

EPISODE 931

[INTRODUCTION]

0:00:00.0 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]

0:00:24.4 Whitney Sewell: This is your daily Real Estate Syndication Show. I'm your host, Whitney Sewell. Today, our guest is James Dahle. Thanks for being on the show James.

0:00:32.0 James Dahle: Thank you for having me on.

0:00:33.0 WS: James is a practicing emergency physician who founded the White Coat Investor in 2011 to help doctors get their fair shake on Wall Street. He personally uses a portfolio of stock and bond index funds, real estate and small businesses, a reasonable locals portfolio if funded adequately, can help any investor to reach their financial goals. James, thank you. Or do you go by Jim? Shall I call you Jim?

0:00:57.0 JD: Jim's what I usually use. That's great though.

0:00:59.8 WS: Alright Jim well.

0:01:00.4 JD: The credit card companies certainly call me James.

0:01:03.0 WS: So you know who it is when they're calling. Right. So Jim, welcome to the show, grateful to have you on and just your expertise with a lot of interviewing investors as well, and people that are assessing deals and their portfolio and helping other investors think about their portfolio. Why don't you elaborate a little bit on what the white co-investor is and how... Let's get into how you use real estate as part of your portfolio as well.

0:01:26.7 JD: Sure, well, the White Coat Investor was founded in 2011. At that point, I was about five years out of my residency training, but I discovered about halfway through residency that I'd been ripped off by about every kind of financial professional there is. Realtors, appraisers, recruiters, insurance agents, financial advisors, and I just decided as a dock, I was just gonna be continued to taking advantage of... For my entire life, if I didn't learn something about financing investment and business.

So I kind of embarked on that process starting about halfway through my residency, and after a few years of reading books and interacting with people online and reading blogs, I realized I was doing a lot more teaching than I was learning, and that nobody was teaching this stuff to doctors, so in 2011, I found at the White Coat Investor is originally a blog and rapidly grew because there's really nobody else teaching this stuff to doctors and similar high income professionals.

And so now it's a podcast and a video cast and an annual conference and online courses, and I've got three books out, and it's kind of a multi-media empire, if you will, that's entirely focused on helping doctors to get a fair shake to understand the financial world become financially literate and be connected with the good guys in the industry...

0:02:40.0 WS: No, that is awesome. It's great to have a place like that to go to and you have questions about these things, especially I can imagine, especially if you're a new doctor, you've been entrenched in school for a long time and you're getting maybe your career going. It's hard to know who to trust when you're thinking about, Okay, now where to go to get guidance on investing, so why don't we jump in a little bit to how you help people think through their portfolio and how they use real estate as part of that?

0:03:03.2 S1: Sure. When I started investing, probably my first real estate investment was a simple real estate investment trust index fund, just going to Vanguard by in the red index fund, and a lot of people do write it as real estate flavored stock, but it certainly gave me some real estate exposure. So for a number of years, that was my only real estate investment. The next real estate investment I had is what a lot of people have experienced, particularly if they bought a home any time in the 2004 to 2007 range, is I became an accidental landlord.

I had to move away and could not sell the home for any reasonable price and ended up renting it out, and obviously when you fall into an accidental landlord kind of situation, you don't usually make money, you're usually just trying to lose as little as possible and it wasn't very fun. I was managing a rental from out-of-state, trying to hire good property managers, which is always a struggle, especially when you're out of state and eventually sold nine years after buy in the home still at a loss.

And I didn't have a great experience, I didn't really enjoy it, I didn't think I was particularly good at it. And so I resolved, well, if I'm gonna do real estate, I think I'm better off putting my active efforts into my practice, into my side business, the White Coat Investor and sticking with a passive method for investing in real estate, but I became interested in private real estate, both syndication and funds, just because of the benefits you can get there, that you can't get in the public real estate market, and so I now have about 20% of my portfolio in real estate. And it's certainly much less, I think, than a lot of your listeners probably. And many of your guests.

0:04:41.0 WS: They're all probably what?

0:04:43.4 JD: I want... Yeah, only 20%. They're probably thinking, I'm 80%, not 20%. And that's fine. I think the key is to pick something reasonable and stick with it in the long term, because every asset class is gonna have its day in the sun, so I invest in stocks and bonds, both of those primarily through a low-cost, broadly diversified index funds, a number of small businesses that I have significant control over. And then of course, the real estate that's pretty much all passive at this point...

0:05:09.9 WS: Okay, no, that's interesting. Help that doctor that's listening right now and he's thinking through their portfolio and making that investment, or why should they have real estate in their portfolio, how do they decide how much... I just receive a question not too long ago about how much of my portfolio should I be investing in real estate? And obviously, it's so different per individual, depending on your risk tolerance and where you're at in your investing journey and how much you want to invest on all those things, but how do you guide somebody through that process?

0:05:37.0 JD: Well. I think probably the biggest mistake I see people primarily focused on real estate make is they don't have a background in portfolio construction. They don't ever look at correlations between asset classes, returns, how these different asset classes interact together, and so I think it's good to have that understanding, even if your focus is primarily real estate. What you're looking for when you add an asset class to your portfolio is you want high returns and low correlation with everything else.

That's what gives you the best portfolio risk-adjusted returns, and so real estate meets that requirement for me to add to my portfolio as high returns, un-leveraged their stock like leverage, they're a little bit higher, and it has a pretty low correlation with both stocks and bonds, so that's the main attraction to it. Now, there are some other attractions to it, a lot of people like it, because the income component of the return tends to be a relatively high percentage of the return.

For example, if you buy a stock, you might have a 2% yield on it, even though the returns 10%, you might have a 10% return on real estate, but the yield might be 7%, so for those who prefer more of the return coming as income, real estate can be very attractive to those people, but for those of us in the accumulation phase of our lives, that's not necessarily more attractive because it can be more tax inefficient than getting those gains as capital gains down the road.

So that really has to be applied to the investor, another great attraction for it is compared to other asset classes, the risk of leveraging it is much lower because you can typically get fixed

rate, low interest rate, non-fallible leverage when you're investing in real estate. And if you wanna do that, you can borrow against your house and buy stocks and get that, but if you go to get a margin loan, you can get a low rate these days, but it's essentially callable.

You're to margin calls and so... And the best you can really get is 50% leverage, whereas in real estate is relatively easy to get to two-thirds or three-quarter leverage, 80% leverage maybe without having to worry about having that debt call, so those are some of the attractive aspects of real estate, a lot of people that are investing outside of retirement accounts love equity real estate, because the depreciation gets passed on to you, so that income is tax sheltered in that way, especially if you're directly investing and you can exchange from one investment to another and never have that depreciation recapture.

That's obviously a huge benefit, but those are the main things I think that attract people to real estate, and I don't think this is a mystery to most of your listeners, I think most of them are aware of those benefits of real estate already...

0:08:13.9 WS: Yeah. No doubt. What would you have done differently though, knowing what you know now, is there anything you would have done differently as far as investing in real estate back in 2011 when you started this?

0:08:22.7 JD: I don't think I necessarily would have, and the reason why is that I think private real estate, it requires you to be an accredited investor, which the definition for that has not changed in a long, long time. The requirement is either 200,000 dollars a year in income, 300 together with your spouse, or a million dollars in investable assets. And frankly, I think that should have been increased with inflation. I would double those numbers, number one, and number two, I would require both of them.

Not just one of them, because a doctor with an income of 220,000 dollars might have a net worth of minus 400,000 dollar ,including all their student loans, they might have a portfolio of 20 grand and they're considered an accredited investor, and they have no business whatsoever getting into private investments that require accredited investing status, they're just not ready

yet.

They're not in the financial position where they are financially sophisticated enough to evaluate the investment and where they can suffer through years of liquidity and where they can suffer a major loss if things go bad, and so I think in 2011, I wasn't in a position, I think, where I had any business getting into private real estate that had 100,000 dollar minimums or 200,000 dollar minimums, I just wasn't there.

And so I don't really have a regret that I didn't add it until later to my portfolio, I think it would have made for a pretty non-diversified portfolio if I had an additive back then I just needed to acquire some more wealth and income before doing it

0:09:52.1 WS: What should that... A doctor or young professionals, Personal Finance, look like before investing, some of what you just mentioned?

0:09:59.0 JD: well, this is the big dilemma right? Is, well, what do you do then? 'cause you look at your other options, one option is simply not to touch real estate at all, stick with stock and bond index funds until you build some more wealth, now you can include some reits index funds and get some real estate flavor to your portfolio there. Another option is to invest directly. Go buy some rentals, so that's an option.

The other thing you can do that's maybe not as attractive is go through some of these online crowdfunded platforms that will allow you into syndications or maybe even funds for 5, 10, 20,000 dollars. The problem with that approach is that you generally get less experienced syndicators going to those platforms to raise money, the more experienced ones tend to have their own network of investors that they can go to and that can write 100,000 dollar, 250,000 dollar checks to them.

And so I think you're not getting maybe the same quality of investment there as you might otherwise... Now, I did that for a few years. I actually did pretty well, but I had a lot of people I knew that were doing the same thing that had a number of investments go bad and were really

kind of soured private real estate, and I blame a lot of that on just the structure of the deal, the people that go through the online sources where you can get in with relatively low minimums and still have a diversified portfolio, but maybe you're not getting the same quality of investment...

0:11:23.7 WS: No, that makes a lot of sense. Yeah, that is a common question like, Well, how do I get started, right? Where do I start? And that is an option for often a lot of people, when you start considering the smaller portion of your portfolio that you're investing into real estate or syndication, things like that, how are you choosing that operator, like you just mentioned, that you're going to place that capital with.

0:11:44.5 JD: Well, I think that's exactly the right question, because the key to any investment is the operator, it's not the deal, a good operator can save a bad deal, but a bad operator can screw up a good deal, and so I think what you're looking for is not to find 50 operators. I think you're looking for a handful of operators, maybe if you have investments on the equity side and on the debt side, maybe a handful on each side of operators that you trust, that allows you to diversify the portfolio while having a relatively low number of investments.

So you don't have a massive hassle, a massive complexity issue in your portfolio. So how do you find them? Well, it's relatively easy to find operators, the tricky part is finding good operators, and so I think you're looking for experience, you're looking at track record, it's relatively easy to vet people online, you can certainly do the cheap man's background check, you can Google their name with the word scam, crime, indictment. Those sorts of things.

You can do a formal background checks, there are a lot of services that will do that for you, there are a number of investing groups that kind of pool their resources together and share their investing stories with any given operator, and so I recommend you look across all that and see what kind of experience people have had and then talk to them personally...

No, I don't necessarily think you have to fly out and meet them and walk the properties, but I do like to get them on the phone and talk to him personally and have a relationship there with

the operator. So I think those are the main things. Obviously, you wanna look at the deal, I think the best operators are very confident in their abilities, and so they don't mind things like for example, one fund I'm invested in, you get your entire preferred return before they get their fee.

And so I like seeing that because I see them putting the investor first, which gives me a lot more confidence to not only stay in that deal, but to look at them for the next deal.

0:13:38.5 WS: Wow. So that's an interesting structure, so they're not paid until you get your entire preferred return for the life of the deal... Is that what you're saying?

0:13:44.3 JD: That's right. Well, the entire preferred return each year... Okay, okay, the particular fund I'm thinking about is a debt fund, it has a 10% preferred, and then the operator makes 1% plus 20% of everything above 10%, and so it's a very fair waterfall structure and a very rare one. I don't see that as I look across a lot of deals, a lot of people get their 1% and then you get your preferred return.

And then you know you have to promote above and beyond that, but I was pretty impressed when they said, you know what, we're so confident in what we're doing here that we're not gonna get paid until you get paid, and I found that that sort of behavior very attractive among us indicator or a fund manager...

0:14:20.7 WS: For sure. Anything else that you... When you're having that phone call or anything else that stands out to you about specific operators that are like, Okay, you know, this is one that I'm gonna go with, O mean, I just get questions all the time, like how do I get that operator? And I always say their character is the operator, like you said, early on, is just paramount above everything else.

You wanna ask about track record and deal and market, all those things, but man, you gotta know who this operator is, and I always say you gotta feel good about them when times are bad, what, what's gonna happen? How are they gonna treat you as the investor and how do you figure that out?

0:14:52.8 JD: Well. I think one of the things that comes with being in the business for a long time is some experience that you maybe don't have if you've only been investing in a bull market, for example, a different fund... I was talking to a fund manager, I don't know, a year ago or so, about what happens when the fund goes bad. This was also a debt fund, and in the end, we agreed that the debt fund becomes an equity fund as the borrower start mailing in their keys.

And I wanted to know what experience that operator had with managing equity, could he complete the deals and sell them off if we had a 2008-like scenario? And so that's what most of our conversation was about, was his experience doing that, basically exploring what happens in the worst case scenario, what's gonna happen to my investment, what should I expect, how much worse is the liquidity going to get, how much worse are the return is going to get?

Is this whole thing just gonna blow up or you're gonna be able to muddle through and give me something back? and so I think that's probably an important place to focus, we always like to look at the projections and the proformas and imagine how wealthy we're gonna be in five or 10 years, but the truth is, investing is mostly about risk control, and so that's really where you need to focus when you're selecting operators, how good are they gonna be at controlling the risk, and it's really when it shows up, if you're an investment for 10 years. It's going to show up. It's just a matter of when...

0:16:12.0 WS: So on that same line of thought there, you're having that conversation with the operator, how do you determine just their preparation or their ability to... Well, walk through a downturn?

0:16:22.0 JD: Well, I think what I like to see is somebody that has been through a downturn and hear about what they actually did. Now, the further we get out from 2008, the harder that becomes to find a lot of operators had some struggles in 2020, publicly traded real estate actually had a loss in 2020, and most people had some struggles whether it was finding deals

or they just held on to cash 'cause they didn't know what was gonna happen, and so most dead funds had lower returns last year than they have in the past.

And equity funds might have had some issues collecting rents and keep an occupancy up or whatever, but I don't know that 2020 was really a good enough test of their ability to manage a difficult time, and so I'm really looking for people that maybe this fund didn't exist in 2008, but I'd like to see that they were in the industry in 2008 and hear about what they were doing and what they learned from that, which is unfortunate for those who were just getting into it, right?

If you're young and you just haven't been in it that long, you may not have that experience, and so you have investors that are maybe not as interested in investing with you because of that, and I don't know how you overcome that as an operator, but that's not my problem as an investor... That's your problem. As an operator.

0:17:31.8 WS: Yeah, no, that I tell that operator, don't give up, you can find investors that will invest with you after you build the trust and your ability and maybe partner with that operator that Jim's talking about, that's been in the business and has a lot more experience is one way as well, and what about communication from the operator or anything else like that that stands out to you from some of the best investments that you've made, we're just... We're just always trying to improve just everything, we're doing everything that an investor touches their entire life cycle with us, we were just always trying to improve it.

So I've just taken in... Every time I talk to investor, I'm like, What have you seen in other parts of the industry, what would you like us to do better, so what have you seen that has really stood out to you from the operators you've invested in, it's like, Man, I really like this or I'm not such a big fan here...

0:18:18.2 JD: Well, I think communication is one of those things. It's very individual, and you want to match yourself to an operator that communicates in the amount and way that you prefer, for example, a different fund, an equity fund that I'm invested in, they do webinars every month about the investment, I don't wanna go to webinar every month about my investment,

I'm investing passively for a reason.

I wanna hear about when things are going bad, when there's a problem, I wanna hear about it frequently when things are going fine, shoot me an email every now and then, and I'm good. Once a quarter, an email that's all the communication I need. But what I've discovered among my listeners and readers, my audience is I have a number of people, they get really uncomfortable if they haven't heard from the manager in the last month, and they're like, oh, it's this guy absconded with my money.

And they start worrying, they've been Bernie made off or something. And so I think if you are somebody who wants a lot of communication, you need to make sure you're matching yourself to an operator or a fund manager, that gives a lot of communication. The way I look at it is once I bought into a syndication or a fund where I'm basically a liquid for the next five to seven years, I'm stuck.

It really doesn't matter what's going on, I can't get out, and so I don't need to hear from you every week, but I would like to know when things aren't going well, you know that's when I want the more frequent communication, and unfortunately, that's when it's most uncomfortable to give it most likely, but when I'm worried about getting my principal back, that's what I wanna be hearing from you.

0:19:42.6 WS: Yeah. Of course, of course. Now is just interesting to here are different opinions about that, but what about any predictions that you have just for the real estate market over the next 6 to 12 months and how you're handling investing in real estate?

0:19:54.1 JD: I have no idea what any market is gonna do in the next 6 to 12 months.

0:19:57.6 WS: Come on...

0:19:58.0 JD: I don't know what Bitcoin is gonna do, I don't know how real estate's gonna do, I don't know what bonds are gonna do, you name it. And so what I've discovered is that I need

an approach that doesn't require me to predict the future in order to be successful, and so what I have done is simply set percentages for my portfolio. This much in debt real estate, this much in equity real estate, this much in publicly traded reits, this much in stocks, as much in bonds.

And once a year I rebalance it back to the original allocations, and that allows me to keep my risk constant and be prepared for whatever is gonna do well in the next year, last year with stocks, stocks and bonds had a great year last year, real estate not so well, hopefully this year, it's real estate, but you see that some of the stock asset classes that haven't been doing as well in the past, maybe international stocks, maybe some small value stocks, you see that basically, the pendulum swings back and forth.

And so if you'll stay in all of these good asset classes for the long term, they'll each have their day in the sun. So if I had to guess, I would guess real estate is gonna have a better year this year than last year. But I'm not changing my portfolio in any way because of that protection.

0:21:06.5 WS: What about any daily habits that you have, that you are disciplined about that have helped you achieve success?

0:21:11.6 JD: I think the only real daily habits that I have that have made a big difference are to start exercising every day. It's amazing how much more productive you are at work if you've actually taken the time to do something physical during the day, whether it's lifting weights or going for a run or go on skiing or whatever, so that's been my latest thing the last year or two is just make sure I'm getting out and doing something.

Most days, I don't know if that's necessarily what you're looking for, I probably would have been something like reading...

0:21:37.0 WS: No, it is. And anything like that.

0:21:39.0 JD: But that certainly made a big difference in my life.

0:21:40.8 WS: No, that's a great tip. I believe that as well. I try to get out every morning and I think it makes a big difference, but what about you right now, you're your best source for meeting new investors, and I think your ... doctors or professionals that are joining your tribe...

0:21:53.6 JD: I don't know that I have... That I've quite figured that out. I've tried to go everywhere to build my audience mostly because I see a lot of people out there that need to help, so I've tried to go in directly to medical schools, directly to residencies, having a big web presence and search engine optimization, so people can find me when they're searching for terms that I write about or speak about.

And then a lot of it honestly has been word of mouth from one doctor to another, from one professional to another. Just spreading the word about what we're trying to do here.

0:22:20.6 WS: What's the number one thing that's contributed to your success?

0:22:22.7 JD: You know, it's interesting, I think business is mostly doing what you said you're going to do, and I think that's a rare enough quality that if you will do that, people will trust you and your brand, whatever it is, your business will build, and you simply gotta do that it's interesting, when I started looking at doing a home renovation, how many contractors out there struggled with this concept that it really does not take much to distinguish yourself from the crowd in that field, if you'll just say what you're gonna do and do it that puts you right there in the top 5%.

0:22:54.5 WS: For sure. Yeah, yeah, most people never follow up. What about, how do you like to give back?

0:22:59.4 JD: You know... More and more as we built wealth, charitable contributions have become a much bigger part of our financial plan, and so every year, one of the more unique things we do is we gather the kids around the table. We typically do this around the first of December and decide which charities we're gonna support for the year, and they each have to

bring a charity to the table and advocate for it.

And so that puts them in the position of having to do some research and making sure the money is not being wasted. And making sure to cause they support, and then we split up the money we have set aside for donating that you're among all these charities. So that's one of the ways we do it. We also put together a scholarship for medical students, we have a financial educator award that we give out to their instructors, and most recently, we actually are trying to give away a million dollars worth of my latest books.

The White Coat Investors Guide for students. So we're giving that out this spring to every first year medical and dental student in the country...

0:23:51.5 WS: Wow. Every student in the country that's an incredible accomplishment right there, or every medical student. Well... Congratulations on that Jim. That's incredible. I hope that just helps to as to so many... They read it right. I think it will change their lives if they can understand some of this early on, but Jim, a pleasure to get to know you better and to have you on the show.

I know you've added a ton of value to the listeners and thinking through investing and working with operators, and even how you were an accident landlord or once a landlord, but just finding that operator and how to think through your value, you said like portfolio construction. I think you called it and thinking through that and broader than just which deal I'm investing, and really thinking through your whole portfolio is important, but tell the listeners how they get in touch with you and learn more about you.

0:24:32.0 JD: Sure, the hub for everything is a WhiteCoatInvestor.com, and there's links there to the podcast and the YouTube channel and our online courses and books and all that, but that's where I start is just go to whitecoatinverstor.com.

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[OUTRO]

0:24:42.5 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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