular asset meet your Money Rules.

Money Rules are your financial criteria and objectives, such as:

- Goals for return on investment (RGI)
- Needs for generating income in the form of cash flow, appreciation, or both
- Desire to be either an active or a passive investor, or some combination of the two

Diversification strategies are also part of Money Rules. These come from the investor's need to allocate investments into the right assets for optimal risk/return ratios. Realizing the reward from each investment, which involves an exit strategy, is essential in making a good investment. Strong diversification depends on assets that realize different rewards at different times.

Team: Building Experience

There is no such thing as a self-made millionaire. It's never happened, and it never will. All investors need a team to help them become wealthy. In Wealth Cycle Investing, you are required to get the best group together in order to reduce your risk. The first member of the team is the leader—who is always **you**. The rest of the team includes people such as field partners, mentors, professionals, and other players. This list will help you remember to engage the team for each and every asset. For example, as you consider the deal, you need to also consider your entities, so your CPA or entity specialist must be in the loop from the get-go.

Due Diligence

Due diligence—investigating every detail of the deal—is the cornerstone of all good investing and business decisions. Investors who take the time to extensively research and investigate potential deals will make better investments. We've systemized this approach as data, discussion, discovery, diagnosis, and decision—the five D's.

Each of the steps mentioned in this article are covered in greater detail in the book, "THE MILLIONAIRE MAKER'S GUIDE TO WEALTH CYCLE INVESTING" by Loral Langemeier. This article is an excerpt from Loral's best-selling book (on the *New York Times* Best Sellers list).

1. **What is the Deal?**

Due Diligence will vary with the type of deal that is being considered, and the timetable and terms of the deal, for example:

- Real estate
    - Inspections: title, environmental, structural, wood infestation
    - Income property: rent rolls, bank statements, etc.
    - Financing

2. **Who are the Players?**

Perhaps the most important due diligence issue is to consider with whom the deal is being done. Issues for consideration and checking here are:

- Credit report
- Background check
- Google check
- Lexis/Nexus check
- CPA due diligence review

3. **Who should do the work?**

After you consider the critical components of you deal and identify who the relevant players are that are important to the deal, you need to decide who will be responsible for doing the due diligence and what they get for doing the work.

- Attorney
- CPA
- Staff person or partner
- Private investigator
- Internet services

4. What to look at?

After clarifying what the deal is, who the players are, and who to have perform the due diligence, you need to create a "Checklist" of the things you want to know, a "Time Frame" in which to gather the data, and a "Decision Making Process" for what to do with what you learn.

- **The "Checklist:"** The Checklist is critical for the work for two reasons, 1. to assure you get the data, and 2. to assure that you ask for and receive everything you need to complete the process. A number of common comprehensive Checklists are attached to this Outline. They have been developed by me and taken from a number of websites that promote due diligence service packages.

- **The Time Frame:** The deal contract you have should establish the terms, condition, and timing for due diligence prior to closing. As described above, the type of deal will dictate the time frame for completion.

- **Decision Making Process:**

    - Who will be the final decision maker about the data you receive?

    - What are "major" problems vs. "minor" problems?

    - What will you share with the other side and who will do the talking?

5. **How important is due diligence**?

For professional advisors, it is sometimes difficult when clients want to get the deal done quickly. A client may fall in love with the deal or the people or the money and want to shortcut the due diligence. The professional can only advise and recommend that the client make the business decisions.

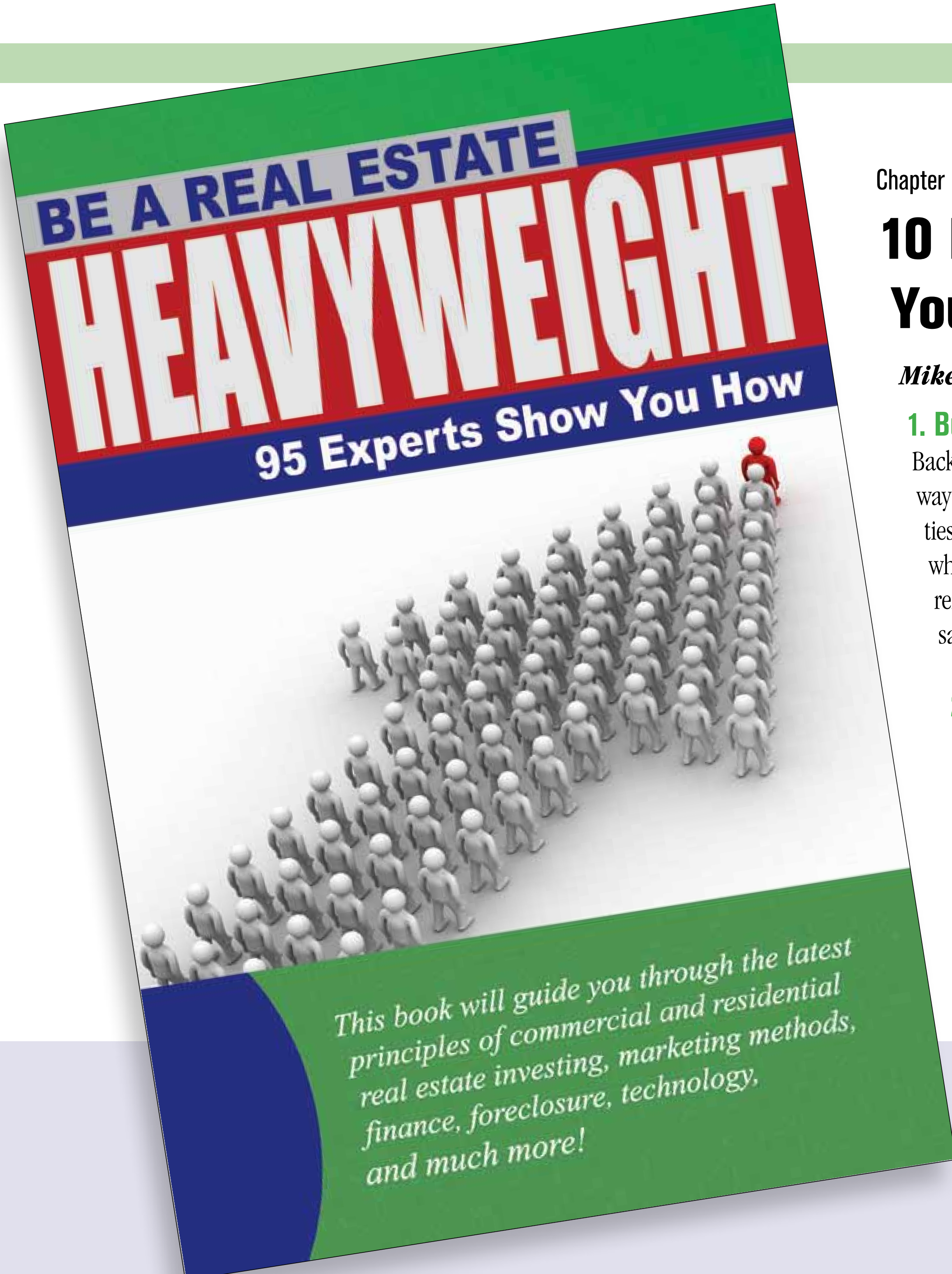
Ultimate success oftentimes depends on getting the priority information done first and perhaps having a condition subsequent to the deal (an "un-do") in place if post closing completion of the due diligence discloses substantive problems. Conditions subsequent are difficult for both parties, but there are processes for a contract that can allow for both parties to have protection, for example:

- Escrow of a portion of the purchase price

- Automatic modifications to financing

- Responsibility for the seller to pay for certain items post closing, depending on due diligence and establishing an escrow account to pay for them, etc.

Times have never been better for investors who are ready to take action and learn strategies and tactics for today. Come join the conversation at LiveOutLoud.com.



Chapter 7

10 Mistakes That Can Kill Your Real Estate Business

Mike Collins

1. Buying rentals before ever wholesaling.

Back when I started – and still today – people preach that the way to success in real estate investing is to buy rental properties and hold them. While I don't disagree in the long run, not wholesaling first and/or adding wholesaling to your existing rental acquisitions program will cost you hundreds of thousands of dollars and years, maybe decades, of your life.

2. Attempting to rehab homes before wholesaling.

Flipping houses is all the rage today; witness all the television shows where people buy, fix up and resell houses. While that can be a profitable strategy for some, neglecting wholesaling and not learning the values of these houses will again cost hundreds of thousands of dollars. If we agree that the commodity we deal in is houses, then wouldn't it make sense that the first and most important job we need to learn is how to find, value (or evaluate) and secure contracts on this single-family home commodity?

3. Buying houses for rental or rehabbing without understanding how deep a discount I could really get.

Rehabbers and landlords could make so much more money for their efforts if they first learned, through constant repetition of buying and selling houses, what the real lowest value is they could get on deals.

4. Not understanding the value of homes at a deep level before I made offers.

Many people try and buy houses for rehab, rental, and wholesaling without a detailed comparable sales program. There are many cheaper alternatives to a quality comparable sales program; but if you were a carpenter would you go to work without a hammer? This tool (the comparable sales program) is your right hand in wholesaling houses.

5. Not understanding marketing is the most important part of my business.

"You don't gotta get it right, you just gotta get it goin!" Everyone's heard the term "guerilla marketing." Anyone, at any level of finances and willingness, can start this business from their spare bedroom and build up to any level of marketing budget they wish.

Learn even more HERE!

http://www.rehablist.com/confessions/letter.html

6. Thinking I was looking for people in financial trouble.

This is one of the biggest mistakes new people make. They search foreclosures or advertise for people in financial distress. In reality the commodity we are looking for is a property that has repair issues. We can't purchase a property at a deep enough discount unless there are repair issues we can solve and thus increase the value and price of the home.

7. Borrowing money of any kind – hard money, family money, bank line of credit against my home – for real estate investing while I was wholesaling, or before I learned to be a good wholesaler.

"Find the deal first and the money second," is the rule you should live by. Everyone gets bogged down because they don't personally have the money, or they don't know where to get it, or where to find a buyer for the property. This is truly a scenario of putting the cart before the horse. "Deal first – money second!!"

8. Thinking mistakes were the end of the world.

"You fail, you learn!" Learn to fail, faster. If you make mistakes in rehabbing or landlording it could be years before you're back in the game or back on your game. In wholesaling making a mistake means only that you learned what houses not to buy. Think of the old adage, "What would you attempt if you could not fail?" Wholesalers know that there is very little at risk, including their earnest money deposit, on well-written contracts on single-family homes. (In the commercial real estate world they call this a free look.)

9. Not knowing what I was looking for.

Most everyone starts their real estate career looking for houses that they might like to live in, when in reality they should be looking for the investment-grade rehab and rental properties in their area. These are below the median price ranges in stable blue collar neighborhoods.

10. Wholesaling too many houses and not keeping enough for my portfolio.

Rank this as the biggest mistake I EVER made. Here I was, the gateway to my

clients' 100-, 200- and even 400-house portfolios, and I was selling them for what amounted to tips. Don't feel too sorry for me, as I learned my lesson and started keeping rentals! I wish I had done it sooner. Just please don't do the same; rather, keep the best houses with the biggest equities for your own and your family's future.

Even after 20 years of wholesaling houses, writing this takes me back in time and I feel all the frustration I did when I first got started. I want you to bypass all that frustration. Take this list, print it out, put it up by your desk, and make sure you reference it frequently.

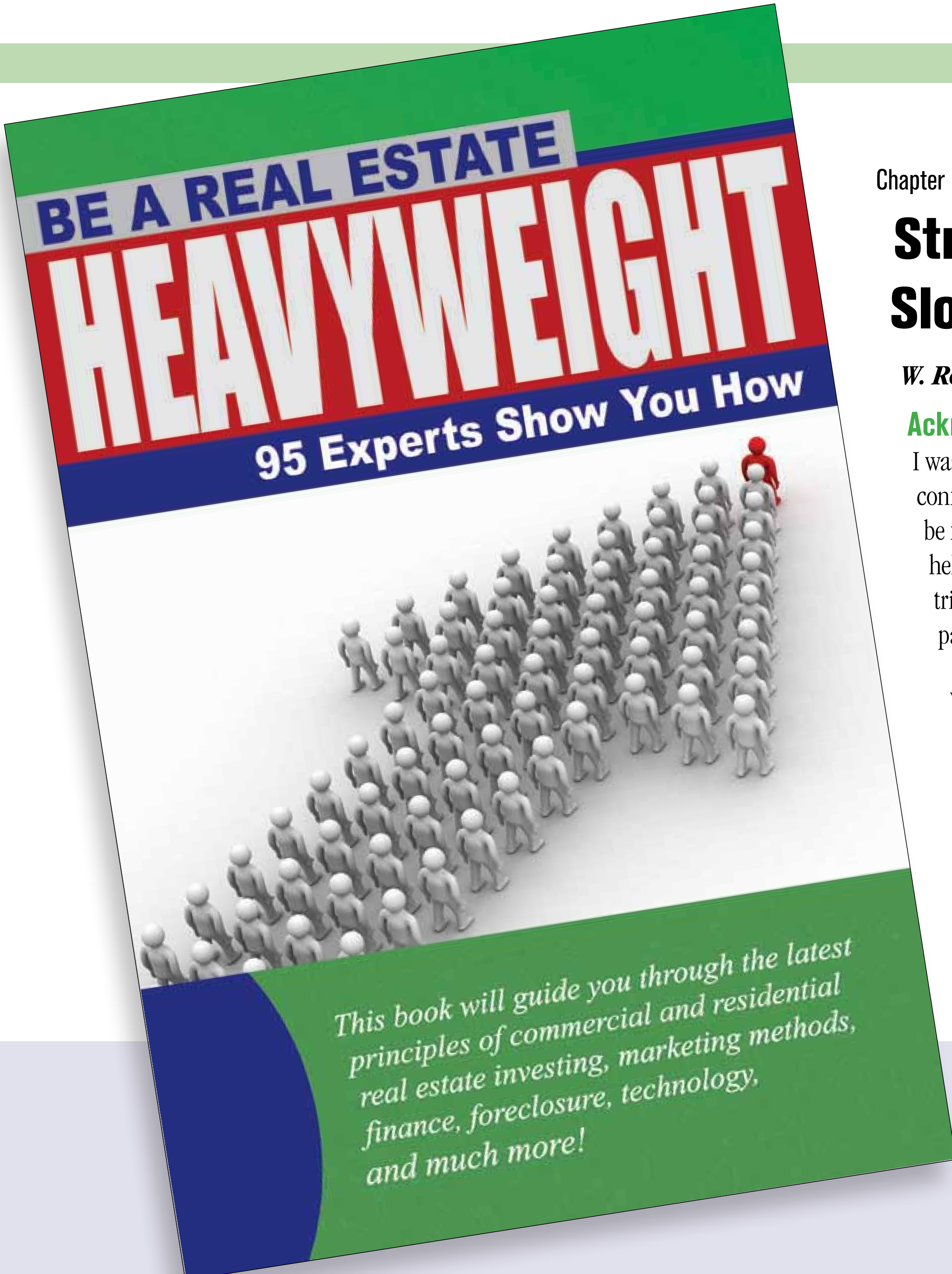
Be Well,

Mike Collins

Creator, "*Confessions Of A Real Estate Wholesaler*"

To learn about more about Mike Collins and wholesaling, please visit this site:

http://www.rehablist.com/confessions/letter.html



Chapter 8

Strategies for Surviving in a Slower Market

W. Roger Salam

Acknowledgment

I was recently introduced at a Real Estate Mega Millionaire conference as a "self-made millionaire" and nothing could be further from the truth. There are too many people who've helped me along the way. Without their knowledge and contribution, I'd not have the distinction of being in the company of the other authors in this awesome compendium.

When I started, I literally didn't know a single thing about Real Estate as I never bought a home in my life. Since then, I've accumulated an enviable library of Real Estate books and courses, and if I had to name everyone, it'd take several pages. So, first I'd like to thank all the people who took the time and effort to bottle their Real Estate success and knowledge into books, courses, and seminars that have become the foundation of my inspiration and bedrock of my knowledge. I'm grateful to all the authors and speakers whose books I've read and seminars and courses I've attended. Every one of them has contributed to my success and continues to do so. I owe a great deal to all of them.

Finally, a special thanks to my good friend, Dan Auito, for organizing this incredible compendium of Real Estate knowledge. Without his vision and hard work, this project would not see the light of day. Congratulations on your wise investment. I know you'll benefit tremendously from it. Here's to your success!

With passion and purpose,

W. Roger Salam
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A FREE Gift for Readers of This Book (See offer below)

Thank you for taking the time to read this book. If you're reading this book, you'll benefit not just from my knowledge, but from the wisdom of all my coauthors, who are not just highly educated and successful investors, but also my friends and tremendous givers.

Warren Buffett said,

"Look at market fluctuations as a friend rather than an enemy; profit from other people's folly rather than participate in it."

Did you know that there are more millionaires made during turbulent times than during easygoing ones?

It's already happening. The market is chewing UP and spitting OUT the fair weather investors and. . .

There will be tremendous fortunes made by those who understand how to take advantage of changing markets. Peter Drucker said it best...

"The greatest danger in times of turbulence is not the turbulence. It is to act with yesterday's logic."

If you look at the history of Real Estate, you'll see that the market has always bounced back to be bigger and better. Real Estate never stays down, but you have to survive the downswing in the market long enough for it to come back to cash in again.

If you're struggling or would like to know how you can position yourself to take advantage of the current Real Estate down market, then I'd like to offer you a FREE gift of my 70+ page special report ebook.

It's a collection of my best strategies that I use in my day-to-day business for generating cash flows and selling houses. It's also the kind of information that my current coaching students pay anywhere from $25,000–$60,000 for.

Don't expect this to be a typical teaser report or a tribute to how great I am, but rather a report jam-packed with ideas you can start using today to create immediate cash flow using new and alternative ways.

Should you have any problem with the download, please contact my office.

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P.S. I've a special gift for you. If you'd like to claim it, go to my website www.RogerSalam.com and click on the free resources to download.

Thriving in Today's Slow Market

First, the bad news.

Market conditions have changed. The changes are affecting almost all areas and markets. So, **if you don't change, you won't last.** In August 2007, the median sales price for existing U.S. homes slipped to $225,000, down from its record high a year earlier of $229,000. The 1.7 percent dip marked the first year-over-year drop in more than a decade, according to the National Association of Realtors. To many pundits, that was irrefutable evidence that the nationwide housing slump is here to stay.

The up-and-up market of the last few years made many investors look like geniuses. However, it's not going to be business as usual going forward for many investors, and all indicators are that we will be in this situation for several years. Depending on who you listen to, the turnaround time is estimated to be two years on the low side and as much as 10 years on the high side.

Now for the glass-is-half-full perspective!

First, unlike the destruction wrought by the dot-com tech bust of several years ago, the housing downturn won't take a huge bite out of the value of American residential real estate assets, currently **estimated at more than $20 trillion.**

"Housing cycles end with a whimper, not a bang," says Professor Joseph Gyourko, the Wharton School's Director of Real Estate Research, who did a new study that shows investors where to make safe real estate bets during a dangerous market.

Second, down markets in housing have always offered investors just as many angles to play as they might find during a boom—**you just have to know where to look!**

To stay in business and to prosper in the long run, it will be necessary for you to make some changes.

I once came across a definition of money stating that, **"Money is a reward for solving problems and providing solutions."** At the end of the day, we all want to make money and do whatever we desire with that money. Real estate is just another vehicle. However, I happen to believe that it is the best vehicle out there to create financial independence (in good times or bad). If you want to make money in real estate, find solutions to the biggest problems. With the changes in the real estate market, people don't know where to turn. So if you can be the person they turn to for solutions, then you won't have to worry about money.

Fact: More millionaires are made during times of upheaval than "normal" periods! This is when wealth shifts from one hand to another. One group of investors will perceive that the sky is falling while others will profit monumentally from the same events. Which group do you want to belong to? **Will money come into your hand, or will it flow out?**

Maintaining Cash Flow During These Rough Times

real estate market moves in cycles, like most businesses. Now that we're in a particular down cycle, we need to rethink our strategies. (By the way, don't believe the media that the sky is falling everywhere; there are pockets where the market is holding and even appreciating. One school of thought I've heard states, "Live where you want to live, but invest where it makes sense.")

The new strategy should ensure one thing first and foremost—CA$H FLOW. This is the key to survival. You can't eat equity for dinner and you can't use equity to pay bills. Lack of cash flow is the underlying reason why so many investors cannot survive and go back to their regular jobs.

How many ways can you generate cash in your business? When things are tough and the market has shifted, do you know where to go to create new profit centers?

Everything you do during the current slow market should be aimed at creating an influx of cash that you can ride through the slow times. You may have properties that are good properties to hold on to, but they don't make positive cash flow, and you're not quite ready to sell them either. So you'll have to come up with new ways to generate cash flow and perhaps even create new profit centers that you didn't explore before.

How can you generate cash from your business?

Let's explore all the possibilities and how they stack up in the current market condition:

Wholesale

This is the fastest way to generate a chunk of cash in this business without using your own cash or credit, by simply assigning your contract. There are lots of deals out there due to the foreclosure epidemic and the general slowing of the market. But here's the problem—if you don't have a buyer ready, this strategy may not work. Besides, the competition is also high as lots of investors are going after those deals.

Rehab and Retail

This strategy worked very well in the last few years, and is the best way to maximize the profit from a deal. But due to the subprime mortgage meltdown and the general tightening of loan criteria, it's getting harder and harder to get buyers to qualify for a loan. Those 100% financing loans and no doc loans are drying up pretty fast. So, if you're relying on this strategy to create cash, you may be heading for a crash.

Lease Option Deposits

This is my favorite exit strategy, but it's not a good one if you need all the cash right now. Typically, lease option buyers are not in a position to negotiate (but that's changing rapidly as the inventory of homes increases), so you can get the full market value of your property, if not 10% to 20% higher. The problem is, you get the cash if and when they exercise their option. First, that's a big "if," and, second, they may still have a problem qualifying for the institutional loan. So the only money you'll get upfront is the option deposits which are typically 2% to 5% of the price. You'd need a sizable inventory to generate large sums of cash, and after your expenses, you'll probably not have much cash left (if any). The monthly cash flow from lease payments is pretty much a break-even or negative proposition and is usually not a great way to generate cash either, so I don't count on it.

Rental Income

This is similar to the above, only worse because you don't get a large chunk of cash up front other than an extra month of rent (last month's rent plus security deposit, which is not your money). Rental income typically starts generating some positive cash flow after you've had the property for 4 to 6 years and, hopefully, have experienced some appreciation (and a bit of mortgage reduction). If you put a lot of money (20% or more) down, then you can get cash flow, but you have your own money tied up and your cash-on-cash return is going to be lower. Since the market is slowing down and many markets are going through corrections, it's not wise to count on appreciation for the next couple of years, and this is not a viable method of generating a chunk of cash. This is the way to hold on to the properties until the market turns, so you'd have to depend on other ways to generate some cash to live.

Refinance

This is certainly a viable way to infuse cash into your company, but there are a couple of key assumptions here. First, you need plenty of equity (at least 30% to 40%). Second, you must have good credit to get a decent non-owner occupied loan. Because of the current market conditions, this strategy is also getting tight for two reasons—lenders are lowering the LTV (loan to value) for cash out refinancing, and appraisals are being chopped down. Typical non-owner occupied cashout refinancings are limited to 70% for stated and 80% for full doc (which most investors can't do). I prefer this strategy over selling out completely to access your equity to ride the slow market (and still own the property to enjoy all the other tax benefits and appreciation.)

That's probably it. I've polled participants during my seminars all around the country and asked people to come up with any other ways to generate cash from the real estate business, and they said, "There are no other ways. Houses are our inventory in this business and we can make money by selling them, renting them, or refinancing them." Again, that's it.

The New Currency

The focus of our real estate business has always been to **find motivated sellers** and everything stems from that premise. None of the techniques of buying distressed properties work unless the seller is motivated. All the strategies employed are typically geared for generating motivated sellers.

However, smart investors are realizing that there are plenty of motivated sellers out there due to the foreclosure epidemic, REOs, and the general slowdown of the market. **The new currency for making money in this down market is not necessarily finding a motivated seller; it's having a motivated and qualified buyer in your hand.** Did you get that? *The new currency is having a motivated and qualified buyer.*

So, your marketing needs to shift to find qualified and motivated buyers. You'll need to build a herd of buyers, whether they are investors, rehabbers, landlords, or retail buyers. If you want to maximize and increase your options, you probably should create a separate list of all of the categories.

Chapter 8

Strategies for Surviving in a Slower Market

W. Roger Salam

Today's Key Skill

I told you earlier that money is the reward for solving problems. Where is the market having the most problems? Selling houses. In my market, the Greater Tampa Bay area, the absorption rate was less than 5% this year while it was 50% two years ago (absorption rate is the number of homes sold divided by the number of homes available).

So, if you know how to sell houses fast when others can't sell them, you'll be handsomely rewarded. With the glut of homes that need to be sold, there's no shortage of prospects either.

The last few years of rapid growth and easy credit made selling skills and marketing for buyers almost obsolete. The FSBO (For Sale by Owner) industry enjoyed a rapid growth during that period. You didn't need a realtor to sell your house who you'd have to pay a 6% commission. In some cases, all you did was stick a sign in the yard. By the time you returned home, you had three offers on your answering machine. Why would you want to spend a dime on marketing your home or need any selling skills? Some California builders were holding lotteries as they were breaking ground because there were so many buyers applying to purchase. I saw people line up the night before, as if for concert tickets, when a Clearwater, Florida, waterfront apartment owner announced that he was going to do a condo conversion. I'd bet that you could tell me similar stories from your town.

I love the saying, **"Tough times never last, but tough people do."** Don't wish it were easier; wish you were better and then do something to get better. When you get better, it always gets easier. There's one skill that will pay you the most dividends in life—that is learning how to sell. When I worked for Tony Robbins, speaking and traveling 48 weeks out of the year, that's what I was teaching—**selling, persuasion, and influencing skills**. I'd speak to an entire company and would ask a trick question to start my talk, "How many of you are in sales?" Invariably, the support and admin staff would not raise their hands.

The truth is we're all in sales. A mother trying to "sell" her child on choosing vegetables over ice cream may be even tougher than selling to a corporate boardroom. In a group of friends deciding which movie to see, the better persuader will succeed in convincing the rest to go to his or her choice. The principles of sales, persuasion, and influence are the same. If you learn them, you can apply them in any situation—personal or professional.

I was listening to CNN one morning and they were saying there might be a silver lining to a higher oil price (as the barrel of oil reached a new high and was predicted to go higher for various reasons, the continuing Middle East crisis being the main one). Whenever there is a serious spike in the oil price, we get more serious about focusing our energy on alternative resources and reducing our addiction to oil. Whenever there is a spike in the oil price, we think of cooperating more (e.g. carpooling), paying attention to global warming, etc.

Similarly, if there is a silver lining to the market change, it may force you to develop skills that you would not have otherwise tried. This will cause you to be less dependent on the market condition for your livelihood. Out of this crisis, you'll develop systems and processes and resources that'll catapult you to the top of this industry.

Ten Strategies for Surviving in a Slower Market

"Nothing in life has any meaning, except the meaning you give."

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Strategies for Surviving in a Slower Market

W. Roger Salam

This is one of the top lessons I've learned in life. If you've never heard this before, take it to heart and it'll serve you well. Do you know that there are cultures that celebrate death? Death is seen simply as a transition to bigger and better things. Crying is seen as selfish, as a way of holding the dead back from moving on. Very different from our culture, but just another way of looking at the same event. When you're liberated enough to give things your own meanings, you might as well train yourself to make them positive.

I'm going to share with you ten specific strategies to ride a downturn and go beyond it. But without the right attitude and mindset, those strategies will not work as well. You must give current events a positive meaning. This will position your mind to devise better coping mechanisms. What you think and how you think matters. You've heard that thoughts are things. Everything is created twice, once in your mind and then in reality. You are what you're habitually thinking. Therefore, excellence is a habit!

Don't buy into all the doom and gloom stories from the media. Learn how to profit from them. Many investors continue to be very successful in the real estate business by following the philosophy, **Don't be afraid to be a "purple snowflake."** So try these strategies. You can make a great deal of money in a down market if you stand out, show that you are unique, and most importantly, set yourself apart from your competition by being "a purple snowflake!"

Strategy #1: Ride the downturn—Don't sell

Yes, don't sell. Good times or bad, my advice is always to hold on to a house if you can. Your wealth will come from holding on to real estate, not selling it. How serious is the problem really? Let's say the home you live in, your rental property, or the property you bought as a "fix and flip" goes down in value. Well, if you weren't planning to sell right away, would it matter? Hang on until the market comes back. Look at the historical records of the property value where you live and that'll reassure you. I looked at the last 100 years of property value in the Greater Tampa Bay area (where I live) and it's almost magical—there have been dips and there are flat periods, but the property values have doubled every twelve to fifteen years on average. RealtyTrac or First American Data Solutions provides these data, or you can ask your local real estate professional for help. Historically, a **real estate market will always come back**.

I know one investor in my town who sold his inventory of a few single family homes earlier this year and promised he'd never buy another investment property ever again. He rented most of these properties for a positive cash flow. A couple of them were breakeven. The market turned south at the end of last year and suddenly he was upside down on some of the houses. He panicked and sold all of them. In some cases, he actually needed to come up with money to close the deal.

I didn't understand why he felt the need to sell. On the whole he still had a positive cash flow. By selling, he guaranteed the loss. Someone bought his properties (I wish it had been me) and they are going to wait out the downturn to take advantage of the upswing. Why couldn't he have done the same thing?

It's simple: He was afraid that the market would get worse. That's the meaning he gave to the down market. He was afraid that his tenants might move out, and even though there are generally more renters when a market turns down, he was afraid he couldn't get more tenants. He made his decision out of fear.

The market has been running hot in many areas and is actually overheated in others. Tampa is one of those. I'm refinancing instead of selling, and raising more cash through banks and private lenders in case the market turns down further and I need to wait for it to settle. I also want to make sure I have plenty of options when the deals start showing up. But I'm not panicking and selling. If I sell, it's to get rid of a bad apple and it'll be planned.

Strategy #2: Run your investments like a business

Are you running a business or did you just get lucky and acquire a bunch of properties? Are you one of those people who bought a few pre-construction deals and made a whole bunch of money? The doomsayers who say the end is coming for real estate are often people who've gotten lucky. They're now afraid they can never recreate that wealth, and so they're just plain afraid of everything. They realize, on some level, they had nothing to do with the wealth they've gained, and live in fear of losing it.

I've made millions and I've lost millions. When I first made money in the stock market I didn't have any understanding of the fundamentals. I just gave my portfolio to my brokerage company and they managed it. I didn't have any control or understanding of how any of it worked. When I lost it, I really panicked, because I couldn't recreate it. I had nothing to do with creating it in the first place, so I wouldn't even know where to begin to rebuild.

I promised myself that next time, I'll take full control of my money and never do anything I didn't understand. You can take all of my houses away and blindfold me and drop me in any city USA, and I'll recreate my wealth a lot faster than I did the first time. Having strong business skills means you have the ability to look at any market in any climate and figure out what to do next *without panicking*.

Remember that real estate is nothing more than a product. If you're good at a business and know how to thoroughly research a product and its market, you can sell hammocks or you can sell a house. The fundamentals of selling are all the same.

Of course, not too many people rent hammocks and hammocks don't appreciate. That's why real estate is such an easy business for so many people to jump into. That's also why there are so many catastrophic failures. Real estate can be one of the most forgiving businesses in the world when the market is going hot. Even bad investors can get wealthy without having to know or apply the fundamentals of business.

One of these fundamentals is to look for a way to create more value in what you're selling. Remember that regardless of whether you're renting a property, lease optioning it, doing a rent-to-own, or straight out selling—you're selling something. And, if no one is buying (or renting), ask yourself why. Is there a way to add more value by making it more desirable for the buyer/renter?

Some ideas might include changing the property—adding additional features that no one else has or making more favorable terms for a potential buyer. This is the time to be creative, and don't be afraid to be a purple snowflake.

No matter what type of business or investments you have, you need to have fundamental skills. One of the biggest benefits of investing in real estate is all the great tax breaks. And you'll get them no matter what happens with the market. Of course, I don't want you to do anything just for the write-offs. You have to make money, too. At least in the long run.

Are you sure you're getting all the tax benefits for your investments? How about your business structures? Are they set up correctly, and are you operating them in the best way possible? And, probably the biggest problem facing real estate investors: Are you accounting for your real estate correctly? If you don't do the accounting right, you're going to miss the write-offs.

Remember, you can make money in real estate regardless of which way the market goes. The key is to have good business skills first.

Strategy #3: Invest in your education by attending courses and seminars

During slow times, tool up. It's not going to be like this forever. Get yourself ready for the next go-round. Use any extra time to further your continuing education. Take courses not just in real estate topics (e.g. short sale, probate, foreclosure), but also general business skills like management and accounting. Attend real estate conferences so you can learn and network.

Strategy # 4: Use the Internet to expand your horizon

Join Groups Online. You can invite new people to learn about what you do. If you've never explored online, it'll open up a whole new world that you never knew existed.

- Go to www.meetup.com and start your own group. You can call it "Investors Group of ________." It will attract investors who you could not contact on your own.
- Join discussion boards, and post anything you want to share.
- **Use Technology Tools. PLANT seeds TODAY—you will HARVEST later!** You should tell everyone what you do! It's called SHAMELESS SELF PROMOTION—and it works!
- Send broadcast e-mails to your buyer's list, investor list, etc., to promote what you have that would benefit them.
- Use blogs and podcasts. Active Rain has a great site for blogs.
- Add video and audio programs to your website and on YouTube.
- Hyperlink yourself with other professionals. Join Linkedin.com
- Add your listings to www.kijiji.com, to www.Craigslist.com, to www.HeartSmartProperties.com for FREE—get huge exposure! And research other sites online—there are tons.
- **Use Skype.** Skype is a phone system to make free calls to other Skype members all over the world. Additionally, if you have a camera on your computer, you and the person you're calling are able to see each other. You can also use this service to do conference calls with your online fellow investors. The best part is, it's FREE! What a great way to personalize a phone call!

Strategy # 5: Write articles or a newsletter

Real estate articles and information could pave the road to your success. They can greatly increase the chance of your investment business getting noticed by your prospects.

Write articles or a newsletter of useful tips on market conditions. You can send them to current and past clients and ASK for referrals and for their BUSINESS.

There is a little-known marketing secret that is used by PR professionals in order to explode their online and offline businesses. If you are a real estate investor entrepreneur, you could, of course, hire a marketing firm in order to exploit this type of marketing. However, there is a way to make use of this secret without spending thousands up front: real estate articles.

Articles can bring business literally to your doorstep. When most entrepreneurs think of marketing, they think of paid advertisements in newspapers and other media. While there is nothing wrong with paid ads, a free and informational real estate investment article or two is a fun, easy, and rewarding way to get even more effective marketing—often at no cost.

Providing free real estate articles on investing techniques or certain types of property investments works well for several reasons:

- People pay more attention to articles than paid ads. Have you seen the multipage ads in magazines disguised as articles? All your customers, including your potential homebuyers or investing clients, are bombarded with ads each day. They often appreciate—and are willing to spend time on—reading an article on property investing that gives them useful information without using the hard sell.

- Become an instant expert. Providing property investing information in the form of free real estate articles can establish you as an expert. By publishing a real estate article—or a series of several on a particular topic—you can easily position yourself as an expert to the media. In some cases, a reporter or media professional may contact you for a story. The fact is, investment-related articles can easily lead to more marketing and more exposure.

- Want more income? Real estate articles themselves can pay. Depending on where your real estate article appears, you may get money for your work. You can also publish your article on your website, where its keywords can attract more traffic to your business. You can even gather several articles together into a book or even easier—an ebook.

I know what you're thinking—easy for you to say, but I don't know how to write, and what if they steal my ideas?

My own fear was not about being stolen from, but of writing. I always considered myself a good speaker, but when it came to writing, it all came to a screeching halt.

Well, I started writing as I spoke and voila! I became a writer and so can you, if you can speak reasonably well. Write simply, the way you would speak to a client. Explain everything in simple terms and share the ideas that are important to you.

There's no need to worry about someone stealing your article ideas either. A quick search online will likely show you that just about every real estate topic has already been written on. It is very unlikely that your article will contain information that no one in the business has ever heard before.

The purpose of your writing is not to come up with your own original theory of relativity, it's to express your ideas on real estate investing—what's working and not working, and that'll get you noticed. If, even better, your real estate articles contain fresh new information and are presented in an interesting way, it is very possible that your innovation will mean more attention and more marketing opportunities for you.

With so many advantages to writing, start developing and distributing free real estate articles today. Write about what you know best and consider submitting your piece to a newspaper and/or magazine that publishes similar articles. Or consider posting your article in an online article directory. Just remember to include some information about your business (not a blatant sales promotion), so that your piece can lead the profit to you!

Strategy # 6: Give speeches

Now that you've written, it's time to speak! I know public speaking is the number one fear (ranked higher than death). Get out of your comfort zone and give speeches about your real estate investing business at REIA clubs, Chamber of Commerce, or Local Board Functions and tell them why this is a great time to be in real estate. Once you've written articles and ebooks, they'll introduce you as an author (instant credibility).

Strategy # 7: Start your own local investors club

You've written and you've spoken, now it's time to create your own platform to do it on a regular basis. Start your own REIA (Real Estate Investment Association) group and hold weekly or monthly meetings. It doesn't have to be formal, just get-togethers at local diners with a few folks who you know personally.

A good friend of mine, Larry Harbolt, started a meeting at a local Perkins with four other friends. It grew to be a regular 100+ people Monday night meeting that launched Larry's career as a professional speaker and real estate coach. I used to attend these on a regular basis and I'm very grateful to Larry for starting the support group, because I needed it very much during my early career. The meetings still go on and I go there if I'm in town.

I have another friend who started what is now one of the most successful for-profit REIA groups (www.TBREIA.com). He's so successful that he's now one of the most sought-after consultants in the industry. Instead of investing in real estate, his primary business became providing information to the local real estate community. He and his partner have helped hundreds of investors get started in this business, which in turn helped them become financially secure.

There are many ancillary benefits of starting your own REIA club. All you need to get started is a genuine caring attitude, like my friends above. You can even start an online group and then meet locally (see www.meetup.com above). And don't forget to attend all the regular REIA meetings that are happening all around town. This is a perfect time to build your business network and to reconnect with members that you have not talked with in a while.

Strategy # 8: Find your niche and create your USP

I once attended a seminar called **"Specialize or Die."** In this day and age when information is practically doubling every 5 to 10 years, it's impossible to know everything about a subject. Become a specialist with a small niche. There is a saying, **"Riches are in the niches." Advertise that you are unique in your specialties** (i.e., short sales, luxury investment properties, lease options, pre-foreclosures, international properties, REOs, etc.). **My specialty is finding eager and qualified buyers.**

Strategy # 9: Read, endorse and give people how-to books as gifts.

Endorse the books you love and send them to clients and others as gifts—add a personal note. I endorse *The World is Flat, Never Eat Alone,* and all the books and real estate resources you can find at the Winner's Circle website (WinnersCircleResources.com).

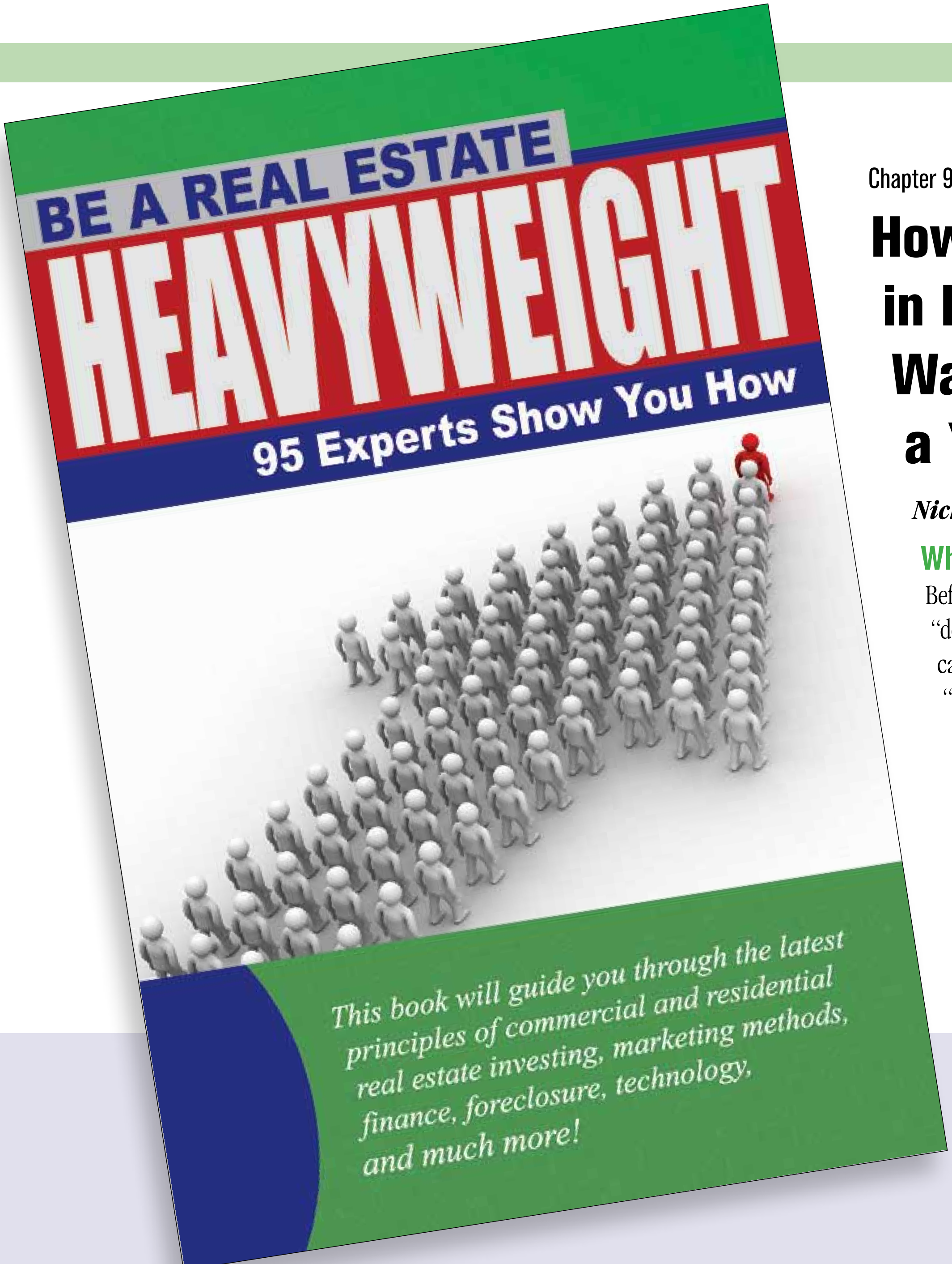
Most people don't throw books out. So it is a great advertisement that usually ends up on coffee tables or in personal libraries.

Strategy # 10: Become a professional networker

Success in any field, but especially in business, is about working *with* people, not against them. No tabulation of dollars and cents can account for one immutable fact: Business is a human enterprise, driven and determined by people.

Reach out to people as a way to make a difference in their lives, as well as a way to explore and learn, and enrich your own. Like anything else, if you'd like to learn about "networking" then invest some time and read some of the best books on networking. Don't just "network"—connect with people. Share your knowledge and resources, time and energy, friends and associates, and empathy and compassion in a continual effort to provide value to others, while coincidentally increasing your own. Like business itself, being a connector is not about managing transactions, but about managing relationships.

I wanted to network with other real estate gurus in my industry and I couldn't find what I was looking for. That's why my partner Dave VanHoose and I started The Winner's Circle. Now many of today's top real estate gurus come there to network and learn from each other. I learned that real networking was about finding ways to make other people more successful. It was about working hard to give more than you get.



Chapter 9

How to Get Started Investing in Real Estate (The Right Way, So You're Still Here in a Year!)

Nick Cifonie

Who "Is" This Guy?

Before I go into the goodness investing can be, share my "do's" and "do- nots," and ramble on about this biz we call real estate investing, I guess I should tell you just "who" I am, and "why" you should listen to me.

Fair enough? (just say "yes"…or keep reading)

Here's my "bio" from the site where I host "Real Estate Investor TV," a fun and educational online site I host where you can find dozens (and soon to be hundreds) of episodes of "The Flippin' Right Show."

The show's series include *A Day in the Life*, where the cameras follow me from deal to deal, showing you some of the day to day activities most investors enjoy, and *Newbie Tuesday*, a series focused especially on the new investor, as well as others.

You can get a FREE membership to "Real Estate Investor TV" by going to: http://www.REI-TV.com . Members can watch the series described above, as well as login to the private area and get free seller leads, free videos, audios, and more…all chosen to make you a better investor.

Anyway…on to me:

Nick Cifonie is a long-time real estate investor, speaker, and mentor. Nick has bought and sold millions of $'s in single family homes and multi-family properties, using techniques including bird-dogging, wholesaling, lease-options, subject-to transactions, buy and holds, seller financing, retail flips, assignments, options, auctions… and has even flipped property on EBAY!

Nick is the current host of the popular "Real Estate Investor TV," a fun, educational series found at http://www.rei-tv.com , and was the moderator for "Pappa" Ron LeGrand's real estate investing forums and message boards for nearly two years, where Nick helped coach and teach Ron's students.

Nick is currently a moderator at http://www.magicbullets.com , "the" premier forum and online real estate investing community on the planet!

Nick is the loving father of three beautiful girls and is married to an absolute angel, without whom none of his success could have been even remotely possible! Nick is active in his church, coaches volleyball, collects PEZ, is an actor, singer, and is entirely addicted to MMORPG's. (Massively Multi-player Online Role Playing Games)

Chapter 9

How to Get Started Investing in Real Estate (The Right Way, So You're Still Here in a Year!)

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You are invited to learn more about Nick and his interests at his Facebook page: http://profile.to/nickcifonie.

The Rosy Side…

Real estate investing is a fun, profitable, and personally rewarding business…especially once your system is setup and the deals are rolling in. It can give you flexibility, a high income (sometimes on a part-time basis), the luxury of setting your own hours, can let you work from home, provide you a high income, and of course, can certainly "set you up" financially for the rest of your life.

Did I mention the high income?

All kidding aside, in addition to being one of the most documented creators of millionaires in history, the list of other reasons besides money to get into real estate is as long as you'd like it to be…and then some.

I imagine though, if you're reading this, you already KNOW that!

The Side the Gurus "Don't" Tell You About…

First off, I'm not telling you about "the dark side" of investing to scare you off, make you think twice about getting into real estate, keep you awake at night, or make you apprehensive…it's simply to let you know it exists.

Without the proper support and training, a solid investing education, a team of experts you can refer to for support and advice, and a bit of good old fashioned "elbow grease," investing can be a fruitless endeavor. We all make mistakes when we first begin to invest…however, if we learn from them, it's all good…and it makes us better businesspeople.

Real estate is NOT always easy.

Many top investors will attest that each deal brings with it its own set of problems, challenges, and shortfalls. I can't remember a deal where "everything worked like the gurus told me it would." Be prepared to solve problems on the run, and deal with a whole lot of people who don't always see it your way and who are trying to milk as much as THEY can, out of YOUR deal.

Most people believe the gurus who say "anyone can do it, it's easy"…and then get very frustrated when they realize it takes a lot more than listening to a few CDs and reading a book or two, to get that 1st deal done.

<u>Be prepared to work with educated idiots.</u>

More importantly, the gurus never told me how unfamiliar most "professionals" ::cough:: in the real estate industry are…with real estate.

This list of knuckleheads can include Realtors, attorneys, inspectors, other investors, closing agents, lenders, appraisers, contractors, and more…so be prepared to have to "educate" people on our type of investing.

Don't get me wrong, just as many will "get it," as the rummies that don't, but sometimes you'll feel like you're banging your head on the wall trying to explain a process to someone who considers himself a "pro" at the subject.

The good news, is that in time, you'll find the right people to put on your team… and as you grow, so will your team and connections. In this business, the old saying "it's not what you know, but who you know," can definitely spell the difference between a winner and a loser.

Chapter 9

How to Get Started Investing in Real Estate (The Right Way, So You're Still Here in a Year!)

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Real estate will not make you a millionaire in 90 days.

Don't misunderstand me…once you know what you're doing, you can MAKE a million in 90 days…it just won't be your FIRST 90 days! (and you may never cross this threshold)

If you bought someone's program because they said you "can" make a million in 90 days with their "secrets"…. I might suggest your first deal be buying the Brooklyn Bridge. (call me, I'll sell it to ya cheap!)

The only place "success" comes before "work" is in the dictionary!

I'm going to suggest you look at 100 houses, talk to 100 sellers by phone, and show 100 houses to buyers before you begin to outsource your work.

Does that sound like hard work? IT IS!

Once you know what you're doing, you can certainly work less, and make more. However…you will only truly succeed in this business if you do it all yourself at first. I spoke with a new investor who was frustrated because he hadn't done a deal in his first year. I questioned him, trying to help…one of his comments was:

"I keep giving leads to my people to call, and none of them have brought me a deal."

Nobody cares about YOUR BUSINESS like you do. Nobody works as diligently in YOUR BUSINESS as you should.

Get the proper training, find the right mentor, choose and buy the right program, pursue the right "niche," get the proper amount of experience… then WORK HARD… and after some trial and error…you WILL succeed!

So Where Do You Start?

Keep in mind this is my advice for someone who is new to owning a business "in general" as well as someone going into real estate investing. It's also what I feel is the best way to get rolling, assuming **you don't have a lot of money to throw at a new business.**

Those who have business experience or some cash to spend may take a different route, like hiring a personal mentor, getting involved with some high priced training programs, or attending some "bootcamps." Even so, if you're new to the business, I wouldn't start attending high priced bootcamps without recommendations or endorsements from experienced, successful investors who are familiar with the programs offered.

This is but one person's suggestions, and of course, there's other ways to learn the business. I feel this is useful for someone who has limited resources and expects to begin on a part-time basis. Some investors eventually quit their "real job" and invest full time, and others only do a deal or two a year, for some vacation money, or to put towards retirement.

Personally, I started in the business by reading books about real estate investing, then buying a training course, then finally paying someone to mentor and train me. I didn't put out the bigger $ until I had MADE money though. I took it slowly, a step at a time.

So many spend small fortunes without having made a dollar. Start small, make some $, and reinvest it in training, advertising, and infrastructure. I know… you want a deal "now"… but sometimes the deal you DON'T do is more profitable than the one you do!

Patience, grasshopper!

Chapter 9

How to Get Started Investing in Real Estate (The Right Way, So You're Still Here in a Year!)

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You have to remember that REI is a "business." It's not something you do as a hobby. So, it has to be treated like a business. It doesn't have to be a "full-time business," but whatever you do, whether it's 3 hours a week or 30, has to be done properly.

I NEED The Corner Office! (NOT!)

Don't get "executive-itis" and start spending all of your money and time setting up corporations, building multi-level entity systems, and playing Donald Trump. If you have "no money," stop worrying about business names, LLCs, corporations, DBAs, and start worrying about finding deals.

You don't need to "start a business," until you "have business"*.

I've seen countless new investors spend/waste thousands of dollars setting up companies, building websites, getting fancy entity structures and playing businessman all the while not making any offers or calling any sellers. Use your resources for education and marketing.

***The above is not meant to be legal advice** by any means...like any other business, you should be talking to an accountant, and possibly even a business attorney about how the business should be setup.

It's simply a warning, not to get too "carried away" by the "cool factor" of owning a biz, handing out your own business cards, thinking up name, and the like... if you've never talked to a seller or looked for a deal!

MANY investors do their first deal or two in their own name, without a "company" or anything resembling one, and do just fine... especially if they're just flipping a house, or assigning a contract.

Let's Start With the Basics...

You should go to the library or bookstore and get some books. Start with *Think and Grow Rich* by Napolean Hill. It has nothing to do with real estate, but it will start to teach you how to think like a business person. I'd also read *Rich Dad Poor Dad* by Robert Kiyosaki. These books will change the way you think and look at business.

Of course, while getting your biz background, you should be watching the dozens of free investing videos found at www.REI-TV.com !

As a free member at Real Estate Investor TV, you'll find loads of resources in the members area that will introduce you to many other authors and trainers. These are from people I know and trust. By watching the videos there, as well as attending the free webinars I'll invite you to, you'll begin to learn the business, and you will be more prepared to do decide which "type" of investing suits you the best.

This manuscript has enough free information in it alone to provide you the background you'll need to start choosing the investing "niche" that interests you the most, and will help you hot and achieve your investing goals, no matter what they may be.

The sections of this "who's who in real estate" you're reading now will get you started down learning how creative real estate investing works. Each will have his/her own ideas and "systems," and while almost all of them work, (if you do!) you will at some point have to decide which route you'll take.

Start to Take Some Action!

Once you know what to look for, start slowly looking at houses, and making some offers. You should set a goal to evaluate 100 properties. Go to open houses, auctions, and visit other investors that you've come to know. Ask questions everywhere. Get to know some Realtors as well. The good ones have their fingers on the pulse of the industry, and can open some doors for you.

As soon as you can, find local Real Estate Investors Associations and clubs. Many of these groups are very inexpensive to join, and have speakers come in monthly to talk to their members.

Also look for other investors clubs and orgs in your area. If you can't find any, call the sign and ads in your area that say "We Buy Houses." Call those guys and ask them "what can I do for you?."

Most will turn you away with some short advice, but others will help you out. Now is the time to get used to rejection.

Start mixing with and meeting other investors, ask questions, ask experienced investors: "how can I help you" or "can I help you find deals somehow," and perhaps you can learn from them, partner with them, or even work with them somehow.

By now, you should be reading books, visiting websites, contacting the people in this manuscript, getting out and learning your area, meeting local investors, listening to webinars and teleseminars, and "pouring yourself" into this business.

As you do this, start to keep your eyes open for low-cost real estate seminars and training in your area. Even today, as a well known educator, mentor, and speaker, I go to 3 to 4 bootcamps or "events" per year. You should NEVER stop learning, especially in a business like this, that changes SO quickly!

They're Trying to Sell Me Stuff!

Many of the seminars you'll be invited to, events you attend, and even the webinars or teleseminars I invite people to at REI-TV end with a "sales pitch." Don't be so stuck-up that you don't believe you can learn something from simply listening... but on the other hand, don't be afraid to "say NO" either!

When an industry expert decides to use her time to teach others, they SHOULD be paid for it. Let's use logic...if someone has the know-how to flip a house and make $40,000, but they choose to use that same precious time to talk to you, stand on a stage, or create a program, shouldn't they be compensated?

I end many of the e-mails to my friends with "anything you read, watch, or listen to, makes you a better investor." (whether you buy something or not!)

I learned this business primarily by listening to webinars, sitting at seminars, and reading "free reports" that the gurus put out as teasers, or "freebies." Open your mind and learn...once you know what niche to pursue, and what type of investing you're going to do...then, open your wallet.

The money you spend on training is MUCH LESS than what you'll pay if you screw a deal up!

The FASTEST way to learn this business is to spend some money with someone who's willing to teach you, or who's created a program to teach you. (I'll mentor you myself actually, and the 1st two months are free: http://rei-tv.com/news/free-real-estate-coaching)

There's RICHES in NICHES...

At this point, you'll need to start to decide what your model will be. . .or what "niche" you intend to start investing in.

If you have the financial resources, there's nothing wrong with spending a few hundred for a program, going to a bootcamp, or even spending bigger money to get an experienced real estate investing coach. . .but beforehand, decide which direction to take, so it's not money wasted.

- Do you want to be a house wholesaler?
- **Want to learn how to do short sales?**
- Are you into subject-to buying?
- Are you handy, and love to renovate or "rehab" houses?

There's dozens. . .or possibly hundreds of ways to earn and make money with creative real estate investing. . .even as a beginner!

Eeny, Meeny, Miney, Mo; Which Technique Will Make Me Dough?

They all can...but what do you have to work with? Time? Money? Credit?

There's a long list of investment strategies for the creative investor...also known as a "flipper," (no, not the dolphin) but as a new investor, how do you know which to pursue?

- "I saw an infomercial telling me I should buy houses at tax sales!"
- "Short sales are easy...a Realtor told me so!"
- "I saw a guy on 'Flip That House' make $70,000 in 3 weeks, and he was a jockey!"
- "Foreclosures are at an all-time high; can't I buy one from the bank?"

Are you ready for Advil yet?

Ok, ok, let's break a few of the top strategies down, one at a time, and show you the pros and cons. All kidding aside, you CAN make plenty of dough using any of the above techniques, if done properly...but that's where the trick lies as a new investor. How do you decide?

Let's set the record straight and help you look at your own, unique situation and begin to learn how to ask yourself the correct questions that will help you choose which path is your best option.

Who knows, you may end up being one of the guys in a Hawaiian shirt sipping a margarita on next year's 3:15 AM infomercial!

You Don't Want Risky Business At First!

Some techniques are too risky for a new investor. Here I've included methods that require very little risk, and little to NO money out of your pocket to get started, as well as a few for more seasoned investors.

I'll indicate the amount of risk and how long it typically takes to complete "a deal," as well as the amount of cash required up front to get involved, and your potential earnings from a successful completion.

- Becoming a "Bird Dog." (no money down, no risk, 2 to 6 weeks to payday, $500 to $2000 earnings)
- Wholesaling "Ugly Houses." (no money down, no risk, 2 to 6 weeks to payday, $2000 to $20,000)
- Doing a "Retail Flip/Inverse Purchase." (no money down, no risk, 6 to 10 weeks to payday, $10,000 to $50,000+)
- Buying and Selling "Rent to Own." (low money down, moderate risk, small payday in 3 to 4 weeks-larger payday 1 to 3 years, $20,000 to $50,000+)
- Buying Properties "Subject-To." (low money down, moderate risk, small payday in 3 to 4 weeks-larger payday 1 to 3 years, $20,000 to $50,000+)
- Short Sale Investing. (low money down, no risk, 2 to 6 months to payday, $20,000 to $60,000+)
- Rehabbing, or "fix and flip." (high money down, high risk, 3 to 12 months, $30,000 to 200,000+)

Keep in mind these are my opinions, and as this business goes, to every rule, there's an exception!

Let's Flip Them houses!

Ok, are you more confused than ever? First off, the ratings above can fluctuate...a lot. The difficulty, time-lines, risk, and amount of money I note above is pretty close, but one thing that's certain about creative real estate investing...is NOTHING is certain!

I've seen (and made) more than $20,000 in one wholesale deal, and seen some bird dogs make a LOT more than $2000, but the guidelines above are the averages, and pretty accurate. The first two techniques ("bird dogging" and "wholesaling") are the easiest, most suited to a beginner, and certainly have the least risk.

Having said that, although the "fix and flip" is usually the most lucrative, I've seen people LOSE tens of thousands of dollars in one deal...so again, although my figures above are average, your skill level, training, and experience can make or break you.

In most cases, the less risk there is, the less earning potential, and the quicker the deal can be completed. The more risk, the more to gain...and it usually takes a bit longer to wrap it all up.

The "rule of thumb," it that in most cases, the more $ you have to put down, the longer the deal takes, the harder it is to pull off, and the more you stand to lose if you "screw up," the more money you can make. Does that mean that you can't make any $ quickly, or a lot of it, if you are broke, have a zero risk tolerance, no time, and experience challenged?

Heck no!

The solution would be to do a LOT of the easier, faster, and less risky deals until you get the experience, time, and money needed to pull of the "home runs."

More Details on Each Niche. . .

"Bird Dogging"—This is a technique of finding a house for another investor, and passing along the info to him. You don't talk to the buyer, besides getting some general info, and you pass that info to a more experienced investor. That's it!

When the investor buys the house, he pays you or your efforts. The

1st $500 I made in this business came from doing exactly that, and the check (er, a copy!) still hangs on my office wall, years later.

<u>"Wholesaling"</u> —Wholesaling is similar to bird-dogging, except when you find a highly discounted property for sale, instead of giving the whole "deal" to another investor, you put it under contract to buy it yourself.

You become the gatekeeper! Now... you're not actually going to "buy it," you're just going to add another $3000 to $20,000 to the price, and "assign" that contract to another investor. (usually the "fix and flip" type)

That investor will pay you your "added price" either before closing, or at closing, but the nice part, is the investor you "sell" it to will NOT buy it from you, he'll buy it DIRECTLY from the seller.

Technically, you "sell" the new buyer your contract with the seller, and he goes to closing in your place.

Besides getting your $, you're out of the deal!

<u>"Retail Flip/Inverse Purchase"</u> —This is very similar to wholesaling, and another where we (besides marketing costs) have no out of pocket costs to do the deal, and no risk if it doesn't close.

A "retail flip" is when you find a "pretty house," one that doesn't need to be rehabbed, and you get it under contract at a discounted price. Once you have it under contract, you find a retail buyer, someone who wants to "move in," raise the price, and sell it to them.

Like wholesaling, you do not "close" on the property and buy it yourself, you simply get a contract to purchase. When you have found the end-buyer, he buys from the seller, and the seller pays you "the difference" at closing.

This is one of my favorite types of deals. I made $54,000 last year on one of these deals alone! You can learn the Inverse Purchase technique at:

http://www.YouProvideTheCash.com

<u>"Subject-To" & "Lease Option"</u> investing—While these methods are very similar, they "function" the same.

You find someone who needs to sell, and are willing to either sell or lease the house to you, but leave their existing mortgage on the house. You take "control" of the property, but you don't move in...you raise the price, as well as the monthly rental amount, and find someone else to move in.

You get a fair deposit, usually from $5000 to $20,000 "up-front" from the new tenant/buyers, and they rent from you until they can qualify for a mortgage of their own. You charge them $150 to $400 more in rent per month than you pay as well.

Doing these types of deals have 3 paydays. You get the deposit $ "up-front," you make a little every month, and the big payday comes a year or three down the road, when they get their own mortgage and "cash you out." This is when you get the balance of what you agreed to pay, and what the buyer bought the property from you for.

This strategy can be very lucrative, and with the economy in its current shape, it's VERY easy to find these properties for sale...but keep in mind, even if your new tenant doesn't make the mortgage/rent payments to you, YOU STILL HAVE TO MAKE THEM to the original sellers, or their mortgage company!

"Short Sale Investing" —This is a procedure utilized when a homeowner is in foreclosure. You contract to buy the property from the seller, but since they are soon to lose the property, you do NOT negotiate with the seller, but with the bank or mortgage company that holds the mortgage.

As I'm sure you're aware, the nation now has more foreclosures than almost any time in history. Because of this, banks are willing to reduce the amount they have coming to them from the homeowner, and sell to an investor for a greatly reduced price.

Short sales can be a long process, sometimes taking many months, so if you need some "fast money," this won't be for you. In many cases, after many months of negotiations, the deal is killed by the bank. It also takes a load of skill to know "how" to talk to the banks, and convince them you're "for real."

Many investors have turned to "Short Sale Services" to undertake this task, and they pay these services to negotiate with the lenders on their behalf.

In any case, a successfully negotiated short sale can be VERY lucrative, and certainly worth the investors time and efforts. There is little risk if done correctly, and profits of $60,000 to well over $100,000 are not uncommon.

You can get short sale training, and the money needed to fund the deal at:

http://www.IprovideTheCash.com

"Rehabbing, or Fix and Flip" —Rehabbing is the technique that typically (there's ALWAYS exceptions!) takes the longest, is the most risky, most challenging, and brings in the biggest single paydays.

"Rehabbing," or "fix and flip," is when someone buys a property that needs (sometimes extensive) repairs, takes on the challenge of making those repairs, and then sells the property in its new-found glory to a homeowner. (who usually plans to "move in)

First off, you have to have the cash and/or credit to buy the house. No matter how cheap you got it... it's still a check you have to write. In the words of one of the top real estate trainers, Ron Le Grand: "If you don't write check, you can't lose check."

You then estimate the repairs. If you're $10,000 off...you just lost $10,000! There are ALWAYS things that "come up" that you didn't see on your initial inspections, so estimate high, and buy low!

You then have to either put in the time to do the rehab, or pay someone else to do it.

Once the work is done, you have to find a buyer... not an easy task these days, if you can't offer a discount! In any case, once you finish the deal you will likely make great $...but the risks are definitely high.

Ok, I've Chosen My Attack...Now What?

Follow the steps in the beginning of this report. Like I said earlier, "pour yourself" into the business. Got on as many webinars and conference calls as you can, read, read, read… ask questions on internet forums, meet and talk to investors, join a local REIA (club) and most importantly, take action.

If you have money to spend, get a training program from a good real estate trainer. For $300 to $1000 you can get a program consisting of CDs, DVDs, manual, books, and other tools.

If you can't afford even that, consider joining my "Prime Time" group. Like I said earlier, it's FREE for the 1st two months, and you get to talk to me twice monthly, as well as interview special guests I bring to the calls. (the link is at the top of this report)

If you have more to spend, you can attend a live "real estate bootcamp," where for 2-5 days you can be personally trained. Even higher up the ladder, and more expensive, you can hire a full-time coach, or real estate mentor.

Yes, at some point you'll HAVE to spend some $ to learn this business, but it can be kept to a bare minimum, and it shouldn't "break the bank." Save your pennies, start off with a $300 to $500 program, consider joining our "Prime-Time" membership level, so you can talk to me a couple of times a month and ask me questions, and get ONE deal done. The profits and confidence will have you off to the races!

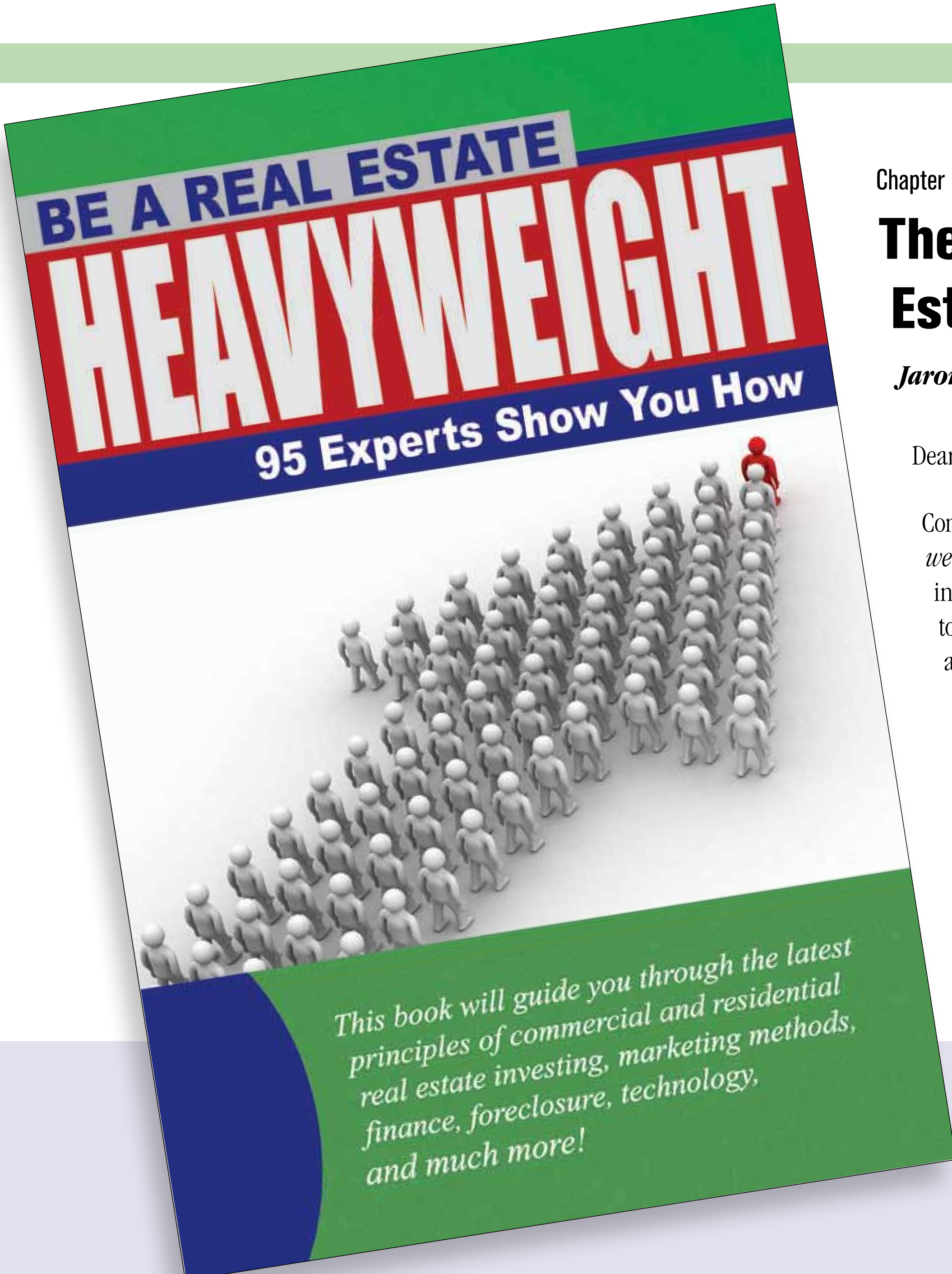
"It's hard by the yard, but a cinch by the inch!"
Don't be in a hurry…start carefully, and consider making $500-$600 by finding a "seasoned" investor a deal, and getting paid for it, as a "bird dog." Put the money towards a $500-$800 training program, and do ONE deal. Put that money into a bootcamp or real estate investor seminar, and get the training you need.

We'll see you at the top!

Nick Cifonie

Host: Real Estate Investor TV,

http://www.REI-TV.com



Chapter 10

The 7 Great Lies of Real Estate Investing

Jarom Adair

Dear Friend,

Congratulations on getting your copy of *Be a Real Estate Heavyweight*. This section, *The 7 Great Lies of Real Estate Investing*, is included at the beginning of this document because it is meant to get your real estate career started the right way by clearing up all the misinformation that causes most new investors to fail.

For quite a while I, like a lot of people, had fantasies about what it was like to be a successful real estate investor. But my views changed dramatically when it started to become a reality.

I started to experience real estate for what it really is. All the hype and fantasy faded away as I began to understand what real estate could do for me—and what it couldn't.

In the beginning I sat around thinking about real estate for a year before I got serious about it. I began going to boot camps and seminars and buying materials. I had this idea in my head that if I could just learn how to invest then the rest would fall into place and I'd be where I wanted to be financially.

But I wanted to do things wisely. I wanted to do things the right way the first time. I had wasted a year of my life thinking about real estate investing and now I was ready to really do something about it, but I didn't know where to start.

So I struggled. And I spent money. And I made costly mistakes. And I wasted time. And I did all these things and I didn't made a dime.

That was a couple years ago.

Since then things have changed dramatically for me, but the industry has not changed. It is still very hard on beginners.

Over the last couple years I've talked with hundreds of would-be investors about their concerns, trials, and roadblocks to successful investing. And, guess what? We're all dealing with the same issues.

After thousands of hours working with experienced investors, mentoring new investors, and reflecting on my own experience in real estate investing, I now have a very clear picture of the road to success. I know exactly what actions I would take, which actions I would avoid, and how I would get started if I had to do it all over again. And I've written it all down here in this document with the hopes that it will benefit you and other's who are dealing with the same issues I dealt with.

So grab a highlighter and make this thing glow in the dark. I can say with confidence that you will find at least one concept or piece of knowledge in this document that will completely transform your investing career.

Yours in success,

Jarom Adair

http://www.realestateinvestingforbeginners.com/

Getting Started: Important Things to Understand

Each year Americans spend roughly $500 million on real estate investing education. They all want success, but less than five out of a hundred actually go on to make any money at it and even fewer make the fortune they are looking for.

Most of what holds them back is that they've been lied to. These lies got them interested in real estate investing in the first place and they're what they based their decision on to choose it as a new career. When they began to act on the false information they had been given, they failed.

This document will explore those lies in detail so you can recognize them for what they are **before** you make serious time and money consuming mistakes. Then it will go on to give you an accurate understanding of what it takes to be a successful investor.

But first it is important to get some background. Where do these lies come from? Why are they so prevalent? How have they been perpetuated?

Meet the Gurus

If you've been interested in real estate investing for very long, you've probably seen or even bought information from one of the "guru" real estate investors. Who are these gurus? They're investors who, at some point in the past, made good money in real estate. Things were going well for them and then they realized what many business people realized during the Gold Rush in the mid-1800s. In the years following the discovery of gold there were a few people who made a fortune prospecting for gold, but the best and surest money was made *selling picks and shovels to the thousands of gold prospectors!*

Similarly, the gurus who found that it's possible to make great money in real estate then discovered there was a huge market for selling real estate investing education to people who want to invest themselves. This education is the "picks and shovels" of the real estate gold rush.

These gurus fill a valid need. Without education in real estate you are virtually guaranteed to fail. Investing in real estate without education is like a dentist drilling a tooth without going to dental school—bad things will happen. Just like any career where you can make serious money, you need to get a serious education to succeed in real estate. But the guru real estate education system is broken. Remember the 95 percent failure rate? It's guru statistics we're pulling that number from.

Like any self-interested businessperson, the gurus aren't going to come right out and tell you about their failure rate. What's more, they've found there are a number of other unpleasant truths that cause people to hesitate spending money on their products. The gurus have learned how to sidestep the facts that don't serve their purposes, and replace them with things that are mostly true, somewhat true, or only true in rare instances. These half-truths have further morphed to the point where they are deceitful, misleading, and outright damaging to the beginning investor.

One result of this is that the gurus make a lot of money telling you what you want to hear. The other result is that you will likely fail believing what they tell you.

Each of these lies has been a nail in the coffin of a would-be real estate investor. If you want to succeed at real estate, seeing through the lies is the first step toward success.

Next, you need to find out what you really need to become a successful real estate investor. By the end of this report you'll be able to make much more intelligent decisions regarding whether or not real estate is a good fit for you and what the best way to get started would be.

How to Get the Most Out of This Report

The first part of this report (the *7 Great Lies* portion) was available on my website for a couple of months before being added to this larger, more comprehensive report. There are two reactions people have had to it.

People either say:

> "I loved it! I wish I had read it years ago!"

or

> "It was good but nothing surprising. Just commonsense information."

After gathering hundreds of comments and reactions, I can tell you ahead of time how you'll feel about this report as you read it: The more money and time you have already spent trying to get into real estate investing, and the more frustrated you are with the process, the more you'll love what I've written here.

One Texan sent me the following:

> "I have finally met the reason behind my hardships and it's the twisted information that I so truly believed!!! The professional sales people will tell you anything to sell

their product, and if the truth wasn't exposed by Jarom Adair I would have still maintained the misconceptions in my head that made me think everyone else was normal and only I was retarded. They simply aired my frame of mind on this site and I couldn't be more grateful for the relief I've found through you guys and your site!"

It's true—if you've spent thousands of dollars and years of your life chasing the real estate dream with no success, all the while hearing over and over again from the gurus how easy real estate is and how anybody can be successful, it starts to really irritate you.

On the other hand, if you have no experience trying to break into the real estate investing world (you haven't made the attempt yet), you'll probably fall more into the "the report was good but nothing special" category.

So, if you're new to the investing world, this is how you want to approach the information in this report:

Realize that if you're relaxing in the comfort of your own home reading this, then what I say here is just common sense. It's the truth, and as such it will resonate with any intelligent, rational human being. **But**, (and those who have experience know this all too well) there are situations in every aspiring investor's life when you'll become frustrated, depressed, confused, or lost. You're going to start searching for answers and you're going to find yourself in unknown territory.

You're going to find yourself attending real estate clubs or guru seminars, staying up late watching infomercials or surfing the Web, and you'll get bombarded by claims that promise to give you something that you really want (like money freedom, time freedom, and the lifestyle you've always dreamed of). **At that moment**, when you need answers or direction, you become more willing to believe things that you normally wouldn't, especially because these solutions are coming from professional investors who seem very credible. Their advice comes at a price, and that's where you can make expensive mistakes.

I Don't Want You to Make the Same Mistakes Most Aspiring Investors Make

I don't want you to look back on the last several months or several years of your life and say to yourself, "Well, *that* was a complete waste of time. . . ."

I also don't want you to be trapped in indecision or stuck in one place because you don't know how to act.

The fact is, most new investors are either on the wrong path and headed nowhere, or they're on the right path but they don't know it and they give up too soon.

I'd rather you spend your time and money in such a way that you'll get the education, mentoring, and support you need to be successful at real estate as quickly as possible. That's why I've written this whole report—so that you don't waste time and money on anything that is not going to get you where you want to go.

If you don't understand what you need to have in place to succeed, and you don't know what to expect while you're looking for the shortest route to real estate success, you're going to take a lot of wrong turns *and* you'll wind up flushing tens of thousands of dollars and years of your life down the drain going after what you want in the completely wrong way. And if you've already spent a lot of time and money (I'm one of you), then this information is here to get you back on track.

Part I
The 7 Great Lies
Lie #1: Anyone Can Succeed in Real Estate
Guru Quotes

> "I made $50,000 my first month in full-time real estate.…And keep in mind, I'm just a regular guy. Never went to college. Wasn't born into money, and had no real connections at the time."

> "I made $7,000 my first month in real estate, and I'm just an average guy who barely graduated high school. If I can do it, anyone can do it!"

These are the kinds of testimonials you see on real estate websites that sell boot camps and seminars (see "The Guru Experience" in the appendix for more information on boot camps and seminars). If you don't know what I'm talking about just plug "real estate investing education" into any search engine and read the testimonials on the websites that come up. I found all the guru quotes in this document just by surfing the Web.

There are usually a number of testimonials from people who say they started out as average people working average jobs with average incomes, but then they bought the book/CD/seminar/coaching— and suddenly made a lot of money in a very short period of time.

I'm not saying that the lie is the amount of money or the time period in which they made it. They might be lying, but I like to believe that those claims are true. The lie is the "average" part.

The Truth

"Anyone" cannot succeed in real estate. Your "average" person is not going to make it. America is full of average people, which is why America is built on the employment system. The average person *can* successfully hold down a job and survive on the resulting income. But the average person will fail in real estate investing.

Real estate investing doesn't exclude anyone based on their education, credentials, or background, but it does require a number of skills that most average people don't have. We're not a ragtag bunch of amateurs. *To succeed in real estate you'll need to have skills in sales, marketing, finance, and have the right habits and work ethic to make it happen.* The average person, lacking these skills, can jump into real estate unaware that they will need (contrary to what the gurus claim) much more than a two-day boot camp to succeed.

I've worked with people who started out pretty average, but they had a lot of determination and persistence. It took them longer to make it in real estate—months or, in some cases, years. They had to develop several areas of their life to become wealthy. Today they are the kind of people who will quickly become successful in anything they decide to do, but they worked to become well above average to achieve their success.

How does this apply to you? What is your gut telling you?

Gut Check

If you are excited because you get to learn new skills and develop yourself while on your road to wealth, then you're in the right frame of mind.

If you've got a sinking feeling and are saying to yourself, "I really don't have the time and energy to learn all this new stuff," then you'll need to change your thinking or give up on real estate. Remember, your current skills and abilities got you where you are right now. If you aren't satisfied with your current situation, you're going to have to change yourself in order to change your circumstances.

So the bottom line is, if you've got the skills already, you'll do well in real estate pretty quickly. If you need to develop the skills, as most new investors do, your bank account will grow only as quickly as your abilities do. In my opinion the money you make is secondary to the exceptional person you'll develop into. It's just that most new investors just don't give themselves (and aren't taught to give themselves) the necessary time to become a champion investor.

Lie #2: Real Estate Will Let You Live the Lifestyle of Your Dreams

Guru Quotes

"Imagine taking monthlong vacations to anywhere in the world, buying a second home in the mountains or on Maui, and all the freedom and financial security you've ever dreamed of."

"Change the car you drive! Change the house you live in! Change the vacations you take!"

I have to admit, when I first made my yearly income in a single month I was tempted to sit back and relax. I started thinking of buying things that I wouldn't have considered before.

After all, isn't this why we get into real estate in the first place? To move up in life? To better our situation? To live in the house we want, drive the car we want, eat the food we want, when we want, how we want, as often as we want. . .

Looking at the guru websites and listening to the testimonials might have you thinking that large houses, nice cars, and hours by the pool sipping juice from a coconut are but a few real estate deals away. But here's the problem: if you sit back, relax, and spend the money you make on toys and cars, can you see how that would have the opposite affect of helping you become wealthy?

The Truth

What you need to understand is that while you're on the road to wealth you're not going to be spending money on cars and vacations. In fact, your lifestyle will likely dip a bit. Not only will you *not* be living the good life on a tropical island depicted in the guru presentations, but you're going to have to borrow from the life you have right now.

You'll have to let go of some of the things you do for fun and sacrifice your leisure time. Evenings and weekends are no longer sacred. The wealthy have to work harder and longer for their money than the average person is willing to work (which is exactly why they're wealthy).

It's true that as an investor I get to stay at home with my family. I do have time flexibility, which most people don't have. If I want to take a break in the middle of the day or relax for a while, nobody stops me. I have an office in a spare bedroom, and my wife routinely leaves our baby boy with me when she needs a break (a lot of this document was written with him in my lap).

But here is the reality:

- I juggled a Web design business and a real estate business for many months, and worked harder and made less money during that time than I did just running one business.

- I generally work from 10:00 in the morning till 10:00 at night (baby distractions notwithstanding).
- My friends and extended family don't see me very often.
- I'm usually working when other people are playing.
- I'm so busy I forget to eat a lot of the time.

Don't get me wrong—I'm not complaining. Far from it! The truth is I really enjoy this work. I'm energized by it. I lose track of time and the day is over way too quickly. Most people work 8–10 hours a day for $30K–$60K a year. I'm happy to put in 12 hours a day for five times the income!

But it's tough when you're just getting started, and long hours aren't always fun. The only reason I'm willing to work like this is because I plan on scaling back in five years or so. By that time I can realistically have $10K–$20K passive income a month, and real estate makes that possible.

Until then, I don't live lavishly. I can live on about $40,000 a year. I've kept my expenses down so I can reinvest my profits into my business. We're an average-looking family in a middle-class neighborhood, and I doubt even my neighbors have much of a clue what I'm up to.

So here's what you should be asking yourself: "What would I be willing to give up now in order to retire in the next 5–10 years?"

Gut Check

If you're ready and willing to sacrifice your available time, money, and energy right now so that, years down the road, you can live a life you really want, you're good to go.

If you feel that you simply don't have much to give as it is, and the thought of your quality of life actually going down before it goes up just drains you of energy, then you'll have to either buckle down and get used to the idea or improve your situation through something besides real estate. Maybe by getting a better job first.

But here's the point: Don't expect to be living the high life by this time next year. What the gurus forget to mention is that whatever money you make over the next several years, you'll need to put back into your real estate business (which means *not* spending it on nice cars and exotic vacations). I suppose it's just not very sexy talking about hard work and long hours, so instead the gurus just show you the desired end result.

Real estate is not a get-rich-quick scheme. While I don't believe in getting rich slow either, it took me the better part of a year to go from $2K a month to $10+K a month in income. Realize that to get to the lifestyle of your dreams, you'll first have to live a lifestyle nobody dreams about.

Lie #3: You Don't Need Money to Do Real Estate

Guru Quote

My purpose here is not to point fingers at individual gurus (which is why I don't put a name to the quotes I've pulled off of random guru websites), but the article at http://www.reiclub.com/articles/takes-money-make-money (by a very well-known guru) perfectly exhibits the kind of misinformation you find out there. At the very least, read the first paragraph then skip to his 9-step action plan at the bottom and count how many of the steps actually do require money to complete.

What did you find? I counted four out of nine steps that require money to complete his "no money down" deal: step 2, putting down a deposit; step 4, ordering a title search; step 5, taking an ad out in the paper; and step 8, closing on the property. The title search and the ad will cost $50–$300 each. Deposits and closing costs usually run in the thousands. And that's not including the cost of gas to drive around looking for properties. Or the cost of a camera. Or a phone. How many times can the broke person he describes in his article ("no job, no friends, no credit and just got pardoned from the state prison") go through that 9-step process?

Considering that the broke investor in that article will likely have to repeat the 9-step process several times before they can find one deal that might make them some money, I'd say their ability to see that first deal through to completion is pretty slim. Not to mention most of the $5,000 profit the guru cites that you'll make from this deal is going to go to cover the costs mentioned above.

Aspiring investors are losing their shirts believing these real estate "mentors."

I see these lies on websites, hear them at seminars, and listen to them on TV, and I have to ask myself, "Do these people even listen to themselves when they're pitching their products? Or will they just say anything that sounds good without concern for what will happen to the people who follow them?"

The Truth

There certainly are ways to do deals without putting money into the property, such as "wholesale" and "subject to" strategies (see a list of possible strategies at http://www.reifb.com/investment_strategies.php). Also, any deal you can think of can be done without using your own money if you find other sources of capital (i.e. "other people's money"), but that's not the point.

The point is that starting any kind of a business requires money and resources. It requires more gas in your car and more cell phone minutes. It takes a computer and an Internet connection. To get into real estate I had to pick up an extra phone line to my house, pay for a website, pay for a printer and paper, get an 800 number, bump up my cell phone plan, and buy newspaper ads, not to mention the price of getting properly educated.

Many people get sucked into the allure of "putting zero money in and getting lots of money out," but that just doesn't happen in real life. Every real estate business comes with expenses. Those expenses can add up quickly and they'll kick you out of the game if you don't account for them.

In his book *The Richest Man in Babylon* (see my recommended reading list at http://www.reifb.com/reading_list.php) George Clason advises saving 10 percent of everything you earn to put toward investments. This money can support your new real estate business. If you make less than $2,000 a month and can't reserve at least $200 for business expenses each month, I suggest you scale back your current spending and budget the money in. Not having some extra cash to work with will severely hamper your progress. When you get things going really well you'll find yourself spending thousands of dollars a month in your business, but $200 is the bare minimum to start with.

Gut Check

If you're already thinking of ways to put more money toward your real estate business ("If I cut back on cappuccinos and cancel the cable TV I'll save $250 a month. . . .") then you're on the right track.

If right now you're saying to yourself "But I need all the money I have to put toward my current expenses. I can hardly keep up with this month's bills let alone save $200!" then you're either going to stay stuck where you are or you'll need to learn to pay yourself first.

This money is an investment in your business and your future. The more you set aside, the better. Your goal is to spend $5,000–$10,000 a month on your business. If that sounds completely out of reach for you right now, that's fine. You just want to get used to the idea of spending money to make money, because when you get to the point where you're spending $5K–$10K a month on your business, it's because you're making a lot more.

Just realize that you're not going to start a business, especially one in real estate investing, without putting money into it. Too many would-be investors are never told this and their investing endeavors never make it off the ground.

Lie #4: This Little Known Secret Made Me Millions!

Guru Quote

"Would you like to uncover mind boggling secrets of real estate investing? Secrets nobody ever told you? Things you never heard of?…I'll explain how the 'Million $$$ Secrets' system works."

You want to know a million dollar secret? Here's the last million dollar secret I learned titled, "The absolute best way to instantly negotiate a lower price from the seller." It goes like this:

> Whenever a seller tells you how much they want to sell their house for, put a concerned look on your face, take a half step back, say "Hmmm…," and then wait. Wait for a few minutes if necessary, but continue to look at the seller with a concerned face. During this time the seller will likely be thinking, "Is my price too high? Did I say something wrong? Have I offended them with that price?" If there is wiggle room in the price they will likely start to concede it either because they are uncomfortable with silence or they don't want to lose you as a buyer.

Pretty simple, huh? Is it worth paying a little money to know that little trick? Sure. It may be worth a million dollars if used over many real estate deals. It's the kind of thing I give away for free in my newsletter (subscribe on the home page at http://www.reifb.com/ if you haven't already)

The Truth

The lie of the million dollar secret is that there's no way you're going to make a million dollars just knowing that secret. These tricks may be worth $49, $197, or $599, but I hope you're not seriously expecting to make a living on it.

After all, the gurus don't expect you to.

The "million dollar secret" is a marketing tactic. Once you buy their million dollar secret, you'll find that your purchase is followed up by offers to help you put that secret to use (seriously, it's useless to know how to negotiate a house seller down in price if you don't know how to find a motivated seller in the first place, right?). Next thing you know, you're part of "The Guru Experience" (details below).

If you're just getting into real estate, these "little known secrets" are not going to give you the foundation you need for successful real estate investing. Often these "tricks of the trade" are handy to know, but for beginners I'd recommend you first get an education that covers all the basics and leave the "little-known secrets" for later.

Lie #5: It's Fast and Easy Money!

Guru Quotes

"Just think! Using these powerful real estate wholesaling strategies, you can be up to a $10,000–$15,000 per month income in no time doing one simple deal a month."

"Imagine yourself, in just a few weeks, tapping into your own goldmine of Short Sales, Subject To's, and Wholesale Flips."

It's human nature that when given a choice between "slow and difficult" or "fast and easy," we tend to lean toward fast and easy. That being the case, you'll see a lot of those words used when someone is selling something to you.

Every new investor would like to have an accurate understanding about what it really takes to be successful in real estate, but that information is something most salesmen are hesitant to give out. In today's microwave popcorn society, where everything caters to instant gratification, gurus know that sales go up when they talk about fantasy and sales go down when they talk about reality. The fact is that more than 95 out of 100 people buying on fantasy, fail in reality.

The Truth

Real estate investing isn't fast or easy. I'm sure you're not surprised to hear that. Nothing that pays this well is going to be. The only bit of truth to this claim is that real estate is fast and easy for the guru who's been doing it for years. When you're first starting out, it's anything but.

The other thing to be aware of is this: If a guru entices you to buy a program under the premise that they're going to teach you how to make fast and easy money, their program is much more likely to gloss over the difficult parts of a real estate deal to maintain the "fast and easy" illusion they've set up. Thus you are likely not going to be well prepared to deal with the challenges that will come your way.

I can't tell you how many frustrated investors I've met who quit too early because the guru they learned from made the investing process sound way easier than it really is.

So what does real estate really require?

Besides the $200 a month I mentioned earlier, I recommend you clear at least 10–15 hours of time each week to learn the real estate ropes, apply what you've learned, and work on personal development. It doesn't matter if you're a full-time college student, a busy employee, or if you have a spouse/kids/grandkids. Find the time. You may have to drop things from your schedule, spend less time with your buddies, or get used to sleeping less. Success will never be convenient.

Gut Check

If canceling the cable from gut check #3 frees up 10 hours of your time, congratulations. If you'd rather work on the weekends than watch movies, go to parties, or read lengthy works of fiction, you and I could become very good friends. If you're ready to quit your job, drop out of school, or declare yourself dead to free up some time, lets talk first.

If you're completely swamped just trying to make ends meet and hold your life together (it happens) then something fast and easy may sound really inviting, but real estate investing is not the answer.

Tom Hopkins, in his book *How to Master the Art of Selling*, writes about the key to making time for something like real estate:

> "*Desire* [emphasis added] finds the time. It cancels your reservations at the time-blasting spectator sports and puts you on the field playing the most exciting sport of them all when you play it to win: the great game of your life."

Bottom line: If you really want it, you'll find the time.

Considering the true possibilities of real estate investing, I would hate to ruin it for anybody by overpromising and underdelivering. Let's be honest here, there are no "shortcuts to the big bucks." I may not get people hopped up on fast and easy money, but the beginners I work with understand what real estate will require of them before they get started. Success generally doesn't happen overnight, and the important decisions you make concerning your money and time should be based in reality. That alone increases your chances for success many times over.

Lie #6: This System Is "No Risk," "Guaranteed," "Completely Automated," and/or "Foolproof"

Guru Quotes

"I've created an ultra profitable business that runs itself. . .a money machine practically handed to you on a silver platter."

"Make A Passive Income Of $2,500–$10,000 A Month In Just An Hour or Two A Day Using A Powerful, Safe, Ground-Breaking New Real Estate Training System—That Runs Virtually on Auto Pilot"

"You will learn how to build a multi-million dollar net worth and build monthly cash flow WITHOUT FINANCIAL RISK!"

I don't think I have to dwell on this one very long, but there are a lot of programs out there that claim, "the system does all the work and there's no risk—you just collect the checks." People buy them all the time.

These claims appeal to the fundamentally lazy. There's nothing wrong with being lazy. I am very lazy, and I'm working very hard so that I can be even lazier. Automation makes more laziness possible. There are several places where automated systems are critical in real estate. Websites, form letters, emails, 800 numbers—all of these are systems to help you do the work of many people. Systems are extremely important in real estate investing. With the right systems in place you can analyze more deals and get the menial stuff out of the way, saving time and money.

But do you really think there is something out there that you can buy for a couple hundred bucks, spend no time on, take on very little risk, and still make a fortune? Hmmm. . .

The Truth

Let's be realistic. If you want to make a six-figure income, you are going to risk time and money. The trick is to select a field where your risks are minimized and your benefits are maximized, where you get the most "bang for your buck," so to speak.

So, what do people in other professions risk for a good income? Let's take a look at what it takes to get someone in a position to earn $100+K a year:

Profession:	Time Requirement:	Money Requirement:

Doctor	8+ years of school and residency	$150+K in education costs
Lawyer	6 years of school plus time to make partner	$100+K in education costs
CEO/President of a Company	6 years of school plus years climbing corporate ladder	$100+K in education costs
McDonald's Franchise Owner	2–3 years for profitability	$600K–$1.2 million startup costs
Entrepreneur/Business Owner	3–5 years for profitability	$50+K investment

Are any of these options low-risk, guaranteed, automated, or foolproof? Not a chance. These people work their guts out for years and spend large amounts of money to become successful.

Even your average college graduate who doesn't make six figures looks like this:

College Graduate	4 years	$30K–$50K education costs

College graduates invest years and tens of thousands of dollars into themselves, studying and working on a daily basis—taking tests and writing papers and working minimum wage jobs, all so they can graduate and get a $30K–$50K a year job.

And the real estate gurus are promising you that you can have better success than these people in two months by attending a $3,000 boot camp!

Give me a break! No wonder people are failing! They're expecting, in a matter of weeks and for pennies, what most people spend years and a small fortune to produce! Just like any other professional career that pays the big bucks, it's going to take good money to get a quality education, and then time to learn and apply the information. Don't get me wrong, in my opinion real estate is the fastest, least risky, and most automated way to make a six-figure income, but what the gurus are suggesting is completely unrealistic.

Gut Check

You're in good company if you're saying to yourself "I don't have the patience to become a doctor or lawyer, but for a solid six-figure income I'm willing to invest four years and $30K–$50K like the average college student."

If you're saying to yourself "That's still too much time and money. Maybe I can do the same thing in two months with a $3,000 boot camp," you are welcome to try. Read the rest of this report, contact me in a year, and let me know if I wasn't correct.

A valid question you may have at this point is "How much time and money *will I* need to invest into this to start making a six-figure income?"

The answer to that can vary depending on which real estate strategy is right for you, how long it takes you to implement that strategy, and whether you waste a lot of time getting there. I'll describe several ways to waste time getting there in Part II of this report (so you can avoid them). I'll also detail for you the amount of time and money professional investors spend on average to achieve their success (Hint: It's not two months and a $3,000 boot camp).

I personally spent less time and money in real estate than your average college grad spends on a bachelor's degree (you'll get details on what I did in Part II of this report as well). I did graduate from college. It took me seven years and $55K to get a formal bachelor's degree, and when I finally graduated nobody would hire me! Does a college education have risks? Absolutely!

I can tell you one thing: If you devote yourself to your real estate business the same way doctors, lawyers, CEOs, and entrepreneurs devote themselves to their profession—like you're in it for the long haul and you're determined enough to put in the same time and money as they do to succeed, you'll be blown away at how quickly you'll achieve a six-figure income.

On the other hand, if you approach real estate as a no-risk, guaranteed, automated, foolproof money-making machine, you're going to find out real fast that you've been sold a pipe dream.

Lie #7: The Best Way to Learn Real Estate Is by Doing It

Investor Quote

"Don't waste your money. All I started with was a credit card with $1,000 on it. You don't need anything else."

The above quote was taken from a real estate website where investors were debating whether guru education was worth the money or not. This particular investor had been in the real estate game for 30 years. Is he right or is he wrong?

I'm finding that an increasing number of people believe that real estate investing is something one jumps into and figures out as they go along. They seem to think it's only a matter of buying a property and renting it out, or finding a place with problems and fixing it up.

By the same token, dentists simply drill out a bad tooth and fill it back in. You should be able to figure out how to do that on your first couple of patients and skip dentistry school altogether. That would save you a lot of time and money, eh?

The Truth

Real estate investing is one thing you don't want to learn on your own by trial and error. You've already heard me comment on the need for education. What I haven't mentioned is the need for a *network of local investors*.

When unexpected problems arise or access to new resources is required, there is no substitute for having a local group of experienced investors in your speed dial. Sometimes turning a losing deal into a profitable deal is simply a matter of running the situation past someone who's been there before. There's no substitute for having a mentor walk you through your first couple of deals till you're confident enough to do them on your own.

New real estate investors also need the support of a number of professionals to be successful—mortgage and title companies, tax professionals, legal council, hard money lenders, bankers, and real estate agents, to name a few. Uneducated investors who go at it alone lose time and money as they try to organize their resources and learn by making mistakes. Getting started in real estate is difficult enough without having to build a network of support from scratch.

A network of experienced investors to work with and a solid education are vital to success in real estate. (Hint: if you have to pay some guru $5,000 for 3 months of coaching over the phone, that is *not* considered a local network of experienced investors.)

And who knows? Maybe our 30-year real estate veteran above would have retired 20 years ago if he'd bothered getting educated from other investors.

Conclusion

So there you have it. The seven great lies of real estate investing. If you've heard some of them before, you could probably sense that something wasn't quite right. Hopefully this has helped clear the air a bit. Identifying the misinformation and then gaining an accurate understanding of what it takes to successfully get in (and stay in) the real estate game is the first step to becoming a successful investor. To recap, here is what you want to have in place to turn the odds of success in your favor:

- Discipline and patience to develop the necessary business/professional skills
- At least $200 a month to cover common business expenses
- Minimum 10 hours a week dedicated time
- A solid education and a network of local investors to mentor you
- The determination and willingness to invest the time and resources in yourself that are required of any professional

Once again, everything required of you is the same thing that any average college student is willing to invest into themselves to get a halfway decent job.

Why can't the gurus just come out and say that? I don't know.

Doing the Right Thing for Yourself

This is the recipe for success. With any one of these steps missing, your odds of winning the real estate game go way down. With them in place, you'll take the shortest and most direct route to wealth. Pure willpower and determination can, to a degree, overcome the time/money obstacles (where there's a will, there's a way), but lets not make it more difficult than it has to be.

With the exception of the education and network of investors, all of the items above come from you.

If Real Estate Investing Is Not for You

If you don't have some of these steps in place, real estate investing is probably not the best thing for you right now. It's better to be honest with yourself than waste a lot of time and money trying to do something you're not in a position to succeed at.

There are other creative ways to make money that don't require the time and resources real estate does. I've run into quite a few people who just aren't ready for real estate, but they still want to do something. After I had my first $20K month I took some time off and prepared information on several simple ways to help aspiring investors earn a little extra income and pick up some skills that will eventually get them into a position to get into real estate. You won't make "$10K+ a month"-sized real estate checks, but at least it's something that will get you an extra couple hundred to a couple thousand dollars a month to get you on track to do real estate (where the real money is).

Soon I'll have a website up that will describe my extra income strategies. Until then you can contact me directly at jadair@reifb.com for more information. I'd be happy to talk with you and give you some new options you might not have thought of before.

If Real Estate Investing Is for You

On the other hand you may be saying "This all sounds pretty good. I've passed the 'gut checks.' What do I do now?"

First of all, if you haven't already, go to http://www.reifb.com/ and join the email list. Not only will I send you much more specific information on how to get started the right way in real estate investing, but it will give us a chance to actually communicate one-on-one so I can give you personal mentoring for your specific situation.

That's right—if you're trying to get started in real estate investing, I'd be willing to personally mentor you (and I won't charge you anything for this).

I'd do this not just because I'm a nice guy, but because it also helps my business grow when I assist new investors in succeeding. Real estate investing is largely about surrounding yourself with successful people, and if I can help you become successful then you become a valuable resource for me. We both win.

So head over to www.REIFB and sign up. Then, if you've passed all the gut checks and you're serious about starting or furthering your real estate investing career, read "The Guru Experience" below and continue on to Part II of this document.

Appendix: The Guru Experience

Many people, realizing they need education to succeed in real estate, turn to any number of real estate professionals who sell real estate investing education. These professionals are often collectively known as the "real estate gurus."

You can spot a guru by their mode of advertising and selling. You may see them on websites or late night television selling CDs and DVDs about real estate investing. They often travel the country delivering seminars and boot camps. When one of them is coming to town you'll see full-page newspaper advertisements and commercials on TV inviting you to attend a free (or nearly free) workshop about how to make millions in real estate investing.

These workshops sound like the complete package because they use a combination of the "7 Lies" to bring you in, each of them promising to teach you what you need to know to start creating wealth immediately.

I enjoy going to these workshops. They are, if nothing else, very motivational. Are they a waste of time? Of course not, especially not for a beginner. What purpose would it serve a guru to waste your time? These workshops usually have very good information on the reasons why you want to get into real estate investing, they go over fundamentals of investing itself, and they are very effective at giving you the big picture of what lots of money can do for you personally.

They're a lot of fun. You'll meet some good people and, unless you're an experienced investor already, you'll learn something new. They are very good at getting you interested in starting a career in real estate. Will you know everything you need to know to be successful in real estate after attending these workshops? Not a chance. Even though they said you would? I'm afraid so.

Do you know how you can tell? At the end of the workshop they *don't* say, "Thank you all for attending. You now know everything you need to know to be successful in real estate. Take care!"

At the end of the workshop, what they say is "Thank you all for attending. We hope you've learned a lot. Now if you're ready to make a lot of money in real estate, you'll want to sign up for our three-day seminar happening next month at this same location. It's usually $9,500 but today we have a special price of only $3,000 for the first 100 people who sign up. At this seminar we'll teach you (insert very impressive sounding subjects that you realize you need to learn). If you're serious about making money in real estate, sign up for this right now." If that's what they say, then you know you haven't been taught everything you need to know to be successful in real estate.

So a month later they come back to town and you attend the $3,000 seminar. You learn a lot of good stuff and you're getting a clearer idea of how to do real estate. You're feeling more confident, but at the end of that seminar they point out that you are totally lacking knowledge in the area of (insert another important area you need knowledge about). Luckily they've got a three-day $5,000 boot camp coming up in two months (discounted from $12,599!) that covers that exact topic. They'll take a good bit of time to lay out very clearly why you would be nuts not to attend this boot camp.

So you spend $5K to attend the boot camp, and it was fantastic! You've learned some awesome things and you're excited to get going until they tell you several horror stories about new investors who used this information to do a real estate deal, and everything was going fine until something unexpected happened and they didn't know how to complete the deal and they lost tons of money. If you don't want that to happen to you, there is a $4,000 package you can buy that allows you to speak with a personal investment coach twice a week for three months so you'll be able to solve unexpected problems that will inevitably pop up.

So with the coaching program in hand you're ready to boldly go out and invest—right? Your coaching sessions are going well, but then the coach can't stress enough that you need to attend the upcoming two-day $2,500 workshop because "it's essential to making money in real estate and it would be a mistake of gargantuan proportions to miss it."

So in this situation you've spent $12,000 on education with a lot of good reasons to spend another $2,500. Has it all been a rip-off so far? Not necessarily. You've learned some very good things and you now have a much better understanding of real estate investing.

Do you know how much more money you'll need to spend with them before you feel confident to start? No, each seminar you go to promises to give you the secret to unlimited wealth, but each one ends with another up-sell. Have you invested in real estate yet? Maybe, but unlikely.

You see, there is a natural dilemma here. The gurus stop making money from you the moment you feel you have everything you need from them. Gurus are traveling salesmen, and out of necessity their system is set up so that after they've taught you something it is in their best interest that you still feel there is more you need to know to be successful. If, at the end of a seminar or boot camp, you do feel you've got all the information and tools you need to invest with confidence, they haven't done their job correctly.

So, continually feeling that you're lacking something vital, you're inclined to postpone action till the next time the guru comes to town. Because the fact is, and this is key to their success, you *are* lacking something vital. The gurus *have* left out important information. They do this so they've got something they can create another boot camp/workshop/seminar around.

Can you see why people can spend tens of thousands of dollars learning about real estate but never have the confidence to go out and do it? Can you see how there's more than a 95 percent failure rate? I've actually met someone who has spent $60,000 on education but hadn't invested in anything yet. Some people spend so much time and money just trying to learn what they need to know that there's often no time or money left to get started with!

The gurus do, I am certain, sincerely want you to be successful in real estate. They're not the bad guys here. The simple fact is that they are the ones who built the real estate education system and they built it in their favor. It's a business, and they'll use whatever words and promises they need to get you into their system and keep you there as long as possible.

Is this a sad state of affairs? Yes. Do a lot of people give up before they get started? You bet. Is there a better way? Absolutely.

Let's get into it.

Part II
The Road to Success

When I originally wrote *The 7 Great Lies of Real Estate Investing* (everything you've read so far), it received some rave reviews. Many people have felt relieved that they weren't the only ones who had a hard time making real estate work.

It's not that anything I wrote was surprising. You're smart enough to know that any road to wealth is going to be an uphill battle. A lot of people were just relieved that somebody was willing to admit it.

But there was something missing, and that was a clear path to making real estate work. Understanding what real estate can and can't do for you is good, but at the end of the article people were left saying "Now I know what to believe—but *now, what do I do?*"

I had been in the same situation myself, and I'm going to share with you the road that I (and hundreds of successful investors) took to get into the real estate investing game. I've made many of the common mistakes aspiring investors make and you'll benefit from what I learned when I was struggling to find my way, as well as from what I know now about the investing world.

If you've had these experiences yourself, you'll probably get a good laugh (or a good cry) out of some of them.

At every new attempt I learned something important. You'll learn the pros and cons of each step I took and be able to avoid the time and money wasters that most new investors run into.

I'll also include tips and insights from the many investors I've worked with.

By the end of Part II, you'll understand the basic path that all successful investors end up taking, plus you'll see the specific route I took that got me to where I am right now. If you like what I did and want to follow that route yourself, there's a real possibility we could work directly together.

If you'd like to get in contact with me, go to http://www.reifb.com/ and leave me your information. Then continue reading…

Enjoy!

Real Estate Books

My real estate adventure really began with a book. I was still in school when I picked up a copy of *How to Create Multiple Streams of Income: Buying Homes in Nice Areas with Nothing Down* (quite a title, huh?) by Peter Conti and David Finkel. This book is all about lease options, and what they talked about absolutely blew my mind.

I stayed up nights thinking about lease options. I tried to describe how they worked to my wife (she wasn't that interested).

I went to their website and read everything. I started taking steps to find motivated sellers the way they instructed in the book. My mind was racing with all the possibilities.

When I started to act on some of the concepts they taught, I quickly realized that I had a lot of questions. I didn't know what to say to someone when I contacted them. I didn't have the proper contracts. I didn't have a network of experienced investors to help me if I got in trouble.

What Happened

I was hoping the authors of the book had the resources necessary for me to move forward. I found out they had a training program that I was welcome to join. I was very interested, but I think it was the $25,000 price tag that slowed the deal down. That was a lot of money to me and, even though I was sure I'd be successful, I thought perhaps it would be good to look at some other options before dropping the money.

Besides, I had invested a lot of time and money on my college education and I was only months away from graduating. It would probably be best to settle into a good job before exploring something like this. That, and I was married and my wife wasn't going to let me get distracted away from college by entrepreneurial endeavors (like I said, I had looked into a lot of things).

I'm glad I did stop to take a look around. I never realized at that time there was a whole industry dedicated to real estate investing education.

What I Know Now

Learning real estate from books is great way to get started. You can't learn everything you need to know about real estate from a book (it's like learning to be a dentist by reading a book), but if you need to understand the basics of a particular real estate strategy then pick up a book on it. It's inexpensive and you'll learn a lot.

Just be aware of one thing—books are marketing tools. They're just like a guru boot camp or a workshop: By the time you finish you'll know more than when you started, but you'll also realize you're lacking many things.

If the last chapter of a real estate book contains toll-free numbers to call for more information, CD's to order, and training programs to join—all backed by testimonials from people who made lots of money, you'll know that the authors wrote that book to introduce you to their seminars.

(P.S. Be aware that the information in books can be pretty old. Even if the book says it was published recently, these books have a way of getting republished each year with the same old information in it. Though the book I read had a copyright date of four years earlier, it instructed me to save newspaper clippings to find motivated sellers. That worked well 20 years ago…)

Three Things All New Investors Need

By the time I got done reading the book above, I realized there were two things I needed, to be successful at real estate (there are actually three).

I needed:

1. Knowledge on how to invest (which I could find to some extent in books), and

2. Other more experienced investors who would give me support and answer my questions as they came up

The third thing you need, of course, is:

3. Money to do deals and run your business

I didn't realize you needed money at this point. After all, these were "no money down" deals. As we talked about earlier, there is no business (especially in real estate) that won't require money. But I didn't know that yet.

So I continued my search for knowledge and support, which naturally led to…

Guru Seminars

Books naturally lead to guru seminars and boot camps because most of the real estate books out there are written by gurus.

I'll give you the anatomy of a typical guru seminar so you know what to watch for. Then I'll show you how to make sure any money you might spend on guru education is going to benefit you. Beginning investors who don't know the information in this section will waste thousands of dollars and months of time.

My First Seminar

I was really excited about my very first seminar. I had pretty high expectations. I paid $100 to get into it and the advertisements describing the event made it sound like they would teach me everything I needed to know to go out and make a killing in real estate. They gave me a long list of the things they would teach me as well as testimonials of people who made great money with the information I was going to get over that weekend.

Let me show you how naive I was: At the end of the first day our homework assignment was to call our credit card companies that evening and ask them to increase our limits. The reason for doing this was to "give us more money to do investment deals with." We would return the next day and see who raised their limits the most.

So I did it, and raised my limit by about $7,000 on two cards. I figured I did pretty well. It wasn't till the next day that it dawned on me the reason for that homework assignment.

I should have seen it coming, and I should have realized that a $100 seminar could not teach me everything I needed to know about real estate investing. They were selling additional seminars that were much more expensive and the whole point of the homework assignment was to increase my spending power so I could buy what they were selling.

What Happened

As my very first boot camp concluded they made it very clear that the knowledge that I needed to be successful would be found at the next boot camp that they would hold when they were back in town. They spent about an hour and a half telling me everything I didn't know about real estate that they could teach us, with a few stories about amateurs who made huge mistakes that cost them dearly because they weren't educated. I must admit I was pretty well convinced at that moment that, were I to attempt real estate without more knowledge, I would ruin my family for generations to come.

Then the topic actually turned to families, and the presenter got pretty emotional about how we owed it to our families and those we cared about to take what they were going to show us seriously and act now.

The grand finale came when testimonials from past students started popping up on the screen and the presenter told us their stories. All these people were ordinary working-class Americans who, because of what they learned at the next boot camp, were closing huge deals, making lots of money, and were finally living the lifestyle they (and we) wanted.

Checks flashed on the big screen from real estate deals where people made $10,000—then $20,000—then $40,000—and then $80,000 dollars (in one deal!). Their main educational package was $24,000 but that money was just a drop in the bucket compared to how much we'd be making if we attended this boot camp.

And when the presenter announced that the first 12 people who bought would get a special bonus worth thousands of dollars if they would let the company use their stories once they are successful, the place exploded.

The presenter told us to go to the back of the room *right now* and buy the next boot camp, and then when people stood up to walk to the back the presenter warned them that they should probably run or they wouldn't get there in time.

People were literally running down the aisles. It was now or never. We didn't have much time to think about things. There was limited seating at these seminars, and the prices would almost double if we didn't buy that afternoon.

I was torn! I badly wanted the success that they promised, and all that I needed to do was get to their next seminar. It sounded so easy—the next seminar would teach me everything I needed to know to make myself rich. Other people were flocking to the credit card machines at the back—most of them older and wiser than I was.

I held back just a moment. The presenter was on the microphone telling us that this was our day to succeed and make our dreams come true. Five- and six-figure checks flooded the big screen on the wall.

I still hesitated. I wanted some time to take this all in, but then the presenter announced that hesitation was what separated the rich from the poor. We needed to act now to get what we wanted out of life.

I was feeling rushed, and I started to ask myself questions: Why couldn't we buy tomorrow? If this was truly the best way to succeed at real estate, wouldn't I feel the need to buy tomorrow like I did right now? Couldn't I do some due diligence? See what other companies offered? Talk to my spouse before I bought?

The presenter started to seem pushy. They were putting a lot of pressure on me to spend a lot of money, and I suddenly felt they didn't have my best interest at heart. I felt they were there to sell me something and then leave town. So I allowed myself to calm down while I watched the pandemonium at the back of the room.

I eventually left without buying anything, and the next morning I woke up glad that I hadn't. I decided I would check out some other real estate education companies, and if I felt that this company was the best, I could wait a month or two for them to roll through town again and buy from them at that time.

What I Know Now

I've been to quite a few seminars held by most of the well-known gurus, and I'm still amazed how many people flock to the back of the room after a passionate speech from a presenter.

I'm not adverse to spending good money on education (I've spent quite a bit on myself), but I've never been to a guru seminar where they were secure enough in what they sold to allow their audience to go home and weigh their options, take some time to look at what else is out there, and then make an intelligent decision on the best way to spend their money.

They do it the way they do because they make more money with the quick sale. These guru presenters, I'm sure, sincerely believe their education is great and that any way they can get you to buy the education justifies their tactics (because they are motivating you in the direction of success). The funny thing is that, later on, they will advise you to do the exact opposite. They'll teach you that as a real estate investor you *never*, under any circumstances, buy a piece of real estate based on emotion. Spur of the moment and emotionally based purchases are where you make mistakes and lose money. That is sound advice for any large purchase, including buying education.

Considering the huge failure rate, it would seem that most of these people who bought on emotion were making a mistake buying the guru education.

When I go to guru seminars now, I go for a completely different reason. I go because I hear little tidbits of good information I can pass on to the new investors I mentor and the people on my email list. Most presenters are very good at describing complex processes in simple terms. I love the funny stories I hear. I pick up a lot of hints and tips that, admittedly, are almost useless for beginning investors but are helpful once you are in the game. (Yeah, gurus are notorious for giving you great tips involving something near the middle of a deal, but you can't put that info to use without learning how to do the beginning of the deal—in other words you have to buy whatever they're up-selling to you. It does make the beginner feel like they've learned a lot of valuable information though.)

I recommend you go out to at least a couple of seminars, if you haven't already. Don't purchase anything until you've had experience with them. Just leave your credit cards at home.

Remember: You're in their territory when you enter that introductory presentation, and they are very good at what they do. As I mentioned at the beginning of this document, people spend about half a billion dollars a year on real estate education. When you see how much is spent at each of these seminars, it won't surprise you.

So Why Did I Explain My Seminar Experience in Such Detail?

For a couple of reasons:

1. If you've never been to one, they pretty much all follow the same pattern (information—hype—sale). If you know what to expect, you're less likely to get caught up in the hype and emotion when the credit card machines come out. Later on we'll talk about how to know if you're being offered quality education so you can avoid buying education that will waste your time and money.

2. I've been to plenty of these seminars and even now I myself am STILL swayed when guru presenters talk. I go to a seminar and I'm tempted to buy into whatever program they're pitching. I know exactly what's coming, and nine times out of ten I find myself saying, "You know, that sounds pretty good," and I'm tempted to reach for my wallet.

That's how good these presenters are. I'm not kidding.

This Alone Will Save You Thousands. . .

There are people out there who have spent $20,000 to $50,000 and more on real estate education without having done a single deal. It happens all the time. I've talked with these people to find out what happens, and knowing the answer will save you tons of money and time.

In "The Guru Experience" section in Part I of this report, I talked about up-sells (how gurus drive you from seminar to seminar). There's another thing to watch out for, usually involving other gurus. Here's the situation:

> Let's say you bought a guru course on short sales. You'll find out pretty quickly that short sales are pretty difficult. In fact, let's say you've been struggling for months and you're not making money yet (this is typical). You're getting frustrated. It sounded so easy during the seminar and you imagined that within your first couple months you would have closed a couple deals and you'd be sitting pretty.
>
> About this time a different guru comes to town and invites you to a free seminar to teach you how to be successful in real estate. You want success, so you attend.
>
> This particular seminar focuses on commercial property. There happens to be, they'll tell you, a huge opportunity in commercial property right now and it's almost criminal how easy it is to make tons of money on commercial properties.
>
> By the end of their presentation you're saying to yourself, "I know for a fact that short sales are a pain in the neck, but commercial property looks really good. I think I'll do that instead."

So you buy their three-day seminar on commercial property. As you can probably imagine, commercial property isn't any easier. Then, when commercial property turns out to be difficult and time consuming too, there's another boot camp that promotes tax liens and how easy it is to make millions there. . . .

Here's the Point

Most beginners bounce from strategy to strategy looking for the big/easy money everyone promises. When gurus present any particular strategy to you it will sound much easier than the one you are currently trying to do. Several seminars later your head is full of information, your wallet empty of cash, and you've spent thousands of dollars and years of your life chasing the big/easy money dream.

As I briefly mentioned in Lie #5, every strategy can make you a ton of money in a very short amount of time. There is a catch, of course. The catch is you have to already be an expert at that strategy. The average expert (as we'll find in the next chapter) has spent quite a bit of money and several years of their life to become an expert.

The point is you're probably not an expert already, so all the hype and promises don't apply to you. After attending a two-day seminar will you be an expert in any particular strategy? They might promise that you will be, but common sense says you won't.

How to Save Yourself a Lot of Time, Money, and Frustration

Step #1

Get a good understanding of all the different strategies of real estate investing.

You don't have to be an expert on every strategy—you *don't want* to be an expert on every strategy. To begin with you want to understand the basics of each type of real estate deal. Short sales, wholesales, rehabs, rentals—be familiar enough with everything that's out there so that you can do three things:

1. Any particular deal can probably be worked several different ways. If you know how a variety of strategies work,

you'll have several different ways to cash out of the deal.

2. You'll be able to recognize and pass deals on to other investors. If you don't do lease options but you know how they work, when you see a good lease option opportunity you'll recognize it and be able to pass it on to someone who does them. At the very least you can pick up a finder's fee in the process.

3. Most importantly you'll be able to, based on knowledge, pick the strategy that is best for you to get started with.

If you have a basic understanding of the steps involved in successfully completing a variety of real estate strategies, you're going to have the foundation for choosing a strategy that is best for you.

Step #2

Pick your strategy based on your strengths and then focus on it.

Once you have an overall understanding of a variety of strategies, imagine yourself going through the steps required to complete a deal. Whether it's doing the dirty work on a house, bidding at an auction, or sitting down in someone's living room to talk to them about their foreclosure situation, you need to know yourself well enough to be able to say "I wouldn't want to do that" and move on to the next strategy. One or two strategies should start to rise to the top.

I'm serious about this. I personally have spent more than $10,000 on real estate courses that I doubt I'll ever actually use. I learned some great information, no doubt about it. But I took those courses to find out if the strategy was right for me, not because it was my focus strategy. But you don't have to make this $10,000 mistake.

If someone had simply walked up to me and said, "Hey Jarom—here's a tip for you. Don't spend a lot of money on real estate strategies that you don't know anything about. Spend a little money to learn the basics of all sorts of strategies, then spend all the money you want on the strategies you know you'll use," they would have saved me $10,000 right there. I, and a majority of new investors, learn this the hard way.

Pick a strategy that will be best for you and focus on it. This is your focus strategy. Stick to it. It'll be a pain at first and things will move slowly. Expect that. It will likely take months for you to get proficient at anything. If it doesn't take that long and you score your first five-figure check within three weeks of getting started, I'm sure you'll be able to adjust.

I just don't want you to make the mistake of believing there is some get-rich-quick secret strategy out there that you're not going to have to work hard at. Gurus will come at you right and left pushing strategies they claim are more profitable and much easier than what you're doing.

It's not true.

On the other hand, if flipping houses is your focus strategy, feel free to go to house-flipping seminars, watch TV shows, read books, network with other people in that industry—anything you can do to become an expert. It's the experts that make the money, and any time and money you spend on your focus strategy will pay you back 100 times what you spent.

Flipping houses will eventually become second nature to you and make you a lot of money—if you don't get distracted. And, when you can make money in your sleep with your first strategy—then and only then, you want to get good at another strategy and add that to your toolbox.

Until then, whenever you go to a guru seminar I want you to glue an index card to your forehead with the letters "IINMFDBI" written on it. That way, if you go to the back of the room to purchase whatever they're selling, the person at the register will ask you what it stands for and you'll say, "It stands for "'If It's Not My Focus Don't Buy It.'" Then you'll stop what you're doing and say, "Oh yeah! I remember now that what you're selling is not what I'm focusing on! Thank you for reminding me," and walk out of the room.

So you want to get a broad education on all the strategies and then focus on one that is best for you. Does this sound blindingly obvious to you? If it does, it means you haven't yet been sucked into the madness that is the guru seminar circuit. It means you got this information in time to save yourself a lot of trouble.

I guarantee that there's someone halfway across the country from you reading this same paragraph who is $20K into their education saying, "I wish someone had drilled this into my head when I was getting started."

Once you've found your focus strategy, a new questions arises…

How to Find the Best Education

The question is this: How can you spot the best education? Not all education is created equal, and finding the right education to get you started is very important, especially when you don't have a lot of money to begin with.

Here are some questions you'll want to ask anybody who is selling real estate education. I would suggest that if they don't know the answers to these questions, they really shouldn't be selling you anything:

Q1) If I buy this course, is this the only course you sell? Or will there be more courses sold at the end of this course?

Q2) What will be the total cost of all the courses combined? How many of them will I need to take in order to properly do real estate deals?

Q3) Who is the instructor at this course? How long have they been doing what they're teaching and how much of their time do they spend teaching vs. doing real estate?

Q4) If I have questions a couple of months or a couple of years from now, what kind of ongoing support do I get?

These answers will give you the green light to buy:

Q1) If I buy this course, is this the only course you sell? Or will there be more courses sold at the end of this course?

A1) This is just a warm-up question. Unless this is a small local group that focuses on only one strategy, there will be many seminars for you to buy and attend. You *will* need to attend more than just a single seminar to be a successful investor (as I'll explain next).

Q2) What will be the total cost of all the courses combined? How many of them will I need to take in order to properly do real estate deals?

A2) Because there are usually many courses offered, ideally the salesperson would be able to work with you much like a college guidance counselor. Ideally they would answer, "If you're just starting out and you want to focus on flipping houses, in addition to the fix-and-flip seminar

> you'll also want to attend the market analysis seminar, the negotiations seminar, the tax seminar, the legal strategies seminar, and the creative financing seminar. If you're new to running your own business, there's also a very good real estate business management seminar. All together these courses will cost about $XX,XXX and you'll have all the necessary skills to do very well in real estate."

That would be the answer you're looking for. If you're going to invest significant money in a real estate education why shouldn't you know up front what you're going to be learning and exactly how much it's going to cost? Is that unreasonable? Absolutely not.

Important side note

There's one fact you'll need to get accustomed to.

You'll notice that most the seminars the salesperson recommended to you are not about flipping houses (flipping houses is your focus strategy in this example). There are a lot of courses you'll need to take just to support your fix-and-flip business.

Yes, the fix-and-flip seminar will teach you how to price a kitchen remodel and find deals on used appliances, but they won't have time to go into the different ways to finance your projects or how to protect yourself legally with contracts and corporate entities. There's simply not enough time to teach you a strategy and then go into all the other supporting information you need to know. You're going to have to get educated and learn skills in many areas to pull off a successful real estate investing business (see Lie #1 of this report).

Don't skimp on these supporting classes. This is probably the most ignored piece of advice that I give beginners. One woman I work with took a class on understanding mortgages after buying a property, and looking back on the deal she estimates she lost a little more than $41,000 in terms, fees, and interest that she wouldn't have if she had been educated first. This is a dramatic example, but a very common one.

You'll spend time and money either way, but if you learn from a professional first, you'll spend a lot less time and money than if you learn through your own mistakes.

Speaking of learning from professionals, the next question is. . .

> **Q3)** Who is the instructor at this next course? How long have they been doing what they're teaching and how much of their time do they spend teaching vs. doing real estate?

> **A3)** The answer you're looking for is "The instructor for the fix-and-flip seminar is Jane Doe. She has been a professional investor for twelve years and she takes a couple of weeks out of the year to teach our courses but spends the majority of her time flipping houses."

Why do you want to know this about an instructor? Because you want to learn from a seasoned professional who's out on the front lines. You want to learn from someone who makes a living doing what they're teaching.

Too many of the real estate seminar instructors suffer from what I call "professor syndrome" (many of my college professors suffered from this). This is where a guru instructor is very book smart and good at teaching, but they took up teaching because it's easier than working in the real world.

If you have a choice, who would you want to learn fix-and-flips from? A seasoned full-time investor who makes their living doing fix-and-flips every day? Or a traveling presenter who did real estate full-time for a couple of years in the early 90's and has been using the same presentation to teach fix-and-flips at seminars for the last decade?

Make no mistake. You can only be one or the other. If the salesperson tries to tell you the instructor is a full-time investor and a full-time instructor, don't believe it. You can't run a real estate business if you're on the road teaching seminars three weeks out of the month. Either they've handed their real estate operations over to someone else or they're just dabbling in it now. Those aren't the people you want to learn from.

What if…?

So what if the person selling the education can't answer those questions? What if they don't know who the instructor is or how much you're going to end up spending on seminars? You can ask some of the other sales reps, but chances are they don't know the answers either.

Realize that these people are simply trained for the quick sale. The presentation is designed for a quick sale, the special "today only" discount encourages a quick sale, the sales people are only accustomed to handling quick sales, and tomorrow they're going to pack up and head to the next city where they're going to conduct the same presentation all over again and sell some more.

So if you can't get your questions answered, or you find out you're going to be up-sold an indeterminable number of seminars taught by presenters who haven't touched a real estate deal since Ronald Regan left office, do you want to hand them your credit card(s) and hope for the best?

I wouldn't if I were you.

> **Q4)** If I have questions a couple of months or a couple of years from now, what kind of on-going support do I get?
>
> **A4)** The answer you're looking for here is "In addition to coaching calls, local events, and the ability to repeat future seminars for free, we also get you in touch with all of the local investors in your area who have taken our courses. We encourage you to get to know them, network with them, and do deals together in any way that benefits everyone."

That's what you want to hear. Unfortunately I've only ever received two responses to this question:

> Me: "I see here that some of your education packages come with support from an experienced investor."
>
> Salesman: "Yes—we'll have one of our personal investor coaches fly to your city for three days and help you set up some real estate deals, and then you have 30 days of phone and email support after that."
>
> Me: "So what happens if, six months later, I run into a huge problem I don't know the answer to? What do I do then?"
>
> Salesman: "Well, sometimes people have a good enough relationship with their coach that they could call them and ask them a quick question."

I included this dialogue verbatim because the answer was so unique I actually wrote it down. Instead, 99 percent of the time you'll hear "We have a real estate coaching hotline you can get access to. It's $X,000 for X months."

Conclusion

Guru seminars are one answer to getting the education you need. I'm admittedly pretty harsh on them. The education isn't terrible and I don't want you to get the idea that I'm dead set against them. It's just that they could be a lot better and I'm continually unimpressed by their lack of innovation. A lot of times they upgrade their sales and marketing pitches without upgrading the education. But, despite the failure rate of their students, for a long time they've been the best way to learn real estate.

I didn't find my success through guru education though, and when you're getting started there's more to it than just learning the trade. You also need support from experienced investors (preferably some who live and work right there in your community) and you need the money to do your deals properly, two things the gurus don't offer.

So naturally I turned to other local investors next to see what they offered.

Becoming an Investor's Apprentice

My main concern, besides having a blatant lack of knowledge on how to do real estate, was having other investors to network with as a safety net.

In this section I'm going to describe the pros and cons of being an apprentice, as well as the motivations and difficulties that experienced investors have when they're trying to mentor a new investor. Knowing these things will give you insights into how to best work with experienced investors when you're getting started.

Finding Experienced Investors

I loved the idea of being someone's apprentice. It seemed perfect—they could teach me everything I need to know and I could work for them. That would take care of my knowledge problem, give me the support of successful investors, and let me tap into their money sources at the same time. It was perfect. And besides, who wouldn't want someone like me doing their grunt work in exchange for a peek at the inside of their operation?

So I decided to find some experienced investors to spend time with and met a few at seminars as well as at local real estate clubs.

What Happened

As I asked successful investors about how they got into real estate, I heard a variety of stories. While each had taken a different route, there were two common factors:

> They were career learners, having spent $20K–$30K or more on real estate education.
>
> It took several months to a couple of years to get to where they were making a good income.

That's it. Be willing to invest the money ($20K–$30K seemed to be the magic range) and the time to make it work. Determination, creativity, and intelligence played their parts, but it seemed that getting knowledge and then putting in the time to develop themselves were the two things every successful investor had to do.

And if your first reaction is "I don't have $20K–$30K to educate myself with," you're in good company. A vast majority of the now successful investors I talked to didn't have the money either ("not having money" was why they wanted to get into real estate investing in the first place).

There were many that were successful much faster (if you already have a business background or other professional skills you'll save time and money) and a few who spent part of their $30K education making mistakes (and got their education that way). None of them said they went to a single boot camp that was the secret to their success.

But that's all just common sense. The next part was what surprised me.

While some investors found support at real estate clubs and others teamed up with other beginners and figured things out together, not one of them had learned by being an apprentice to a more experienced investor. Not one.

What I Know Now

I originally thought the "apprentice" way of learning real estate sounded like the perfect exchange. So why didn't any successful investors go this route?

To really understand why it's not a commonly used method you have to see things not from the beginner's point of view, but from the experienced investor's point of view.

An interesting thing happens when you become successful at real estate. Imagine something with me for a moment…

Let's fast-forward time a bit and say that, one way or another, you become an investor. You just closed a successful investment deal. Let's say you just flipped a house and made $30K. It took a little while but you did everything right and you made some decent money.

Picture this: If you start telling people, "I just made $30,000 flipping a house!" what are all your friends, neighbors, and relatives going to ask you? You guessed it—they'll ask how you did it. This is a natural question people are going to have, and they usually ask that because they'd like to see if they could make that kind of money themselves. If you can do it, they probably could too. Who wouldn't want in on that kind of success?

As an investor, you *do* want other people to invest with. The more people you work with the bigger and better deals you can do. So it would be good for you to help them do what you do.

On the other hand, you're a full-time investor (or maybe you're still doing it part-time). You've got a lot on your plate and very limited time. Even if you felt competent enough to teach someone who's a complete beginner, what would you teach them? How would you teach them? And when would you teach them? These are all things you'd need to take into account.

So, the question is this: If a dozen people asked you to take the time to teach them real estate investing, what would you do? Would you offer to teach them all? Would you turn them all down? Because when you start showing success at real estate, people are going to pop out of the woodwork wanting to know what you're doing.

I've posed this situation to a lot of aspiring investors, and they can usually see the dilemma. You probably realize that you couldn't fit everyone into your schedule. But on the other hand you're also a nice person and want to help others out, especially if you know these people already and would like to see them succeed.

So most people come up with a solution like "Sure I'd teach them, but only the really serious ones."

"Guess what?" I answer. "They're *all* really serious. Or at least that's what they'll tell you."

This is the fundamental problem most investors deal with. How do you grow your network and help serious people succeed, but still take care of the most important thing— your own real estate business?

You see, experienced real estate investors know there is a very high chance a new investor won't pan out and their time will be wasted. In fact, according to the experienced investors I talked to, there was about a 95 percent failure rate among the people they had tried to mentor, the same percentage the gurus were experiencing. As I dug further I found three reasons for that failure rate, and this is what you'll find as a successful investor:

> You're busy—you're doing real estate full-time, and you don't have much time to try and teach new people everything they need to know about real estate. You'll have to try and coordinate schedules and integrate them into the deals you're doing, not to mention you have to come up with some kind of curriculum to keep them learning or they're going to drop out. Imagine that you're a dentist and you constantly have four or five dentist apprentices looking over your shoulder while you're trying to drill someone's teeth. Then at the end of the day you've got to spend extra time trying to teach them the intricacies of what they watched you do that day. And you're doing all this for free. That gets old really fast.
>
> Your area of focus may not line up with your apprentice's ideal focus. You may do fix-and-flips, but what if flipping houses isn't the right strategy for the person you're teaching? Maybe short sales is the strategy they would be good at. With a couple dozen different strategies to choose from, chances just aren't that good that what you do will be the right thing for them.
>
> I've learned this one from sad experience myself. If you were to take hours and hours to teach someone everything you know, and all that person has invested is their time, then when things get a bit difficult or inconvenient (and things *will* get difficult and inconvenient) they're likely going to bail out on you. They've got no skin in the game, so quitting is easy. Nine out of ten people won't even do the first thing you tell them to. Sad, but true.

So if you were to try and take on an apprentice, more than likely you would be teaching them the wrong strategy, you have to take time away from your business to teach them, and they've got no skin in the game so they tend to give up really easily. Remember: There's at least a 95 percent failure rate.

What it boils down to is that the experienced investor takes all the risk while training a new investor. To make it worth an investor's while, we would need to go back to how apprenticeships were done a couple hundred years ago—namely having the apprentice commit 5–10 years of their life as the investor's servant to pay them back for the training. That's how things use to be done when the apprentice model was the common way to learn a trade, but I'm guessing you want to be doing real estate investing on your own in a year or less, not be doing an investor's menial work for upwards of a decade (although that actually sounds pretty good now that I think about it—maybe I will agree to mentor people in exchange for five years of doing my grunt work. . .any takers?).

The problem isn't just on the student's end. It's a rare investor who is both willing and able to teach you real estate.

As an apprentice you're looking for a mentor who is new enough at investing to still be willing to work with other new people (i.e., they haven't been jaded by all the effort they've spent on people who have bailed out on them), but the investor needs to be experienced enough that they can guide you through everything you need to learn to properly invest. They have to be an expert on the strategy that is right for you to get started at. And they have to be a natural teacher on top of that. Did I mention they need a lot of time on their hands to create a learning system for you and then the time to teach it to you?

Good luck finding that individual!
It can be done—don't get me wrong. It does happen. It just doesn't happen nearly as much as I originally thought it did. Among the hundreds of investors I've talked to, I finally met one who was fully taught by another investor. His mentor happened to be his best friend, and the guy voluntarily admitted that his friend went through a lot more time and trouble to mentor him than he would go through to mentor someone else himself.

Take that last part, the time issue, very seriously. It's taken me more than 60 hours just to write this report you're reading right now (and I'm not even done yet). I couldn't imagine trying to create an entire real estate course. My hat is off to the gurus.

Think about this: By the time an investor gets experienced enough to be able to teach real estate to others, and they're successful enough to be able to take the time off to put a course together, it's really no wonder that they become a guru and want to charge people tens of thousand of dollars for what they offer. Wouldn't you if you were in their shoes?

What to Expect from Mentors

I'm not saying you don't need a mentor—you do. You absolutely don't want to go at real estate investing alone. And you don't want only one mentor either.

That's right, you'll need several mentors. No single mentor is going to be able to take you from where you are right now all the way to where you want to be.

I, personally, am very good at helping beginning investors get started in real estate. That's where I excel. I've been through the process myself and I've helped a lot of other people get started. But I don't know everything there is to know about real estate investing, business, and success. Nobody does. That's why even I have mentors to help me progress, and my mentors even have mentors. For each stage in your investing career, and in your life for that matter, your shortcut to success is to find people who have mastered that area and learn from them.

So, specifically for real estate, there are several reasons why you want to have as many investor-mentors in your network as possible:

- Tap into an existing network: You need a number of people to support your investing activities—lawyers, contractors, agents, mortgage brokers, handymen, property managers, dentists. . . .Sorry, I like throwing dentists in my examples whenever I can. I don't know why. But seriously, when I wanted to change health insurance I talked to a number of investors to see who they went through. Without a network of investors, what would I do? Go through the phone book? I don't know who is good and who isn't. I don't even want to take the time to interview a bunch of people to figure out who the best *handyman* is. Not to mention, if another investor gives me a referral and I mention the investor's name, I'll get much better treatment because there's already a relationship there.

- Model their systems: If you start from scratch it will take you a long time and a lot of mistakes to get a good system in place. We use systems for everything—finding motivated sellers, working with contractors, talking to banks, attracting good renters….If you can build a real estate system based on someone else's experience, you won't make the $2K, $5K, or $10K mistakes that those investors did. I made a $2,500 mistake recently because I had a system in place *that I didn't follow.*

- Moral support: A lot of times other investors will push you more than you would push yourself. A lot of things are outside your comfort zone and you need someone to encourage you to take those first steps. They're someone you can be accountable to and you'll do better than if you were alone. Not only that, but when you're getting started you're going to have a crisis about once every other week. Deals go south, properties have negative cash flow, rehab budgets double, tenants disappear in the night, and markets change. Investing can be a roller coaster ride and you're going to panic at times. Having people there who can see the big picture and help you get through it is invaluable. Honestly, I was contemplating giving up at one point, and a simple bit of encouragement from an investor I looked up to carried me through it.

Make It Win-Win

Building your network is extremely important. So how do you go about finding investors you can work with and who can be mentors for you? What makes a mentor willing to work with you? What can you bring to the table so it's a win-win relationship?

Forget "dedication" and "willingness to do what it takes." Nobody cares if you're "hardworking" or "a fast learner" because every aspiring investor claims they are. Here's what every investor wants to hear you say (and they never hear this):

> "I already know how to do real estate deals. I've spent time and money getting educated and trained in it, so you know that I'm serious about my investing career. I just need someone who has experience to back me up in case I don't know what to do with a particular situation or I have an important question. And for any help you give me I will make it well worth your time."

It's very simple—get your education first. Isn't that what everybody else does in today's world? Here's what I mean…

Maybe a couple hundred years ago the apprentice system was the best way to learn a new trade (because that's all they had), but today if you wanted to learn a profession what would you do? If you wanted to become a doctor, or a lawyer, or an engineer, would you walk up to one of those professionals and offer to be their apprentice?

Seriously, if you talked to an engineer and said to them "I'd like to be an engineer like you. Would you teach me everything you know about engineering? I could shadow you for a while and in exchange I'll help you out with whatever you're doing," etc….if you approached an engineer with that kind of offer, would they take you up on it? Obviously the answer would be "no." Pretty much any professional is going to turn down that kind of arrangement.

Why? Because if you approached an engineer and told them you really wanted to learn to be an engineer, what would they tell you to do? They'd tell you to go to school, go to college. Get your education first and then, when you know what you're doing, get into the field and make money.

It's pretty obvious when you think about it, but it never occurs to most new investors that experienced investors would be much more willing to work with an educated newbie. After all, if you've been well taught and trained on how to do real estate deals and all you need is a little guidance, how easy would it be for an experienced investor to answer a few questions or, if need be, help you complete a deal and share in the profits with you?

This approach is so much more effective than trying to get a busy investor to teach you from scratch. Investors will actually be willing to work with you. You've taken away all the risk for them.

The only issue you'll run into at this point is whether the experienced investor believes you've got a quality education or not. If there's anything an experienced investor likes less than teaching a beginner from scratch, it's trying to correct the misinformation a poorly educated beginner has already picked up (misinformation, which, as we've already explored, the guru seminars are full of).

So you want to make sure you get a quality education. If you find an investor you'd like to work with, it can't hurt to ask them what education they recommend. They should at least be able to suggest something they bought that they found useful. That should steer you in a better direction than if you tried to choose your education on your own.

Just be careful: Once you start asking about education, you'll run into investors who will say, "I'll teach you everything you need to know at my $2,000 boot camp next weekend."

A quality real estate investing education is going to require a decent investment of time and money. As we talked about in Lie #6, you've got the wrong outlook if you aren't at least willing (it might not be necessary, but you've got to be at least willing) to put in four years and $30K–$50K like any average college student.

Because the most dangerous thing these guru boot camps and seminars do to new investors is this: A new investor will spend a couple thousand dollars and a few days to learn real estate, believing it's their ticket to riches, and, after it doesn't work, they may develop the attitude that they've already put their dues in and now they just want to make money.

The fact is, nine times out of ten if you're not making the money you want to it's because you don't yet have the knowledge to make that money. Too many new investors sell themselves short because they refuse to invest in their own education beyond a certain point, and at that point they quit and everything they had previously invested is wasted.

You're never going to stop investing in your own education. Your brain is your most important asset. Maybe you put $20,000 worth of information into it your first year and only get $20,000 out again. That's fine, because your second year you might put $5,000 worth of new information into your head and you'll get $60,000 out. That's the way things work when you're just getting started. Soon you'll develop yourself to the point that you'll put $1,000 into yourself and get $100,000 out. That's where the real and lasting wealth is.

What I'm saying here will sound like a waste of time and money if you believe the gurus who say you can put $3,000 in and get millions out, but if you believe them I guarantee you'll have a very short-lived real estate career when things don't turn out that way. I'm inviting you to take a very realistic and sensible approach to succeeding in real estate. If you're serious about doing really well in real estate, you want to approach it like any professional in any other industry would and treat this like a career (and not like a weekend hobby).

Networking Game Plan

So what can you do at this point to get yourself some real estate mentors? How do you get the experienced investors to take notice of you? How do you get into their inner circle? How do you get to the point that 1) they actually take your call when you call them, and 2) they actually know who you are and will work with you?

When you approach an experienced investor you probably realize they are very busy, but what you might not know is that they get approached fairly regularly by new investors who want to learn real estate from them. Here's an excerpt from an email I received recently:

> "I am very interested in real estate. I am a new real estate wholesaler and would like to work under other investors' guidance to learn all aspects of the business. I am a hardworking person with a good work ethic. . . ."

I get a couple of these emails a week. A lot of investors do. Every one of these people describes themselves as "hardworking"; they're a "team player"; they "learn quickly," etc. . . .Those are important qualities, but they won't make you stand out.

If you're interested in expanding your network today, here's a little strategy that got me some face time with some amazing investors.

For an average of $10, I sat down with several amazing investors and got to pick their brains for an hour. This was when I was first getting started and brought nothing but my enthusiasm to the table. I also brought lunch. . . .Hey! They've got to eat sometime!

If you meet an investor you'd like to get to know, ask them if you can take them out to lunch. Before you invite them to lunch, I suggest you find out a little about them first and use it to stroke their ego a bit. Here's what happened the very first time I tried this:I was new at a networking event, and I asked a new acquaintance named Noreen "Who do you know here that is doing really well?"

Noreen said "Matt, the guy over there, is doing well. He's in the middle of a $25 million land deal in Hawaii right now."

Using this information, I approached Matt.

Me: "Hi Matt. I'm a friend of Noreen's and she was telling me that you've been doing pretty well in real estate."

Matt (you'd have to know him to appreciate his answer): "I'm doing all right."

Me: "From what I've heard, you're doing better than all right." He chuckles. "I'm new here and I was wondering if I could take you out to lunch?"

I figured if anyone was going to turn me down, it would be him. But he accepted, and for a $6 sub sandwich (he chose the location) I got to pick his brain for an hour and a half. It was awesome.

I did this several more times and sat down one-on-one with multi-millionaire investors for an average of $10/hour, and new investors have done this with me since. It's amazing what most people will do for food. If you offered to pay me good money to sit down and teach you real estate, I'd likely decline. If you offered me pizza, I would probably take you up on it. I really can't explain why.

Here are a couple of tips when you take an investor out to lunch (or when you meet an investor under any circumstance) so you make the best impression possible and create a foundation for a great relationship.

First, ask them about themselves and how they got started. That will probably take up your whole lunch hour right there. Investors love to talk about themselves (all successful people do). Get them started and you'll learn all sorts of great information about beginning a successful real estate business.

Because your goal here is to find real estate mentors and build your network, be sure to ask one of two things before lunch is over. If you're new to real estate, ask them what they would recommend you do to get started in real estate yourself. Or, if you're already educated in real estate and know how to find deals, ask them exactly what kind of properties they're looking for. Find out what size properties in what kind of condition, and what areas and what price range they want.

Then, when lunch is over (and this is the key to everything)... *act* on what you've learned. Whatever advice and direction they've given you, do something with it. If you're going to find properties for them or get their advice when you find a deal, take whatever you can to put this new relationship to work. Spending some time with an investor is a great start, but one lunch is not going to do the trick. Even after an hour of face time, they'll likely forget your name after a couple weeks and you're back to square one.

The way to stay on their radar is to *make progress.* Actually do the things you talked about. Obviously, this is good for getting your real estate career moving. But beyond this, if you actually call the investor up a few days later and say "I just wanted to say thanks for spending some time with me at lunch, and I've taken very seriously the things you suggested. Since we met I've..." and list some of the actions you've taken, not only will they remember who you are but you'll automatically place yourself in the top 10 percent of all the aspiring investors they've ever met.

Believe me when I tell you that nine out of ten people who tell me they're ready to make it big in real estate never do a thing. They'll tell me they're going to do whatever it takes to succeed and that they're determined and hardworking, and I say "Great—the first thing I want you to do is go to my website and get on my email list and give me a call when you do." They agree emphatically...and that's the last I hear from them.

If you can show an investor that you're making progress and that you're acting on the information they've given you, you'll stand out in a huge way. As you're taking action and making noticeable progress, let the investor know. Maybe once every week or two leave them a quick message or shoot them an email. Your name will become familiar to them and you'll make their "up-and-coming investors worth watching" list. By the time you've got a deal lined up or need some help on a particular situation, they'll recognize your efforts and will be a hundred times more likely help you.

Remember: Don't limit yourself to one investor. Keep in touch with as many as you can.

Conclusion

Does that give you an idea of how to go about solving the mentoring and
support issues new investors have? Will that help you develop the network you need to get started?

I hope the waters are a little less murky at this point, but trust me when I tell you I have not yet begun to offer solutions to these issues.

The best is yet to come…

Part III
The Best of All Three Worlds

If you haven't had experience going to guru seminars and propositioning a few successful investors to be their apprentice, it might be beneficial for you to stop reading here and do those things just to see what happens. You don't have to take my word on anything. I'd prefer you go out and do these things yourself, and once you have a similar experience to what I've had, it'll make what I'm saying here that much more real to you.

I'm just saying that I've talked with so many investors (beginners and expert alike) about their experiences that you can be reasonably sure that what I'm describing here is accurate for your situation.

I also know from talking to people that there's a decent chance you're still holding on to the apprentice idea (if that's been your master plan all along). If you are, give it a shot. You're more than welcome.

At this point I also want to acknowledge your efforts if you've tried getting into real estate using any of the methods above. Even (and especially) if you haven't succeeded yet. The odds are stacked against you and you're working toward your goals despite it. That really sets you apart. A majority of the people out there spend a lot of time thinking about getting started but never actually do anything.

So what is the most direct and fastest way to becoming successful in real estate investing? What do you think I'll recommend if not a combination of what I've already talked about?

I hope you agree that you'll have a much better chance at success than the average beginner because of what you've read so far. Using a combination of real estate books, guru education, and local investors is certainly better than relying on one or two of them alone.

But if that were all I had prepared to recommend to you, I wouldn't have bothered writing this report.

How to Take Your Real Estate Career to the Next Level

It is unlikely that I will be your last mentor in real estate investing, but I certainly should be your first. If you're new to real estate or you're trying to take your investing to the next level, then I've got some good news for you…

Before you:

- spend any more money on guru real estate education
- spend time sitting through any more seminars
- spend another evening at an REIA meeting
- read another investing book

…there is more to this *7 Great Lies* report that you need to see. It will show you, step-by-step, exactly:

- how to get started in real estate investing quickly and with the least amount of time and money spent

- how I finally got my foothold in the investing world
- how I would get started in real estate if I had to do it all over again
- where I recommend you find the top real estate education (on pretty much any particular strategy you're interested in)
- how to plug into my network of thousands of investors nationwide (chances are I know someone near you I can personally introduce you to)
- solve the money issue that most new investors face (so you have the funds to start doing deals and stay in the real estate game)

In addition, we'll have a chance to talk in person. On the home page of my website there's a form you can fill out to join my email list. Include your phone number and I'll personally give you a call as soon as my schedule allows. If you don't answer, I will leave you a message and you'll be welcome to call me back.

If you've found yourself stuck or not sure what to do next, this call will help you a lot. I like to establish a connection with the people on my site and I guarantee you'll get several practical ideas on what you can do to immediately move forward in real estate. If some personal advice and mentoring would help you right now, contact me by visiting my website below.

Get All This for FREE for Owning Be a Real Estate Heavyweight

Best of all, the additional information and the personal mentoring is completely free!

I'd do that not just because I'm a nice guy, but because assisting new investors in their success also helps my business grow. As I said before, real estate investing is largely about surrounding yourself with successful people, and if I can help you become successful then you become a valuable resource for me. We both win.

Here's what you do:

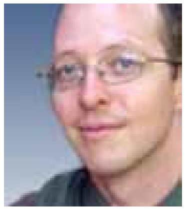
Visit http://www.reifb.com/, jump on my email list, and in the same form let me know how to best reach you by phone.

I look forward to our conversation.

Jarom Adair

P.S. When you visit the REIFB site, pay no attention to the page that encourages you to purchase the book, *The 7 Great Lies of Real Estate Investing*. You just finished reading it!

About the Author



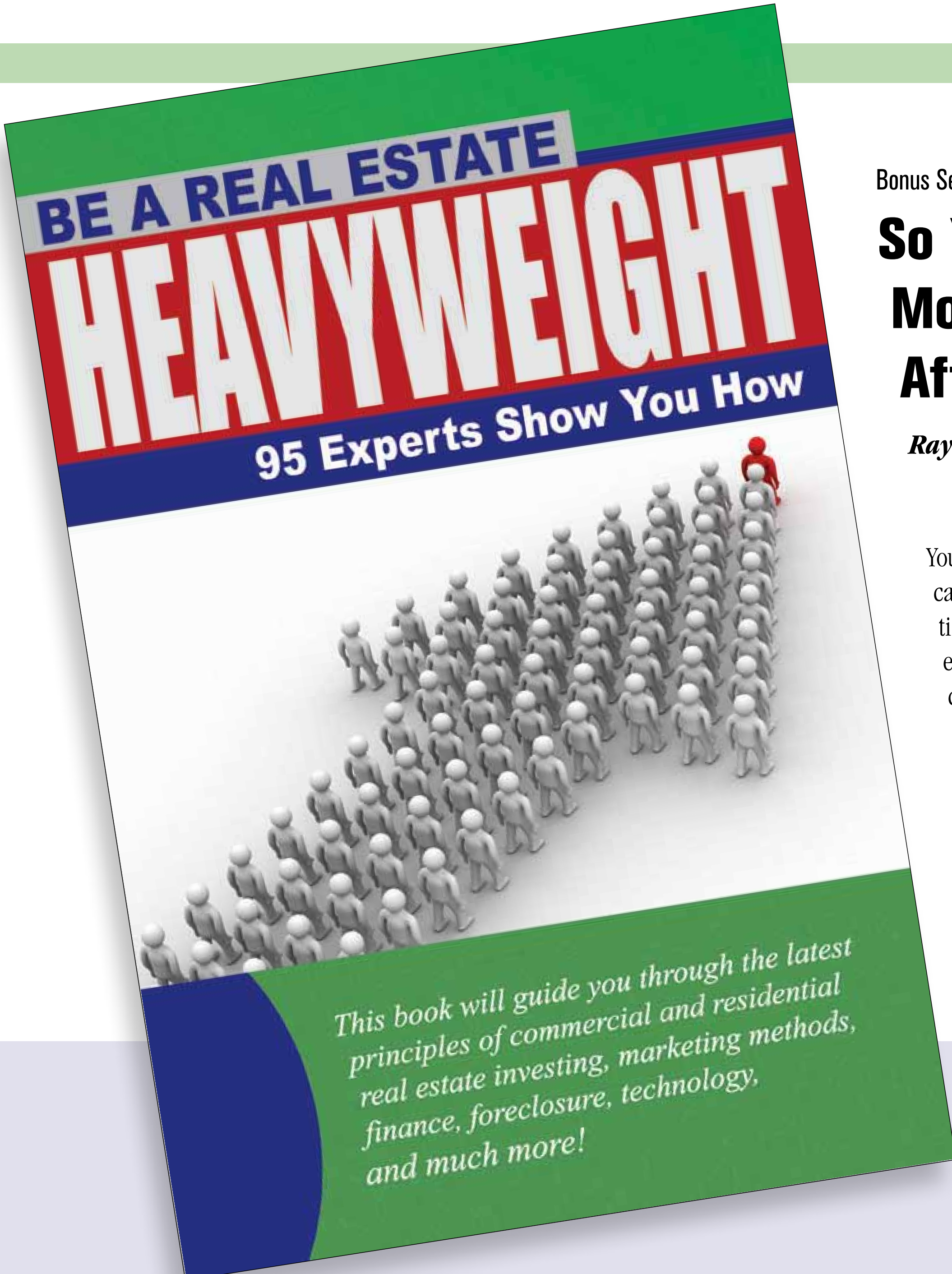
Jarom Adair is a real estate investor and mentor who has helped hundreds of aspiring investors take their first steps in real estate through his website, http://www.RealEstateInvestingForBeginners.com.

Mr. Adair's background in web design and Internet marketing allows him to mentor new and experienced investors in taking their business online. Be sure to read his other report *12 Ways to Explode Your Business Online*, found later in this book. Learn more at his website, http://www.OnlineMarketingForInvestors.com.

Chapter 10

The 7 Great Lies of Real Estate Investing

Jarom Adair



Bonus Section 1

So You Want to Make Big Money online through Affiliate Offers?

Ray Higdon

You may have heard of a growing in popularity way to make money called Affiliate Marketing but what is it? Affiliate marketing is getting paid to sell other people's products and the mechanisms that encompass how to do so. You may be wondering, well, what products can you be an affiliate of? The answer is almost anything that you see sold on TV or on the internet probably has an affiliate offer.

There are so many benefits to learning affiliate marketing but here are some of the highlights:

1. You typically do not have to pay any money upfront to be an affiliate of a product
2. You do not have to purchase and hold any inventory
3. You do not have to be a master copywriter as you simply link up to existing already tested sales pages

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4. This is something you can do as much or as little as you want, ALL WITHOUT LEAVING YOUR HOME!

In this chapter on Affiliate Marketing, I am going to cover some key concepts that will allow you to take this information and actually start earning money from home from other people's products. I will go into exact examples I have used to make a good income from the comfort of my home and even how I automated each process!

In this chapter you are going to learn the following:

1. The Basics of Affiliate Marketing
2. One No Cost Way to Market Products Online
3. The Power of Google Adwords
4. All About Landing Pages and Why They are important
5. Automating your Online Business
6. My list of "From the Field" Tips

First of all, let me let you in on who I am! My name is Ray Higdon and I am a serial entrepreneur! This means I love business and love playing in new businesses and building wealth via many different engines. I found that my passion is in helping others and I LOVE WHAT I DO! I am the Founder of http://www.TheForeverWealthClub.com where as of this writing we have Forever Wealth Clubs all throughout Florida, West Virginia, Pittsburgh with several other cities coming on board including Toronto and Honolulu. The Forever Wealth Club is an education and networking group that I founded 3 years ago out of the need for more wealth related education in my area in Southwest Florida. I also have a marketing company where I look for talented, interesting people and build their online personalities and their e-commerce engine. I have also been a real estate investor since 2004 where I currently am focusing on purchasing apartment complexes, strip malls and mobile homes parks around the country. You can follow my adventures at http://www.RayHigdon.com or email me at rayhigdon@rayhigdon.com.

Section 1 – The Basics

As explained earlier, Affiliate Marketing is getting paid to sell others people's stuff online. However, it is much simpler than one might expect and let me give you some examples:

1. In 2008, Trump University ran an affiliate offer where if you drove people to the Trump University website (through your own unique link) and those people gave up their email address (just their email address, no address or credit card information), Trump University would pay you $8 per email.

2. Robert Allen has an affiliate offer that has been running for several months that if you drive people to his site through your unique link and those people buy his set of ebooks, which are currently under $40, he will pay you $95 per sale!

3. Drive traffic to any of the dating sites through your unique link and anyone that creates a FREE profile will earn you anywhere from $4-8 per person!

Now, for those new to affiliate marketing, the above statements may sound ludicrous. You may be thinking, Ray, this just doesn't make sense, why would someone pay me to get someone to create a free profile or pay me more in commission than what they actually sold to someone I sent? The answer is, these companies get the power of a database and have the backend to make it profitable for them. Think about it this way: If you were smart enough to know how much each of your clients lifetime worth was to you, would you pay less than that amount to get each client? The answer should be a resounding YES! Robert Allen and Trump know they will hammer those who sign up with big package deals of seminars, books, tapes, etc and perhaps each lead is really worth anywhere from $150-$500 per person. If after reading this you are starting to think that maybe you should be figuring out the profit per client for your business, you are on the right track.

There are basically affiliate offers for everything. I have sold Obama coins to Sham-Wow to diet pills, anti-virus software and of course, e-books. If you have ever purchased an ebook, chances are you bought from an affiliate. The great thing about affiliate marketing is there is no mark up. Meaning, if I am selling an ebook that was written by someone, buying through me (of which I get a commission) is the same price as you would receive if you went directly to the source. Now, some of the people reading this may already have a large database of clients, followers or associates. Understanding affiliate marketing will drastically impact your streams of income when you have a good database of people. But don't worry! Those without a database can make money with affiliate marketing as well, but, I would encourage you to think about building your database right away as it just makes printing money much easier!

So why would companies bother with affiliate marketing? Let me ask you this, would you rather pay a salary to a bunch of sales people or just pay them commission on anything they sell? Hopefully you picked the latter and this is where affiliate marketing is a GREAT way to get your product out there and only pay people for performance. How many sales people would you bring on if you never had to manage them and only paid them on what they sold? Hopefully the answer is as many as would agree to do it!

How to become an affiliate

I work with several affiliate marketing networks but the two I am going to concentrate on are http://www.networkhydra.info and http://www.ClickBank.com. Network Hydra is a higher end affiliate network that has a widely varying database of products whereas Click Bank is strictly for informational products. You actually have to qualify to be an affiliate for Network Hydra whereas Click Bank accepts anyone and everyone. I encourage you to apply to both to see the difference between the two. I have and continue to make good money from both of them so there is no right one and wrong one.

Section 2 –No Cost Marketing Method

I am going to cover the best method, in my opinion, of marketing your affiliate offer for no cost. You can legitimately make a lot of money without spending a dime on internet marketing but it does involve work. You want to always weigh your options of doing something yourself versus outsourcing. A fantastically written book that does a good job talking about outsourcing is Tim Ferris's book, the 4 hour workweek.

This chapter and most information written on affiliate marketing concentrate on Google versus any other search engine. The reason is that Google currently represents 70%+ of all online searches and until that number greatly reduces; I would encourage you to concentrate on Google as well. There are two sets of results in Google searches, organic and sponsored, or PPC (Pay per click). This chapter will talk about both but in this section of no cost marketing methods; we will concentrate on Google organic results.

If you want to show up high in the organic results of Google, either hire an expert, spend a lot of time working on your site's blog, backlinks, etc or go after keywords and phrases that do not have a lot of competition but have enough of an existing search engine volume to make a difference to your bottom line. There are several different ways to accomplish this, some much more time consuming than others but the one that I like the most is by using a tool that you can learn more about at http://www.EacyN-icheFinder.info. Take a look at the below screenshot from this tool.

189 Search Results for 'southwest florida real estate' Google

These results were created on 10/14/08 09:51:14 AM from www.google.com

Refresh from Web | Get Checked Exact Matches | Get Checked Ad Cost | Get Checked SOC | Print Results

Check All Results | Uncheck All Results | Reverse Checks | Delete Checked Results | Delete Filtered Results | Export Results | Export Checked Results

Phrase (click a phrase for options)	Search Count	Exact Phrase Count	Ad Cost	SOC
accommodation fl	< 30	Get Exact Phrase Count	2.22	Get SOC
airport	110,000	Get Exact Phrase Count	1.98	Get SOC
bay homes	170	416,000	2.07	1,630
beach florida	1,000	12,600,000	2.11	67,400
beach real estate	1,300	3,030,000	3.11	2,170
bonita springs real estate	2,900	64,300	3.38	35
cape coral homes	4,400	75,000	2.43	22
cape coral real estate	8,100	96,600	3.53	49
condo	27,100	61,600,000	2.20	2,610,000
condo rental	5,400	1,010,000	2.33	6,190
condo rentals	9,900	3,020,000	2.49	13,100

For this example pay attention to the left-most and the right most columns. When I used this tool to search on "southwest florida real estate", these are the suggested keywords and phrases it came up with. The right-most column is called SOC which stands for "Strength of competition". This applies directly to the ORGANIC results and will tell you how hard it will be for you to do something to rank high in google for that phrase or keyword. Notice the keyword "condo" has over 2.6 million but the phrase "cape coral homes" has an SOC of only 22. This means that if you create a blog, article, video, etc with the phrase "cape coral homes" in it, you would have a pretty easy chance of getting that ranked high in google for that phrase. Now, take a look at the second column and you will see that "cape coral homes" is searched on an average of 4,400 times per month. Being on the front page of google for something that is searched on thousands of times a month may be a good idea for your marketing or affiliate marketing endeavors! I think you are starting to get the idea.

Now, how to translate this to making money with affiliate marketing? By using this tool, http://www.EasyNicheFinder.info, you can pick an affiliate product and choose keywords or phrases that apply to the product. Let me give you an example.

One affiliate product that I have made thousands with is http://www.HighPaySurvey.info. http://www.HighPaySurvey.info is a product that shows people how to make money from home doing online surveys. It actually is a good product and it pays you $23.50 every time someone buys through your link. I wrote an article by targeting a "make money from home" phrase that had low SOC and in one week had 5 sales of this product. I uploaded the article for free to http://members.ezinearticles.com/ and to this date still give me sales every now and then. Articles can be a great way to make money online, if you know how to title them by using a tool such as http://www.EasyNicheFinder.info.

Section 3 – The Power of Google Adwords

Now we are going to talk about Google Adwords which is PPC (pay per click). There are several reasons I like PPC including:

1. You can immediately ratchet it up or down. This means if you want to create an ad and force it to show up for certain keywords, you can make this happen in minutes versus with organic and if the competition is strong, you just cannot buy your way to the top. This also means you can turn off your ad anytime as well.

2. Easy to understand and very detailed analysis allows you to understand exactly what keywords or phrases get the most clicks.

3. One thing that most advertising mediums completely lack is the ability to split test. Split testing means creating one ad and competing against another ad that you create. Adwords has a built in mechanism for this which allows you to compete against yourself to see which ad gets the most clicks. This is very, very powerful and can quickly make you an advertising guru!

4. The only way I know to get your ad in front of thousands of people in a very short amount of time.

Here is the epitome of internet cashflow. I have adwords campaigns that I spend 45-60 cents per click that earn me over $1 per click. Think about that for a second. If you had a system that would pay you almost double for every dollar you spent. . .how many dollars would you spend? I am not saying that every adwords campaign you create will make you double your money but if you test enough and think strategically, you can find ones that do.

To sign up for Google Adwords, you simply go to http://adwords.google.com and you will have to enter a credit card and pay $5 to join Adwords. You will be given an option to do the start edition or the standard, contrary to the naming; I find the standard edition much more user friendly to work with. At this point you can create campaigns based off keywords and phrases and point them to your website or to the website of the affiliate offer you are trying to promote. When you create a new campaign it will ask you what keywords or phrases you want to use and the copy for your ad. Google has a keyword tool that will help you with picking keywords and phrases and it is free. When doing keywords and phrases don't forget to use misspellings as a lot of people misspell their words and you want your ad to show up for those searches as well.

Writing the ads for Google adwords can be a whole lot of fun. This is one place where you can go head to head with the big national advertisers and wipe the floor with them. Most of the bigger companies have absolutely no idea how to write a compelling ad, and, if you write an ad that gets more clicks, Google actually rewards you! You see, Google is all about relevance and if a big advertiser is paying $10 a click but their ads never get clicked, Google would rather reward you if you are paying $2 a click but your ads get clicked all the time. In their mind your ad is more relevant to their users experience and if more people click on yours, they actually get paid more.

Writing the Google Ad

Now, if you are using Adwords to market your affiliate products, as I am suggesting in this chapter, you have a lot of ammo. You want to either raise people's curiosity or scare them into clicking your ad. Common headline examples include:

1. Before You Buy XXX
2. What They Won't Tell You About XXX
3. Shocking Truth Revealed About XXX

You see, you will never make money using adwords for Affiliate marketing unless you write good, compelling ads that play off the fears of the search engine user. One of the greatest things about Google adwords above ALL other advertising mediums is the ability to split test. Split testing allows you to place two ads per one keyword or phrase. For my marketing company I have a client that is a chiropractor. We created two ads for him on people searching for chiropractors, here they are:

Ad #1

Are Chiropractors Scam Artists?
What They Won't Tell You

Free Report on What to Watch Out For

Ad#2

Are Chiropractors Worth the $$$?

What They Won't Tell You

Shocking Truth That May Help Your Decision

You see, the two ads are similar but have a few differences. Both are good ads that get good click through rates but the bottom one got a full 2% higher click through rate than the top one. Why? I don't know but I don't need to know why, all I know is that I want the best performing ad out there so I split test these two ads at the same exact time and determined which one was better. You can do this with your personal business or with affiliate products.

Section 4 – Landing Pages

OK, so if you are going to be a master affiliate marketer, you need to understand about landing pages. Landing pages are web pages that are strategically designed to do one of two things; gather information on the prospect or sell them a product. This is instrumental to understanding how you can build your database massively as gathering information is one of the greatest keys to the kingdom when it comes to making money online.

Landing pages are typically made up of well written copy and either a way to buy something or an opt-in form for you to capture their data. The rule of thumb is if you are selling something that is less than $30, you may want to just sell it instead of collect data or if it is above $30, collect the data as the theory is the person will want to get educated before they make that buying decision. Keep in mind any action after you collect someone's data is bonus so send them to a sales page and they may just buy, however, and I am going to cover this in the last section, you will want to drip campaign on them using autoresponders to continue to try to sell them. Let's look at one of my sample landing pages.

Bonus Section 1

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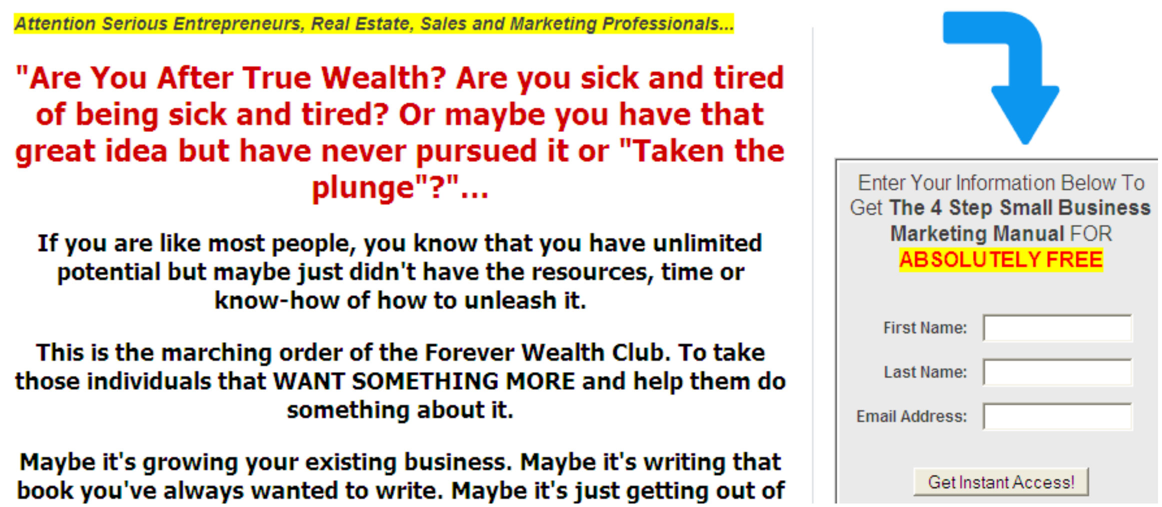


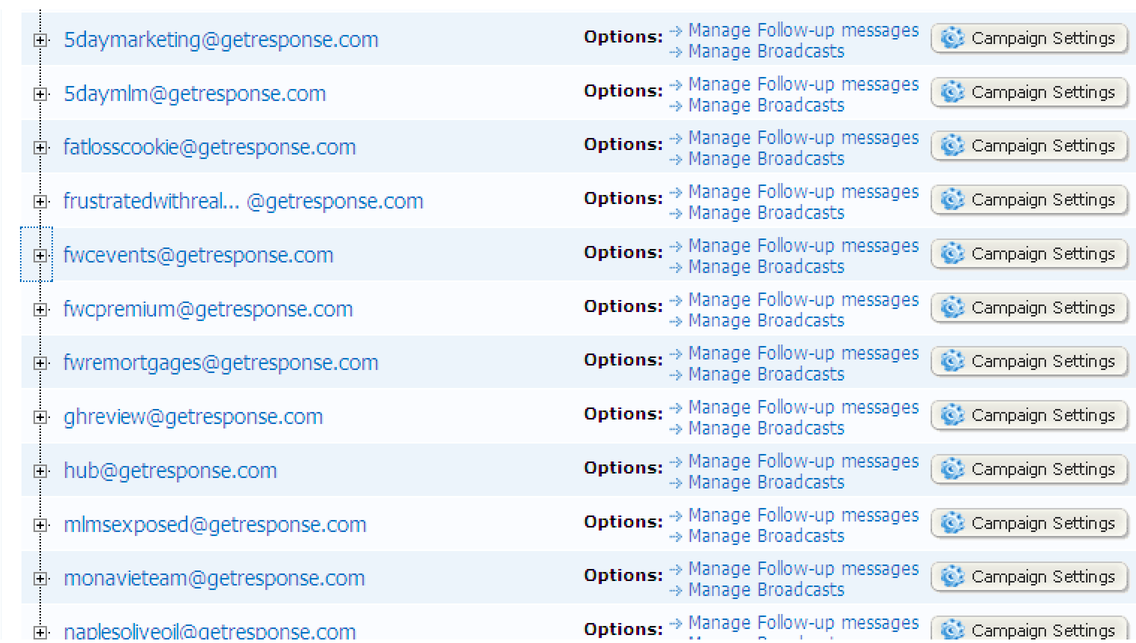
There are several things to point out about the above landing page. This is currently my landing page at [http://www.TheForeverWealth-Club.com](http://www.TheForeverWealthClub.com). Notice on the right hand side, there is an arrow drawing attention to the opt-in form so I can capture their data and have them in my email database. To get that data, I have to give them something they may want so I give away a free Small Business Marketing Manual. As most of the people that attend my events are always interested in marketing, I thought this would be a good giveaway to compel them to trade me their data. If you go to this page you would notice that I actually do not sell anything on this page but just look to capture their data by using well written copy that should be compelling to them and offering them a giveaway.

If this process of creating a good landing page is overwhelming, don't worry about it. As an affiliate marketer you will typically just latch onto already existing landing pages so you don't have to do the heavy lifting. Your job is just to drive traffic to these converting landing pages and cash the checks when they come in! I did want to cover landing pages though as I think it is important for you to understand that in all businesses, the amount of direction you give your users is directly proportional to how successful your website is. When you ask for their data and give them a reason to provide it, you will build your database much faster than the websites that simply have a "Newsletter opt-in". Sell that giveaway or newsletter with well written copy! Make people feel like total idiots if they do NOT give you their data. You can drive massive traffic by using Google Adwords, just be sure you are sending them to a place that gives detailed instructions.

SECRET TIP: Most people that use an optin and do a giveaway, send the person directly to the giveaway. This is a mistake! You have someone entering data into a form, send them to a sales page and you may just get them to buy! Use an auto responder such as http://www.AutoResponding.info to automate the giveaway and send them the product through their email but while they are hot filling out a simple form, see if they are hot enough to buy your product! When you opt in to my free giveaway at http://www.TheForeverWealthClub.com, you then get sent to my sales page on my premium membership which you can see the example at http://www.TheForeverWealthClub.com/overview.php.

Section 5 – Automating Your Online Business

As you start to make more money with affiliate marketing, you will start to realize that these companies really love paying you to build their database, and, you will realize that having a database makes it easier to sell affiliate products. When you realize this, you are faced with a possible challenge which is "How to handle the people that opt into my web pages"? That answer is really, really simple and it is to use an auto-responder to automate the capture and storage of data as well as handle whatever communication you wish for your new prospect to receive. This is not an empty auto-responder such as "Thank you for visiting my

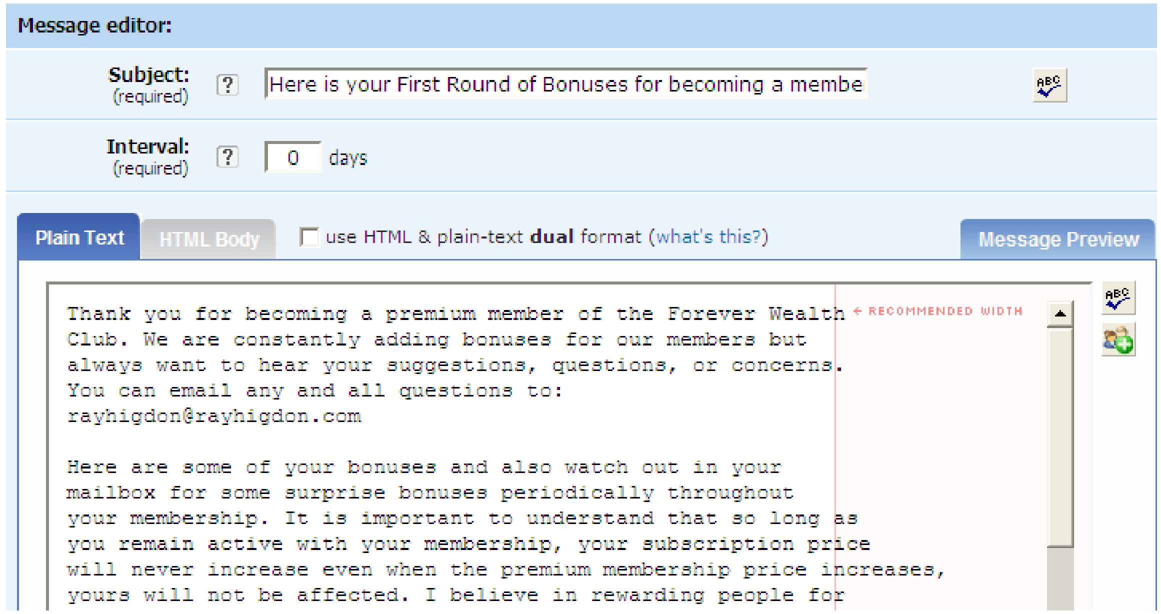


page, we will be with you shortly" or any nonsense like that. I am talking about building your drip campaigns automatically and strategically building your responders to automatically handle your communication with that prospect for the first week, year or heck even decade! Now, that does not mean that you will not contact them directly in between auto-responders but just in case you decide to take a couple months to spend time in Tahiti without a computer or cell-phone, your business will handle it!

There are several auto-responding programs out there, I choose to use http://www.AutoResponding.info as I believe it is very low priced, is flexible when it comes to spam reports and does not require double opt-in. Double opt-in means someone enters their data into your page then they are emailed a link that they have to click to confirm. The problem is that anywhere from 40-50% of the time, they will not click that link and they will not be added to your database. I would rather get them in the database if they enter their data in, period, whether or not they confirm. Here is a screenshot of my different campaigns:

Actually, all of my campaigns would not fit on the screen but I wanted to show you that you can have several campaigns within the software and handle them accordingly. This is powerful as you may be building a list of say, Sellers and buyers or for your different affiliate niches such as dieters or make money at home people. Keeping these people in a database but in separate databases will allow you to market items to them that are specific to what they are already interested in. Dieters are a great niche as most dieters do hundreds of diets throughout their lives and you can benefit financially if you are catering to their needs and desires.

Next I am going to show you how to setup your autoresponder. You can set these things up for as long out as you wish. You can have an auto-responder hit them right away and also hit them 3, 10, or 45 days later. See how this could make your life easier? This means you write it one time and it serves all new opted in people for as long as you wish. See the below screen shot:



This auto-responder is for people that opt into my premium membership for the Forever Wealth Club but it could just as easily be for people that opted into one of my pages selling diets pills or MLM manuals. Notice how the interval says 0 days, that means that they get this auto-responder sent to them as soon as they opt in. Also notice that I use text, not HTML in my emails. Take a look at almost any really large marketer such as Dan Kennedy, Bryan Tracy, Jim Rohn…They all use text emails! Using text is a good idea if you plan on building a large database as having one picture or image can make the spam filters go bananas and you want to play the best possible odds, don't you?

Now, in these auto-responders, this is your free game to give good content but also to test out different affiliate offers. If you created a dieting page that sells diet products and someone has opted in, you can have your auto-responder hit them with articles about losing weight that get them to trust you but also offer an affiliate diet product at the bottom of the email. This also works with people that have existing databases. Most promoters and speakers are leaving a LOT of money on the table by not incorporating this very lucrative procedure.

Section 6 – My Real World Tips from the Field for Affiliate Marketers

1. Don't test the same offer forever. If you send 200 or more clicks to a certain offer and none of them buy, move on to another product. You don't always know which sales pages will work but after sending a couple hundred clicks, you can draw the conclusion that the page does not convert as well as others, so pick another product.

2. Think about your other businesses and what affiliate products would make sense to promote. If you are a real estate investor or in real estate, there are tons of products out there that you can promote. When you start making money at these offers, you may then decide to create a stand alone page that features one or all of these different offers.

3. If you plan on going the free route, at least make sure you are strategic. My motto is that sometimes free is the

most costly way you can possibly go as my time is so precious and you should treat your time the same way. Using tools such as http://www.EasyNicheFinder.info will help you decide how to title your blogs and your articles.

4. If you find services, products or ebooks that you really like, consider buying domain names for them. That way you can simply use the domain name in conversation versus trying to have someone write down this big long affiliate link that they will probably mess up anyway. I have been to conferences where I was the speaker and then someone came up to me to get me to buy an affiliate offer of theirs and they wrote this 3 line URL down for me to enter when I got home, needless to say, I didn't. Had that person purchased a domain name for less than $10 A YEAR, I may have checked it out.

5. Online Social Marketing is a great way to market yourself, but don't be too sales oriented. Develop your personality and people will want to get to know you, and then, they may be interested in your products or services. If you want to add me as a friend on face book, and see some of the strategies that I use, you can add me by searching for my name.

6. If you have an existing database, don't choke them with affiliate offers. Give them education and content on the topics they are interested in, and then make them an offer. If you get in the habit of only selling through your newsletter or emails, people will quickly opt out of them and stop opening your emails.

7. This is a top secret affiliate tip! If you want to see what your competition is like in Google, enter the name of the product you wish to sell and watch the sponsored ads that show up. Repeat this same search 10-15 times and watch which sponsors stay on the screen. Those ads that stay are the most clicked ads and will give you an idea of how to write your ads if you wish to use Google Adwords.

8. From speaking around the country, it is apparent to me that right now, affiliate marketing is one of the hottest topics that people are interested in. Once you make some money as an affiliate marketer, you may consider doing seminars, classes or webinars on how to do affiliate marketing and making an extra income doing so.

Ray Higdon is a sought after speaker on real estate investing, law of attraction and internet marketing. Ray speaks at high school and colleges around the country on success principles and love helping others. He can be reached at rayhigdon@rayhigdon.com or by visiting his page at http://www.TheForeverWealthClub.com