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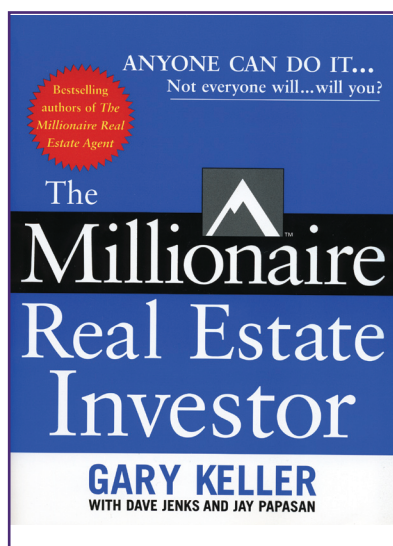
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The Millionaire Real Estate Investor

Learn how everyday folks are making millions from real estate investing according to the New York Times bestseller "The Millionaire Real Estate Investor"

Part two of a three-part series

In part one of this series, we introduced the founding principles and explored the first of four stages in the process to becoming a Millionaire Real Estate Investor, according to Gary Keller's book, The Millionaire Real Estate Investor. Keller, the self-made multi-millionaire founder of Keller Williams Realty International, interviewed more than 100 people who have amassed over \$1 million worth of real estate outside of their own personal residences, and based his book on his findings on their common experiences.

In last month's issue, we covered the three key focus points of terms, criteria and network, as well as the importance of modeling, which is the act of following methods that have been proven to produce desirable and repeatable results. We also explored the first stage of the path to becoming a Millionaire Real Estate Investor, which is to think like a millionaire. While last month's article focused on the "art" of becoming a Millionaire Real Estate Investor, this month we focus on the "science" of becoming a Millionaire Real Estate Investor with the second stage of the process.

Stage #2: Buy Like a Millionaire

According to Keller's sources, the formula for acquiring a million dollar real estate investment portfolio can be broken down into five separate models: the Net Worth Model, the Financial Model, the Networking Model, the Lead Generation Model, and the Acquisition Model. Each model provides a time- and frequency-tested method that numerous successful investors have used to build their profitable real estate investment portfolios. Following these methods enables you to not only learn from the mistakes of others, but also build on the successes of those who have gone before you.

The Net Worth Model

The first action step of Keller's four-stage program

starts with employing the net worth model, which involves learning the path of money, managing your personal budget, and tracking your personal net worth. Although these actions may not seem like part of a buying strategy, Millionaire Real Estate Investors repeatedly return to these foundational steps to guide them in making appropriate choices that maximize their returns.

Learning the path of money means understanding the way that money flows in and out of your life. All money comes from a source, like earned income and investment income. Our choices make the flow of money stronger or weaker. Once cash comes into our possession, we can spend it, save it, donate it, or invest it. Most people get knocked out of the game at this stage because they spend, save and donate, but don't invest. When this happens, the flow of money ends. For those who invest, the flow of money is at its beginning, for others it is at its end. Understanding the way you affect the path of money in your life is critical to investing.

If you want to become a Millionaire Real Estate Investor, you'll have to manage your personal budget. Learn the difference between required spending and discretionary spending. Millionaire real estate investors see investment spending as required spending. Start by tracking your monthly expenditures to gain clarity on where your money is going. Then create a spending plan that places investing before discretionary spending. Next, start tracking your personal net worth. Create an investment profit and loss statement, develop a balance sheet that measures your assets against your liabilities and review your finances using these tools on a quarterly, or preferably, on a monthly or weekly basis. Use the net worth model to keep yourself continually apprised of your financial condition. Your reports will tell you how your decisions impact your net worth, and therefore which strategies are the most optimal for achieving your financial goals.

The Financial Model

After employing the Net Worth Model, you should use the Financial Model to understand how investors make money in real estate. Basically, there are only two ways to make money as a real estate investor: through equity buildup and through cash flow growth. Equity buildup increases your net worth in your real estate assets, while cash flow growth provides an unearned stream of income. Of course, these two principles are not mutually exclusive and can occur simultaneously, which is the beauty of real estate investing.

Investors achieve equity buildup when properties appreciate, and/or when debts against the property decline. Cash flow growth, which is a critical aspect to growing your net worth, occurs when rental income from the property exceeds the costs incurred. Millionaire real estate investors understand these two fundamental principles very well, as they are critical to an investor's active decision in choosing an acquisition strategy.

The Network Model

Before you can start building your real estate investment portfolio, you'll need to start building a strong network that can guide and support your efforts. Your network will provide everything from mentorship and instruction, to leads and labor. Millionaire real estate investors surround themselves with great people that help them to duplicate their successes and further their endeavors. There are several layers to a strong network. The inner circle is comprised of people like mentors, partners and consultants. The next circle encompasses fiduciaries like real estate agents, lenders, attorneys and property managers, and the outer circle includes service providers like appraisers, plumbers and insurance agents.

Acquiring the right properties is highly dependent on the people you've chosen to have around you. Your network is of critical importance to your success. If you want to be successful, you'll need a successful network. Once you begin to establish your network, proactively manage those relationships with phone calls, visits and mailings. Stay active as an investor, be honorable in your business dealings and make sure that you refer back into your network circles.

The Lead Generation Model

Now that you've begun to establish your network, you may be wondering how to find great properties. The best way is through your network. By using the Lead Generation Model, you will reach out into your network to increase your number of leads. Millionaire real estate investors create two sets of criteria to evaluate and define what they're looking for. One set defines what they'll consider and the other defines what they'll buy. The most important criteria are location, type and economic condition, but investors also consider construction, features and amenities. Your criteria will function as your All Properties Bulletin or APB, and will help people understand what you're looking for.

You should tell everyone you know that you're looking for investments. In addition to the obvious channels like real estate agents, you should target individuals like property owners, builders, landlords, loan officers, HUD officials and courthouse clerks. Seek out these people by calling them on the phone, attending community events, researching the Internet and multiple listing services, emailing, and sending direct mail advertising. When you begin getting leads, stay level headed and stick to your criteria. Don't become dissuaded by the process of the search. It's better to miss a good deal than to buy a bad one. When you can, be the first or last person to make an offer. Stay systematic and organized, and remember that it's a numbers game.

The Acquisition Model

The key to the acquisition model is to make your money going in, and do so only when the deal offers a built-in margin of safety and ensures you a profit by the time you've closed escrow. There are two fundamental acquisition strategies for making money on a transaction: buy for cash, or buy for cash flow and equity buildup. Each of these acquisition strategies offers several options for execution, but the two most profitable are the "buy and sell" and "buy and hold" methods.

With the "buy and sell" method, investors who are looking for cash can turn a fast net profit by quickly buying and selling properties. The "buy and hold" method is a long-term strategy that utilizes both equity buildup and cash flow growth, offering investors a true financial wealth-building option. Both of these options

offer the investor the option of improving the property for an additional profit. In order to be successful in any investment strategy, Millionaire Real Estate Investors know that they must evaluate each opportunity carefully, they must understand the details of each transaction, and follow the guidelines set forth by pre-constructed data worksheets. Earning money and turning a profit in real estate investments requires investors to be vigilant in the evaluation process. In his book, Keller provides several worksheets that outline the details that should be carefully and meticulously evaluated in each potential transaction. By standing firm on each of the criteria for each deal, you'll be more likely to provide yourself with the margin of safety that will ensure profitability in both the short and long term.

Study the Market and Know Yourself

As you prepare to explore your acquisition strategies, you must first take two critical steps. First, understand value by studying your target marketplace and looking at lots of properties. Become a value expert for the type of investment you're seeking. Secondly, gain perspective. Understand where you are on your path as an investor. This will help you to determine your acquisition strategy. Ultimately, your end goal is to use the "buy and hold" strategy, which is where true financial wealth is built.

Learn, follow and revisit each of the five models for buying like a millionaire. Know the path of money, manage your personal budget and monitor your net worth. Understand how investors make money in real estate investing. Start building a strong network and begin generating leads among them. Finally, know that the key to successful investing is to make your money going in. Remember that good deals offer a built in margin of safety that ensures you a profit from right from the start.

As you begin to actively implement these models, you'll become ready for the next stage in the path to becoming a Millionaire Real Estate Investor.

In the next issue, we'll discuss Keller's final two stages in the Millionaire Real Estate Investor model.



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To arrange a mortgage planning consultation on strategies discussed in this article, please give me a call.