PART 1

Stop Thinking . . . Start Knowing! The Foundation on Which All Is Built

TIP #1: GO ON FACTS—NOT ON HYPE.

Forget guessing or hoping. Ask the tough questions of everyone involved—vendor, realtor and banker. If you are informed, you're investing. If you are uninformed (or guessing), you are speculating.

Right up front in this book, we must be frank. We've all heard the stories about instant real estate riches, and there's a certain thrill in thinking the deal-of-a-lifetime is just around the corner. But in order to be a long-term, wealth-creating investor (instead of a speculator), you need to be realistic. Real estate, like any investment vehicle, needs to have a system, a system that forces you to ask the tough questions . . . and removes any guesswork.

To be successful in real estate investing is to build long-term wealth. The quest for the "right" property, the thrill of the negotiation and the adrenaline rush of the offer are all kind of exciting. They also complicate the process, and firmly underline the need to develop an *emotion-free* approach to decision-making.

When experienced real estate investors talk about removing the emotion from their investment decisions, they're not talking about conducting business from behind an emotional wall. They're talking about making business decisions based on solid business information and what sophisticated investors call "market fundamentals."

WHAT DO YOU NEED TO DO?

Commit to the facts

To make a decision based on fundamentals, always do your homework—all of it. Your homework will be complete once you can substitute the word "know" in the following sentences (where you may now be using the word "think"). For example:

"I know (not think) these renters will stay after the property changes hands."

"I know (not think) the economics of the region and the neighbourhood are primed for long-term growth."

"I know (not think) this property can be rezoned to accommodate my plans."

"I know (not think) the income this investment generates will cover *all* of the expenses of the property."

"I know (not think) that I am working with legitimate real estate investors and that any documents I sign are above board because I will not participate in a fraudulent deal."

Adopt a proven investment system

You'll learn more about what it means to "know, not think" as you move through this book. For now, it's important to get a good handle on the idea that a real estate investment system means operating on *fact-based* decision-making.

To be successful, a system must do several things:

1. Be proven to work in your country, town and neighbourhood, thus not leading you down the wrong path.
2. Force you to ask the tough questions and not allow you to buy until *all* the homework is done (thus removing emotion).
3. Leave very little to chance, thus giving you a distinct advantage buying in any market that meets the criteria.

Sophisticated Investor Tip

Remember: "Fundamentals, not emotions!" Make this your business mantra. Never lose sight of the fact that when it comes to investing money, you need cold, hard facts, not just hopes and dreams.

Key Insight

In the beginning, investing with a system may proceed at a slower pace than you expect. However, with time and experience, you will learn to interpret critical information more quickly. A system-based approach means you'll never miss a critical piece of information and never get caught in a bad deal. That makes the extra effort worthwhile!

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TIP #2: FEAR: THE GREATEST MOTIVATOR AND THE GREATEST DE-MOTIVATOR. DEAL WITH IT.

Analysis paralysis is an investment killer. You get over it if you have a proven system you can trust.

Too much of the wrong kind of information can hold you back from making investment decisions. Even though you may feel like you are moving forward by collecting lots of information (some of which is useful and some of which is not), you will find that in the real world you will not make any money until you actually take the step and purchase a property.

We've all heard the "if only" stories from would-be investors. They're the offspring of those who never took any action because fear held them back. As with all things in life, action fuels success.

Novice investors need to face the fact that, when it comes to the business of learning to be a successful investor, there comes a time when just listening will hold you back. Indeed, the ability to take action is the number one difference between successful real estate investors and wannabes.

WHAT DO YOU NEED TO DO?

Use fear as a tool—make it work in your favour

Fear is an instinct designed to keep us alive, not control us. Use it as a motivator by turning the fear of action into the fear of missing out and you'll never have to tell those future grandkids about the time fear made you miss out on a real estate investment opportunity!

This step demands honesty. Ask yourself how often you've allowed fear to hold you back from making important decisions. Now ask yourself if that choice served you well financially. Recognize how the fear of stepping into real estate investment can keep us from earning long-term wealth.

Mind your W, S & Qs

Use the Write–Scratch–Question approach to fear management and you will find yourself answering your toughest questions.

Write: Don't let yourself stew over a new excuse. Stop what you're doing and write the excuse down on a piece of paper.

Scratch: Now cross it out with your pen.

Question: Turn that excuse into a "positive-spin question." Even if X is true, what can I do about it? Get the answers you need to eliminate the fear.

Here's what that looks like in action:

Write the excuse: "I heard that as a landlord you can get stuck with a bad tenant."

Now, **scratch out** the excuse.

Formulate the **positive-spin question**: What system can I follow to ensure I provide great tenants with a great place to live?

Answer: Check credit and references. Set the standards by which you'll accept a tenant, and set them high. Remember, you're looking for an equity-building tenant—someone who wants to treat your property as if it were his own.

Use a lease agreement that gives you a proactive way to deal with any eventuality. (Include late penalties, non-sufficient-funds (NSF) cheques, move-out notices, pets, noise, etc.)

Know your local tenancy laws and do a move-in inspection (take your digital camera along) *before* the tenant moves in. Get postdated cheques where allowed.

Write the excuse: **"**I don't have time to invest.**"**

Now, **scratch out** the excuse.

Formulate the **positive-spin question**: What can I do to prioritize my time to find a couple of hours a week to focus on my real estate investment business?

Answer: Talk to your spouse/family. Look at the demands of your family life; where is extra time available?

Seek out joint-venture partners to share the time and capital investment. Explore creative but less time-intensive investment opportunities using joint ventures or registered retirement savings funds. Surround yourself with like-minded people who understand long-term investing; they will gladly teach you their tricks.

Write the excuse: "I missed the market boom."

Now, **scratch out** the excuse.

Formulate the **positive-spin question**: If real estate investment is about long-term wealth development, it must be about more than the "boom." Where can I find a trusted system to help me see the advantages of the current market?

Answer: You're in the real estate business to make money. Build a team of professionals that is designed to give you a market edge, not hold you back. Refer to the next tip for more on how to choose your team.

SOPHISTICATED INVESTOR TIP

Practise the win-win approach to team building. Don't waste your team's time and they'll learn not to waste yours.

Never (ever!) build your team based on a discount price for services rendered.

Discount Team Members = Potential for Disaster!

KEY INSIGHT

Learn to channel healthy fear into positive investment decisions. If the answers to your due diligence questions aren't leading you toward actual investment action, keep following the proven system until they do! Fear keeps you sharp—just don't let it hold you back. If anyone gives you advice or an opinion, always look at the source to see if they really and truly know what they're talking about. There are a lot of instant real estate "experts" popping up across the country; don't let these fly-by-nighters steal your dreams or cost you your business and your reputation.

Your 3 Biggest Investment Fears:

TIP #3: YOU'RE THE CAPTAIN, SO LEAD LIKE ONE!

You can invest in an island . . . you can't be the island.

You now know that sophisticated real estate investors surround themselves with experienced professionals they come to view as part of their team. *If you focus on relationships instead of money, you will optimize your business results and avoid chasing deals that prove to be time-wasters.*

To surround yourself with experience that benefits your business, you want to make sure you are getting advice based on real-life expertise and knowledge. *You want advice based on business experience, not theory. You want action takers, not action talkers!*

WHAT DO YOU NEED TO DO?

Go "pro" (or go home)

Surround yourself with the best of the best experts and learn to use their talent and experience as much as possible. If you surround yourself with pretenders, you may become one!

Focus on your system

Find a *real estate agent* for your system. When choosing your realtor, don't select the one you just happen to know from down the street or one you found on-line. Finding investment real estate for clients is a unique talent, so you want a realtor who has a few years of experience and who knows how to choose investment properties that fit your investment system. (See the book *Real Estate Investing in Canada* by Don R. Campbell for such a system.) These agents work for you. When you give them the parameters you're looking for and ask them not to waste your time with properties that don't even come close to fitting your system, they become valuable members of your team.

Be prepared to work with several before you find the right match, and then be prepared to listen to their advice. They may have inside information about what kind of renovations best increase value in a particular neighbourhood. They may know about problems that landlords are experiencing in the area, or the reasons particular vendors are "highly motivated" to sell a particular property.

Find a *mortgage broker*. Once again, you're probably not going to go with the guy down the street or your local banker. Because you are now in the business of investment real estate, you need the services of a broker whose experience lies in getting mortgages for investment properties. There are bankers and brokers out there who do not fully understand the nuances of investment real estate. Don't use them. Remember, specific experience for what you need is critical. Instead, find one with extensive knowledge about mortgages for investments. Find out why they will get you the absolute best rates and the absolute best terms. The good news is, your mortgage broker gets paid by the banks—not by you.

Your *accountant* must, and we mean *must*, have a complete grasp of all the tax laws and strategies that surround real estate investing. Many accountants specialize in working with real estate investors. They have studied this aspect of Canadian tax law and know the best structures and best systems to use. An accountant with this specialized knowledge is worth his or her weight in gold. A good accountant will save you a lot of money over the years, and help you to structure your real estate so as to minimize taxes upon sale.

Work with a *lawyer* who has at least 10 years of real estate investment experience. A real estate legal specialist is critical to building wealth. A general-purpose lawyer can easily close the deal on your first home and will probably do an okay job on all your real estate purchases, but a lawyer who specializes in real estate investment can give you much more counsel. He or she will have the knowledge and strategies to save you a ton of money, protect you from liability and help you gain the confidence to keep moving your business forward.

KEY INSIGHT

Make sure each of the professionals on your team has investment experience specific to the residential real estate market. You also want them to have extensive experience in working with investors. A case in point: A real estate agent who knows you want undervalued homes to renovate and resell won't waste your time with homes already fetching market value.

Interview potential team members

Look for a real estate agent, banker, broker, lawyer and accountant who owns or has owned residential investment real estate. Experienced investors will understand why you're asking questions about their own portfolio.

Build your circle of support

Find appraisers, home inspectors and property managers that other investors know and respect.

Develop a win-win approach to business opportunities. If one lender gets all of your business, your relationship will mean more to him than if he recognizes you as a "constant shopper." If one lawyer or home inspector gets all your business, he may be more willing to help out with a tight deadline.

RED FLAG

Never choose a lawyer, accountant or any other professional based on price! This may well be the ultimate false economy, as a deal could cost you thousands of dollars if things go awry. Real estate deals are complicated. Experienced lawyers and accountants look for the critical pieces hidden within a real estate deal and they protect you from the pitfalls.

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TIP #4: CHOOSE YOUR JOINT-VENTURE PARTNERS CAREFULLY.

You are the captain of your own investments. Joint-venture relationships, however, can make your money go further, faster.

We've all heard the old maxim that it's not what you know, but whom you know. In real estate it is very similar: It's whom you know—and who knows what.

The opportunity to be part of joint-venture (JV) partnerships is a side benefit to building a strong real estate investment team. These partnerships help you and your like-minded partners pool money and expertise to buy more properties.

In parts 2 and 9 of this book, we will cover a number of tips about what you need to do to make these partnerships work. Here, we want to focus on the most basic elements of the successful joint-venture relationship.

Choose your partners wisely. A JV is most effective when two or more parties join together and each party brings something different to the relationship. It is quite easy to "partner" with someone in the same situation as yourself, but that will get you nowhere. For instance, if you have money but need expertise, don't partner with someone who has money but is lacking in expertise. If you are well versed in real estate and require investment funds, don't partner with someone who has the same strengths and weaknesses as you.

Build a partnership that is stronger than the two parties separately. You may have time and expertise; your partners may have investment capital and relationships with key professionals. Together, you have the potential makings of a huge winner!

WHAT DO YOU NEED TO DO?

Take control

Even if it's not your deal, it is your money. There is never a valid excuse for not doing your full due diligence. Do rely upon your JV partner's expertise, but always take responsibility for the end result. Make sure your relationship is detailed in a written agreement that has been reviewed by all partners' lawyers. Design the divorce (or exit strategy) in advance!

Get a criminal and credit background check on all partners. (It's best to know in advance just whom you're dealing with.)

Ask the tough questions

If your partner will find and manage the property in return for your investing cash or credit, make sure she has the experience and expertise to fulfil that role. Check her references; learn what other joint-venture partners have experienced when working with her. Ask about her management experience with the specific kind of property you're about to invest in and visit some of the properties she is managing. Find out if her experience includes managing property through times of high and low vacancy rates.

Make sure you ask yourself the tough questions as well: Am I doing this joint venture because I have been "sold" on it? Is it the exact relationship I need to get my investments moving forward? After doing a background check, what is my instinct telling me about this person? Can I trust her to be a partner who lives up to her obligations? And the bottom line: Does what I know about the partner fit my investment system?

Check out the deal yourself

Take a close look at the basic details. Even if your partner is the one who finds the deals, it is still your responsibility to make sure all the due diligence is completed so that you are happy with the deal.

JV deals are often bigger than those financed individually and that *will* be reflected in your financial responsibility. Sometimes a deal sounds too good to be true—because it is. Be realistic about rates of return and payback periods. Never assume your partners have done as much due diligence as you demand from yourself as a sophisticated investor. Tour every part of the property yourself some time before closing.

Never accept the basic facts at face value. Ask real estate agents familiar with the neighbourhood about current market prices. Better yet, have an accredited appraiser review the property. If renovations are required, make sure the cost estimates are accurate and protect your investment by building in a 20% overrun factor.

If the JV involves a condominium unit purchase, get a copy of the deferred reserve plan study. Look at how maintenance issues are dealt with.

KEY INSIGHT

Always follow a proven system when creating a joint venture. You can find one titled,"Joint Venture Secrets" at www.reincanada.com .

RED FLAG

Don't be a silent partner unless the deal is going well. If something seems to be going off the rails, take immediate action. Make sure you request regular updates on how the property is performing so there are no surprises.

KEY INSIGHT

If the investment property is a distance away from your core market, it is even more important that you do your homework. This *must* include price comparisons and neighbourhood analysis. And you must visit the property yourself! No exceptions!

NOTES:

Tip #5: The Critical Success Event (CSE) in Real Estate: Ask for What You Want.

Written by Alan Jacques, founder of REIN.

A few years ago, I was interviewed for a program on success. A couple of days before the interview, the interviewer was kind enough to give me a list of all the questions he was going to ask, so I had time to prepare my answers. The interview went really well until we came to the last question—it wasn't on the list.

"Before we close," he said, "I have one last question for you, Alan. With all your success in developing and identifying systems in real estate, stocks, marketing and business, what is the single most important, multi-million-dollar idea you've learned that, if you could only keep one, if you could only teach one, if you could only use one, this would be the one?"

There was a slight pause while I recovered from the surprise of getting a question that wasn't on the list. Then, without thinking, I said, "The critical success event."

There was another pause before the interviewer asked me to explain what the critical success event was. As I thought of ways to explore the critical success event concept, there was something in the way the interviewer asked me his question that caused me to reflect on my answer and deal with the concept at a much deeper level. As you will see, it has an immediate and very important application to real estate, but it applies to any area of your life.

If we stand back and observe human behaviour, we notice that most people spend most of their time working towards something. It could be completing a task at work, reading a book or making dinner. Most human activity has some sort of desired result attached to it—there is something we want to achieve. And generally humans are pretty good at doing this, especially with day-to-day tasks.

If we look more closely, we see that most things we accomplish are the result of completing a series of steps in a particular order. When this series of steps can be repeated over and over again, by different people, and still produce the same result, we call this a system.

Thus, if we want to grow a vegetable garden or buy an investment property or coach a team to victory, there are a series of steps we must take to complete the task. That's all rather obvious.

What's not so obvious is that in most processes or systems there is one critical step that, if done, virtually guarantees a result. If that same step is left undone, nothing happens. The key to being a success at anything, the key to producing the results you want, is *identifying this single "pivotal" event that leads to success*. This is the "critical success event" or "CSE." Once you identify this critical event, *all you have to do is keep doing it*! Sounds simple, doesn't it?

Let's look at a few examples. If you want to grow vegetables, the "critical success event" is planting the seeds. If you want to get in shape, the CSE is doing a physical activity, even just walking. Pretty obvious stuff.

To win a football game, the CSE is getting touchdowns. In hockey, it's shots on goal that beat the goaltender.

In business, many people get trapped by all of the distractions that go along with starting and running a business. Financial statements, business plans, financing, hiring staff, inventory control—the list goes on and on. But none of these is the CSE. How about making a profit? No, that's a goal, not an action step. The "critical success event" in business is selling something! In business, until something is sold, nothing happens.

Now, to real estate. The "critical success event" in real estate investing is *not* looking at properties, talking to realtors, doing renovations or finding investors. It's *not* getting good tenants, going through the MLS book, getting financing or even closing on a property.

No, it's none of these things. While many of these things may be important, they are really just the "extra stuff" that you may have to do. None of them are critical to your success as a real estate investor.

You see, many investors get caught up in this "extra stuff" and forget about their *real job*.

Your real job as a real estate investor, the key to wealth in real estate, the "critical success event," is . . . **submitting offers**!

If you don't submit offers, you'll never own any real estate. If you don't submit offers, all you'll have is a bunch of ideas and dreams. They're a dime a dozen. Everybody has "great ideas" (and notice how many of these people are broke!). Until you actually submit an offer, you've done nothing!

How you structure your offer and how you make the deal will affect every aspect of owning that property—what resources you need now, how much cash flow will be generated while you own the property and ultimately how much money you'll make when you sell the property.

There's an old adage about real estate that is so true: "You make your money when you buy, not when you sell." If you buy properly, your profit will be built in from day one. Donald Trump's first book wasn't called *The Art of Property Analysis*. It was called *Trump: The Art of the Deal*. I'm not saying property analysis isn't important—it is. But until you make an offer in writing, you'll never own any real estate.

"But I'm broke, I have no cash!" If this is the case, then make offers that require no cash.

"But I can't qualify for any financing!" Then make offers that do not require you to qualify for financing.

"But I'm really broke, I need cash flow!" Then make offers that produce a positive cash flow.

Whatever your barrier is, submit an offer that deals with that barrier. The worst that can happen is the vendor says no. If a vendor declines your offer, so what? Move on to the next motivated vendor.

Look at this from the vendor's side for a moment. Once a property is listed for sale, what is the one thing the vendor, and indeed the vendor's realtor, is waiting for? Written offers. Believe me, they understand that no offer means no sale!

There's an extra bonus here that may not be immediately apparent. You will learn as much from offers that are *not* accepted as from the ones that are! You'll learn how to negotiate. You'll learn about the things that motivate vendors. You'll learn about realtors. You'll learn how to analyze a property. You'll learn about yourself. You'll learn "the art of the deal."

Remember the most important rule of negotiating: Ask for what you want.

NOTES:____

TIP #6: PATIENCE IS AN INVESTMENT VIRTUE. "GET RICH QUICK = GET POOR QUICK."

> *If you focus on what you think will be "fast money," you'll waste time and resources chasing the next deal. Real estate success does not come from a "day trade" mentality.*

Real estate markets are in constant flux, moving up and down as the months and years progress. You've probably met some real estate investors who chase the "fast money." As a matter of fact, we guarantee you have. They talk about each deal as if it's the *only* deal, that it is the one that will make them fabulously rich. When you see them a year later, they're often no better off financially, and still talking about the next deal that will make them fabulously rich. You'll notice they often appear anxious and exhausted. They're really up—or really down.

Worse yet, they often burn the relationship bridges that are meant to sustain their investment systems—they use people until they are done with them and then move on. Recreating their investment systems and relationships as they go along, they never ride the momentum of market fundamentals. Instead, these get-rich-quick artists become very good salespeople, with great stories about how you can join them and become fabulously wealthy. Their stories can be very compelling, even hard to resist. But resist you must if you truly want to make a long-term financial difference in your life and your family's. These short-term investors give real estate a bad name.

At the other end of the spectrum are investors who learn to practise the art of patience. Focusing on fundamentals, not emotions, will soon lead to a much more enjoyable and profitable way of investing. *Veteran real estate investors will tell you that it will take at least three years of real estate investing before you start to see the real fruits of your labour. Make sure you are emotionally prepared for this investment timeline.* Also make sure your other partners, including your spouse, share your commitment to long-term wealth.

In an average market, it takes three years for a property to really start outperforming the market. In a hot market, your results will come more quickly. But the bottom line is simple: Don't quit your day job thinking you'll be dining off your real estate profits in the first few years.

During these first three years of owning a property, you are building a foundation for your investment business. As you build that foundation, based on systems, relationships and follow-through, you will learn what it really means to make real estate investment decisions based on emotion-free *market fundamentals.*

SOPHISTICATED INVESTOR TIP

> Real estate investing should not be exciting; it should be boring. Indeed, a lack of excitement is one way to know your system is working well. Feel free to look for excitement elsewhere in your life, but not in your investments!

WHAT DO YOU NEED TO DO?

Develop your research strategy

Sophisticated investors must be committed to researching the latest market information and data. Use that information to look at your target market and identify the direction the long-term real estate market is poised to take. In an average Canadian real estate market, properties will go up in some regions and down in others. Not every region is a good investment all the time. Follow the proven system outlined in the book *Real Estate Investing in Canada* and you will be sure to look at the long-term fundamentals of your market. Don't get caught by a slick salesperson—do your own research.

Use accurate and trustworthy information

Visit www.reincanada.com and sign up for the free *Canadian Real Estate Insider* newsletter. It discusses the latest trends and economic shifts and will help you keep apprised of where the markets are moving. You can also log onto www.donrcampbell.com and follow the authors on Twitter and their blogs. Remember, once you start investing in real estate, you become a business owner. That means it's your job to stay informed about market trends, market shifts and opportunities. Read the business pages, look for opportunities, speak to experts in your target market and find out the inside information.

Learn your way around websites with good economic statistics. Use the Internet to look for Canada-specific economic analysis. Find local data and local contacts you can call to ask for more information.

Read economic analysis reports released by credible sources like the economics departments of the major banks and Statistics Canada. Make sure the source is unbiased.

RED FLAG

Avoid taking direction from a company with something to sell you. If a company delivers information about why a certain town offers a great investment opportunity, look behind the curtain. Does that company have properties to sell in that region?

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TIP #7: BE PREPARED FOR THE UPS AND DOWNS: KNOW WHEN TO HANG ON AND WHEN TO CUT YOUR LOSSES.

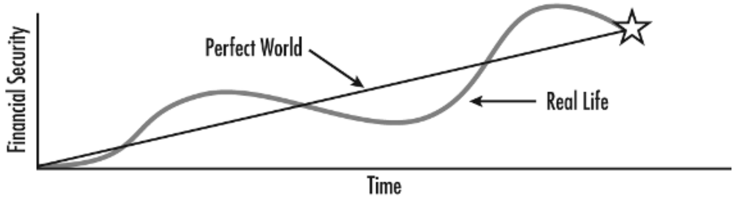
All investment systems require some financial commitment. You also need to be committed emotionally.

Sophisticated investors learn to focus on economic fundamentals instead of the emotional aspects of investment deals. Still, there are times when emotions will creep into your investment decisions. In many cases, those emotions will be positive ones, like the good feeling that comes when you've completed a deal with lots of upside. Negative emotions can also impact decision-making, although such emotions should be kept in check because you are following a system. An example may be the worry and exasperation you feel when a property is vacant and you have to carry it without rental income.

Negative emotions can lead to poor decision-making. In the case of an untenanted property, for instance, the two worst things you could do are:

1. *Sell the property out of frustration, leaving profits on the table.* A sophisticated investor will gladly scoop the property from you—and will know your decision is based on emotions.
2. *Accept any tenant you can find.* This always backfires and ends up costing you more in the long run. Sophisticated investors follow a clear and unwavering system to choose their tenants because they know a good tenant is worth waiting for—and that compromises are detrimental.

SUCCESS IS NOT A STRAIGHT LINE



Investors who take the time to develop a good investment system know they will need to be prepared for financial contingencies. That is why it is critical that you have a Staying Power Fund for all your properties. This fund should equal a minimum of two months' worth of mortgage, condo and tax payments. Think of this money as being on stand-by. It's ready when you need it!

Once you own several properties, the fund could hold a lot of money. An emotional investor may want to use that that money elsewhere. A wise, system-savvy investor will know that money needs to stay put in case it's ever needed to cover a contingency. These reserves level out the emotional highs and lows. It is much easier to sleep at night if these funds are sitting there.

The emotional impact of financial decisions can be tricky to handle. A healthy Staying Power Fund lets you manage the highs and lows without emotion impacting decisions.

WHAT DO YOU NEED TO DO?

Develop a game plan for before and after you purchase the property

Before you buy, follow your system and take an informed look at the deal, including the creation of your Staying Power Fund. Remove the emotions—*never* fall in love with an investment property!

After you own it, run it like a business. Use tested marketing strategies to make sure it is performing at or above your projections. If the property begins to underperform, do not panic or become an emotionally motivated vendor. If the property truly fit the system when you bought it, it probably still does. But do take immediate action to solve the problem. Address why the property is vacant. Look at why it's not generating positive cash flow. Talk to your network of real estate investors and get their advice. Use sound information to avoid making decisions based on desperation.

Be honest with yourself

Remember that your system is designed to help you understand how the numbers really work. If you make the emotional decision to sell too early, you will miss the eventual payoff. As long as you bought the property without emotion and the numbers worked, all you need to do is understand that this is a business and it is your job to make it work.

Some investments simply do take much longer to pay off. Do you have what it takes emotionally to stick with an investment for five to eight years or more?

Need to know if it is time to sell? Check out the following tip.

Tip #8: Know When to Sell: There Comes a Time When Cashing In Is the Best Decision.

> *There are two costs to every investment: a financial cost and an emotional cost. Learn to balance the two to make it easier on you.*

Most real estate investors will eventually find themselves holding a property that hasn't performed the way they wanted it to. In fact, if you haven't yet experienced this, you haven't owned enough properties. This is not like school where you get a big red "X" and are kept after school to write an essay about your mistakes. No, this is real life, where everyone makes mistakes. You need to deal with the mistake head-on, then learn from the experience and move forward.

This is true in all investments, from stocks to mutual funds to real estate. Not all investments will turn out exactly as planned. The difference between a successful investor and an unsuccessful investor lies in how they deal with these underperforming assets. Sadly, the majority of below-average real estate investors use one bad deal as an excuse to never invest in real estate again, thus killing their opportunity to create long-term wealth. Legendary investor Sir John Templeton was happy and wealthy when he was right 60% of the time.

So, be prepared. Every once in a while, a poor performer will sneak into your portfolio. Let's deal with what to do if that happens. As soon as you find yourself *worrying* about whether you should sell a property, take a step back and recognize the obvious: *You are letting emotions cloud an investment decision. It is time to eliminate the emotions and look at just the facts.*

What do you need to do?

Ask the obvious question

Ask yourself, "Would I buy this investment right now?"

If the answer is yes, then your job as a sophisticated investor is to look for unique ways in which to make the property work again. You may need a creative marketing strategy to attract the right type of tenant, or a few small renovations to change the income level of the property. It may even be time to fire your property management company and get one that performs to the level you need, with no excuses.

Is the bad: tenant experience making it seem like the property's not worth owning? If so, find a way to get rid of that tenant and find a new one. Each province has clear rules and regulations regarding eviction. Is vacancy an issue? Maybe you need to change your marketing strategy to attract a good tenant. Frustration over tenants—or a lack of tenants—can turn investors into the kind of emotionally motivated vendor that sophisticated investors look for! Recognize the financial drawbacks of selling based on an emotional response to a situation, then focus on fixing the frustration.

Be honest with yourself. Were your revenue projections based in reality or did you push the numbers to make them fit? Investors often find that underperforming properties didn't really fit the system and were bought based on assumptions that lacked hard and true facts. Learn from this for next time. Don't force a property to fit. It either fits the system, or it doesn't.

If the answer is no, then you need to analyze whether selling it would be the best choice. You need to look at the numbers, without emotion, and, at the same time, identify any emotional attachment you may have to that property. Maybe property values haven't increased as you expected them to. Maybe they've actually dropped, or the property's cash flow is negative, or development plans fell through that would have made the investment boom. Regardless of the specifics, it is sometimes best to take your losses, sell the property and move on to getting a positive cash flow property in your portfolio.

SOPHISTICATED INVESTOR TIP

Look for solutions, not problems.

Do not wait. Once the decision is made, do it

Talk to your accountant about the best tax strategies for taking a loss. Then sell the property, take your cash and immediately get back on the horse and buy a property that fits a proven investment system. Do learn from the previous deal and tighten up your investment system. Also remember to stay focused; you need to cut your losses and look for a property that will outperform your projections.

KEY INSIGHT

The payoff associated with selling an underperforming property is not always easy to see. Once it's gone, however, you will experience a major decrease in your stress level. That alone will help you make better decisions and find a property you'll be proud to own.

TIP #9: LEARN FROM YOUR MISTAKES—AND THE MISTAKES OF OTHERS.

Everyone makes mistakes; the key is to make these lessons count.

You must take full responsibility for your mistakes before you can take full responsibility for your wins. If you blame everything and everyone but yourself, you must then share the spotlight every time you do well.

Taking responsibility for investments that go well is easy. Sophisticated investors know they also have to take responsibility for the investments that don't meet performance expectations. More importantly, they know that every investment-gone-bad offers a valuable lesson about what they need to do better!

These mistakes make you aware that you are moving forward, not just sitting still. If you are not making mistakes, you are not being aggressive enough. Of course, don't go out with a plan to make a mistake just so you feel you're moving forward—that would be ridiculous. Just make sure that when you make mistakes (large and small), you learn from them.

Talk with like-minded real estate investors and learn from *their* mistakes as well as your own. Members of the Real Estate Investment Network (www. reincanada.com) share their mistakes and successes so that everyone can learn from the ups and downs. Find a place where you can do the same, so you are continually learning.

What's the biggest mistake you could make? You could keep repeating the same mistake over and over. According to Albert Einstein, the definition of insanity is doing the same thing over and over—and expecting different results!

WHAT DO YOU NEED TO DO?

Base each hold/sell decision on the facts

If you buy a property that initially "fit your system" and it isn't working out, decide if it is worth selling or fixing. Creating wealth takes some courage—courage to act and courage to wait. Follow a system so you know when to move and when to sit still.

Never let a mistake hold you back from taking future action. That's what unsuccessful investors do. And never let anyone in your life ridicule you for making a mistake; in most cases they are just jealous that you are moving forward and they don't understand that *all* great investors make mistakes.

Take responsibility

Learn to acknowledge that you made a mistake, then learn from it. The insights you gain from experience will far outweigh what anyone else can ever teach you. What you know now probably would have influenced your decision to buy. That moves your personal knowledge of due diligence up a notch!

Keep your system intact; just tighten it up so you don't repeat your mistake, then move on to the next deal.

Duplicate success

The power of a proven investment system rests in its ability to consistently create results that can be duplicated. This is how you achieve what you really want—having financially consistent results over time. Practise your system and your tough decisions will become simple.

KEY INSIGHT

Recognize the three components of a successful system based on duplication:

1. If it works, keep doing it.
2. If it doesn't work, stop doing it.
3. If it works, but you can't do it again, then it doesn't really work and it's not really a system!

Suppose, for example, that you get lucky and the city buys a property from you because it needs to build a new highway. Or maybe you get a hot tip on a golf-course development coming to town and buy a key part of land the developers will need. These aren't duplicatable investments. If it can't be duplicated, it's not part of a system.

NOTES:

TIP #10: BEWARE THE REAL ESTATE PRETENDER: THEY COME OUT OF THE WOODWORK WHENEVER THE REAL ESTATE MARKET GETS HOT.

Hype sells. Your job as a sophisticated real estate investor is to pull back the curtain to see what's behind the hype.

Sadly, the real estate market is often manipulated by two key emotions: hype and fear. These two emotions are commonly used to get investors to take action. Free seminars, late-night TV infomercials and syndicated shows that try to convince you that a certain city or development is *the* place to buy into are all good examples of bad real estate hype. The seminars are free only until the pitch is made to you to buy their products. The infomercials you see on television are typically based on the market realities in the United States.

In fairness, some of the pitches might be good investments. But you'll only know if you do your *complete* due diligence. Similarly, some of the packages sold at so-called free seminars may be helpful. Just don't get caught up in the "there are only nine packages available" baloney. There are always more where they came from, but the promoters are capitalizing on the fear of missing out.

These are just a few of the many, many ways hucksters take advantage of your emotions in the real estate market. Your job is to cut through the hype and see what's real.

Just do your homework and make sure that the product you are about to buy is fact-based and proven for at least 10 years of market ups and downs—and actually works in your target geographic area! Real estate investing is not about getting rich quick, so don't buy into anyone who tells you it is.

Research can show you why the $5,000 investment in a seminar might be better spent investing in the actual real estate market. It will also help you understand that because the real estate market is constantly changing, the strategies that worked a few years ago might not work today. Similarly, the people you meet may have investment systems that truly do work for them, but won't work for you.

That's why it is so important to approach this business with a healthy perspective on what it is you plan to accomplish, served up alongside an equally healthy dose of skepticism.

WHAT DO YOU NEED TO DO?

You need to buy real estate

Always remember that your goal is to take action and buy real estate that fits *your* system. In real estate investment, submitting an offer and closing a deal represents the peak of your Critical Success Event.

Keep it real

The tips outlined in this book and in the book *Real Estate Investing in Canada* will help you practise the real-world application of the old adage that information is power.

Never forget that you're responsible for the decisions you make based on the information you've gathered. Make sure the information you use is dependable and comes from dependable sources. You don't want to spend money needlessly and you certainly do not want to lose money. Avoid those who decide to call themselves real estate experts because they've done well in a hot market. Look for a long-term track record.

Keep it relevant

You need to learn to make business decisions based on data that are relevant to your specific market. You'll discover that a national average price means *nothing* to you, although it is discussed frequently in the media and on the Internet.

RED FLAG

Positive market statistics that are nationally based may have little or no relevance to the region in which you invest. Likewise, the positive investment economics of one city won't apply to every neighbourhood in that city, and not every property in the neighbourhood will perform the same as the neighbourhood as a whole. Do your homework: Use the Property Goldmine Score Card in the Appendix to ensure you are asking the key questions.

Ask "what's behind the curtain?"

Apply the same "what's behind the curtain?" rationale to every deal you encounter. This is also true of every joint-venture partner, every mortgage broker, every "real estate guru" and every advisor you listen to. Find out what the truth is and uncover their *real* motivation. You may be disappointed.

RED FLAG

As a novice investor, you're an obvious target for "experts" who want your money! They will try to sell you systems. They will try to talk you into deals. They will want cash up front—reducing their risk, but increasing yours.

Learn the "What's behind the curtain?" questions!
Ask yourself:

1. What's in it for them?
2. Do they have a financial incentive to get me to take a particular action based on the information they're giving me?
3. Do they have experience in the market or are they part of the cult of opinion? (These guys know someone who knows someone who did something somewhere. That's not good enough for you!)
4. Are they currently investing in real estate and using the strategies they're teaching?
5. Do they have a bare minimum of 20 real estate transactions to their name, thereby giving them the experience of dealing with different buying and selling situations?
6. Have they been investing for at least five years, preferably 10 years, giving them experience in different market conditions? It's even better if they've been through a full up and down real estate cycle, which often takes a decade or more.

"General rules of thumb" are for those who don't really want to create long-term success. Be aware, don't get caught up in the hype of the market and, most importantly, do your own homework. It is easier to sit back and listen to someone tell you what to do, but that puts your future in someone else's hands—someone who may not have your best interests at heart. Ask yourself, Are you truly ready to do that? Are you ready to take control?

KEY INSIGHT

Coulda. Woulda. Shoulda. These are the real estate investment world's three most depressing words! They also imply a lack of due diligence. If it's information that could make a difference tomorrow, you need to have it today.

KEY INSIGHT

This book will help you investigate every deal and every person that comes your way. Don't invest on basic rules of thumb. And definitely don't invest based on a list of 97 tips! Use the tips to enhance an investment system like the REIN Quickstart system, a system used by REIN members to accumulate over $3.3 billion of real estate.

FURTHER ACTION

Join the local chapter of the Real Estate Investment Network (see www.reincanada.com). There, you'll build a network of experienced, knowledgeable team members and access unbiased research to help you reduce the fear factor.

NOTES: