

EPISODE 526

[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 Bob Fraser. Thanks for being on the show again, Bob.

[0:00:33.2] BF: It's good to be here with you.

[0:00:35.4] WS: Yeah, it's been fun just catching up a little bit before the show with you again, Bob. In case you haven't heard of Bob, I would encourage to go back and listen just a couple of weeks ago, we were at a show number WS496, it came about February 29th, I would encourage you as the listener to go back and listen to that if you didn't and learn more about Bob and just his expertise and super power in this business and just how successful he's been but I wanted to have him back.

Quickly, little about him, he's on a mission to help investors take advantage of one of the most effective and overlooked avenues in real estate investing: Residential mortgage notes. As founder and principle of Aspen Funds, he has purchased more than 1,000 mortgage notes earning double digit annual returns without the risk and volatility of traditional investing options. Bob, thank you again. I want to just jump right in, we're going to talk about scaling a real estate investing business.

I just wanted you to elaborate as much as possible and let's dive into that topic.

[0:01:36.5] BF: Yeah, absolutely, you know, I have a lot to say about that, I've got a long history of scaling businesses and in fact, it's the main thing I love to do is take a little tiny business and just piece by piece grow it and it is I don't know why I get such a kick out of it but –

[0:01:54.5] WS: It's not as easy as most people think though, right?

[0:01:58.5] BF: Oh no.

[0:02:00.4] WS: People like you make it look easy.

[0:02:01.6] BF: It is so challenging. And yeah, I'll give you a little bit of my secret sauce, you know? I started in the tech business and raised 44 million dollars in venture capital. That really got me understanding capital. Of course, one of the keys to successful real estate scaling business is you got to scale capital side.

There's so many different kinds of money which we can talk about and each one has different expectations and different kinds of ways you have to approach the capital, different ways you sell the capital, different ways you make the capital happy. You know, that's maybe if for another time.

But nothing they teach you in business school, okay? They don't teach you how to do this in real estate school and business school, how to raise money. But it is absolutely critical to your success as being able to successfully raise money. And I've started from nothing many times and we just get a few friends and family and what you do is you take care of them.

And you know, we started with a million and a half dollars eight years ago in this business and other people's money. I didn't have a million and a half dollars at that time and you know, we just grew it piece by piece.

But I'll give you a couple of the little secret sauce and you just jump in here.

[0:03:14.0] WS: Yeah, let's do it.

[0:03:15.3] BF: The first thing as I pointed out, you know, to scale a business, any capital. And really what you have to do is treat your investors like your family heirlooms, I mean, I treat my investors so dog gone well and part of that comes from having been an investor, you know?

I know what I wanted and you know what you don't want, you want transparency, you don't want somebody to just like sits on the money and no idea what's going on or somebody that's making it prettier than it actually is.

You know, the truth is, if there's bad news, I can deal with that. What I can't deal with is you hiding the bad news from me, you know? Or marginal news, you know? We were looking at doing a Reg A+ which is basically a semi-public company and you need to report literally every single purchase you made, every transaction, lawsuits that's happening, anything.

That's the way I run my business anyhow, even though I don't have to do that, I tell my investors absolutely everything. Let them judge, you know? Let them – the rule is no surprises, right?

[0:04:20.9] WS: No surprises, of course.

[0:04:22.1] BF: I never want to be surprised. You got to take care of them by communicating, transparency. And even make sure they get paid first, there's a couple times that I didn't take my management fee in order to make their preferred return and even though I have the right to take my management fee.

But I just don't want to do that to my investors. Well, guess what? After eight years of doing this, I have my investors come back, they bring their family and friends, they refer me, they love working with me because they know I care about them and I'm not trying to take advantage of them.

[0:04:57.3] WS: To elaborate on how you treat them so well. You obviously communication, everybody says, you know, communication is important. But I'd love to know, you know, how you have been successful about it and just some things that stand out to treating your investors so well.

[0:05:11.7] BF: I could show you my newsletter. I put a really good news every single quarter and with all the latest news, pictures, you know? I communicate with them. I make myself available for phone calls. It's interesting, people don't call me, you know? But I'm happy to take the calls from my investors.

We do an annual share holders' meeting so we do video broadcast. As well as host them in town and buy them the meals and everything. But the numbers don't lie. I mean, really taking care of people.

So, for instance, one of my first funds, I realized that out of the gate, my management fee was structured wrong so if the shares dropped, the share price dropped and then it went back up. I got paid on the gain. If I just chopped my share price, I can get making a lot of money. I about panicked when I found this out because we have losses coming out of the gate our first quarter and I'm realizing we're going to make it all up the next quarter and I'm getting paid on this.

My investors aren't getting paid but I'm getting paid. Alarm bells go up, I immediately go to a lawyer, we changed our PPM and I made sure I took none of that money. And that's just an example of where it's investors first.

You take care of your investors, if you take care of them, and you nurture them, you treat them like the family heirlooms, well they keep coming back and they keep bringing their money and they bring their friends.

[0:06:35.9] WS: It's not all rocket science, is it? I mean, it's really thinking about how you would want to be treated.

[0:06:39.9] BF: That's exactly right, it's the golden rule, you know? The same, there's three other constituencies that you got to keep happening to scale a business. Capital is first and foremost because nothing happens without capital. You know, this just shows about syndication, it's OPM, other people's money which we all love other people's money. And as long as you treat that money well, you will get more of it and if you mistreat it, you will get less of it.

But the other constituencies are your customers or your sources. One of the things we've done, we are now one of the premier partners in our space, we're the preferred customer for a lot of our sources and why is that? Well, when we came into the industry, it was actually done just a lot more shady, a lot more sketchy.

We simply don't do business that way, we pay for everything, we do what we say, none of the hand shake or there's a lot of faultiness in the way the trading was done. We cleaned it all up so any trades with us are done with transparent pricing with just the different standards. I don't want to go to all the details but we get it right.

Then we perform every time we said we're going to take a trade, we take the trade. We do exactly what we say. Well now, we become the main people everybody wants to work with. Surprise, surprise.

Because with us, you don't get surprised. You want to be the one everybody wants to work with and for example, we sold a bunch of products on an as is basis. One of the guys bought one of products and tried to return it and we took his return, we didn't have to return it but the relationship was worth it, you know? We bought a loan, we're ready to flip, you know? When we find out there's a lawsuit attached.

Well, we could just flip it out, you know? Because we don't need this lawsuit, you know? But we don't flip it out, we don't – Unless there's full disclosure, we'll tell everybody what exactly is going on with the place and if they still want it, we'll sell it to them but we're not going to do that.

Well, guess what? Everybody wants to work with us and we never take advantage of anymore trading partners even though we could. And so, again, what happens, we become the dominant trading partner everybody wants to work with us, they like us, we're nice guys. But we do what we say. They really trust us and surprise, surprise, everyone in our industry has supply shortages.

Because the product is really hard to find. Not us. We're one of the few companies that has plenty of supply. Why? Well, we treat our customers well, again, what is it? The golden rule, right? Treat them like you want to be treated.

[0:09:09.9] WS: I love how you talk about it, it's not just in the investor that you're trying to treat well. But it's really, every relationship in the business is so important.

[0:09:16.6] BF: That's right, your third constituents say, you ever work for someone who is an a-hole? You know? Don't be that guy, be the good guy you work for. And I was the worst employer ever, you know? I mean, I just was driven and didn't know how to manage people but it's completely different. I know how to manage people with a soft touch. I know how to motivate people and so this is your third constituencies, your employees.

Because the truth is, anybody who has been in business a long time knows that you are limited entirely by your staff or accelerated by your staff and having a super-skilled, super motivated, happy staff, there's nothing like it. I spend a lot of time recruiting, I spend a lot of time vetting people. I actually spend a lot of time reading people, getting to know what their strengths and weaknesses are.

I never try to change people. I try to figure out how people are wired, and then I create a job around them. I find the right people, create a job that fits them and guess what? They're super successful and super happy.

I don't get my sales guys trying to be operations, I don't get my admins trying to sell, you know? It just doesn't work, you just make people unhappy. Your third thing is, you got to treat people super well and it's a magic to build a higher performance culture.

It's absolutely magic, a high performance, high fun culture, how do you do that? Well, it's absolutely doable and be a master of recruiting, be a master of creating culture, be a master of placing and developing people, which are two of my biggest passions. I don't know why. I just get so passionate at developing others. I love figuring out who people are who they're really wired to be and then draw that out of them.

There's no substitute for skill. If you're going to scale, you know, what happens, there's a good book out there called the *E-Myth*, I can't remember but he basically, what the author's name was but he said, basically, you need to work on your business, not in your business.

The big problem, you get these super great real estate gurus, you know, who are really good at real estate, and they end up being so busy they can't hire people. They hire admins or low-level people and it just becomes chaos. You hire three or four people and you just end up creating chaos because you don't know how to manage people.

You step back and work on your business. You need work on the systems, protocols, the operations and to do that, you have to have people that exceed your skill level. I've done that, we've spent the last eight years cultivating recruiting super talented capital raising team, super talented acquisitions, product acquisitions team, and a super talented operations team to manage it all and actually super accountant. I mean some of the best of the industry and to do that you have to keep them happy –

[0:12:11.2] WS: I love how you are talking about hiring people that are more skilled than you. You know I am at that point now where I am hiring people like that. But initially it is everybody all the listeners know I have done numerous shows on hiring virtual assistants and how we've used them and things like that to do – to take lots of tasks off my plate but those are really repetitive tasks or things that are –

[0:12:35.3] BF: That's not true that is scaling level one. That is scaling level one.

[0:12:38.7] WS: Right and now I love how you are talking about –

[0:12:40.1] BF: But I mean you will be able to do more, you the expert will be able to do more but that doesn't let you go into the next level. The next level is when you actually build an infrastructure and build a management infrastructure and you hire a senior manager and senior people who develop their own departments. And that is scaling level two and to do that you are going to chunk up some money but you know, would you work for free, you know?

[0:13:03.2] WS: Right and if you want somebody to scale like you are talking about you are going to have to pay for it.

[0:13:07.1] BF: Yeah and this brings me to kind of my other points is that I know a lot of people that can't go from scaling number one to scaling number two and the reason is they freak out over money. They freak out like, "Oh my gosh this big salary. What if I dip?" And this is where you must have a basic level of financial acumen to successfully scale. I remember when I started my tech business I would joke, you know \$40 000 of venture capital.

I remember freaking out because I was a computer programmer. I don't know anything about you know finances and I hired an accountant and I wanted one number, I said, "How long do I have to live?" That is the only number I want just how and give me the number of months and I paid the guy way too much money because I wanted that one number. And I wanted that one number updated on a weekly basis how long do I have to live.

And today, I laugh at myself because that's not that challenging. That is not that hard to do. But you must have a basic financial acumen and really, it's this. It is creating what is called a proforma, you know? Maybe your investors know what a proforma is but it is just a future panel that's like, "Hey, month one here is my income and here is my expenses. Month two, here is my income, here is my expenses," and you need to make it real.

Okay, so let's say I hired this guy and I pay him, we put them in the expenses in the next month and then from there on well then how much is he going to earn? Well okay there is a lag that let's say takes 60 days or 90 days before we come up to speed but then you start producing this and you look at the numbers, can you float it? It is not rocket science. But it is something that escapes. It is simply addition and subtraction. You know every month in the future.

But it is something anybody can do and that's I always get super confident in being able to hire people because I spend the time to do my proformas and I'd like to know when I can scale and when I need to hunker down –

[0:15:10.2] WS: So ultimately you know when you can afford them.

[0:15:12.6] BF: Exactly, you got to know if you can afford them and it is not rocket science it is addition and subtraction. But to take the time to do it people, again that is working on your business. But I find people don't spend time building proformas and I will tell you a funny story.

So, I remember when I was raising money for this tech business, I wrote this incredible business plan that I thought was incredible. Today I look at it as one of the worst business plans I have ever seen in my life. But it was a gem to me, you know?

And I have spent six months writing this business plan and I go pitch to these venture capitalist, okay? And I go pitch to venture capitalists and always the first thing they do is give you the book, they would open it up and flip to chapter eight, which was the financial plan. "What is your finance plan? What is your proforma?" It tells you how many people you are going to hire, how much are you going to spend on the rent? How much will you spend on marketing and all of that.

I get so mad, I start going I'm like, "Hey, read the marketing plan. Hey read the product plan," because the truth is I really can't be asked on the financial plan because I didn't know how to do it. And I was so mad and I finally figured out today why I look at the business plan in all that I do, the first thing that I flip to is financial plan. Because I can learn everything about who they're going to hire, how fast they're going to hire, how much money are they going to spend on marketing. What their gross margin is going to be, what their growth trajectory is and I can see how much time they spend on it. I can see how much skill and management they have. I can see everything literally in five minutes.

I know everything I want to know in that business. And so, people don't spend enough time running their proformas and developing their true business plan and the truth is, the more sophisticated investors you get, I mean there is what's called dumb money, you know?

No offense mom and dad, you know that's your dumb money you know? But if you are going to get non-professional money or skilled money, not dumb money you have to do this. You have to nail the financial piece because people just aren't going to give it to you.

And also, I'll say one other key is not out running your PNL. You know one of the biggest challenges in scaling is knowing when it is time to hire somebody and when it's not and most businesses fail, I believe something like 95% of businesses fail because of cash flow. They don't manage this and that is such a big deal is to manage the cash flow.

So, it is don't outrun your PNL, make sure you can float the challenge of you know what's your dip planning. I am doing across a hiccup or two.

[0:17:45.3] WS: So we just have a couple of minutes before we have to go Bob but you talked about just being a master of recruiting and how much you like that and creating the culture and this is something we've talked about on the show much before as far as hiring at this level, talk about hiring VA's to get things off our plate, to create more time so we can focus on other things but I love talking about it, thinking about hiring people that are much more skilled than I am to do the task even that I am doing so it can be done better.

[0:18:12.5] BF: That's when you remember to develop your trajectory. You want to raise, I am working hard to get a guy who is successful in raising a \$100 million in capital, okay? You know well that is a huge thing.

[0:18:21.0] WS: That is a game changer, right?

[0:18:22.0] BF: But that guy is not going to come cheap. He knows what he can do and he is going to make you money or he is going to raise it for someone else.

[0:18:27.7] WS: Give us a couple of tips on recruiting like finding people and how we should outside of okay, now we can afford this person, we have some cash flow, how do we find that person that we want to hire that is more skilled than us and how do you go about that?

[0:18:41.1] BF: Do you want me to give you all my secrets?

[0:18:41.8] WS: Yes please, quickly.

[0:18:42.5] BF: Okay, well I'll tell you, there is an amazing website called LinkedIn. And literally you get Recruiter Lite Pro, it is 100 bucks a month and you go find people. You can search for keywords that have capital raising, capital blah-blah-blah and you go. You post a job description and you go ping these people and invite them to apply to your position. It is as simple as that and then you need to read people. Some people they don't want the big commission.

They don't want it. They just want a job. They want nine to five so you got to know what kind of person you got in front of you. So, a lot of the real estate guys in here that are a part of these podcast are cowboys, right? What I call the cowboys. They would never want a nine to five job, right? There is allergic hours. But a lot of the guys that you may hire that is what they want. So, you got to shift your mindset and realize that that's what 90% of the people want.

They want a freaking W-2 and that's okay because that gives you the upside. You know it gives you the equity position so to speak.

[0:19:47.8] WS: What about salary versus hourly or commission?

[0:19:49.9] BF: Yeah, you remember you're hiring people, you're going to give them salary you know? But you know that is all negotiable. You know if you're hiring a six figure guy, they're going to want salary plus a bonus plan. But that is okay, the guy who can raise you the money but then he is also going to want to come in and say, "Okay, I can raise the money but I got to have something good to sell. Let me make sure you're for real and make sure your operation is ready."

So, we have been successful raising capital and yeah, I got a good guy doing it but we also have a heck of a product. So again, it's timing. You can't hire that guy before you're even product ready and you know it is a little bit of a chicken and egg thing over and over.

And then the regular recruiting is selling and I love selling but the way I recruit I tell my vision. I raise my vision up the flagpole like a flag. And when people get excited they'll look at you like, "Wow that's awesome," and they salute the flag that's your people.

When people look at you like you have five heads and they freeze, that is not your people you know? So again, that tells me people self-select in or out by their body language and everything else. So that is the way I number one tell if they're my people on how they are ready to do, ready to have the pace on after, whether they have the attitude I am after, if they would run with the vision that I am after and people they get excited they just can't hide it, you know?

And you can't fake this stuff okay? So that is the number one way is a cast vision. I cast the vision for the job, the position. I cast the vision for the company, I cast vision for our environment and our value system and again, see what people do.

So, you know that is the number one way.

[0:21:36.6] WS: I love it Bob, we could talk about this forever I know unfortunately we are out of time. But quickly, tell the listeners how you like to give back and then also tell them how they can get in touch with you?

[0:21:46.4] BF: Yeah, we basically give to charity every single month out of our profits. That is one of the things that we love to do and also doing internships. So, we look to bring in young people on board and do internships. We've been always doing that and it is always a challenge but we love it.

[0:22:03.5] WS: And how can people learn more about you?

[0:22:05.6] BF: Aspen Funds, like the tree. aspenfunds.us

[END OF INTERVIEW]

[0:22:13.0] 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]

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