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SPEAKERS

Nichole Stohler, Mike Stohler

N Nichole Stohler 00:01

What if you could be doing something smarter with your money that creates income right now? If you're an IT professional who is wanting to get ahead financially and enjoy greater freedom of choice; and if you wonder who else in tech is creating ways to make their money work for them? You want actionable ideas with honest pros and cons and no fluff. Welcome to The Richer Geek podcast for helping IT professionals find creative ways to build wealth and financial freedom. I'm your host, Nicole Stohler and in this podcast, you'll hear from others who are already doing these things and learn how you can too. Welcome back to The Richer Geek podcast. Thank you all for the feedback on different episode topics, things that you'd like to hear and learn about, I'll continue to look for that information. I want to make sure that we're providing as much value with this podcast is possible. One of the questions that I've been getting from people is how and where do you start. And I get it, because here we are week after week sharing different examples of all of these different things that people are doing. And it can be really hard to focus and to know where to narrow your time and your research. This is going to be a resource episode, we're going to reference several resources on our website to help you create your plan that makes sense for your your life and what's going on. We're also revamping our website, it's in the process... By the time this goes live, it should be finalized, which is to group episodes by type so you can easily search within a specific category. Now for getting started, I am so excited to welcome Mike to the show today.

M Mike Stohler 01:45

How's it going everyone?

N Nichole Stohler 01:47

We're going to start with the eight top level areas to consider which will help you formulate a high level plan.

M Mike Stohler 01:54

Number one, you need to ask yourself, what are your goals? I think I can break it down into three different stages. What is your immediate goal? What is your five year plan? And then what is your goal at retirement? There's several different objectives that you can look at. And one of the reasons that Nicole usually brings me on is to talk about real estate. That's my expertise. So these goal examples are going to be a little bit biased towards real estate. And number one is your goal to generate passive income or cash flow right now. That's our goal. I love cash, we can actually generate income that is nearly tax free. And that's a great advantage of real estate. Number two, is your goal to build equity for the future. equities and asset that's part of your net worth. And as you pay off your mortgages, for example, you're building equity, and this increases your cash flow. Your goal might be you'd like to have cash flow for retirement. Real Estate Investing is a stable way to increase well over a period of time. And this allows you to supplement your retirement years. Another goal is you might want to be looking at diversifying your portfolio by owning a physical asset. And the reason why I like tangible assets and physical assets is because they can always be monetized regardless of financial market conditions. Another great goal is to enjoy the tax benefits through depreciation of the asset. And there are a lot of other different types of tax saving benefits when you're investing in real estate. Another great goal might be something that is not talked about a lot, this can actually be an alternative way to save your kids college education. Imagine this. If you have young children, and you were to buy a rental house for each of them. That property can actually be financed, you know, like a 15 year note and be paid off by the time your children are 18 years old. This allows you to actively save through getting rental payments. Once the property is paid off, you can either sell it, or you can continue using the cash flow. There are many, many goals in ways to benefit through this great resource called real estate investing. I've created the document highlighting the top 24 benefits of investing in real estate that you can use as a fantastic resource and download from our website.

N Nichole Stohler 04:34

Number two is what is your current situation. And is there a way to create an investment opportunity to support what's happening in your life right now. And I'm going to give you two examples. One is that I knew someone whose son was accepted to a small private college out of state and he was worried about obviously tuition, but also room and board. And what he ended up doing for the room and board piece is buying a house that his son could live in. Then they brought on other college students as roommates. And essentially his son was able to live for free because the rent from the other roommates cover the mortgage payment. Meanwhile, the person owning the home also got the benefits of tax depreciation, or the tax benefits, I should say of depreciation, and some of the other key things that are good reasons why people invest in real estate. So that's kind of a modified version of quote unquote house hacking, which is talked about a lot in the real estate investment circles. The other example is someone that I recently met with who was talking about, he has an existing home, and he's really looking for a larger home for his family. And that existing home is in a market that has appreciated quite a bit. So he probably has a lot of additional equity within that home. My feedback was to look at that current home and see if there's a way to do a cash out refinance. So the cash will give him a down payment for a new home, the refinance Will you know, get them into make sure that he's in a solid 30 year fixed mortgage and look at what the payment would be on that. And then do an analysis if it makes sense to do either a long term or short term rental with a house like Airbnb. And from there, look then at the larger house that he's looking to purchase. And then for that home, buy a home that isn't a good neighborhood and the place where you want to live, but that does need fixing up, maybe it hasn't been updated in 20 years, or 10 years. In that case, go ahead and buy that home and then work on fixing it up. And after two years. If you choose, you can sell that home and you get to keep all of the capital gains without being taxed. So there's tax advantages and boasted to, there's an opportunity to take that existing home and make it into an investment. If it makes sense. Again, you would have to run the numbers and do a quick analysis. One of the resources that we have on our website is a spreadsheet analysis of how you can run those numbers. And we have a video walkthrough on that as well.

M Mike Stohler 07:19

Number three, let's talk about time. What kind of time can you commit outside of your full time job, your family and friends and other activities. If you have no time, that's okay, that just means that you need to invest in a passive investment. This refers to not being involved at all, in the real estate in the management at all, you're just giving cash to someone that you trust in order to make those returns. Examples of a passive investment could be crowdfunding or working with private equity groups. And this is the type of investor we work with on our hotel projects. If you have, let's say five hours a week, then you can start getting into real estate investing, but you're going to need a property manager in place, because you don't have the time to oversee the business. Now if you have 20 hours a week or more, and this is fantastic. Now you can start to look at buying a business or franchise or even starting up your own business, you can manage this yourself, or you have the time to put an onsite manager in place in oversee that person.

N Nichole Stohler 08:38

One of the resources that we have on our website are examples of passive investments. So that'll be listed in the resource page as well. Number four is financial vehicles. Now to Henry you she does point who was featured in Episode 11. People spend more time typically looking at the asset type than they do, where to put it. He made a point around all the different ways you can reduce your tax burden. And what financial vehicles do you have that can be leveraged, the other pieces the types of loans and funding available that you can use to basically help your capital go further. A couple of examples here, in Henry's episode, we talked about moving to a self directed IRA. And if you're looking at doing something like that, one of the rules is that you absolutely have to be in a passive investment. So automatically, that helps you kind of narrow down where you would spend your time and your focus. And now it's more about analyzing passive investments and knowing what to look for home equity. I talked about a cash out refinance, which is you know, similar type of thing or a home equity loan, you can use that like cash, small business funding, if we're talking about starting a business, what kind of funding is available that way? So there's a ton of different financial vehicles. And couple of things that we have on our website, we have a funding and financials matrix, and then also capital funding, comparison of the different vehicles that we talked about. Number five location, where do you live? I think it goes without saying if you live in a high cost of living area, like the Bay Area, Silicon Valley, New York City, is going to be really tough to buy real estate. Now, if you are very interested in real estate, I'd highly recommend passive investments, I wouldn't really recommend if you're you're in tech and you're working full time, in the intensity of this job, I would not really recommend buying long distance properties that you're having to manage the manager and fly out and try and understand the market. It just adds a level of complexity. And generally, some of those are in markets that you don't know well. So it's going to take a while to understand them. My personal recommendation was would be passive investments if you live in a high cost of living area, if you live in a more affordable area. In fact, episode number four Clarissa Swanwick and Episode Number 10, Dave Schmidt, both of them live in the Midwest, which is significantly more affordable, they're able to buy houses for cash, no need to get a mortgage, then in that case, I absolutely would look at a long term rental, I don't know if I do short term rental, because kind of depends if there's a lot of tourism and people traveling to the market. And then finally, middle ground. If you're in a place like the Phoenix metro area, or Denver, you know, that is really going to be requiring a full analysis of the numbers and an understanding of if the market drops in rent, or drops in tourism. How does that impact and can you still conservatively feel comfortable with that investment. On our website, we will have that property analysis spreadsheet and the video walkthrough that I mentioned earlier.

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Mike Stohler 12:00

Number Six might be one of the most important things to talk about is what kind of capital do you have available. Let's say that you have a long term rental in the Phoenix metro area, you're going to need a minimum of about 60 to $70,000. And then using a 30 year fixed mortgages leverage that same house in the Midwest, you might be able to buy the entire house for 60,000. So it just depends on where you're at. If you have less than that, there are some crowdfunding platforms that really let you invest in very small amounts under 50,000. But let's say you have six figures plus available, now you can really start getting into some interesting scenarios, you can look at investing in private equity groups like ours, or others, or you can actually start looking at buying multifamily or larger projects on your own.

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Nichole Stohler 12:59

On our website, we have a list of cash resources, which is kind of to the funding point as well. Number seven, if you are looking at buying a business, start looking at this buy, sell just the free version, don't pay any money, see what's available, and why a lot of times you'll see some really great businesses that are available because the owner wants to retire. And then there's nobody in their family who wants to take the business and to be able to retire, they need their equity and funds back out of the business. So take a look, see what areas you're interested in and go ahead, sign the NDA and get three years of financials. And then with those, you can just do some very quick high level analysis to see if it even makes sense. To go further with the discovery, I think you will find that it doesn't all it takes a long time, a lot of different businesses that you will look at to find one that's really going to be a fit. I have an example that I'll take as a case study, I was looking at a company and I really liked the idea that this company had a physical product. So I received three years of financials and the financials basically come with, you know all of the gross sales and expenses. And then they basically end up the last line is the net operating income. Now, when you're looking at numbers like that net operating income is before debt service, it works the same way in real estate, I guess you could be buying one of these businesses for cash. But I would always look at if the numbers work, I look at a small business loan or something like that. So you would have debt service. So I'm looking at the net operating income for three years, and I take the worst year, and then I subtract out the debt service, then the next piece is, is there any physical real estate now some of these companies and businesses, they'll sell the real estate along with the business and instead they're going to keep the real estate and then let you rent. So it still becomes an income stream for them. The challenge that I ran into in my analysis was okay, after I took out debt service, then I also had to be taking out a monthly rent payment that the owners didn't have, because they already owned the real estate. So by the time I did that, I came to a number that in real estate we look at is cash on cash return. But I just I know that's not how you value a business. I know you can grow the business, there's a lot more you can do. But really, I want to know if I'm investing X amount of dollars, is it worth it? If I'm going to make 4% as an example, it's not worth it. I can put if it's going to be a lot of work, right? It's a business, it's going to require more work, it's not worth it. And we see that sometimes in real estate right now with some of the properties that are out there. It's 4% not worth it. In any case, I have a case of study walkthrough. Example. It's not the real numbers. It's not the real company that I looked at, but kind of an example of my thought process. And that analysis on the website as well.

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Mike Stohler 16:13

Yeah, number eight. If you're leaning towards real estate investment, yay. But in your certain out, which niche should you start out with? I don't think you can go wrong with a B class, single family home, why people have to live somewhere. And if you buy right and hold long term, this is not a fix and flip. This is a long term hold. You're going to see a consistently a strong investment. And how do we invest in single family homes, we look at Class B neighborhoods. These are your working class blue collar safe middle ground, three bedroom, two bath, four bedroom, two bath homes. The reason why we look at those type of homes is when the economy is down, families are going to actually move down into these homes because they don't want to live in apartments. They're used to living in homes. But let's say when the economy's up, those families that live in apartments are going to move up into these homes. And another thing that is great about these B class Homes is you don't have to over fix them. You don't need to and I can't stress this enough. You don't need to spend a lot in renovations. But what should you do? You need to look at the market rents in that neighborhood and then subtract what your mortgage would be on a 30 year fixed. Note, subtract your expenses, and then you go find your return you're going to find your spread, then you want to find out if your rents have to drop by 10%. Do you still make money? And finally, who cares if the market changes? As long as you have the spread? What does the value of the house matter? I mean, we're not selling. This is a long term rental. And as long as I can maintain positive spread, I could care less about the market or the economy.

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Nichole Stohler 18:09

Thanks so much for joining me on the show today, Mike.

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Mike Stohler 18:12

Take care everyone.

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Nichole Stohler 18:14

And for all the listeners who would like to get more information on the resources that we talked about. You can find them at therichergeek.com/resources. Thanks for tuning in to the Richer Geek podcast. For today's show notes including links and resources, visit us at therichergeek.com. Don't forget to head over to iTunes, Google Play, Stitcher or wherever you get your podcasts and hit the subscribe button. Help us spread the word by sharing with others who could benefit from listening and leave a rating and review; that'll help us get the podcast in front of more people. I appreciate you. Thanks so much for listening.