

Chapter One

Defining Wealth

What are you going to be doing for the next five years? It's a simple question but if you're like most people, you don't have an answer. Each day, you get out and do what you did the day before: work, come home, watch some TV, go to sleep, and do the same thing tomorrow. And you'll probably keep doing it week after week, year after year, until you're old, gray, and resigned to let your dreams fall by the wayside. Unless you take action right here, right now. After all, your life is what you make of it. All you have to do is, clearly define what you want.

So, what is wealth? In America, most people equate wealth to money and in many ways, this is true. Merriam Webster defines wealth as:

"abundance of valuable material possessions or resources"

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This book is dedicated to teaching you how to become financially wealthy. But I contend that being wealthy consists of much more than financial riches and gain. For me, wealth consists of the following:

Finances: To have enough money to live comfortably, and without the need to work. There is an old joke that says: "I've been rich, and I've been poor. Rich is definitely better." Well, I concur. When all of your bills are paid and there is a wad of cash sitting in the bank, you feel better, sleep better, think better, and can live life without the weight that bearing a financial burden places upon you.

Health: Without health, not much else matters. So many people take their health for granted until it is too late, and they find themselves in a do or die situation. Health, like financial wealth is paid for in full, in advance.

Spirituality: You cannot be at peace with the world until you are at peace with yourself. However you define and find your spirituality is completely up to you, but with it comes a sense of inner purpose that allows you to enjoy your life to the fullest.

So with that in mind, if you don't know what you'll be doing for the next five years, you might as well make up your mind right now that you are going to become wealthy; because like it or not, the next five years will pass quickly and you might as well have a plan to get someplace you want to go.

**"Fortune does not change men; it unmask them."
- Suzanne
Necker**

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Are Rich People Good or Bad?

The American media paints the picture that the rich are nothing more than greedy people that take advantage of the poor and anyone else that gets in their way. Since everyone likes a scapegoat, the rich are easy to attack because most people are jealous and envious of their accomplishments, freedoms and wealth.

Unfortunately, most Americans do not personally know very many truly rich people and their decisions about millionaires are based solely on the media's inaccurate portrayal, or even worse, the false image given to the rich by Hollywood.

A much more accurate portrayal of the wealthy can be found in Thomas Stanley and William Danko's book, *The Millionaire Next Door*. Doctors Stanley and Danko spent over 20 years interviewing millionaires. Their book is a great read that shares a lot of inside information about the truly wealthy in America. Their study found that most millionaires are frugal, live well below their means, and are prodigious accumulators of wealth. An interesting fact from the book: What type of vehicle do millionaires most commonly drive? Is it a Mercedes, BMW, Porsche, Ferrari, Lexus, Acura, or other luxury car? Nope, not even close... it's a Ford 150

"Happiness is not in the mere possession of money; it lies in the joy of achievement, in the thrill of creative effort."

– Franklin D.

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truck. Now, is that anything close to the image painted by the media and Hollywood?

My experience with the wealthy confirms the results found by Stanley and Danko. When I went to college, it was at an NJCAA college that boasted the first program in the world where you could get a degree in tennis. Although I only went there for a year, I did become a licensed teaching pro and taught tennis for a summer in Charlottesville, North Carolina.

Later, when I lived in the small timber town of Klamath Falls, Oregon, I occasionally played tennis with a gentleman by the name of Dick Wendt. You've probably never heard of Dick, but at the time he was the second wealthiest man in the state of Oregon behind the founder of Nike, Phil Knight.

If you ever saw Dick on the street you'd guess him to be a normal working Joe. His company, JELD-WEN, was (and still is) one of the largest makers of doors and windows in the US and quite possibly the world. Yet, when a new store, similar to Home Depot, opened up in Klamath Falls, there was a pre-opening party for all of the bigwigs in town. I was invited only because I was a rehabber and knew the store manager. Anyway, I remember going to the pre-opening and seeing him. I watched Dick walk up and down several aisles by himself. He was wearing jeans and a flannel shirt, and drew no attention to himself. My best guess is that most people didn't even know who he was. Not something you would expect from a man that employs over 20,000 people

"Capital as such is not evil; it is its wrong use that is evil. Capital in some form or other will always be needed."

– Mohandas K.

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and has assets and holdings around the world, is it? But that's my point.

When I think of the many truly rich people I know, most of them are men and women with a character like that of Dick Wendt. They are great people with great values, and rarely do they ever resemble the "Hollywood millionaire."

Another misconception is that the rich care about no one else but themselves. In my experience, nothing could be farther from the truth. I maintain that the rich wouldn't be rich if they didn't focus a great deal of their efforts on helping others. It's my belief that most of the people that get rich quick without the true benefits of helping people normally get poor as fast or faster than they made it. You can call it karma, universal law, or anything you like, but rest assured that what comes around goes around.

For example, look at the "dot com" boom of the 1990s. There were companies being bought and sold for millions of dollars even though they were losing money and providing no goods or services. The "dot com" boom turned into the "dot com" bust because the companies were worthless since they really did not benefit anyone.

On the other hand, look at Bill Gates, who is reportedly the richest man in the world. His company's revenues last year were \$36.84 billion and Microsoft employs more than 55,000 people in 85 countries and regions. (That means if Microsoft

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"Money is like manure; it's not worth a thing unless it's spread around encouraging young things to grow."

was its own country, it would be in the top 34% of nations based on its gross national product.)

Bill Gates is the richest man in the world because he helps more people than any other person. Can you imagine your life without Microsoft products? I personally use Microsoft Office, Outlook, Excel, Front Page, and Internet Explorer. Bill Gates has created products that have directly touched the lives of more people than anyone else in the history of mankind. And in doing so, he has become the richest man in the world.

There's more to Bill than just software though. He and his wife Melinda are very big philanthropists and have endowed a foundation with more than 27 billion (that's BILLION) dollars to be used in areas of global health and learning. Plus, they have given more than 5 billion dollars towards bringing computers to public libraries in low-income communities, northwest community projects, and other special projects and campaigns.

Again, this goes against the Hollywood image of the rich.

Can you name a single higher education university that was not founded on or heavily supported from the donations of the wealthy? Harvard, Princeton, Yale, and countless others are all here by and because so many of the wealthy in America are philanthropists.

"Can anybody remember when the times were not hard and money not scarce?"

– Ralph Waldo

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The Rich Man On The Hill

For the sake of argument, let's assume there is a very rich miser that wants to build a big house on a hill. Is he a good or bad influence on society?

In order to become rich, he's had to make a lot of money that has been taxed and these taxes are redistributed back into the economy by the government. *(Big disclaimer: Please do not read into this example and draw the conclusion that I am singing the praises of our government. In my opinion, there are very few things that the government can do better than private citizens or private companies. But, the system is what the system is and we have to work with what is available.)*

When he buys the land for the property, he pays taxes that will help support the local government, police force, firemen, public schools, public roads, and a number of other taxes that all feed back into the economy and help put dinner on the table for many families.

Then, to build a house on that land, he hires numerous contractors. That will earn profits, pay employee salaries, and plump up the local economy since those contractors will likely purchase products and supplies from area stores and vendors. Throw in all of the permits, inspections and additional workers which are required for those and that's

"All my life I knew that there was all the money you could want out there. All you have to do is go after it."

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even more money the rich man building a house on the hill contributes to the community.

But the giving doesn't stop there! Since he now owns a nice house, he will have to pay property taxes on that house every year and those taxes are based on the value of his house. Now, for most people, this only seems fair because that's the way they've always known it to be. But if you think about it, the rich man is paying much more than his fair share in taxes. You see, he's already had to pay taxes on the income he earned that allowed him to build a nice house on the hill. But he is also taxed every year based on the property's value that was already built from dollars that were taxed as income. In reality, he's been taxed first on the income and then, every year he owns the nice house, he's taxed again and again.

Now let's assume that our rich man buys two nice, luxury cars. The salesman and the dealership both profit, and he has to pay additional taxes because they are luxury cars. Then, every year, he'll pay even more taxes on the luxury cars in a form of vehicle registration since that's based on the car's value.

Is this fair? Not really, but it is the system we live in. The point I'm trying to make is that the wealthy in America make a lot of money, but they also put a proportionately larger amount of money back into the economy than the average wage earner.

"There are people who have money and people who are rich."
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This country was founded by entrepreneurs and became the most prosperous nation in the world on their backs. Without entrepreneurs driving and supporting the economy, the financial future of this country would be bleak.

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"I always plucked a thistle and planted a flower where I thought a flower would grow."

Can Anyone Really Become Rich in America?

Every day, immigrants come to this country looking for financial opportunity. Many of these people come here with no money, no language skills, no possessions, no promise of a job and no housing.

In spite of the many obstacles they have to overcome, many become wealthy in a very short amount of time. They leapfrog many Americans who have all of the language skills, education, employment, credit and other advantages, but have not become wealthier. In all likelihood, because the Americans have accumulated more debt.

So, is there an opportunity in America for anyone to become wealthy? Absolutely. How can you argue with the number of underprivileged people coming to this country and becoming wealthy? The opportunity is here, but you have to take responsibility for your life and take action.

How Being Rich Is like Being Drunk.

Have you ever known somebody who, when they drink, becomes a happy drunk? Or maybe you know somebody who becomes really mean and spiteful when they have a few too many. You see, the alcohol didn't do anything to them; it just brought out what was already inside of them. If they are

"A great obstacle to happiness is to expect too much happiness."

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a good person, it will bring out the good and if they are a bad person, it will bring out the bad. Money is the same way. If a person is kind in becoming wealthy, money will only serve to bring out that quality. But if a person has less than redeemable qualities, money will bring those qualities to the surface.

Money itself is not good or bad. That is strictly up to the person behind it.

"Much may be done in those little shreds and patches of time which every day produces, and which most men throw away."
— Charles Caleb

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Chapter **Ten**

How To Determine Your Buying Price

There's an old saying that goes "You make money when you buy and realize it when you sell!" If you buy wrong, there is often little you can do to recover and you will be taking a financial bath.

But so many investors get excited about real estate and run out looking for property without a clearly defined plan in place.

Not having a plan in place would be the same as asking a contractor to build your house without a set of plans. Absolutely insane, yet people buy houses all the time without a plan.

"It is never too late to be what you might have been."

Why Are You Buying?

Most real estate investors start by investing in rental property. There are many advantages of having rental property and entire books are dedicated to the subject, so I'll be brief here. Some advantages include:

Gerald Romine's #5
Money Talks Tip

Know Your Exit Strategy Before You Buy. If you don't know your exit strategy and the profitability before you buy, then you should not buy the property!

Free Money Talks investing tips Newsletter online at www.kickassrealestate.com

"People begin to be successful the minute they decide to be."

– Harvey

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Appreciation – The value of most real estate goes up every year and over time this will become a considerable sum.

Depreciation – The IRS tax code allows us to write off a percentage of the cost every year thereby lowering our taxable income even though the write offs are a paper loss and not real dollar loss.

Monthly Cash Flow – Every month you are making money when your monthly payments (including taxes, insurance and maintenance costs) are lower than your monthly rent.

So, if you want to own rental properties it should come down to your return on investment. My favorite rental formula is:

CASH ON CASH RETURN = Acquisition Costs/Annual ROI.

Example:

Purchase Price:	\$100,000
Closing Costs & Down Payment:	\$10,000
Net Annual Income	\$ 2,500
Cash on Cash Return	25% (\$2,500 / \$10,000)

The reason I like this formula for rental properties is because it shows you the cash return on your investment and this is easy to compare to other investment opportunities. This formula does not take into account appreciation and the tax benefits, so your real profit will be even higher when you sell.

Early in my investing career, I purchased a lot of rentals and my goal was to always have a 25% cash on cash return. It served me well. And if you buy rental properties, I'd encourage you to determine an acceptable cash on cash return before you submit any offer.

Note: There are advanced strategies beyond the scope of this book where you can buy houses without using banks or your own money and still have positive cash flows. For advanced concepts such as this, visit www.kickassrealestate.com.

Buying Wholesale

If you remember, wholesaling is the business of quickly generating cash by purchasing properties at a significant discount. It is the foundation of much of the real estate business. I've said before and still maintain, there is no better way of making money in real estate than buying properties at wholesale prices because the properties can then be resold for quick cash, fixed and resold, or kept as a long-term investment. By mastering this skill, you will have many profitable exit strategies available.

"Little minds have little worries; big minds have no time for worries."

– Ralph

Why Wholesale?

Wholesaling property gives you the ability to quickly generate cash. Without cash, your business is destined to fail. Many people get caught up in the idea of building a financial empire, but before we can build this empire we need to have a foundation to build upon. In real estate, that foundation can be wholesaling for the following reasons:

Quickly generate cash. With wholesaling, you can literally buy and sell a property on the same day. The cash you generate is yours to keep.

Easiest way to sell. Selling a bargain to a bargain hunter is very easy to do.

Little or no risk. Wholesaling gives you the ability to buy and sell properties with little or none of your own money and having little or no money in the deal means you have little or no risk.

Why Do People Sell At A Discount?

No matter what market you are in, there are nine reasons why people will always sell at a discount. These are the 9 D's of real estate mentioned earlier.

Death / Probate
Divorce

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"Managing time with the heart is the
ultimate time management tool."
- Doc

- | Damage (fire, flood, vandals, etc.) - many homeowners believe that a property must be fixed up in order to sell.
- | Despair / life changes or illness - many owners will have changes in their life and simply want to get rid of a house.
- | Delinquent tenants
- | Debt Service / Foreclosure
- | Downsizing
- | Distance from the property
- | Disinterest

There is no need to worry that there will ever be a shortage of deals. The events in people's lives will always ensure an abundance of deals for those who know how to look.

Determining The Purchase Price

When buying wholesale, you want to buy at a price where you can resell it instantly to another investor and realize a profit. I wish there was a magic formula that worked everywhere in US, but it is impossible because you cannot buy and sell at the same prices in hot and cold markets. But I will give you a general formula that you can use as a rule of thumb. We call this formula the Maximum Allowable Offer.

"Happiness is like a butterfly which, when pursued, is always beyond our grasp, but, if you will sit down quietly, may alight upon you."

Hawthorne

- Nathaniel

Determining The Maximum Allowable Offer (MAO)

The Maximum Allowable Offer (MAO) is a formula created and developed by Real Estate Educational Guru Ron LeGrand. The MAO Formula has been used and tested by investors nationwide.

MAO = Maximum Allowable Offer. The MAO gives you the maximum amount you can pay for a property and takes into account expenses and desired profits. You can always pay less, but never more, than the MAO.

MAO = [After Repair Value (ARV) X .70] - Repairs

\$ 100,000 ARV

X .70

\$ 70,000

\$- 10,000 Repairs

\$ 60,000 MAO

The MAO formula is to be used when purchasing properties for cash. Many realtors and investors will tell you that you can't find these types of deals. Their ignorance is their own limitation, don't let it be yours. To prove my point, you can look at the county recorder's records for any older subdivision and you will likely see several sales that took place well below the market value. That tells you somebody is buying wholesale!

**"To be wronged is nothing unless you
continue to remember it."**

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How To Find Houses To Buy Below Market

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"You're writing the story of your life one moment at a time."
— Howard
Martin

Chapter Eleven

Why Invest In Foreclosures?

For many, the word foreclosure has a negative connotation. People think that the house is in bad condition and that the folks who lived in it were horrible people but more times than not, that's not the case at all. Usually, the owners just fell on hard times and the houses actually are in decent shape. So get the negative out of your mind. Think positive because you're about to learn why buying a foreclosure can be a real estate investor's best decision.

The main perk of investing in foreclosures, especially for new investors, is that it's a practical way to get into investing if you have little or no capital to invest. Beyond that, foreclosures are also great buys because they rank right up there with ugly houses when talking about finding bargain homes that can generate a significant profit. And just like ugly houses, foreclosures come with their share of challenges so a word of caution: to get the thrill of the profit, you will have to endure a unpredictable thrill ride. Be ready.

Foreclosure Basics

Before I get into the ins and outs of investing in home foreclosures, let's make sure that you fully understand what they are. The textbook definition of a foreclosure is: A legal

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process by which a mortgagee's right to redeem a mortgage is taken away, usually because of failing to make payments. Simple enough, right? Maybe. But the circumstances that lead up to foreclosures rarely are.

Now by definition, foreclosure happens because of failure to pay. Sometimes it's a failure to pay the mortgage—that's called defaulting on a loan. Sometimes, a foreclosure is the result of a lien that can be put on the property by any creditor the homeowner may owe. In either situation, there are always multiple factors that play into the onset of the foreclosure. Maybe the homeowner never learned how to use credit responsibly and has gone crazy, running up credit card bills they never intend to pay and living beyond their means thinking it'll never catch up to them. It happens. But it may surprise you to know that that scenario is more of an exception than the standard. Unexpected unemployment, hospitalization, a death in the family—any of these could put most homeowners at risk for foreclosure. Think about it. How strained would your finances be if faced with any of these situations?

Regardless of how the homeowner got to be in the situation that's leading them to foreclosure, they often make it worse by keeping their financial troubles under wraps. Pride? Shame? Ignorance? There's no telling why, but many don't seek out help to decrease their debt until it's too late and foreclosure proceedings are underway.

Now, I know what you're thinking. You're saying to yourself, it can't be right for me to try to go in and make a profit off of

someone else's misfortunes. Am I right? Well don't think of it that way. In actuality, you could be helping the homeowner out. Let me explain.

When a house goes into foreclosure, two major things happen to the homeowner and their family: (1) The family loses the home and (2) the foreclosure goes on the homeowner's credit report, damaging their credit rating for years to come. Investors who find pre-foreclosure homes can help homeowners to avoid these to some degree. If the investor buys the home from the homeowner and brings it up to date with the mortgage company, for instance, no blemish will appear on the homeowner's credit report. And in the rare case, some investors will allow the original homeowners to stay in the house for an additional month or two before selling it so the original owners can find adequate housing. Those possibilities make the idea of selling, pre-foreclosure, appealing to homeowners. I won't go any further into how to progress with those types of foreclosure deals as they can be fairly complex but do keep them in mind as you become a more seasoned investor.

Once the process for a traditional foreclose has started, there's really no stopping it. The homeowner, unless they can bring their accounts up to date, will lose their home. The mortgage company or bank will re-gain ownership and they will turn around and sell it to the highest bidder. Remember: Banks are in the business of making money, not holding real estate so they're going to want to get the property off their hands as soon as possible and re-coup the money they lost. So what does that mean for you? You've got an

opportunity to make a great profit. Let me break it down for you:

Say the original homeowner purchased the home for \$150,000. During the time they were living in the home, they paid \$30,000 to the mortgage company and it appreciated \$15,000. As far as the bank is concerned, they just want the \$120,000 still outstanding on the home plus interest due. So though the house is now worth \$165,000, all the bank is asking is \$125,000. You can try to negotiate for a lesser purchase price, and you should, but even if you paid the full \$125,000 purchase price, you'd still stand to make a \$40,000 profit when you sold the house. Sounds good doesn't it? I can almost hear you grinning and I know it's tempting but I don't recommend you jump right into purchasing foreclosures. You've still got a few things to learn so read on.

Do You Have What It Takes?

College graduates to high school dropouts, teens to retirees. Anyone can be a real estate investor and buy into foreclosure homes but that doesn't mean that everyone should. Nope. To be a successful investor, particularly when working with foreclosures, you've got to have some fundamental skills. You must:

1. Be a Great Communicator

Communication skills are important because of all the people that are involved in real estate deals. As an investor, you'll need to stay in contact you're your lenders, the buyer,

the buyer's lender, creditors and probably real estate agents too.

2. Learn Exceptional Negotiation Tactics

The importance of being a smart negotiator should be obvious. You've got to know how to put out the best deal for you that will also be enticing to the seller. Bad negotiation skills can make or break deals. Foreclosure sellers may be in a bad predicament when you find them but keep in mind that just as you know foreclosures are a good investment, so do other investors. So negotiate a fair deal. If you don't someone else will.

3. Have Access to Reliable Legal Advice

With foreclosures come quite a few unique and unpredictable situations. Each one you attempt to purchase will differ slightly from the one before and you may have to be creative in the terms you create to make the deal work. Because of this, it's important to have a basic knowledge of real estate law and to have a lawyer on stand-by just be sure you're working within the boundaries of the law.

4. Seek Out Knowledge

By now, you know that I believe that educating yourself on anything you do is key to being a success. It's no different with foreclosures. I've briefly described the process here but in the real world, there's definitely more to it and if you don't know what you're doing, there are some pretty deep pitfalls into which you can fall. So before you invest, read and ask questions. Make sure you understand the process and the

rules for foreclosing on homes and then use that knowledge to your advantage.

A great resource for information on the foreclosure process is best-selling author Dr. Albert Lowry. He's published more than 20 books and has been educating people about real estate investing for over 30 years. For more information on Dr. Lowry or how to access his educational materials, call (702) 562-9191.

Finding Foreclosures

Once you have those skills down pat, you're ready to start hunting for foreclosures. Fair warning: These properties are more difficult to find than ugly houses...but certainly not impossible to locate.

As with any real estate investment, I recommend that you do your research. That means picking an area in which you'd like to buy foreclosures and finding out everything you can about it. As you're thumbing through paperwork and trying to determine which properties to buy and the areas in which to buy them, remember your goal is to make money. Smart investments make money. Remember war zones? Well keep remembering them. You may find some seemingly great bargains on foreclosures in those areas but you have to ask yourself, will you be able to find a buyer to sell the property to who's willing to pay the full value of the home? If the answer's no, move on.

O.K. So now the research is done and you know where you want to buy. To find foreclosures, you're going to have to network diligently. Keep business cards on you and make no secret of the fact that you're interested in buying properties. You'd be surprised how much investors looking to buy foreclosures have to rely on referrals. In addition to passing out business cards, you can also use signage around the areas you'd like to purchase to solicit business. Other tools you should have handy are a cell phone, a laptop computer and some sort of GPS system. The computer can be used to house any pertinent documents you may need access to while searching for properties. And with Wi-Fi technology, you can even stop at certain places to do Internet searches for properties or information on properties. Meanwhile, the GPS system is great for getting to more properties faster. Time is money and if you can't find the properties you're looking for, you're potentially losing money. As for the cell phone, well you always want sellers to have access to you. Like I've said before, there's no shortage of investors looking for foreclosures out there.

So let's review. After all, that was a lot of information packed into a small space. First, foreclosures can make you a lot of money...and fast...but fast money does come with risks so be prepared. Secondly, foreclosures won't just come to you, at least not right off. You're going to have to network and put in some footwork to find prime properties. And just because the price is right doesn't mean the property is a great deal. You can't make money on a house you can't sell. And finally, research and think before you buy any property-foreclosure

or otherwise. The more you know and the more you've planned out, the better you'll be off when you get to the closing table.

Like I said, I think Al Lowry is a great mentor, particularly on foreclosures. And while I respect the books he's written, I respect his knowledge even more because he doesn't just talk about foreclosures and investing in other types of real estate, he actually invests in real estate. He practices what he preaches and the proof of his knowledge and expertise is in his profits.





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