

EPISODE 677

[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]

[00:00:23] WS: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is Russel Gray. Thanks for being on the show, Russ.

[00:00:32] RG: Hey, Whitney. Thanks for having me.

[00:00:33] WS: Russ is the Co-Host of The Real Estate Guys Radio Show. He is an avid student of economics, with a diverse background in business, investing, mortgage, and financial services. Russ brings unique and practical insights to help entrepreneurial investors grow and protect their wealth and income through real estate and real asset investing.

Russ, I can't thank you enough for your time and being on the show. I'm looking forward to getting to know you better personally, but then also, just know from your experience, you just have tons of valuable content that we just need to know right now with everything that's going on and I'm looking forward to it. Welcome to the show.

[00:01:11] RG: Yeah. I'm happy to be here.

[00:01:12] WS: Russ, why don't you give us just a few minutes, so right before we dive in, of just your background in real estate a little bit. I know a lot of people already know who you are, but just in case they don't, give us a little more about what your focus has been in real estate

and then let's jump into just some of the economics and things that's happening right now that people need to know about.

[00:01:32] RG: Yeah. Well, there's definitely a lot to talk about when we think about what's going on in the world right now. When we talk about me, maybe not so much, maybe not so interesting. Just by way of background, I'm an old guy. I've been around for quite a long time. My father was an immigrant from the Philippines and a high-tech entrepreneur. He won a scholarship to Stanford University; smart guy, grew up in Silicon Valley before it was Silicon Valley. He started a high-tech company and took it public; took it public in 1987 and he got crushed in the 1987 stock market crash.

Well, I had bought and sold a property and a business before I was 20-years-old, and so discovered the magic of equity versus earning wages. I had looked at his background and realized, "Hey, anybody can make it in this country if they just are willing to go do the work." I had a lot of ambition, a lot of hustle. I ended up in the securities business, believe it or not. I was in the securities business in 1987 when my dad lost everything because of Wall Street. I realized I didn't know what the heck I was doing.

I got out of the business and decided to start trying to understand, how in the world a guy like my father who was as smart as he was and surrounded by all these brilliant advisors could absolutely lose a 12-million-dollar fortune in a matter of months and not even see it coming. That started my curiosity about the financial system and economics. Then in the early 1990s, I started making back then what I thought was a lot of money. One year, I ended up paying more tax than was my dream income when I was a younger man. I said, "Well, shoot. I need to understand this whole tax thing."

Normally, the story for anybody who understands real estate will go, "Oh, that sounds like you're going to go down the path of what a great tax break real estate was," but that's not what happened. What happened is I discovered a guy named Irwin Schiff, who turns out to be Peter Schiff's dad, and now I'm friends with Peter. I didn't even know that when I met Peter. I found that out as we got to talking. It's really, really interesting.

Irwin was a tax protester, but he really understood economics and the financial system. It opened my eyes that something wasn't right. I went to a conference to see Irwin Schiff speak. I was wandering around in the bookstore and I picked up a copy of a book called *The Creature from Jekyll Island* by G. Edward Griffin. I read that and then I had this aha moment. The light bulb went off. I realized that after the 16th Amendment in 1913 and the formation of the IRS and the Federal Reserve, which is front and center right now, completely changed the landscape. That's where we introduced the income tax.

Then I really wanted to understand our financial system, because I felt like it was a system – almost a system of modern slavery. If you believe in that old proverb, the borrower servant to the lender. You realize our entire financial system is debt. You don't have to be a rocket scientist to say, “Gee, the person who gets to just print the money out of thin air and buy everything from everybody and make them pay you cash flow, that's a pretty good deal. If I could be a real estate investor and just print money out of thin air, go buy a property and have people pay me cash flow rent on that property in the form of interest on those notes, that's a pretty good deal.”

[00:04:48] WS: Sounds very good.

[00:04:49] RG: Yeah. Syndication is the next best thing on the syndication side, but also being an investor. I got enamored of real estate as a financial vehicle. I was never really a deal person. I always looked at it from the financial side and I wanted to get into financial education. In 1995, I wrote a business plan at the end of the 90s, I started a mortgage company. To market my mortgage company, because I wanted to understand debt as an insider, so I went into the business.

In 2001, I was driving around Silicon Valley listening to the radio and I heard The Real Estate Guys Radio Show featuring Robert Helms. I'm like, “Oh, they're doing a seminar. I'll go to that seminar.” I did and that's where I met Robert. We formed an alliance that eventually became a business partnership. In 2004, I became the co-host of the show. We started a lot of different businesses, had a TV show, just the development company. I mean, it was like everything we touched turned to gold.

Then in 2008, everything we had turned to crap. It was bad. Learned a lot of lessons coming through 2008 and really took over focusing on building the show up into a viable business, other than a hobby. For the last 11 years, I've been really driving the business strategy of the real estate guys. In 2011, we really felt there was a huge opportunity to real estate investors, the opportunity to become real estate syndicators. We thought it was the best business opportunity in real estate for many, many reasons. We couldn't have been more right.

We've been advocates of syndication on both ends of it, both as investors and as operators since 2011. That brings us to where we're at. Obviously, spent a lot of time post-2008 preparing for the next crash, and there were a whole lot of things we did to prepare for that, which I can share, but now here we are. We're on the threshold of what is going to be arguably, probably in history is going to go down as up to this point in history, the absolute worst financial disaster in the history of this country. We'll see how it turns out, but right now that's the way it's shaping up.

[00:06:59] WS: Yeah. I'm grateful for you just sharing some background. I think it's interesting to see how people made it to this business and different entrepreneurs coming from such different backgrounds. I think you left us on a good point there to move into our talk today. Just how did you prepare for this? What were some things that you saw that told you this was coming and what you all did, or what were you advising other operators to do to be prepared?

[00:07:21] RG: Yeah. Great question. Pre-2008, I owned all kinds of different properties all over the place and new properties, old properties, income properties, properties on spec. We had a development company. I brokered mortgages. We ran a business, a financial education business, Robert and I together. We really operated all of that on credit. We had all of our cash deployed. We had no cash in the bank. We operated 100% on credit.

We were operating our business on credit and we had great credit lines and great credit scores. It was fine. I was brokering credit to generate cash flow. You probably see where I'm going with this. I had all my properties highly levered and was depending upon a robust credit market, lots of air, if you will, coming into the jump house, so that my multi-million dollar top line real estate portfolio, if it went up even a few percent every year, was on equity making me hundreds of thousands, if not millions of dollars every year.

Then our development company, we would borrow money to build and then we would count on people coming in to buy our finished product using borrowed money. Obviously, the one thing that I didn't do was a SWOT analysis. I never looked at my entire life and said, and looked at what the weaknesses were. I was a sunshine and unicorns. I was a hope and opportunity guy and I never did the – confront the brutal facts, or even assess the possibility of a problem. I was nose to the grindstone.

I had no cash. I was nose to the grindstone, and I was naive about my weaknesses and the potential of how things that I didn't even have on my radar could knock me off the horse. Of course, as fate would have it, we had a subprime mortgage crisis that obliterated the alt A business, which if you've been around, you know what that means. Not the agency paper. Obviously, Fannie Freddie. I mean, Fanny Freddie went bad, but they got bailed out. All those private mortgages, first bang, this green point, just countrywide, just on and on and on. They all got destroyed.

Well, those are the people I brokered to. I had nothing to sell. I had a 100 loans in the pipeline and I had nothing. I went from a six-figure income to zero in 30 days with no warning. I was at the epicenter of the nuclear disaster when the bomb went off. That really hurt. We came out of it. Along the way, back in 2015, and of course I'd already figured this out, but it was great to have this affirmed. I had a chance actually to interview Donald Trump face-to-face. We got a chance to ask one question. My one question was, "Mr. Trump, you've been through ups and you've been through downs." This was before he was president, before he was controversial and then when he was just the ultimate real estate guy.

I said, "You've been through ups, you've been through downs, ordered a deal, ordered a comeback. What did you learn in the good times? What did you learn in the bad times? If you did decide to run for president, how would that help you?" He didn't answer the last part of the question, but he answered the first part. He goes, "Oh, I really didn't learn anything in the good times. But I learned in the bad times, it's always good to have a little cash." That was one of the things.

Lessons that we talk about, number one, is do a SWOT analysis on your portfolio. Do a SWOT analysis on your business and sources of income. SWOT analysis is strengths, weaknesses,

opportunities and threats. If you can't find any threats or weaknesses, then you have a blind spot. Go get help, because somebody should be able to tell you. Keep going until you have a list.

Number two, make sure you always stay liquid. As tempting as it is in a bull market to be fully invested and depend on those credit lines, credit lines can collapse quickly and often without warning. When you most need your credit is when it's least accessible to you. Always make sure you have a little cash. Then I think the other big thing is don't ever be the smartest guy in the room. Robert and I would run around and we were gurus and we were the smartest guys in the room. He just told us we were in the wrong rooms.

We quickly changed the rooms we were in. The first thing we did was look around and said, "Well, who saw this coming? Who knew? Who was warning?" Well, two guys. One, we were already in a relationship with that we weren't listening to. We joke about it today, because I was telling you, but Robert Kiyosaki was telling everybody in 2005, 2006, "Get ready. Real estate is overheated." We couldn't hear him. We thought we were smarter. We would spend our energy rebutting him, instead of trying to understand him. Big mistake.

Listen to people who don't agree with you and try to understand where they're coming from, especially if they're qualified to have an opinion. Kiyosaki clearly was. The other guy was Peter Schiff. Peter Schiff, I didn't know, even though I was a fan of his dad, but I didn't know the connection. We read his book *Crash Proof 2.0*. He'd written *Crash Proof* in 2005 or 2006, warning everybody. Then he re-released it after 2008, kind of an, "I told you so," in *Crash Proof 2.0*. I read that book. Then he wrote a follow-up book called *The Real Crash*, which is saying, "Hey, guys. Look. The crash that I predicted hasn't come yet. *Crash Proof* was just about getting ready for the first act, the opening volley."

Peter is saying and continues to say, and I think he's being vindicated as we speak, that the 2008 crisis was really a dress rehearsal for a much bigger crisis. It's probably the crisis we're in right now. There were a lot of things from a business perspective, from a portfolio perspective, from an educational, philosophy, intellectual perspective and from a tribe perspective that we changed coming out of 2008. As the light bulb was slowly going off from 2008-2009, up into 2012. In 2012, because Robert and I do this annual investor summit for 17 years on a cruise

ship. This year we couldn't go on a cruise ship, so we did it online, which was good, but it wasn't as great.

Next year, we're doing it at a tropical resort. We don't have to get on a cruise ship, but we are going to travel. In 2012, that was the first time we brought in the big guns. Robert Kiyosaki and his entire team of advisors came and G. Edward Griffin came. The focus of that one was really understanding the role of the Federal Reserve. It was amazing. I found myself sitting on a panel to talk about the Fed. On my right-hand side is G. Edward Griffin. On my left-hand side is Robert Kiyosaki. I'm like, "How did I get here?"

The following year, we had Peter Schiff for the first time. Mark Skousen, one of the 20 most influential economists, living economist, and a guy named Bob Murphy, Robert Murphy. Three top-notch economists. We really were talking about what was going on in the economy. Then every year after that, it just got better and better and better. That's a big part of it. You surround yourself with the right people, listen to people outside the echo chamber of real estate, look at what's going on not just in your silo, but from a 360. I think real estate investors tend to think that they're isolated.

To a large degree, they are from a lot of what goes on in the world. Stuff that happens at the macro does trickle down into wall street. Sometimes it comes down in a tsunami. I think again, that's what happened in 2008, which was tiny, tiny, tiny compared to what's happening right now.

[00:14:35] WS: Well, let's dive a little more into what's happening now and coming up. I know, even before we were recording, you mentioned real estate is the right answer most of the time, but not all the time, and just thinking about the times right now that we're in. I'd love for you to elaborate more on that about just right now what you see – and from your just great experience from 2008, or maybe it wasn't so great then, but obviously you've learned so much from that and now you've surrounded yourself with other people that are ahead of you. What do you see now and moving forward?

[00:15:03] RG: Well, I think one of the first things that I learned was the importance of understanding the mechanisms of the macro. That is just so that you can see. I don't know if

you're old enough to remember, but I actually have this sitting in my studio here, the old board game Mouse Trap. Do you remember that? Have you ever seen it?

Okay. For those who don't know, it's not a digital game. It's a board game and then you construct this really elaborate mechanism, where you put a little steel ball in motion, it goes down a track, it hits a lever that kicks a boot. All these things occur, this chain reaction of events that culminate in this little trap falling down on the unsuspecting mouse. Well, think about yourself being that unsuspecting mouse, this real estate investor syndicator running around in the marketplace, nose to the grindstone, managing deals, managing cash flow, negotiating, blah, blah, blah, dealing with all the things we deal with, not seeing the big picture.

Meanwhile up there, this chain of events has begun. In this case, there's a four-part, what I call a four-phase cascading crisis that we're in the middle of. I think now that we're even this far into it, it's pretty clear where we're at. As soon as Chris Martinson called me and said, "Hey, have you been paying attention to this COVID-19 thing?" I'm like, "No. I heard just a little bit about it." He goes, "Well, pay attention to it. It's going to be big and get ready." That was back in January.

That's the advantage when you're plugged into the right people, they see things because they're perched on a corner of the economy and the ecosystem, if you will, that you're not. They see things that you don't. If you can think of your life like being in a little fortress and you're trying to shelter yourself from outside stuff, you can't be at every corner of every wall and see everything that's coming. He was watching that. He called and he said, "Hey, this is going to be big."

The next question out of my mind and mouth was like, "Well, okay. What happens next?" Well, it became pretty clear. They shut the economy down. Well then, it was easy, because learning the lessons from 2008. Here's the way it works, Whitney. It goes health crisis, and the reaction to the health crisis is an economic crisis. The lockdown created an economic crisis. Economic crisis being defined as the cessation of commerce. It's like having a massive heart attack. Your heart is no longer pumping, the blood is no longer flowing. In this case, currency is no longer flowing through the economy.

Then what happens is in the organism, you have cells, individual cells, people, and you have collections of cells, organs, that begin to fail because they're starving and that's what's going on.

I mean, Hertz, all the retail bankruptcies. Men's Warehouse just went bankrupt. I mean, retail was already in trouble. Those with compromised systems, those people who were already had flawed business models, hadn't changed with the time, those who had loaded up too much on the free debt thinking, "Hey, what kind of a scenario are we going to have where there's no income?" I don't know if you read what the CEO of Hertz said at her earnings call, when they were basically telling everybody they were going to declare bankruptcy.

She goes, "No business is built for no revenue." Cash reserves, you have prudent cash reserves based on reasonable expectations of declines in revenue. But like me in the mortgage business, I wasn't geared for a complete cessation. I mean, I didn't expect to go from six figures a month down to zero. I thought, well, if I have 30% pullback, I'll be okay. I have 40% pullback, I'll be okay. From a 100% to zero, well that's what's happened to the economy. So many, many businesses have gone.

The longer we stay shut down, just like the longer you stop breathing and your heart's not beating, the more likely you're going to get permanent damage. That's number two. Number three is when you stop the cash flow in a debt-ridden society, debt starts to go bad. That's a threat to the financial system. People hear the word 'financial system', they don't even know what the financial system is.

The financial system is basically the credit markets and the banks, which are a subset of the credit market. The bond markets, if you will, and the banks. In order to prevent a complete collapse, and that's what we had in 2008. If you remember, you had just a small corner, a very small percentage of people out there, subprime mortgage borrowers who defaulted. When they defaulted, it took a very small number of these little esoteric mortgage-backed securities to go down in value, because they weren't performing as noted. The value, because as you know, just like an apartment building, if a cap rate is a certain – the market's expectation is a certain cap rate, say 5%, and your income goes down. Then if people are only willing to pay 5%, then your price is going to go down by definition. Hopefully, your listeners understand.

That's the same thing true in the bond market. If you understand the relationship with price and cap rates in multifamily, or real estate investing in general, then you should understand the inverse relationship between yields and bond values. The problem is is we think of debt when

it's on our balance sheet as a liability. People who buy debt and invest in debt, that's an asset. These big firms are sitting there, like Lehman Brothers with all of these bonds on their balance sheet as assets, and under mark to market accounting rules, when the income streams start to fail, they have to mark them down.

Well, the problem is they've hypothecated all these things, which is a fancy word for saying, they borrowed against them. They pledged them as collateral. When you pledge collateral in the paper markets, unlike when you pledge collateral in the real estate market, if the value of the underlying collateral drops, you either have to bring in more cash, or face a margin call. When there's not enough cash in the system, just like we have today and that's why the Fed is printing so much of it, then you have to sell. When you have to sell, then that adds more supply in an already suppressed market and it begins the death spiral.

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Eventually, the market went no bid in 2008. The bond markets collapsed. What the Federal Reserve had to do was print almost 4 trillion dollars and Hoover up all those toxic assets and bury them, like The Incredible Hulk eating a nuclear bomb and sticking them on their balance sheet to protect the rest of the financial system from it. They had to print 4 trillion dollars to do it. That's the last time, by the way, if you recall that gold hit its all-time high of 1923. Gold being an indicator of the relative strength of the dollar. If you want to know how the dollar is doing, don't look at the dollar index, look at gold.

If gold is going up in dollar terms, it really means gold didn't move, but the dollar is falling. That's what's just happened. I mean, as we're recording, gold, it punched through the 1923 all-time high on July 27th, like it was Superman punching through sheetrock and then it just blew through the 2,000 level and went clear up to 2050 and who knows where it is by the time this gets broadcast. The point is that that's the third phase, is this system. Of course, banks are lenders too and banks have the same problem. There's a lot of printing going on. This sets up the fourth crisis. Again, just to just to reiterate, you got the health crisis and the lockdown, which triggered an economic crisis, which has set off a financial system crisis. To prevent a collapse of the financial system, the federal reserve, they took their balance sheet from 3.7 to over 7 trillion, nearly doubled it in the first 90 days of the crisis.

Gold market is telling you, this time the market's not buying it. Last time, gold came back down because the Fed said that they were going to tighten, they were going to raise interest rates, they were going to normalize their balance sheet, but they couldn't do it. This time it's even bigger. If they couldn't do it before, how are they going to do it this time? Well, the odds are they're not and the precious metals market is telling us that the market is not buying it. The dollar crisis is the last stop.

Now most of the world knows how to think about gold as an alternative to dollars. They know how to think about other currencies as an alternative to the dollar. Americans are unique in their ignorance, because Americans tend to only think about the world in terms of dollars. They value everything in terms of dollars. It would never occur to them to hold another currency. Most people don't even understand the difference between money and currency, or the role of gold, or what the role of gold was, or a lot of people your age don't even remember that we used to carry silver coins around.

When I was a little boy, when I got a quarter or a dime, it was made of silver. Today, not so much. The world has changed. If you look at the history of the world and the role of precious metals as money, not just currency, but as money, we're in an anomaly for the last – since 1971. It's the only time in human history that precious metals haven't been money. I think that experiment is about to end in not a good way for people who are only dollar holders. That's probably the biggest thing to be paying attention to right now and the biggest paradigm shift. I think most Americans need to make and they need to make it fast.

[00:24:36] WS: Can you speak more to just structuring for that storm that's coming? As an operator, or a passive investor, some things we should be thinking about pursuing real estate or not right now.

[00:24:49] RG: Yeah. Well, I mean, I think first of all, real estate is what I call real and essential. Anything that you're going to invest in going through these tumultuous times, especially if we have a long-lasting recession depression, then the only thing that's going to stand is stuff that absolutely people need. People need housing, people need food, people need energy. I would say, anything related to distribution, because whether it's made in China, or made locally, it's got to move from point A to point B, to get from people to market. I mean, the wild card on that is I

guess, if we invented some 3D technology, where you could print everything you needed at home, you no longer needed to call Amazon, but I don't think that's going to happen, just like I don't think they're going to invent a technology that's going to have people not wanting a roof over their head.

I personally think of in the real estate space, residential is probably the best place to be, because we're finding that the need for retail can come and go, even the need for office can come and go. I would say, distribution, industrial, that type of property probably okay. Agricultural property, great. Anything that is located in a geography related to energy development is probably going to be pretty solid. Distribution towns, energy towns. Again, notwithstanding the current weakness in the energy field. I think that's temporary. I think the world is going to stop needing energy and there's no viable alternative to oil out there right now.

The fact that there's a glut, it's a temporary situation, and it's driving a lot of oil production offline, which means at some point, we're going to have shortages and prices are going to go up and drilling will come back online. Those are all things need to be paying attention to.

The other thing that's great about real estate in particular is that if you use debt and you should, real estate is the best vehicle for going into debt. Debt is effectively a way to short a falling dollar, because you're borrowing tomorrow's dollars today and you're buying an asset at today's price. Then you're going to pay the loan back with cheaper dollars down the road. Inflation, which is the Fed printing money, is specifically designed to lighten the load of debt. Even though it sounds counter-intuitive, like I should get rich by paying off my debt, that's actually backwards, because we live in a bizarro world, where sound money doesn't exist. What exists is debt and inflation. You need to be short the dollar.

The only other thing I would say, my favorite strategy right now is take advantage of the long-term interest – the low interest rates, lock them in long time term on the properties that you want to keep, jettison all the properties you don't want to keep and extract as much equity as you can while it's there and get it liquid. Then use a little arbitrage, which means borrow out at say, 4% and then loan half the proceeds out at 8% against collateral you would be happy to take and would cash flow at at least 8% or more if you had to take it over.

In other words, even though you're long the dollar, you're very well protected against deflation, because you've got good protective equity. If you've made a first position note on a income property, where someone's put 30% or 40% down, you can absorb a 30% to 40% decline before your principal is at risk. Of course, if you've underwritten the deal properly, it's probably going to have enough cash flow. If it would satisfy your note rate with the owner involved when you become the owner, it ought to be even better than that.

Now you've handled your cash flow problem, because I borrowed at 4, I invested half at 8. The other half is free and clear. Now I can split that up between cash outside the banking system, so I'm separated from counterparty risk and banking collapse and bail-ins, which is something people should be aware of. Then I can put the other half in precious metals, which means I can pivot into any currency. If the dollar collapses, I'm covered. It's a very simple strategy. I call it precious equity.

In fact, I'm doing a tutorial on it right now, depending on if people are interested and they can send an e-mail to precieusequity@realestateguysradio.com. Either it'll be released, or it'll be about to be released, and as soon as it is, we'll let you know. It's a simple strategy. I taught it at the Future of Money and Wealth Conference in 2018. Of course, gold back then was \$1,200 an ounce. People that did it, happy, happy campers.

It's a way to convert your real estate equity into something safer, more liquid, more private and it doesn't change your balance sheet at all, and it insulates you from a falling dollar, so you become double short the dollar. With more debt and precious metals, you retain the upside and the cash flow and the tax breaks on the real estate. In today's environment, I think of course, nobody knows what's going to happen, but I think that that's probably a strategy that's going to have more things that are happening work in your favor than against you.

[00:29:41] WS: Wow. Well, I'd love to have you back some time and let's talk about that specifically. I know you've given us so much information so far. I'm going to go back and listen to this again myself. Just a few final questions, Russ. I'd love to know just from your – just array of experience in this business and in the syndication business, what's been the hardest part of the syndication process for you?

[00:30:01] RG: I guess, to me, I mean, where I'm at is I'm an evangelist for syndication. The challenge is when you're recruiting people to come into the business as syndicators, there's really two groups of people. There's good people, who are so deathly afraid of doing a bad job and losing people's money, that they don't get in the business. Then there's the sociopaths, who could give a rat's rear end about losing people's money. They do get into the business. The problem is they get in the business for the wrong reason and they conduct bad business, which ruins it for everybody else.

I really want to encourage you. If you're out there and you're a project manager, you're a salesperson, you're an executive and you know how to build teams and get things done, if you're an active real estate investor and you know how to find deals, whether it's flipping where you know how to do value-add, or whether you build stuff from scratch, or whether you're just a great operator, property manager, somebody that really understands how to generate predictable cash flows and keep a tenant base happy in good times and bad, then take your talents and go share them with people, because there's been a lot of money printed.

Most wealthy people default to Wall Street, because they've been brainwashed that buy low, sell high is investing. It's not. It's gambling. Cash flows, that's investing. Accumulating the efforts of others, that's investing. That's what you can help investors enjoy. Learn how to do the business and get into the business and do it with mentors. Do it as part of a community of people who are like-minded, who will help you, so that when you get stuck, when you get in over your head, when you have a problem and you don't know how to solve it, you quickly can get to an answer from somebody qualified to give you the help so you can solve the problem and move on and do a good job for your investor.

I would rather have a good, moral, skilled business person who doesn't understand that much about syndication and come in and have them learn syndication, then have an immoral person come in, who might be great at all the components of it, but won't really look out for their investors. To me, getting good people in the business and keeping bad people out is the biggest challenge. It's what we dedicate a lot of our time to in our program.

[00:32:13] WS: What's a way that you've recently improved your business that we could apply to ours?

[00:32:17] RG: I think that I read Gary Keller's book, *The One Thing*. He said that wake up every day and ask yourself the focusing question, what is the one thing that by so doing, it'll make everything else I need to do either easier or unnecessary? If you follow Robert Kiyosaki and you understand the cash flow quadrant, you know he's got E's, which are employees, people who work for other people. S's who are one man or one woman bands, self-employed people who own a job, but still have to do the work trading time for dollars. Then B's, who are true business owners. These are people who build teams and create businesses that function autonomously from their ownership, the way you like to have your real estate, like the reason people would want to invest in a syndication. I don't want my money to work. I don't want to work or get my hands dirty.

Well, you can have the same thing in business. For me, I had a sad situation five years ago. My wife was diagnosed with stage four cancer. Pretty much, I was a one-man band trying to force everything down to the bottom line. When she got diagnosed, I realized I needed to increase my income and I needed to decrease how much time it took me to do it. When I locked myself in the room with Keller's book, came out nine hours later, I concluded that I needed to design and build a model and build a team. Then my one thing to do that was somebody onboard who could do that.

The single most important thing I think anybody could do to fortify their business, if they're a visionary, is to get somebody that is an implementer; somebody that is going to be an executive, who's going to build it while you go do your deals, or build your strategic relationships, or be your brand ambassador, or whatever it is you're going to do. Then make sure that every vital function is funded in your business model. That's really important when you're putting together a syndication, if you're an operator out there, don't just put yourself in and say, "I'll do that for free," because now you become a choke point. If you triple or quadruple your business, you can't grow.

Everything has to be organized to scale, which means every vital function needs to be funded in every model and every vital function needs to be redundant, so that if somebody goes offline, gets sick, quits, has a bad hair day or whatever, then your machinery keeps working. You have to get to a certain level of scale to be able to pull that off. The good news is and syndicators

[inaudible 00:34:42] out there and largely unlimited opportunity, although it's always harder to find deals and it is money, but I think there's going to be some deals coming in the near future.

[00:34:51] WS: I believe so.

[00:34:52] RG: Organize your business properly to scale. I think that that's really be a true business person.

[00:34:57] WS: Is there a resource that you found to help you to do that? I've found a lot of people say, "Oh, I want to scale, but I don't know how to put those systems in place. I don't know who I should hire next, or I don't know what I should do."

[00:35:08] RG: Yeah. We ended up, we started with a couple of consultants and then ultimately, ended up with a company called Organize to Scale. I don't even really have any employees. Everything is – she does everything. Organizedtoscale.com, that would be a place to go. Specialize is actually working with syndicator. She does a lot of work with our members of our syndication mentoring club. That's a place.

I think in terms of books, there's a couple of books that are really good. One is by Verne Harnish called *Scaling Up*. There's some really good stuff in there. Another great book is called *Traction* by Gino Wickman. It talks about EOSC entrepreneur operating system. Those are two different ways of just getting your head around the concept.

The other one is an oldie, but a goodie, which is *The E-Myth* by Michael Gerber. I think once you have your mind around either one of those two books and *The E-Myth*, you get a picture in your mind's eye of what you need to go do. Then I think the big thing is just being honest with yourself about your strengths and weaknesses. There, I would go to what I – Jim Collins' book, *Good to Great*. Instead of adopting the hedgehog concept as an organization, adapt it to yourself. Figure out your sweet spot. It's the Venn diagram, where you have the three intersecting circles; one is what you're passionate about, what you really enjoy doing, one is what needs to be done in your business model. Then the third one is what you are really good at.

Then what you do is you figure out what fits in, where all three of those come together. Those are the things you're probably going to hold on to the longest. The things that need to be done that you're no good at, you need to delegate right away and get out of that seat. The things that you're good at and need to be done, but aren't passionate about, you'll probably want to hang on to a little bit, until you get rid of the other stuff and then take the time you saved and delegate that out to someone. Then ultimately, for the sake of the business and this is the hardest thing for someone to let go, if you got to let go of the things that you're really good at and you're passionate about that really need to be done, because you're not truly free until you get those off your plate too. Doesn't mean you don't stay in the business, but at least have an understudy.

[00:37:20] WS: Wow. Well, how do you like to give back?

[00:37:23] RG: Well, I mean, I think if you do your business right, your business is giving back. Since I didn't take, I'm not sure that giving back, I always struggle with that word. I'm like, okay, if I give charity and if I give to a homeless person, what am I giving back? I didn't take anything from him. To me, I just love to teach. To me, that's it. I'm trying to make the world better. The business is not about making money. We monetize the mission, but it's about the mission. My personal mission is to empower individual freedom through financial education for effective action. The motto at the Real Estate Guys is education for effective action.

We teach things that we feel like we're qualified to. We aggregate teachers to teach things that we think need to be taught that we're not qualified to teach. Then we work to monetize everything in a way that is high-value. We survey all the time to make sure that people are getting value. Of course, the repeat business and the referrals and the growth tells us we're on the right track. I guess I mean, in terms of just pure giving, I don't know that it would be considered giving. I have a cause that I believe in, so there's a business. I won't mention it, because it's my personal thing, but I buy things I don't need and join programs that I don't necessarily need, but I want to see the businesses survive.

I'm a pretty generous tipper. To me, if somebody's out there at a working class level, the types of people that are our tenants and they're hustling and they're doing a good job, where somebody might throw down a couple of ones, I might throw down a couple of 20s. People say, well yeah,

that's over the top. Yeah, I know. It means a lot more to them than it does to me. It's easy to do and it's direct intangible.

I've been burned giving to charities in the past that I didn't really know and understand. I even served as a treasurer on a charity one time that I loved and respected. But when I found out that over 50% of their contributions was going to the landlord, I'm like, "Well, this isn't really affecting the mission." I helped end up buying the building and turned it into an investment. That was a whole different story, which was meant – I syndicated it, by the way.

[00:39:27] WS: I meant to ask you as well and I skipped the question, but just the number one thing that's contributed to your success.

[00:39:32] RG: Gosh, I don't know. I would have to say being self-educated. Taking personal responsibility for my education. I was too ambitious and impatient as a young man to go to college. I tried. I took one class and hated it. Quit, and then went and bought a house and started a business and sold them both by the time I was 20-years-old and did well. Then decided I wanted to go play football. I went back to college so I could become a football coach, but I just – we had a recession and my business wasn't completely independent of me yet, so I quit. I never bothered with college, but I feel like because I'm just a voracious learner.

I just don't think you can ever stop learning. I think put a lot of effort into that. I would say, you know what? I mean, that was probably a little bit self-centered. I would say, tribe. Put yourself in the right room with the right people. They'll pull you along. That's even more important, because you'll learn from them by osmosis. Make a real strategic concerted effort.

Kenny McElroy, who I'm sure you know, Kiyosaki's rich dad advisor for real estate. If you ask him what's the number one thing you can do to change your life, he'll say change your crowd. Change the people you hang around. Jim Rohn says, you become the sum total of the five people you spend the most time with. If you want to do a SWOT analysis on your life, take a look at the five people you spend the most time with and ask yourself, "Are they pulling me up? Are they pulling me down?" If they're pulling you in the wrong direction, then your job is to find a better crowd. Sometimes that can be hard.

[00:41:04] WS: It can be very difficult. No doubt about it. About life changing. That's for sure. Russ, I cannot thank you enough. I'm grateful and honored to meet you and have you on the show, and just grateful for your time. Tell the listeners how they can get in touch with you and obviously, learn more about you.

[00:41:20] RG: Well, I mean, I think the best way, if you send the e-mail to Precious Equity, you can get involved in that preciousequity@realrealestateguysradio.com once you're on the list. The easiest thing is just send an e-mail to newsletter@realestateguysradio.com. I put out a weekly newsletter every time we do a podcast, which is once a week, we'll send you an announcement. Anything that we do, we'll tell you about. You can always unsubscribe if you don't like it, but that's probably the easiest thing. Of course, realestateguysradio.com right behind me.

[END OF INTERVIEW]

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[OUTRO]

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