EPISODE 495

[INTRODUCTION]

[00:00:00] ANNOUNCER: Welcome to The Real Estate Syndication Show. Whether you are a seasoned investor or building a new real estate business, this is the show for you. Whitney Sewell talks to top experts in the business. Our goal is to help you master real estate syndication.

And now your host, Whitney Sewell.

[INTERVIEW]

[0:00:24.1] WS: This is your daily Real Estate Syndication show. I'm your host Whitney Sewell. Today, our guest is Mark Willis. Thanks for being on the show, Mark.

[0:00:32.7] MW: Hey, thanks Whitney. Thanks for having me on.

[0:00:35.0] WS: Yeah, happy to have you back as a repeat guest and you have so much knowledge in this space, be able to help us with our finances so I'm looking forward to this conversation and potentially more conversations. But as a listener, if you don't remember Mark, you need to go back and listen to show WS439, it came out January the third. I encourage you to go back and listen to our conversation there as well. But a little about Mark, he's a certified financial planner, number one bestselling author and the owner of Lake Growth Financial Services, a financial firm in Chicago.

Cohost the Not Your Average Financial Podcast where he shares some of his strategies for investing in real estate, saving and paying for college without going broke and created an income and retirement you can't outlive. I love that Mark, without debt or paying for college, my goodness, it's such an issue at the moment, right?

[0:01:27.6] MW: You bet.

[0:01:28.3] WS: Anyway, thank you again for your time, give us a little more about maybe who you are just briefly and listeners can go back to obviously show 439 listing there as well. Then we'll dive in.

[0:01:37.7] MW: Yeah, as you mentioned, I am a certified financial planner which puts quite a bit of emphasis on just learning the entire financially universal breath and also depth. They make you go through the deepest bowels of the financial tombs and catacombs; you know? It took me several years to earn that credential and I kept track of how many financial vehicles, financial products are covered in that designation and it was over 450 literally 450 different places you can put your money and explaining what it does. You know, a hedge fund is going to be different than a savings account which is different than a 401(k), right?

Your money goes places and then it acts different depending on where we keep our cash and as syndicators and business owners, it matters where you keep your cash to help you not only survive tough times, but also thrive in the good times as well.

[0:02:28.9] WS: Our money acts differently depending on where we keep our cash, I think that's good to think about.

[0:02:33.6] MW: It seems like an obvious statement but honestly, most people just get that 401(k) when they get their day job and don't think twice, you know?

[0:02:39.2] WS: I agree.

[0:02:40.5] MW: I'll ask somebody, hey, what do you want your money to do for you and they'll say things like well, I want easy access to the money, I want it to grow at a good decent rate of return, I want some tax advantages, because I believe taxes are going up in the future and I don't want to be feed to death. Well, the 401(k) fails all four of those test and you could keep going, right?

It's important to realize that you have a choice. Now, I'm not telling you folks not to at least get up to the match on their 401(k) if you happen to get one of those at work. That's great. But maybe there's a better and bigger place for you to put your cash and I know a lot of your listeners have figured out that real estate is a fantastic place and you know, unfortunately, or fortunately or whatever, most certified financial planners don't emphasize, see the value in anything that they can't charge a fee for and real estate would be one of those things.

It's the old phrase, you know, if you ask a barber if you should grow out your hair, you can bet what his answer's going to be. Real estate's a great spot to keep your cash. Now, I believe that there are some ways you can complement your real estate or any other business, right? Your syndication business, whatever. To improving your financial life without taking a bunch of unnecessary risk. That's what I love to talk with you about sometimes.

[0:03:50.2] WS: Yeah, let's dive into that. I know you have some specific strategies that's going to help us with increasing that yield without increasing risk. Let's dive in.

[0:03:57.3] MW: Sure. Well, you know. Again, I think we have to find out what is it we truly want our money to do for us. I really can't answer that for each person listening here but it's important to think, especially as business owners who are looking to run syndication projects and businesses. Asking yourself, what do I want my money to do for me, if I could design a perfect financial vehicle that would help my business grow and thrive and attract new outside capital.

What would I want that financial vehicle to do for me? Again, I'll kind of list my own personal list as a business owner myself. I personally needed liquidity, I'd need access to cash so funds, accessible for emergencies, opportunities, becoming more borrowable to banks, financing purchases, you know?

I'd want some sort of safety in that asset, I'd want some sort of guarantee that the money was there when I went to go look for it and that it was being audited by outside third parties. I'd want some sort of guarantees on the growth like decent rates of return et cetera. I'd want tax free access to my money and no penalties, no early withdraw.

Surrender charges or penalties like 401(k)'s might have. I'd want it to be flexible where I wasn't forced to pack money into it every year but I could raise or lower what I put in there. Give you a quick example of one thing I'm talking about like a Roth IRA, it's tax free when I get the money out but I got to wait often times, years to get the money out and I am only able to put in.

What is it this year? As of 2020, if you're under 50 years old, you can only put in six grand a year into a Roth IRA. Not exactly something you could run your business on, right? Tire on for that matter. And, maybe most important to businesses in the real estate space, you'd want it to be creditor protected. Meaning, you wouldn't want that money to be exposed to creditor risk or creditor risk meaning I was talking to somebody the other day.

It's in the tens of millions how many lawsuits are delivered against business owners each year and it's not a matter of if but when. I think it was over a 20 year period, 95% of all real estate investors and businesses in the real estate space will be sued. It's like, where do you keep your cash so that when that happens, it's not just an open buffet for folks that want to come sue you, take that cash from you.

[0:06:13.5] WS: We are still talking about those funds that we want to have available though, right?

[0:06:17.1] MW: Right.

[0:06:17.5] WS: Okay, the funds, we want to have available for that emergency fund or for us to be able to invest, you know, in that amazing investment opportunity comes along, etcetera, you know, things we need cash for on a day to day basis. We wanted to think about the tax implications or you know, no withdrawal penalties, things like that.

[0:06:33.9] MW: Absolutely.

[0:06:35.0] WS: Okay, is there an amazing vehicle that you recommend for that?

[0:06:38.0] MW: Well, you know, I think obviously, looking over the 400 plus vehicles that I was studying, it came across my mind as I was reviewing it where to keep my own money in between my real estate deals that I was looking to get into myself was whole life insurance designed the bank on yourself way. What I mean by that, it's a modern form of high early cash value whole life insurance designed with special writers that essentially accelerate how much cash you have day one, month one in the policy and that gives you a few things that does really well for the syndication business.

One, you got a big bucket of liquid cash that you can use for anything, marketing your syndication projects, investing in deals if you need it to and more, right? It does do a nice decent conservative rate of return that will beat your money market accounts or other cash equivalents where your money is sitting, before you deploy it into real estate.

That money is creditor protected in most states, you know, check with your current state where we live or wherever you operate your business but there's protections against lawsuits. The gains and the policy are locked in. Every single year, you get gains on that policy, it's still yours and they can't take it away from you next year if the market crashes. Since it's not tied to wall street or real estate market.

And then, maybe most important, it allows us to become our own source of financing. You can, in essence become your own banker, Whitney, and use that policy's cash value like a line of credit to yourself and you control the whole process of that loan. You borrow from the life insurance policy if you need to for your business, for your real estate, for operating expenses for your fund.

And then, as you can and want to, you can refund that policy loan to yourself and all the while, this is the mind bending piece to me. When you borrow against this policy, it will continue to grow with dividends as if you have not taken the loan at the same time, right? That's enough, maybe I'll pull over for a minute, any thoughts, questions on that?

[0:08:40.8] WS: I want to say, what's the cons, you know?

[0:08:42.8] MW: Yeah, there's no perfect financial instrument, that's just a myth if you're out there looking for it, right? There are some insurance expenses in the first few years. You know, that's an important piece, say nuanced custom design financial solution and the insurance expense is there. If I put in a hundred grand in the first year, I don't know, depending on your age, health, habits, you know, you might have 60 $75,000 of cash value in the first year.

You know, even a well-designed modern whole life policy has some expenses. Now, the death benefit again, depending on your age, might be half million, million bucks. That death benefit would be paid to your family or your business even in the first month. If you passed away. And had to leave that to your family. That's a great rate of return but don't go looking for that, right? You know, let's keep you on this side of heaven for as long as possible. Right?

That is an expense, that's one of the considerations. I always tell folks, don't do bank on your self-type policies if you're just looking for get rich overnight money. Now, what about that? Let's go back to those numbers quickly. If I put a hundred grand into a policy and I have, let's say, 70 grand available day one month one. What can I do with $70,000to increase my yield without any additional market risk?

Again, bank on yourself is great but compared to what, right? Let's set a side bank on yourself for a minute. Let's say that you only have a hundred grand in your cash bank account for marketing your next syndication deal or whatever. That's a great marketing budget by the way. But, let's say that's all you have, okay?

We're going to spend a hundred grand on some of your funds expenses. It's gone, right? Once you spend money in a savings account, how much interest are you now earning on the cash that you spent?

[0:10:29.0] WS: Zero.

[0:10:29.5] MW: Zero. Right, yeah. You weren't earning much anyway with the bank's interest rates these days but you can only earn interest on money you didn't spend, meaning, the money is only doing one thing at a time, it can't do two things at once if it's in a regular savings account.

Again, where you keep your money makes it do different things, all right? Now, let's consider this. Let's say you had a hundred grand in your whole life policy that you paid into your whole life policy, there was an expense of some insurance expenses, right? Now we have 70 grand let's say.

Now we borrow from that whole life cash value, borrow against it using the cash value as collateral, the policies cash value is still there. Remember, that's the key word, it's collateralized by your policy loan. When you borrow against that whole life cash value, the policy continues to grow and give you the same guaranteed cash accumulation and the dividend as if you hadn't touched the money.

Our policies over here cooking, growing, doing its thing and you've got the 70 grand out there in the world to grow your fund, invest in real estate, bringing more outside capital. Now your money's doing two things at once. Next year, that policy will be not 70 grand but again, depending on all your particulars, maybe it's you know, you've added some additional premium, whatever else and now it's a 150 grand that you've paid in the policy cash value has grown to that 150,000 bucks.

Now we're really starting to see some growth and some real ongoing potential for that growth of the policy and it's become a source of capital for your business at the same time. It's sort of a long tale, it's a long term financial vehicle and that's one of the considerations, don't do this for get rich overnight kind of wealth accumulation.

One other thing and then I'll hush for a minute, Whitney. You don't have to be the insured so if you feel like hey, you know, I've got some health issues or I got too many candles on my birthday cake so to speak. You can be the owner of a policy for example on a business partner or your spouse or your children and you are simply the owner of the cash, you're the owner of the policy but they might be the insured, the actual human life it's tied to. Some considerations there.

[0:12:38.2] WS: We're growing that policy and the growth of that, is it – all go back into the policy and maybe you answer that but I miss it. Does all the growth go back into that and it's not really useable as far as cash flow or it is?

[0:12:49.7] MW: Yeah. No, within a month of starting your policy, you have the cash value immediately available for you, whatever that cash value might be right away. You know, I've paid money into a policy and then borrowed it out within the month to pay my taxes for example if need be or invest in some real estate, we did that last fall.

You're able to keep that cash flow as a line of credit to yourself and you control the repayment strategy, the process, the timeline for repaying that loan, it's not like a normal loan where they force you to pay on a certain schedule, where they're controlling that whole process, no. You are in essence, your own banker and you're able to schedule your own repayment plans and make your own schedule according to what your needs are for your business, I've even had folks say you know what? I'm going to wait a year till we sell the deals in our fund to repay the policy loan.

[0:13:40.8] WS: What's the negative of taking that loan out and having that loan out for five years?

[0:13:45.7] MW: Obviously, it is a loan but it's not like the loans were used to, because it's self-collateralized by the death benefit, here's what I mean by that.

[0:13:52.6] WS: It's money you put in there.

[0:13:53.5] MW: Yeah, in the insurance company knows, they're going to be paid back one way or the other. There is a loan interest rate when you borrow from the policy, usually it is below what you credit of your policy is the guaranteed cash accumulation. So there is an arbitrage there, right? So I will give you a quick example. I had a guy who took a $350,000 policy loan out of his policy. He had the cash in there to do it, bought some real estate, paid the loan back over five years. Over that five year period, he paid 38 grand in loan interest, which works out to about 2% APR over five years, okay?

In the same five year period, he got a $120,000 of growth with him putting no money into the policy at that point. So he earned a 120 grand Whitney, paid 38,000 for the privilege and he had his real estate deal appreciating, the rent checks coming in. I mean that is some money I'd be willing to spend a loan interest loan on right? That's awesome I could say that it arbitrage but if I never pay off that loan and there are gains in the policy, you can laps your policy and there is a tax consequence if there are gains in the policy.

I have never seen anybody have that happen to them. It doesn't happen by accident, right? You usually have to really be messing up the policy big time and not working on it with a competent bank on yourself authorized adviser like me or my team, which we can talk why that's important if you'd like Whitney but the key is you know watch that loan use it but even if you die with the loan outstanding decades from now, your death benefits is just reduced by the loan balance at that point and you family gets the rest income tax free.

[0:15:30.4] WS: What's reduced?

[0:15:31.1] MW: So let's say at that point in the future you get a $2 million death benefit and a 100 grand of loan on the policy when you pass away. The death benefit goes from two million to 1.9 million and your family will have to struggle along at 1.9 million bucks.

[0:15:45.5] WS: No that makes complete sense. Yeah it makes complete sense. So what else as far as insurance policy they were investing in or investing through that we need to know? Because I have never done this before. I am not even sure what other questions I should be asking you about it?

[0:15:58.6] MW: I try to keep it as simple as possible for folks. If you want to dive deeper go to our podcast, Not Your Average Financial Podcast to learn more about this. We have about a 100 episodes on the topic including a bunch on real estate and business owner financing and so forth but I'll keep it simple.

I got a really nifty maybe some people would say dad joke corny acronym to keep this super simple. TGIF, okay. So banking yourself, it grows on a tax deferred basis and you can get access to the money income tax free if you designed it correctly with a competent adviser.

So that is the T, tax advantages meaning you can get the money out anytime you want with no taxes due even the gains can be accessed without taxes due under current law.

[0:16:39.2] WS: When do we have to pay taxes?

[0:16:40.9] MW: You put the money in after tax much like a Roth IRA, you put the money in after tax and you bring up a good point. There is no financial instrument that completely eliminates you from the tax code except this island out in the Cayman Islands somewhere I think I heard of but that's it, right? A real financial vehicles that keep you outside of prison will make you pay your taxes on either the seed or the harvest even real estate right?

So you know when do I want to pay my taxes? Today on the seed or tomorrow on the harvest? So that is the key one. That is the first one, tax advantages. Number two, you want guarantee so G. It grows on a guaranteed basis every single year and the gain I made last year is protected and guaranteed for the rest of my life unlike Coco-Cola stock, which might be up today and down tomorrow and I lost yesterday's gains this is an ever increasing financial asset that's never failed to provide guaranteed increases for over a 160 years. It is pretty darn good.

Number three is insurance. So we are immediately leaving our family more than we could ever save for them on the policy automatically just because of the nature of what life insurance is. That is pretty darn cool. I mean I'd be cool with that on its own as a certified financial planner and finally number four, financing is something that we need for our entire lifetime. I don't care if you pay cash for everything, you are still financing everything you buy, right?

Either you pay interest to a bank through loans, lines of credit, credit cards, car loans, student loans, mortgages, either we pay interest to a bank or we pass up interest. We could have earned on our money have we not spent it with cash, right? So even if we pay cash for things, we are still passing up interest every time we pay a purchase whether it is a cup of coffee or a car or a real estate deal if I am merely paying cash I am only falling back down the same rabbit hole that the debters is trying to climb up too, which is net zero.

And we keep breaking our compound interest in our savings accounts and our money market accounts and our stock accounts every time we spend something because that's money we will never see grow for us ever again. So TGIF, what do you think Whitney? Corny enough?

[0:18:43.3] WS: No, it's really good. I was thinking about while you were talking about financing and I guess you are either using a bank or you are the bank.

[0:18:50.1] MW: There you go man, yeah. That's a really good way to put it. We are already in the banking business, right? We are just sitting on the wrong side of the banker's desk so move to the right side of the desk, sit in the banker's seat, become your own source of financing, control the financing operations that your life already asks of you for your kid's college, for your cars, for your syndication deals, your business, for your own retirement.

I mean heck, at least you can do this with your cars and vacations. That's hundreds of thousands of bucks over your lifetime if you just did it for your cars and vacations not to mention everything else we have. You brought up college that is not getting any cheaper that's for sure.

[0:19:25.0] WS: Yeah and what you mean by that is taking loans out of this insurance plan to buy that car or that house or whatever.

[0:19:32.4] MW: Yeah, doing this smartly right? So paying your loan back over a reasonable period of time is better than paying cash because as you mentioned earlier Whitney, when you access this money, when you borrow against the cash value it continues to grow as if you hadn't touched it. The most important rule in the financial universe is to not break compound growth and this is the one place that I found that does that on a guaranteed basis over your lifetime.

[0:19:56.2] WS: Incredible, how do we do that with a cup of coffee?

[0:19:58.5] MW: Yeah, good question man. I'd say start with the big stuff then figure out ways to do it at smaller and smaller rates. I still paid for my cup of coffee with cash. I am not going to lie about that and I still have a regular checking account, you know and I still do that for my bills but for anything that is a big expense, you know marketing, real estate purchases. For my daughter's college coming up in a decade and a half, you know I am already planning for it, right?

That is going to be something. It is not like she just accidentally became 18 years old, right? So let us start building for that right now, yeah.

[0:20:30.4] WS: Okay so simplify a little bit if you have a $100,000 to invest you are going to put it in this insurance account so that way you can take out the 75 grand to go invest. That is a simple way of how you're going to funnel that money.

[0:20:41.3] MW: You bet, yeah I can do it in maybe four quick steps, after you have set up all of these policies, step one borrow from your policy, pay cash at closing for deals and number two, you'll increase your yield without any additional market risk because the policy is still growing even after you have paid cash for the deal, your policy is still growing at the same time. Step three, repay the loan over a reasonable period of time. Step four, do it again and again as often as you find good deals.

[0:21:08.9] WS: I like that. Okay just a few more questions Mark before we run out of time and tell me, I know you're a real estate investor as well, how do you prepare for this potential downturn that everyone is talking about?

[0:21:18.8] MW: Well again, I think having a permanent line of credit ready for the next recession is the best way to go right? What's that Mark Twain quote? He says, the banker is the fellow who lends you his umbrella when the sun is shining but wants it back as soon as it starts to rain. Have you ever heard of that one before?

[0:21:34.2] WS: I haven't but that's clever.

[0:21:35.6] MW: Good old Mark Twain. I'll tell you a quick story, I had a gentleman who had a million dollar line of credit with his bank and in the midst of the great recession, he is using that line of credit for his business. He needed it to survive but the great recession hits and the bank exits his business over a period of just a few short weeks and they term out his loan meaning they forced him to pay back that loan in five years during the worst recession we have seen in our lifetimes.

So what did he do? He opened up a bank on your self-type whole life policy, started funding that policy over five years so that by the time the banks line of credit was paid out, he had his million dollar line of credit in his life insurance policy to do everything he needed his business to keep doing to survive and not only survive but think of it this way Whitney, when you have a permanent line of credit and all the other banks have taken away their umbrellas, right?

All of your competitors are gasping for air so to speak, will that make you less or more competitive when the next recession hits?

[0:22:35.0] WS: You're going to be ready to go. So there is nobody there though that is going to say, "Oh wait a minute Mark, you know we've seen this in your credit lately or we have seen this over here, you know whatever it may be, this is what is happening in the market. So you know it is going to be 20,000 this time instead of 75,000" there is not going to be anybody there like that?

[0:22:52.2] MW: Yeah, great point. So there is no financial underwriting when you request your loan. There is no credit check, there is no forced repayment schedule. You are your own collateral for this loan because it is life insurance, right? The insurance company already knows they are getting paid back. So whatever you cash value is, you can usually borrow about 90% of that number any time for any reason. They don't ask any questions.

In fact you go click online, click here, click there and the money is directly deposited in your back account in about four or five business days.

[0:23:21.2] WS: Nice. So Mark what is a way you have recently improved your business that we can apply to ours?

[0:23:26.0] MW: Yeah, you know again, not to be too heavy on the same drum here but I have more than half a dozen of these policies set up for myself, my business, for my family and you know we have used it a number of times to invest in real estate, to invest in our business, invest in ourselves and you know I think having a regular rhythm of work and rest is a great strategy. So use the policies to go on vacations if you want and you know talk about a no guilt vacation when you are still getting growth and dividends when you're on a beach somewhere.

And the money you use to go on that vacation so fantastic stuff there. I'd say that's been honestly something outside of the policies. I have figured out that I love cooking at the end of the day. It's a nice relaxing thing for me to do and so Audible, great tool when you are cooking to read up on books, get through books whenever you are just sitting there cutting vegetables.

[0:24:15.3] WS: Awesome, what is a way you are finding investors right now?

[0:24:18.4] MW: As far as me I don't run a syndication deal but we are looking for clients, we are looking for folks to work with and my favorite way to do it is just to have one on one conversations with folks just like yourself on podcasts. We are living in the future Whitney, I know that you do such a great job on your show but the very fact that we are having this conversation just feels like the greatest gift from the marketing gods to all of us right?

You all get to just have this incredible tool where we are having one on one discussions with people who are meaningful, changing the world, changing the game like yourself and with your audience. So yeah, keep up the great work.

[0:24:53.7] WS: Thank you and so what is the number one thing that's contributed to your success?

[0:24:58.1] MW: Well you know again I think the coolest thing that I can recommend, I think I mentioned it the last time, it is no different if you have a spouse who is fully backing what you are doing. If you have someone who is constantly saying, "When are you going to be home?" or "Why are you doing this again?" it really just zaps your energy but my wife has been nothing but the wind in my sails to keep telling me that this thing is worth pursuing, worth doing and you know it is just so cool to be a part of the team of you and your spouse. So get that straight, get that figured out first and you're really unstoppable at that point.

[0:25:28.4] WS: That's awesome. I could not agree more and Mark, tell us how you like to give back?

[0:25:32.5] MW: You know I think the very best thing that you can do is do things when no one is looking and do things that don't have your name attach to them. So you know I don't know if any of your listeners can appreciate that but you know when you know that you have done something that no one else will ever find out that's one of the coolest things you can do. So giving without your name attach to it is probably one of the best strategies at least in terms of personal confidence.

Call it your good deed for the day and something that you don't get paid for, don't get recognized for but something that you know is going to change someone's life even if they are not your ideal client, maybe you give them some advice. Even if they are not going to change the world financially contributing to your success just means all the world to you and it builds your confidence at the same time.

[0:26:14.6] WS: Well Mark, thank you again for your time. Another amazing interview and show and time with you. I appreciate you so willingly sharing your expertise with our listeners and myself because I have learned a lot from you and so tell the listeners how they can get touch with you though and learn more about you?

[0:26:28.5] MW: Yeah, please I'd love to speak with you guys directly either me or one of my colleagues, we have a number of colleagues around the country who are Bank on Yourself authorized advisers. Don't do this with your insurance guy down the street. I can't say that anymore clearly, the strategy can be messed up if it is not engineered from the beginning properly. Once it's set up it is kind of like a smart phone. Once they build the thing it works, it just works for you.

But you have to engineer it well from the get go and so, work with one of the trusted Bank on Yourself authorized advisers that I am connect with. You can go to growmorewealth.com and meet us there and schedule in a free meeting, growmorewealth.com is the best way to get in touch and you know our podcast already. If you like to hear more about us and just date me first I guess, Not Your Average Financial Podcast.

[END OF INTERVIEW]

[0:27:12.9] WS: Don't go yet, thank you for listening to today's episode. I would love it if you would go to iTunes right now and leave a rating and written review. I want to hear your feedback. It makes a big difference in getting the podcast out there. You can also go to the Real Estate Syndication Show on Facebook so you can connect with me and we can also receive feedback and your questions there that you want me to answer on the show.

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[OUTRO]

[0:27:53.7] ANNOUNCER: Thank you for listening to The Real Estate Syndication Show, brought to you by Life Bridge Capital. Life Bridge Capital works with investors nationwide to invest in real estate while also donating 50% of its profits to assist parents who are committing to adoption. Life Bridge Capital, making a difference one investor and one child at a time. Connect online at www.LifeBridgeCapital.com for free material and videos to further your success.

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