

## TRG Transcript 135

Mike Stohler

What if you could be doing something smarter with your money that creates income. Now, if you're wanting to get ahead financially, and enjoy greater freedom of choice, if you want a comfortable retirement, and you know you'll have more choices, if you can do more with your money. Now, if you've wondered who else is creating ways to make their money work for them, and you want actionable ideas, with honest pros and cons, and no fluff.

Welcome to the Richer Geek podcast. Where you're here helping people find creative ways to build wealth and financial freedom. I'm Mike Stohler, and in this podcast, you'll hear from others who are already doing these things and learn how you can too.

Hello, everyone, this is Mike Stohler, your host of the Richer Geek podcast. As many of you know, I have owned or managed over 1500 doors from single family homes, multifamily, and hotels. I've received so many questions about how I transitioned from multifamily to hotels. I've been featured on some of our nation's largest podcasts. I've spoken at national conferences about hotel investing. How do you do it? What are the differences between multifamily and hotel investing? What about franchises? What did I learn during COVID? Well, ladies and gentlemen, I am excited to announce that we'll be having a hotel investor workshop on May 5, and 6th of 2023. If you're interested in hotel investing, please come join us. You can sign up on our website, the Richer Geek.com. Go to the bottom of the page and click on training. I'm hoping to see you all there.

Hey everybody, welcome back to another episode of the Richer Geek Podcast. Today we have David Vernick. He's a commercial lender with three decades of experience in the banking industry. And like a lot of us, he partnered with other investors and decided to purchase real estate and begin his journey to generate passive income. You know, I know a lot of you are thinking about that. You're thinking man, what can I do? How can I generate some of that passive income? Well, David now owns more than 100 homes in Tennessee. And he's passionate about helping others we want to talk a little bit about his journey. And his new book, middle class to millionaire. How're you doing, David?

David Vernick

I'm doing great. Michael, how you doing today?

Mike Stohler

Perfect. What's the weather like in Nashville?

David Vernich

It is beautiful fall weather, no humidity. 74 degrees. It doesn't get any better than this. Oh,

Mike Stohler

perfect. Well, Scottsdale, you know, I love it. It's finally under 100 degrees. Oh, yeah. No humidity. The Cactus here don't turn color. So it's still green. But I'm in my place up and show low up in the mountains. So I'm getting some some nice winter fall weather. It's about 45 degrees. So we're having fun up here. So you're a commercial lender, you're probably seeing a lot of people in the banking industry in your time doing things with real estate and learning and you're you're probably looking at all these these loans that you're given up, given out. And you're thinking, why can't I do some that? Is that how it started? You know, tell me a little bit about your background.

David Vernich

It kind of started that way, but not exactly because I knew I couldn't do real estate because I'm I'm two thumbs, you know, I'm the proverbial my favorite tool in the tool belt is the checkbook, you know, I'd rather pay somebody else to do the work. But I did realize that 45 When I use the analogy in the book that we all have about a 40 year working career if you count from age 25, roughly at age 65. And so at age 45 I met my halfway point so I'm kind of running into the, you know, the locker room for my halftime adjustments, but not having really looked the score. But listening to financial planners and other people tell me what I should be doing, you know, coaching me from the sidelines for quarter one and two, but never looking at the scoreboard. Well, I go inside the locker room and look at the scoreboard and I'm like, You know what, if I do exactly what I've done in the last two quarters, I'm going to lose this game. And I even make the joke that in the book that if I don't make a change on this really quick. I'm going to have to live in a van down by the river like Chris Farley and Saturday Night Live. Only I'm not a very good motivational speaker. So I got a problem.

Mike Stohler

Yeah, there you go. Now, you know, what is it that a lot of our listeners are also they're starting to realize? You know, the 401k is just not going to do it. It's especially as who knows what the inflation the economy, you know, everybody has we're doing this right now it's November 1. And, you know, so we're all kind of worried about what's going to

happen, and whether or not the 401k is even going to be taxed in the future, you know, just all this sort of stuff. How can What was it about you and your, your realization about your 401? K? And? And what can you tell all the others, you know, especially now, you know, it's been a few years for you, but now just all this. Who knows, you know?

David Vernich

Well, that's the problem is, you make projections based on what you know, today, but what's gonna bite you in the butt is what you don't know what's coming down the pike tomorrow. And so you do the best you can with the knowledge you have. And what I was doing at that halftime was essentially taking where I was, after 20 years, and doing some projections for 20 more years, assuming, you know, inflation rates, assuming what the market was going to do, assuming how much I was going to put in. And then when you take all those calculations, and put it on a spreadsheet, and then you look at that pile of money at the end and say, I'm gonna suppose to live on 4% of this conservatively, right? And 4% of the million dollars is \$40,000. And like, This is pathetic. You know, this \$40,000 is all you get, and very few people even come up with a million dollars. So it's like, that's the best case scenario for a lot of people. And so what you're seeing now for a lot of these financial planners is Oh, no, no, you can't do it on a million, you got to do it on 2 million now. Well, if you can't do a million, you're not going to do 2 million, I hate to tell you this. So essentially, it comes down to the math doesn't work. And this only works for extremely high income earners, who live way below their means, and sock away a ton of money, regardless of what the market does. And that's a very small segment

Mike Stohler

of the population. Yeah, and that doesn't sound like fun, either. It's not fun. No, it doesn't sound

David Vernich

like you also are supposed to wait until you're 65 or 67. To start drawing money out. Yeah, some people don't even live that long, right?

Mike Stohler

You hope your health is you don't believe how many people that I know that I've, that I've seen at the clubs, they just kind of disappeared, or like, you know, where's this guy? Well, he just retired his five years out of retirement. And, you know, he got ill. Yep. And you're

like, Man, why wait, you know, so, you know, talk to us about most of us have heard this, what's your definition of it? We keep talking about this over and over different podcasts, passive income? Why is that the way that you want to do it? Other than saving money for a rainy day type of a thing? You know, what is it about passive income?

David Vernich

Well, passive income, by definition is something that you can probably put a little bit of time into, but get paid on that into the future. That's my definition. So it's not, it's not something that doesn't require any of your time. But if it's done correctly, you're leveraging by doing something once or very infrequently, you're getting paid over and over again. And so people can clearly understand the concept of owning a rental house. You can't just own it, rent it and leave for 20 years, you can't do that. But you can rent it out. And then if they pay the rent next month, go cash the check, and then wait till the next month, how much time did you spend very little. So you're getting rewarded outsized rewards for the amount of time you're putting in. So the way I do real estate investing with my partners, my part in the team requires, you know, bringing the capital to the table either with rep for whatever sources of capital that they need. And so typically, my went from beginning to end, my involvement is about 15 minutes of finding the money now, it took me 30 plus years of networking, and so forth to get to that point, I'll admit that, but once I did do that, and I only have to spend 15 minutes on my part, and then I receive my income stream as long as there's a renter that's paying and there's a positive cash flow. So that's really the beauty of passive income.

Mike Stohler

Now, how do you get your partners do you do limited partnerships? Do you do syndications? Do you Do you know, how do you go about your with your partners?

David Vernich

So typically, I do one of two things. When I first started off, I had a mentor that taught me the business and I didn't want to do the business. I just wanted to learn the business. So I wanted to figure out where I added value. And the only thing I thought like, I thought I could do things like find the properties and then I realized I was bad at that too. I knew I was bad at fixing up the properties that was off the table but I Did one I have said, I've done one to realize, and confirm i Yes, I actually am bad at this. And I don't want to do this. And then I also had strong suspicions I didn't want to deal with, you know, the property management side. So that pretty much left me with only one thing. And that is financing,

and which is good, because that was my day job. That was also my strength. And a lot of people get frustrated in real estate, because the number one thing that keeps most people from getting into real estate, is they don't have the money.

Mike Stohler

That's true. They don't have the money, and they don't have the time. So they don't think that they can do it. Or they have a friend of a friend who had a bad experience. And like, oh, no, I'm not going to do that. Because somebody did something, you know, once of excuses, aren't there?

David Vernich

Yeah, I mean, I had about 10 years worth of excuses before I got in. But at the end of the day, every single road was led to the one inescapable conclusion, which was, have you tried real estate? No, you know, people that are successful in real estate, yes, get some mentoring so that you can figure out how they do it. And then what, what value do you bring to the equation because nobody's just going to show up and give you money?

Mike Stohler

Did you have, like, a big time mentor that, you know, a program or something that you did was,

David Vernich

it was somebody new, it was like one of my former customers at a bank, I've worked for several banks. And anytime I get bought out by a bigger bank, I tend to leave to go to a smaller bank, because I don't like the bureaucracy of large banks. And this was actually an old customer that I kind of lost track of. And so when I really got serious, I found somebody that knew where they were that track them down. And they actually had a little local program they had put together to teach people how to do what they did.

Mike Stohler

Yeah, that's very good. It's one of the things that we really need, you know, ladies and gentlemen, and I'm sure David can attest to this is don't do it yourself. Get a mentor, get coaches. And, you know, again, you know, when I first started out in real estate, I failed

miserably. Absolutely failed. And it wasn't until but you know, I did it. I called the pre Google days, I couldn't, there was no podcast, there was no internet for me to figure it out. But it didn't it, I had to wait until I've got that mentor and got those coaches say, Ah, this is how you do it. Man, it was a life changing now, you know, digging into your book. And, again, everyone that the book is middle class to Millionaire is making the leap to the next level, I think that's something that we all want to do. And especially even if you're a millionaire now, with the W two, the I think the goal for all of us is to get to that millionaire status as a passive investor, you know, I can, I don't ever have to retire because I don't have a W two, and I don't work for anyone else. I just have other people working for me. And I can do that till I'm 80. You know, I think that is all of our goals. But some of the questions, it's in your book, you talk about how your house in most people think this your house is not an asset, you say? Why is that? And why isn't holding an asset in? But can it become one?

David Vernich

The answer is depends on your definition of asset is now and I'm you know, I've been a banker for 38 years, and they don't teach you anything in banking, that, you know, they obviously will look at a financial statement and say your, your the value of your house is on the asset side of the balance sheet and the mortgage is on the liability side, which is fine. That is true. So that, you know, when you do go to the bank, that's how you properly show that. However, for our purposes, we want to know are we going to be able to retire comfortably. And if you're putting all your money into a house that you live in, then there's no way you can pull money out of that house except for two ways. You borrow against it, in which case you have debt and you got to pay that back. Or you sell it in which case you don't have the house anymore, you're homeless, but then you have to take that money and probably go buy another one. So the definition of the asset is something that puts money in your pocket. And so the house is not putting money in your pocket, even when it's paid for you have to pay insurance, repairs, maintenance, taxes, property taxes. So really, I I tried to pull that out of people's financial statements, because a lot of times unfortunately, it's the number one, they're the equity in their home is their number one asset as far as percentage of their total assets. And when you pull that out, suddenly you just made them feel extremely weak.

Mike Stohler

Yes. You know, so many people talk about House hacking. You want to be smart. I tell the 27 year olds 37 year olds buy a duplex, right? Oh yeah, live in half of

David Vernich

that'd be perfect. I mean, my son did that. I mean, that was one of the sideband sense of me getting into the real estate of my partners is when my oldest son graduated from school and got a job and qualified for his own mortgage. You know, his hang up was he didn't have the downpayment? Well, the particular house he was looking at, I owned 25% of it, there's his down payment. So we just had to pay off the other partner is using his mortgage. Well, he bought a four bedroom house, and he was a single guy at the time. And I even I didn't understand what he was doing. And I said, What are you buying a big house for? You don't need that. And he goes, bad. I'm gonna run out there to three bedrooms to my buddies, and they're gonna pay my mortgage. And I'm like, Just wait to go potty one you've learned well,

Mike Stohler

that's right. That's right. That's perfect. Everyone. And you know, I mean, that is how you hack. You know, think outside the box, this is how you save and make money while living in your house, I mean, it's just you have to get outside and think, How can I do this? How can I make money off of anything that I buy, especially an asset as large as a house? Now, let's talk about, you know, hit on a little bit, you know, this, this, the height of the housing, this inflation crisis? When he talked to all these people, it's like, hey, look, I can't do it. Now, you know, it's too expensive. How can we stay motivated, and say, Look, I want to get into it. But I have to wait till the market drops, or I have to, you know, these excuses that they have?

David Vernich

Well, if you're buying for cash flow, and you can find something that cash flows, now, it really doesn't affect, you know, you're talking about two different things. So there's cash flow, then there's appreciation. And really appreciation happens, the market kind of gives it and it also takes it away. But if you're always looking for some things that cash flow, then you always have the time to wait for the appreciation to kick him. It's when people get solely focused on the appreciation of the property, that they're willing to either lose money or barely break even, that they get impatient and say, Oh, this doesn't work. But if you're always buying for cash flow and cash flows, there's no reason for you to sell something until you're making good money on it.

Mike Stohler

Exactly. You know, I you just you hit the nail on the head there. I love it. Not too many people will actually say it the way that you said it. You always tell me I don't care what it costs. Yeah, it's like, oh, the house costs 400,000 instead of 250. You know, like it was it years ago? Yeah, well, you know what rents have gone up to 90 Still cash flow. And as long as you're cash flowing, you never need to sell. Right?

David Vernich

Well, and nobody can really pick the absolute bottom of the market. You know, you don't know what the bottom until it's, you're out of the bottom, right? Because it's in the rearview mirror. And nobody sells it, typically the top of the market. So it's just kind of like the stock market in the sense that if you're buying all along, you're kind of dollar cost averaging into the housing market. And then as things go back up, you're selling things when the, you know, we've we sold a house, when the market was super, super hot that we had bought, and paid cash for I think we had 90,000 into it. And nine years later, we sold it for \$280,000. And they didn't even want the house. They wanted the lot. So, you know, we couldn't have predicted that. But that's, that's how things that come on your way. You can't. So people say I'm going to wait. And they say this all time. I'm going to wait. I'm going to wait. And it's like yes, but if you don't have a stable inventory to sell, when times are good, if you're just getting started, then you're then when times do turn around and get good. You're playing catch up, you know, you're playing catch up, everybody that already has inventory. It's already ready to sell. And you're sitting there saying oh, I need to jump in at the exact wrong time.

Mike Stohler

Yeah. Yeah, it's correct. You know, if that's an excuse, right, well, I have to wait for this. Well, when that day comes, Well, I have to wait for this. Oh, I need one more seminar. Well, I need this as soon as I go to five more seminars don't have the knowledge. Oh my gosh, you know, just do it. Right? Yes.

David Vernich

It's it's, it's to me, it's the who not how principle everybody's trying to figure out how, how I can do it versus, you know, who do I need to align myself with that can take some of the burden and some of the risk off my back, you know, because a lot of people literally a house is their largest single investment they ever make. And so they're worried maybe rightfully so if it's their first one that if I mess this up, this is a lot of money that I could



lose. But I come back to say what other investment is there that you can buy and virtually get your money back out. If you only make make don't make one mistake, don't overpay you know if you know that this is the value of something in this market and you're right. And you've gotten that confirmed not through Zillow or Redfin, but you know, From local real estate professional real estate investors are, you know, that's a deal, you should buy that house because you could always get a house for a deal in any market. And once you find that house and buy it, if you do make a mistake, the bottom line is somebody else will probably pay you for what you bought it for, if the value is still there.

Mike Stohler

Yeah. And, you know, everyone likes to know, who else is doing this? Do you have any examples of like any type of public figures or some of the things that they're, they've been successful at passive income in the examples?

David Vernich

Well, I mean, public figures are, you know, you've got every guru out there that's selling a course that's gonna tell you what they can do. So there's, you know, a lot of people

Mike Stohler

that some of them did it once than they think they know how to do it also. So there's,

David Vernich

they're making their money by essentially, you know, trying to sell the secret sauce, per se, the secret sauce is basically hard work and has four steps, you got to find the house, you got to finance it, you got to fix it up. And then you got to either flip it or fool the renter, one of those are the four steps. And so it's like, there, you got the recipe. Now go do it, right. But it's easier said than done. And really what it comes down to is, there's that deer in the headlights. Now I'm scared. You know, I don't want to make a mistake. There's the I fear debt. If I fear the horror stories of her, there's always these excuses. And ultimately, I had all those same fears and excuses. And you probably did to that to some extent, but what you how you overcome any kind of fear, as you face the fear, you literally say, What can I do to mitigate the fear that I'm having. And so if you're fearful that I'm going to lose a lot of money, then partner with people and take a smaller percentage of the deal, you know, just only be able to risk what you think you're and then at the end of the day, when you realize, oops, I didn't really have much to risk at all. And in fact, I didn't lose any

money. I made money. What's taken me so long to figure this out, you know, and you kick yourself are sitting on the sidelines for so long.

Mike Stohler

Yes, I kick Oh, my God, I've kicked myself so many times off, I'd only done this and not be scared. But oh my gosh, yes. But I'm not gonna live in the past. Now. You know, so what do you do? And you made a great point, David, partner was someone that knows how to do it. Partner with David partner with someone that knows how to do it and have them teach you have them show you. And that will give you the confidence in order to, you know, go out and do it yourself, you know, to get your own little investment group together, and do it. And then you too, can also on some time, some day 100 homes like David. Now, do you do are all your homes rentals? Or do you do in the like, least owns or the all flat out rentals?

David Vernich

We do some lease to purchase as well. But I would say the majority are long term leases.

Mike Stohler

Yeah, it's, you know, I've done both I like the lease to own you know, you have the option of the lease, and then the option, right, right, those types of things. And yeah, you'll

David Vernich

you'll always find a lot of people that would love to own a home, but just can't qualify for a mortgage for whatever reason. So it's really in certain markets, and certain times you can really be in a slow market that things aren't moving. But you've got a whole untapped market of people that as soon as they see lease to own I mean, they're lining out the door saying, you know, how much money to have to put down to be able to get at deal?

Mike Stohler

Yeah, yeah, those are, those are good deals. There's love people with medical debt that wasn't there. They have great jobs, they have great incomes, someone in their family had bad medical debt, it ruin their credit. But they qualify, you know, banks won't give them a loan, and guess what you can give them an option. So we've been talking about all this

passive income we've been talking about, you know, a little bit about your book, what are some of the ways things that are in your book that you can that people can actually, you know, change the add to their savings? That withdrawal it and get a house plus still plan for the retirement? You know, there's this whole juggling type of a thing. What are some of the priorities? You know, still saving still spending? You know, house is a big thing rental? How did they juggle all that?

David Vernich

Well, it's not I'm not gonna sugarcoat it. It's not exactly, you know, if you're living paycheck to paycheck, it's probably not something you should do until you really get your financial house a little bit in order, and it'll be stabilized. Kind of like the old thing with the airplanes. When the oxygen masks fall down. You know, put put it on you first because you're no good if you're wheezing and trying to put it on somebody else and you're both die, right? So you can't really save anybody until you've had you're in a good situation yourself financially. Having said that, you know, I the very first house I did was in 2007 And I didn't have \$100,000 in my checking account. But what I did have was I had a W two job, I had clean credit. And I knew bankers that were friends of mine that had the lending authority of \$100,000.

So as long as I could approach them and say, look, here's what we're going to do with the money, I'm going to buy a house, I'm going to fix it up, I either going to sell and pay your loan off, or I'm going to, you know, put a renter in there, and then I'll come back and get a mortgage on the house, and you can have the mortgage. That's how I got started, I didn't have the cash, I had the borrowing capacity. But what I, what caused me from not doing that before is that was I didn't know what I was doing. So I was scared, I was gonna mess it up. What gave me the confidence to do it was partnering with my mentors, who had 14 years experience 144 houses, they had a full time maintenance man, a full time property manager, they had the infrastructure and the system in place. So I knew that if they were looking over my shoulder, and that they were kind of blessing every step along the way, that it was basically paint by numbers in real estate investing, you know, just stay in the lines, and you won't get hurt. And it worked out perfectly.

Mike Stohler

And people don't realize you don't need a whole lot of money to get your first investment real estate deal. You know, so depending on the market you're in, it's different. And if you're in California, you're in Arizona, you know, where the houses is skyrocketing, but if you're in the Midwest you know, under \$50,000, to, to get started, and you can probably get enough people gathered to get \$50,000 Is that right?

David Vernich

Well, plus, there's people that do this for a living called hard money lenders, you know, you don't use them for permanent loans. But for bridge loans, if you can turn the property quickly, and get, you know what banks don't want, they don't want you to come into them with a beat up junky empty house and say, hey, I want to borrow money to buy this house. And then having, you know, not enough income to support the payment, what they want to do. And what I suggest people do is have the investment dollars come in on the front end, whether that's through hard money, whether that's home equity line of credit, self directed IRA or HSA cash, even zero 0% credit cards, because they're short term loans, get the house fix it up, put a tenant in there, now you got a lease now go to the bank, and they'll talk to you because you got a fixed up house that will appraise for more than you paid for it and then turn that money out from a refi to pay off the hard money or whoever you had to use to get into the house.

Mike Stohler

Yeah, it's perfect. Yeah. And, and that is true. You use what you need, you know, I know a guy that does it via credit card. Down payment and fix up he does it on his credit card. Re gets the house appraised reef you know, finances it pays off his credit card debt. And I'm like, that's a little bit too risky for me, but it works for him. But he does it that's the thing is he does it something in your book, you talked about the money scoreboard? What is that?

David Vernich

Money scoreboard is essentially, anybody can picture the metaphor I use the beginning of our conversation was the halftime 40 years, you know. So the money scoreboard is everybody starts with the scoreboard. When you get out of school, get your first full time job. If you don't count anything for passive income, you got a big zero, that's on one section of the board, okay, you got that your offense, you better start scoring. on the defensive side of the board, you got your expenses, your living expenses. So if you've made \$50,000 a year, and you save, let's say 10% of that, that means you got \$45,000 You're spending that's your that's your expense that. So essentially, the goal is to rack up some points on the passive income side to surpass on the expense side.

Mike Stohler

Perfect. What else would you like to hit on? You know, we've talked a lot about the middle class to millionaire, where can they find it? And also, where can they find you?

David Vernich

Middle class to millionaires on Amazon. So Amazon or Kindle and it will be on Audible soon. I just finished the recording. So that's why my voice is probably a little scratchy. And then as far as talking with me, I'm I'm not your typical guru trying to sell of course. But if they did want to connect with me, my audience typically are W two and self employed people that are busy professionals that have, you know, incomes or ability to borrow, or good credit so that they want to get in real estate through the team approach. And so those people are generally on LinkedIn. So I'm on LinkedIn. So if you want to hook up with me through LinkedIn, and say hi that you heard me on the podcast here, then I will be glad to send you a copy of my book for free pdf copy,

Mike Stohler

perfect to hear that everyone says David Burnage middle class millionaire get him on LinkedIn and know you're on LinkedIn Tommy found him on the richer geek and you get middle class to millionaire for free when you don't have to go to Amazon. David, I appreciate you coming on today. Be blessed in good luck with the real estate investing.

David Vernich

Thank you, Michael. Thank you and enjoy that winter weather in Arizona.

Mike Stohler

I'm going back down to the valley in Phoenix Scottsdale area here in a couple of days it's getting colder.

Thanks for tuning in to the richer geek podcast, where we're helping others find creative ways to build wealth and financial freedom. For today's show notes, including all the links and resources from our show, and more information about our guests, visit us at [www.therichergeek.com/podcast](http://www.therichergeek.com/podcast). And don't forget to jump over to Apple podcasts, Google Play Stitcher, or wherever you get your podcasts and hit the subscribe button.

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