EPISODE 1416

[INTRODUCTION]

Keith Blackborg (KB): I like to start with your vision. Where is it that you want to go? What do you want life to look like, time with family, financial success, charity, whatever it is. Get clear on your vision then let's assess what we've got to work with. And then let's pick an investment strategy that matches that. And I love to work with people or help people guide them through the options that are available to them. And then if you've got multiple options, which ones are most in favor of this current economic environment, what is likely to do really well, and then you can pick and choose a result that feels satisfying for you and also with your economic winds at your back to help you have success.

[INTERVIEW]

Whitney Sewell (WS): Keith, welcome back to the show honored to have you for a few segments and you've become an expert in this space and passive investing in helping so many people to do this. Well, you know, yesterday we talked about so many things, but really your background in business and selling your business and the things that happen when selling a business. But even the personal side is of that as well hope the listeners listened yesterday, he was just real. I mean, he was just real and sharing about family stuff that happens to entrepreneurs, and how he has taken a hold of that and prioritized what was most important to hope you'll listen to that yesterday. Well, today, we're gonna jump right back in. We're going to talk about different types of investment opportunities, and strategies. He briefly mentioned yesterday how he was concentrated in one place. So knowing where you have experience and some of those things, but we're gonna jump right into, you know, should we concentrate or diversify and what does that look like? And So Keith, welcome back. Let's jump right in.

KB: Sure. Thanks for having me back. So concentration versus diversification. Concentration is where you can focus all your time and efforts on something like business investing. And that's how you're able to quickly grow a business to get 10x returns; it's because you're applying more effort than just your money. That's where what is going to yield the biggest results quickly. So, I like to be concentrated enough to win big, but as you grow and you have some success, you're successful, it's important to start some diversification. That's what's going to allow you to prepare to absorb a big loss if you need it. One of the ways I see people lose money is they get concentrated so much in a business, that if something happens with that business, could be a pandemic, any number of things happen, that business shuts down. If they had all their wealth tied up in that business that can wipe them out. I want to be diversified enough. So I can come back, I've got some other assets. And I'm not just talking like with a financial advisor where you're in a bunch of stocks and bonds, but there's a whole bunch of other private assets where you can get into and earn 15%, 20% plus return on your money if you know where to invest. So in other words,

WS: Love that. So, concentrated enough, I felt like it's so important to just the educational component as well in the beginning, and learning what you're investing in and you're putting so much time. And you said, after you reach a little success, then it's time to branch out potentially. So walk us through maybe how you have done that or how you advise now - how much is enough or how much you know is enough that you've won or you've had enough success that we should start thinking about diversifying?

KB: So, first and foremost, I have something that most people will never have, and that is enough. In thinking through my own journey, we were very concentrated on real estate, we did well. And then as I mentioned in our last segment, I exited most of our active investments between 2016-2017. We sold a lot of our commercial real estate projects, and I was able to place funds with some great performing syndicators. I was really concentrated initially on multifamily and it went really well. I had some guys who are consistently doubling our money every two to four years. Great, but as some of that has paid off, and especially in multifamily, as some of the interest rates tick up, I ask people who are doubling our money or I get a big payoff. So if I invested $100,000, and now they're giving me $200,000, I'm putting $100,000 back with them again but I'm taking that second $100,000 and I'm putting it in other things. So, for us, we've diversified across different startups that have done well. We bought into a gold mine, bought into some oil and gas deals that have just done phenomenally. There's a whole range of things, a lot of different investments. But that's kind of like the base of trying to diversify across things outside of real estate. Not diversifying just for the sake of diversifying but being across multiple assets that are also expected to do well regardless of how the market does and that operate in different ways. So, the stock market goes up, certain investments go great, and other ones perform better when the stock market is trending downwards. So being aware of that and kind of spreading across multiple great investments has really helped us.

WS: Speak to how you educated yourself to know those things. I was thinking about how the listener can better understand maybe the types of investing that they should get into or maybe their investment strategy that they should develop. I feel like it begins with education, right, the concentration on learning some type of investment, but you know, where would you direct them to go? Is there a specific type of investment or maybe somewhere to gain some education around how they should create their strategy?

KB: So, in my community, I suggest people start with their competitive advantage. So if you go to, any guru usually knows one asset class really well and they think that asset class is the thing to always be in, all the time, always, and forever. I don't quite agree with that. I would rather look at what is your skills, what is your experience, and what kind of funds do we have to work with. What does your network look like? All of that feeds into your competitive advantage. And then before we even look at that, I like to start with your vision. Where is it that you want to go? What do you want life to look like, time with family, financial success, charity, whatever it is. Get clear on your vision then let's assess what we've got to work with. And then let's pick an investment strategy that matches that. And I love to work with people or help people guide them through the options that are available to them. And then if you've got multiple options, which ones are most in favor of this current economic environment, what is likely to do really well, and then you can pick and choose a result that feels satisfying for you and also with your economic winds at your back to help you have success.

WS: Makes a ton of sense. Are there any other resources that you would recommend to say, hey, this is another way to quickly learn about some of maybe the risks or how to gain the best

ROI or maybe some ways you've done that? But ultimately, right now, the educational component, anything else,

KB: Let me share something really quick that I think will be really helpful, that's just good for every investor to know just simplifying strategy. Just a quick visual here. I have what I call Double Dip assets, you make money from cash flow and equity. And if you invest in assets, I think everybody starting off should do double dip assets. And I'll give you a few examples of these in a moment. But from a theoretical perspective, that cash flow is going to help pay for your lifestyle costs, you never have to sell positive cash-flowing assets so that lowers your risk. But cash flow often means you've got cash that's taxed at higher ordinary rates versus equity growth which is going to help you build wealth, usually those assets are going to go up with inflation. So if we're in a high inflationary environment, more likely like we are now, it's helpful to have assets that appreciate with inflation and selling those assets, things that go on the long term are typically taxed at those lower capital gains rates.

KB: Double Dip assets are both cash flow and equity growing so it gives you the best of both of those, meaning you get more cash flow, and often that cash flow triggers more equity. So, some examples of what these might look like, cash flow in today's world, bonds, super exciting, I know maybe loans as a lender, when you're lending like hard money or many service-based businesses. They're strictly cash, often not worth much at sale. Equity growth, non-dividend paying stocks. I can think of some reasons why you invest in them, they're just not my favorite. Land is just going to sit there, your personal home, startups, all of these have a place but they're going to be more complex and advanced and they're riskier because you don't have the cash flow as part of it. Double Dip assets, dividend-paying stocks, rental houses, apartments, and businesses with strong IP systems that can operate without you; those are all great examples of some basic strategies that can make a real difference and help lower the risk for investors.

WS: Love that, again, just so the listener knows, Keith just showed a great visual that will help you to see some of those things he was talking about, how they interact together. We'll have that on the website also so you can see that. I love the educational component. I know I was not raised around entrepreneurs or people who invested in almost anything. So I wasn't trained to think that way. I wasn't trying to think about all the bonds or stocks or land or even thinking about your own home, and how does that affect my net worth or what does that even mean long term? So, I love the educational products. I think you have to start there until you know what you're getting into to some degree.

KB: And so once you think you're interested in something, something we like to do in our community is we've got a variety of people doing a bunch of different asset classes - from apartments to self-storage to oil and gas to startups. And when you bring all those people together, a few things happen. One, if you're just getting started, it gives you an opportunity to see what other people are doing and ask them questions, see what's going right going wrong. And you can build off that. And you can decide, either invest passively with them if you just want to invest in what they're doing, or learn from them, and then go do that as well. So you can be active or passive depending on where you're at. So you can be diversified in them or concentrated if that's your thing that you want to do as part of that. And then what you also get is you learn, like apartments, there are certain strategies that work really well with apartments and how you flip, tax strategies, legal strategies.

KB: So, if you learn those strategies in one place, you can often go apply them to other asset classes. So especially for single-family investors, who have learned how to do options, and installment sales, there's a whole myriad of strategies you can do at that level. And then you go play in the big game against some of the big corporate guys, you often have a different toolbox of things to work with, a different way to look at deals that can actually help you see value that maybe other people don't. And that's where having a variety of asset classes or a variety of communities can really help you see opportunities where others might miss them.

WS: Keith, speak to finding an investment. We all want something with a higher return but low risk, no doubt. Speak to how you've done that or how you find those now or even you know, help others to do the same.

KB: I'll share first how I find those deals. And then I'll want to specify some of the specific deals I see opportunities in the market today like examples of asymmetrical risk. So Life Bridge Capital, a fantastic example. Your company has a place to find apartment deals, plugging into a podcast like this and really seeing people that have a good heart, you can understand management, that's a great place. If you feel like there are good people behind the investment, they're more likely to do the right thing and try and take care of their investors. So single-family, multifamily in your existing network listening to podcasts. Other deals, sources can be money managers, or financial advisors, on average, you're gonna see stuff around 8% from them, that is what it is. You can plug into different syndicators that are part of that. You can look at your existing network, you can go as a professional. So, if you really want to get into apartments, you could go, who are the contractors, attorneys, CPAs. Ask them who are the people you would invest with? You can't typically ask for specific returns, but ask them who they want to invest with or go to the next investor Christmas party.

KB: Often, syndicators will throw in an event for their investors. And I love going to those and talking to all the other investors and say, who else do you like to invest with? And as a result, most of the time, successful syndicators aren't wildly marketing the deals. Usually, they're snapped up by friends and family in a short time, and they're never publicly released. That's why I've got to do a little work to be a part of that. There are trade shows. I know when I went to the Choice Hotels conference, there was a guy winning a bunch of awards because he had successfully basically flipping hotels at a high rate of return. Great, that's a great person to invest with. There are mastermind clubs, you've got your REIAs, you've got angel investor networks and financial journey. What we'd love to do is source all these different deals, 95% of it is never shared.

KB: But as a result, when you've got everybody that has learned how to pull great deals from their network, you get a bunch of friends and family deals and the top 5% rise to the surface as an option. And then we'd love to bring those people on, have a discussion with them, hear what the deal is. And then we do a discussion of due diligence after the fact where the community gets together and is able to kind of brainstorm. When we were doing an oil and gas deal one of the guys had worked at Chevron for 15 years so he was able to analyze the oil and gas reports. So, regardless of whether or not you're doing it with a big group, get some friends or peers together to help brainstorm what due diligence should look like for this deal, work through that and some of the best investments you'll make are the ones you never invest in. And just getting around other people like-minded people who can help you work through that will make a huge difference in picking the winners and avoiding losers.

WS: That's a great quote right there. Some of the best investments, what would you say, you make are the ones you've never invested in?

KB: Correct.

WS: Yeah, I love the community aspect as well. I have experienced, on numerous occasions, the benefits of masterminds and being, you know, a part of a group of people who are ahead of me. You know, I'm asking questions and talking to them, and figuring out how did you do this, right? And that's why I feel like the group you've created is so valuable, because somebody coming in new to investing, and you're getting to glean all this experience from so many different people. Just that mastermind experience is so beneficial. So, speak Keith to some current investment opportunities that are potential and that you see now or maybe that you're focused on just with our current climate.

KB: So, for me, it's really about asymmetrical risk. Asymmetrical risk is high upside, low downside. Typically, people think higher risk means potential for higher returns. But to me, that also means a higher risk of loss of principal; that doesn't sound fun. And so what's an example of asymmetrical risk? Real estate 2010, when you're able to buy houses for less than you can build them for, that's a great example I can get in, there's a low-interest rate financing, fantastic deal, I do that all the way long, especially when inflation is paying down my debt. It just felt like a good deal. In 2019, COVID hit and a lot of businesses were on sale. You got a lot of baby boomers who are going to be retiring over the next decade. Most of the time, they're shutting down their businesses; they're not selling them. So it's often you're able to acquire these businesses for little to nothing. Many times, they just don't want to see their life's work going in the trash by shutting it down. They want their employees to be taken care of. So you can likely take it over for little money. And you might even be able to retain them as an advisor, meaning that they just don't mind having a monthly coffee with you to hear about how their business is going and giving you free advice on what they would do. They probably want that connection, especially in retirement.

KB: And so, I think buying businesses is a fantastic opportunity. I will also say, oil and gas today, rehabbing oil and gas wells. There's a guy that's in our group that's what he does. He said he was the only qualified buyer on a fantastic project in the Dallas area or in the state of Texas and it's getting 40% to 60% internal rates of return for the investor. That sounds crazy high but if you look at the market, you see, Chevron and Exxon are going more green. They're pulling out of all these small projects, they've got a few legacy projects, but they're not doing a bunch of new investments as the world shifts toward more green. A lot of the small operators went bankrupt as the Saudis tried to bring down oil prices, I think that was 2019-ish. And so as a result, there was little financing, there was little demand, it drove a lot of the small operators out of business. So there's this whole vacuum in there of what's possible.

KB: One last way, it's not always about finding value, but identifying how you can build the value. So one of my clients, in May 2019, was leaving single-family or he was in single-family, he’s like, I really want to own apartments. And so I said, well, apartments are expensive right now. Yes, it's the best performing asset class but how can we creatively get into apartments? And so we came up with asset conversions. So I said, I have a background in hotels, I suggest why don't you go buy hotel projects, and convert them to apartments. And so we identified what the characteristics of a good conversion would look like. He got together with his business partner, and he would say, he's 10x'd his net worth in just two and a half years. He's got three projects, making strong multimillion dollar returns on individually, him personally on each and every one of those as a result. You can also do like certain retail space converted to self-storage, you can convert office buildings to apartments. So really getting creative and how you can create value can be a huge option. And so just being aware of the strategies in time and growing into that means that you can have a bigger toolbox to allow you to artificially create value where others might not see it.

WS: Yeah, I love that. I just I love exposing the listeners to things like this as well because it's like you just said you're kind of in a silo sometimes, right? You figure out, oh, there's this, you know, rental real estate. I remember back in 2009, I was a police officer. And that's when I started seeking a way to supplement our income and in came Robert Kiyosaki similar to you. And I thought, okay, if this many people built wealth in real estate, I can own a few rentals, at least, right? I should be able to do that. But I had no idea about this, the whole syndication thing, and then all these other types of investment opportunities even.

WS: And so I again, I'll go back to the mastermind component, and being surrounded by folks like Keith that are doing these things, and opening your eyes to so many different opportunities to diversify into big opportunities. But even identifying how you can build that value. I love that thought. Well, Keith, unfortunately, we're going to end this segment now. We're going to come back tomorrow and we're going to jump into building that deal flow pipeline, and what is deal flow and how you do that, how you manage that, continuing this conversation from today. Again, tell the listeners how they can get in touch with you, and then we'll have that in the show notes also.

KB: Sure, the Wealth Builder Experience is something that I love to go through with prospective people that I might want to work with. It's a way for us to fill each other out and really, for me to help you launch wealth as the business and get clear on the next right steps of what you should be doing. It's a community collaborative thing. It's just meant to be fun, but it's a good entryway to kind of get some good steps into building your wealth business and maybe we potentially work together if it's a good fit for the both of us. So, that'll be – FinancialJourney.life is my website. There's a link out there or I'm sure there'll be an additional link in with the show notes.

[END OF INTERVIEW]

[OUTRO]

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