**EPISODE 1207**

[INTRODUCTION]

**0:00:00.0**

**Taylor Sohns (TS):** The nice thing about an ETF which is different than a traditional mutual fund is it diversifies like a mutual fund does and gives you exposure to lots of different stocks and bonds in a diversified manner, but it also gives you the ability to be liquid anytime you need the money. So, an ETF allows you to buy into it at any point, you can literally buy it at 11 a.m. and sell it at 1 p.m. if you needed the money back. That’s obviously not the intention of the product, but the nice thing about that is when you’re thinking about real estate investing, when an opportunity presents itself, you want to be able to strike when the iron’s hot.

**0:00:31.7**

**Sam Rust (SR):** This is your daily Real Estate Syndication Show. I'm your host, Sam Rust. With you today. Today, Taylor Sohns is joining us. Taylor is the co-founder of LifeGoal Investments, a company that offers Investment Services for the everyday American, together with his brother, Brett, they simplify investing and create products that attempt to meet their clients’ financial goals. Taylor, thanks for joining us today.

[INTERVIEW]

**0:00:53.0**

**TS:** Super excited to be here, Sam, thanks for having us.

**0:00:55.1**

**SR:** Right now, we're dealing with, we’re January 2022, it's a unique time, CPI readings came out last week we’re at 7%, housing, they're saying is only up 4%, I think you and I, and most of our audience recognizes that that's just simply a gross over-simplification and an understatement. True inflation in the housing market is probably closer to 15%, and that's even a conservative number, I know there's a lot of independent statistics, I would say it's over 20%. Where are we at? Why is inflation happening right now? Let's dive in on this a little bit.

**0:01:27.7**

**TS:** Yeah, it's interesting. So, Case-Shiller, which is a widely followed home index price statistic put out in October, which is their latest print, that The ERB year growth and housing prices was 18.4% for single family homes, it's pretty massive, and that's kind of historic move higher in home prices, and really, I think the crux of the problem, you have to look back, and I think there's really two issues that have come together here that caused this massive spike in prices. One's more recent in Covid and technology, and then one is much further back, you have to look back to the great financial crisis of 2008, 2009, so I'll start there and then I'll kind of progress to the first topic there. So, what happened in the great financial crisis and what caused the meltdown in the economy was largely a housing issue. So, back in 2004, 2005, 2006, the housing market was booming and people were building out their second and third homes to flip and make a quick profit. And the difference between then and now is back then, mortgages were very easy to come by, banks would lend to anybody, so you didn't have to have the pristine credit that we have now, so what happened was people over-extended themselves in the housing market, and there was a massive over-built.

**0:02:41.1**

**TS:** And it was building and building and building. And home prices are a function of a supply-demand curve, so what happened was with the over-build became an over-supply, and at some point, the houses went from really, really attractive to they had a tipping point, there was an over-supply, and the housing market came crashing down and the economy essentially became crashing down with it. And so, what did the United States do in the banking system post the great financial crisis, they said, hey, we can't lend to everybody and builders can't build at that rapid rate. So, essentially from 2009 until now, which is 12 plus years, we've seen a massive under-building of houses because of these restrictions and because people said, hey, I'm not making the mistake that my parents made, or my aunt or uncle made, or whatever it is. And so now the supply-demand imbalance has swung dramatically the other way. And Sam, you and I are both millennials, all of our friends are kind of in that cohort. Millennials are the largest population in the United States, and they are just coming in to the peak buying years. So, coupled with that low supply, based on all the banking regulations that had been set up, is this massive wave of new buyers, so the supply-demand balance has now swung massively the other direction where there's an over-demand for these homes and there isn't the supply to meet it. So, that's the big macroeconomic thing that's forced home prices higher, and then you couple that with the more recent catalyst that caused them to search hire so quickly, and that was Covid.

**0:04:13.9**

**TS:** And so, you look back to early 2020, Covid hits and people in cities start looking around for health reasons, going, I don't know if I wanna live so close to my neighbor, and then what happens with that is they begin to realize that their companies will allow them to work from home, because of all the technology we have these days. And so, these city dwellers start to move out to the suburbs and to the countryside, and all of a sudden, they begin bidding wars, driving up home prices, buying things in cash. I guess at the end of the day, that's a long-winded answer, but it's really two-fold, it's a supply-demand imbalance that's been caused now for the last decade-plus, and then it's that massive surge from covid that we've seen in people exiting cities and causing bidding wars and suburbs in more rural areas.

**0:04:58.1**

**SR:** I think the uptick that we've seen from Covid, that wave is probably exhausting itself, especially as we deal with Omicron and coming out of the Covid fog as it were. I think we're very close to that, but it's interesting that you would bring up supply-demand, investors ask me all the time, is now the right time to be buying, real estate is so expensive, it's been going up and up and up, and fundamentally, you have to boil it down to a supply-demand curve, and a statistic that I saw was basically every decade, from 1950 to 2000, we built between 18 and 20 million homes every decade, and then in the decade from 2000 basically to 2008, we built like 25 million homes so way oversupply. Well then, in the next decade, 2010 to 2020, we’re like 12 million homes. So, we're significantly, not only did we absorb the extra 5 million from the prior decade, we're not building enough, and so there is a fundamental disconnect, and you have to also take into account government regulation and some of those things whenever you're looking it's never a pure market force-driven environment. These fundamentals are there, we just don't have enough housing.

**0:05:58.9**

**TS:** You hit the nail on the head, and to your point, your numbers are almost exact. Looking at the prior 10-year period going into the great financial crisis, we built two times as many homes as we have sense, so it's just a shocking drop-off, it's a plateau, and then a drop-off in a cliff and it's really tough. And the question then comes is like, What's next? Is housing price gonna continue to be hot, are they gonna come down? And I think that's really anyone's guess, but I think the macro forces are still aligned which make it tough to think that they're gonna come down in any really meaningful dramatic way, and the reason that is, because looks what's going on in the economy right now, homes don't get built overnight, the average home takes about eight to nine months to build, but what do we have at play right now as well, that's causing that to potentially even be lengthened? Two very important factors, supply chain issues, which are crazy right now, all of those tankers that are sitting off the coast of Long Beach waiting to come in, a lot of them have things like vinyl siding and lumber prices are huge right now, they came down and then just prior to Christmas, they took off again, and they're almost at their highs that they were prior to them coming down a little bit. And then the other part of that is, is look at the labor shortage that we're facing, builders can't find people to build the houses for them.

**0:07:12.8**

**TS:** And so, you have two things going on just to reiterate what I said. Supply chain issues and labor shortages that are lengthening out build times, and if it's a supply-demand imbalance, the supply needs to pick up, and with those two factors in play, it looks like it's gonna take some time for us to chew through this and build enough houses to meet that demand.

**0:07:32.8**

**SR:** I'm in a CEO group here in Denver with a bunch of local CEOS across the spectrum, and it could be general contractors, but one of the CEOS is a roofing company and their commercial roofing company, several hundred employees, and their specialty has been flat roof, whether it was for retail or commercial or multifamily, they literally cannot get any of the flat roof material that they would typically use for at least 50 weeks, it's a year. They have to pivot their entire business away from what they've done for 15 years, because they literally do not have the material to go out and replace these rifts, so they're pivoting, deciding work to masonry, to shingle roofs. It's crazy how the supply chain disruption and some of it is very targeted, it's the hottest things or it can be, that’s having massive ripple effects throughout our ecosystem.

**0:08:20.5**

**TS:** And so that's the supply side, and just to put some numbers in context around the labor shortage side, the Small Business Association put out a study in the fourth quarter of last year, and it shows that 49% of small businesses in the United States have open jobs that they're unable to fill. Those are numbers and anecdotal information on both sides of the supply chain side and the labor shorted side, that just shows again, this problem is likely not to resolve itself overnight. I say that I'll add a little context to it as well, so 18.4% was the year-over-year increase based on the Case-Shiller index as of October for home prices. That said, longer term average over the last 50 years, home prices in the United States go up on average at 5.4% a year. I'm not necessarily saying that this break-neck speed of almost 20% increase in home prices is gonna go on in perpetuity, but even if it comes down towards normalcy, there's still inflation in the housing market that generally does exist even during more normal times, which I would argue, and I think you probably agree that we're not necessarily normal times right now.

**0:09:20.3**

**SR:** It's a fascinating under current day, I was talking to some folks on real estate Twitter and we were discussing how so many people were gripped by fear, especially in the investing world, but if the big companies, the BlackRocks, the Goldman Sachs, some of those private equity groups had really dove in on real estate, call it from March to June of 2020, could have been one of the largest wealth transfers in history, anybody who invested in real estate then is doing phenomenal, especially in the commercial side. We're fortunate, I think, in many ways that people didn't jump on it faster, it really was the retail investor, the person who was fleeing the cities that drove that short-term price pop, and then of course, everybody started jumping on board towards the end of 2020, and here we are.

**0:10:02.7**

**TS:** And it’s funny, a year later, there's a big argument back and forth right now as to whether homes are more or less affordable at different times in history, and the argument for home affordability or real estate affordability is the fact that rates are low. But rates are low, that does certainly keep your mortgage payment down, but what it does nothing for is the home down payment that you have to place if you're buying a home or buying a real estate investment. You have to put down, not everyone puts on the traditional 20%, although that will avoid the PMI insurance, but that said, whatever number it is that you're putting down and a high home price, low mortgage rates do nothing for that. We really believe that we're in this crisis for home down payments. And it's an issue there, anything that was built to address that, and that's kind of what our company is now trying to do is build the product to help people address that home down payment in the inflationary environment that we're in.

**0:10:58.8**

**SR:** I'm glad you're pivoting in that direction, Taylor, I'm curious, do you see your product, which essentially is a Mutual Fund designed for the person saving for a down payment, and we'll get into some of the construction of that here in a moment, but do you see that as a defensive strategy for the potential homeowner or offensive strategy. How would you position that?

**0:11:19.3**

**TS:** I think what it is, is it's bridging the gap between two things, so again, if we're looking at home prices and let's just take the long-term average going up at 5.4%, and someone looking to buy a home or real estate investment. Most of the time what they do is they sit it in the savings account, so a savings account in the United States right now, yields, on average .06%, so I'll call that zero for all intents and purposes.

**0:11:42.6**

**SR:** That's an acceptable lobby. I'll allow it.

**0:11:44.6**

**TS:** Okay, appreciate that Sam. And so, 0% sitting in a savings account, the long-term average home price goes up at 5.4% over last year, it's been 18.4%. And so how does someone sit in that savings account and just see their purchasing power eroded year over year over the last year, they've lost almost 20% purchasing power for that home they're looking to buy. And when you look at what the solutions in the market were prior to what we're launching, it was a mixed bag, but realistically for the retail investor, it was either leave it in the savings account or buy something like the S&P 500 and just go out and roll the dice on the stock market, and you certainly have the ability to keep pace with home price inflation in the S&P 500 or something, they're alike, but at the same time, the downside can be very, very meaningful. Does that retail investor have the ability to stomach that downside, and what if that downside happens when they wanna place a purchase, and all of a sudden that home comes on the market that they think is a really good price, and they wanna put 5%, 10, 15 20% down on it, but all of a sudden, the stock market during covid draws down 34%.

**0:12:48.0**

**TS:** Can they afford it at that point? So, what we said was, okay, the option on the savings account side is too defensive because you're getting beaten up by inflation every single year, and on the other side, the S&P 500 is just far too risky, so what we try to do is meet those two things in the middle, in a well-developed investment vehicle, and that's what we look to build.

**0:13:06.5**

**SR:** I was looking at the fact sheet on the LifeGoal home down payment investment ETF, and I really like the strategy, essentially, 70% of the holdings are in bonds, so you're dropping that volatility significantly limiting the upside as well, but then you're pairing that with an interesting stock strategy, could you go into that detail on that a little bit?

**0:13:25.7**

**TS:** Yes, and this is an actively managed strategy too, so we determine, given the economic backdrop, whether we wanna have a little bit more or a little bit less stock on commodity exposure, but to your point, Sam, generally it's gonna look something like fall outs. So, somewhere around 60% to 70% in bonds, the bonds do a couple of things for it, they help control the volatility in the downside capture, they're much less risky asset traditionally than equities, and they also add a yield into the portfolio. So, the monthly distribution this thing kicks out is just about 2%, so that's a lot of what comes from the bond allocation, then we have a 5-10% sleeve of commodities. Commodities do two things, they act as a really nice diversifier where they don't look a lot like bonds, and they don't look a lot like stocks. That varies differently. And the other thing that commodities generally do is they generally hold up well in an inflationary environment. Well, what's the topic at hand today? Inflation. And so, to your point, Sam, the interesting portion of this portfolio comes within the stock allocation. So, call it 25-30% of the portfolio and stocks, half of the stock exposure is directly tied to housing-related stocks.

**0:14:31.6**

**TS:** So, think about things like Home Depot, Lowes, Track Deck, Hawley Brothers, which is a home builder, these things have very high correlation with housing prices, so if you're using this home down payment to purchase a home or real estate investment, why not have a portion of it tied to the underlying price of that home? And this is the most effective way that we can do it. And the nice thing about an ETF, which is different than a traditional mutual fund is it diversifies like a mutual fund does and gives you exposure to lots of different stocks and bonds in a diversified manner, but it also gives you the ability to be liquid anytime you need the money. So, an ETF allows you to buy into it at any point, you can literally buy it at 11 AM and sell it at 1 PM if you needed the money back, and that's obviously not the intention of the product, but the nice thing about that is, is when you're thinking about real estate investing, when that opportunity presents itself, you wanna be able to strike when the iron's hot. And so, you can cash out of this thing and buy that real estate investment when that time comes. And the other important part about that portfolio construction that we just went through is what we're really trying to do is, again, limit the volatility and limit the downside. There's two goals of this product, create a stomach-able low volatility ride, and the second thing is, is help offset home price inflation. And so those are the two goals, and I think those goals marry very well with what real estate and homebuyers look for.

**0:15:54.0**

**TS:** I need something I can be relatively comfortable with the downside to be able to be confident to make that investment, and I need the ability to access it and pay that home down payment whenever that opportunity presents itself.

**0:16:05.3**

**SR:** I appreciate you going into some level of detail on that Taylor. I think it's really important to recognize that we're both millennials, our parents grew up in the era where you could pretty easily play defense with your money. You can put it in a CD and you would earn an acceptable rate, vis-a-vis inflation, it wasn't all that far off, you had much higher certainty, it was a safer place, but over the last 20 years, the macroeconomic factors have changed and it’s just almost impossible to play defense within your traditional banking institution. So, whether that's diversifying into real estate as an investment, or if you're looking to get in as a first-time homebuyer, getting into something like a LifeGoal home down in investment trading under HOM on the New York Stock Exchange. I think it's important to be more offensive, thinking how am I going to be stewarding my money well, growing it, because inflation is here, it doesn't seem to be going away. I think it will taper off some in 2022, but still, we're not gonna go back where it's waiting for a big correction, just likely isn't going to happen in the near term because of those macro-economic factors the supply-demand in real estate. One very specific question for you, Taylor, and this is, I wanna be clear, this is a very small part of your portfolio, but as I was reading through the fact sheet, I noticed that you guys have less than a 10th of a percent, but you do have a meaningful amount in both the grayscale bitcoin and Ethereum trust, and I'm just curious, that's in the commodities bucket, so again, we're talking a very small sliver, but that piqued my curiosity a little bit as somebody who explores the crypto space and has invested somewhat heavily there at a personal level, I was intrigued to see you guys, include that in your ETF. What's the rationale?

**0:17:41.9**

**TS:** Yeah, it's interesting. It's a hot button that always comes up, right? The crypto market is something that people wanna talk about, and I wouldn't put ourselves in any huge bowl where we really like it or bear where we really hate it camp, Bitcoin is essentially built to do, one of the attributes that it has, is the ability to offset inflation or the ability to maintain purchasing power in an inflationary environment, and so when we think about what this product is meant to do, that really marries well with the end goal of this is part of the overall goal of this strategy is offset inflation and specifically home price inflation. That crypto exposure, albeit very, very small inside the portfolio, is there to do that along with the commodity exposure that's meant to offset the inflation. Why don't we have more exposure? You know the answer to this, it's a very volatile asset class. And again, what we're looking to do with this product is create a very stomach-able ride, a very predictable ride at the end of the day. And so, when we look at people thinking about using this strategy, and again, the new, it's the LifeGoal home down payment investment ETF ticker HOM. What we think about is we lay our cards round the table and we say, hey, you are taking on a moderate amount of investment risk on this product, so, we have a risk scale of one to five, this is a two out of five. If you were to look at just the S& P 500, that's a five out of five. So, that just gives us some context as to what the risk is here, but what you are doing, if you are not using a product like this in sitting in a savings account, as you are sitting on inflation risk, that is almost an absolute known risk. You know, inflation exists in the environment, and you know the savings account rate that you're getting is effectively zero percent, so you know, almost without a doubt, that you are losing purchasing power sitting in that savings. So, that's the risk you're sitting on, and if you're willing to accept that risk, that's fine, but that is an absolute known risk. And we say, “Hey, let's trade that known risk that is going to play out for a well-educated portfolio that's diversified between stocks, bonds, commodities and has a direct tie to the whole market. Let's take that risk instead and try to weather the storm better in this inflationary environment that we sit in.” And just by way of context of what I and my brother, who's the co-founder of this company, this and we also manage the product and decide what the investments are within it.

**0:20:01.6**

**TS:** I was 10 years on Wall Street, he was almost 15 years on Wall Street. We traveled around the country and work with some of the wealthiest families throughout the country, families that have 50, 100, 150 million dollars to invest and create portfolios just like this, and what we said was, we can do this and fill a real need and do the exact same thing we did tailor for these very, very rich folks and do it and package it so anybody can access it. And so, it's a way of bringing some of that really high-end investment expertise down to folks that could buy into it at $10, Literally, the NAB is right around $10, so that's the minimum purchase price. So, there's a very, very little barrier to entry to this, and what we also said was, let’s name it something that almost anybody can look at and understand. The LifeGoal home down payment, investment ETF, there should really be no confusion as to what that thing is built to do, and that's very intentional, and that's why we named it as we did. So yeah, that's kind of the background as to where we came from, why we thought this thing could be packaged for the retail investor, the layman investor, the person that just does not wanna get beaten up by inflation sitting in savings account.

**0:21:11.2**

**SR:** Appreciate that level of detail. Alright, Taylor, we're getting towards the end here. I wanna just see where are you looking at inflation, for micro-economic factors, what are some leading indicators that you're watching as we head into 2022?

**0:21:25.6**

**TS:** Yeah, it's an interesting question because there's a lot of horses at play right now, and I think that understanding what's going on with the bottlenecks and the supply chains, what's going on with the labor market from a macro-economic standpoint are gonna lead to a lot of what we see from an inflationary standpoint. This is a little technical, but just to give you an idea, you can look at five-year forward inflation expectations, what the market is saying, inflation is gonna do five years out from now, and it expects five-year forward inflation expectations to come down towards their longer-term average of somewhere between two and a half and 3%. So, although right now we sit at a 7% handle, which is what we've seen over the last year, which is markedly above our long-term average out five years from now, the market is anticipating it to come near that 2 and a half to 3% mark. If the market's right and saying inflation is gonna come down, it's not gonna go away by any stretch of the imagination, and I think that home price inflation will come down, but it won't come down as dramatically as those numbers I just address from broader term inflation. It's something that we keep a keen eye on, it's something that affects the bond market in a big way, which is a large portion of our over allocation, so those things definitely drive the decisions we make inside the portfolio. It's a day-to-day thing we have to keep track of. It's a fun battle of keeping up with the news, trying to stay ahead, trying to forecast a little bit, and at the end of the day, trying to deliver the product that people need in order to be able to purchase that home or that real estate investment.

**0:22:52.8**

**SR:** Fundamentally, there's a lot of Chicken Littles that the sky is falling, and certainly 7% inflation is unsustainable, and yes, we have printed a ton of money and added it to the money supply over the last 18 months or 10 years, whatever your horizon is, we have not been the most fiscally responsible, but a lot of what we are seeing in inflation currently is related more to supply chain disruptions than demand. And as supply chains normalize, hopefully, and by the end of 2022, I think that will be the true test. Do we have the demand to continue to roll hot on the inflation side, or will the Fed acting maybe starting to taper, beginning some rate hikes, will that impact the demand curve enough that will kind of achieve that happy medium? Obviously, it remains to be seen whether we can. But that is something I wanna caution people against, just because we've had 70% inflation, it doesn't mean we're going to forever, and a lot of this is directly related to Covid, although I think there are longer-term consequences for some of our fiscal policy through covid and the GFC, so fascinating times to live in, as you alluded to, Taylor.

**0:23:58.3**

**TS:** It doesn't get all, you gotta keep your eyes and nose every single day Sam, and that's something that I don't disagree with your comments there. I think that 7% inflation is unsustainable and we'll come down, but I do think that will remain at or just slightly above maybe the long-term inflationary numbers that we've seen throughout history of that kind of 2-3% ballpark.

**0:24:16.4**

**SR:** Awesome, Taylor, if folks wanna learn more about you, the company that you and your brother put together, where can they reach out? Where can they find information?

**0:24:23.7**

**TS:** Yup, absolutely. So, you can go to our website, which is [www.lifegoalinvestments.com](http://www.lifegoalinvestments.com). And then our shameless millennial plug is, follow us at [LifeGoal Investments](#), and on there on Instagram, what we do is we put out a lot of information, not just on housing statistics, but really broad macroeconomic stuff and stuff that really is tangible and understandable digestible to the retail investor, so we try to take kind of complex topics and make them very simple and digestible in sound bites, and it's been really helpful for folks in their understanding of what's going on in the market.

**0:24:58.8**

**SR:** Digested some of that content and really enjoyed it. I would recommend it to our audience to go check them out on Instagram. Taylor, really appreciate you joining us today. Thank you to our audience for joining us. This has been another episode of the Real Estate Syndication Show. I'm your host, Sam Rust, signing off.

**0:25:14.0**

**Whitney Sewell:** Thank you for being a loyal listener of the Real Estate Syndication Show, please subscribe and like the show, share it with your friends so we can help them as well. Don't forget to go to LifeBridgeCapital.com, where you can sign up and start investing in real estate today. Have a blessed day.

[END]