Ep #101: How to Manage the Market Cycles with Your Investments with John Schaub

Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

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David: Hey everyone. David here. You are going to really enjoy this episode of a Dentist Freedom podcast, with an interview with my good friend, long time real estate mentor, John Schaub. Quick heads up. There's a few places where you'll notice that we had some recording difficulties and there's some overlap of our voices. It doesn't detract from the great content at all, so just be aware when you hear them, that's what it is ... Not enough to redo the recording, but just enjoy it. This is some really, really good stuff here.

John: One of the first buildings I bought was a 9 unit apartment building and I thought that was going to be something that I would own for the rest of my life. That was until I met the tenants. I had to battle them for the rent every month. Every month I had to fight theses people to collect the rent.

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Good day everyone. This is Dr. David Phelps of the Freedom Founders mastermind committee, and the Dentist Freedom of Blueprint podcast. I've got a really exciting, and really, for me, a humbling podcast interview today with one of my very early, and now long time, I have to say, years have gone by quickly, long time mentor in the area of investing, in particular real estate. Everyone knows it's where I love and put my time today ...

In helping my colleagues with the different opportunities of the different markets and how to go forward.

My guest today is Mr. John Schaub. We'll just first give a shout out to John and say hi, and thanks for being on.

John: Thank you David, it's my pleasure.

David: So John, I'm going to talk a little bit about your background, and it's going to be really hard today to do justice John, to your experience and all that you have brought to not only me, but to thousands of real estate investors, for now over 40 years. You've gone through 40 sessions for tax law changes, interest rates from 6 to 16%. You've written several books back in 2005. The Building Wealth On House at a Time, which has now just recently been revised. It's in it's 20th printing.

John: I think that's right.

David: So that Building Wealth One House at a Time can be picked up on Amazon. You've assisted in more than 100,000 real estate enthusiastic investors, on a way to successful investing. I am one of those. 2007 ... a very timely book you wrote ... Building Wealth in a Changing Real Estate Market, which is very, very timely. I don't know if you saw it was coming, but you hit that one right. That's also available online and in book stores. John, you've always ... Well not always, but I would say today and for most of your investing life/career, you've recommended buying… well located houses, rather than the cheaper houses, and other more management types of properties. We'll talk a little bit about some of those today.

You've found that bare houses are more profitable, and far less trouble. You're a big advocate of paying off debt and owning your properties free and clear, and renting to only long term, high quality tenants. John, I know in the past you've had a little bit more of a team around you, as you were making more of estate building, and have a busy family today. It's you and your wife Valerie, that really manage your portfolio. It allows you to really live a lifestyle, which is something you've always done. You've always been about lifestyle. I think that's what attracted me to you most. Of all the real estate investors and the educational people out there, you seem to be more normal. I get that that's going to be different for different people.

I just got to go back and tell listeners where I first met you. You may not know this John but it was in the early 80's ... Probably around 1983. Robert Allen, you was one of your students by the way, in one of your early classes in the 70's ... Robert Allen was hosting different conferences around the country. He would bring together a touring group of different, let's call them real estate educational people, and he would line you all up on the stage and then he's have breakout sessions afterwards. You would go and choose your breakout session.

He would line everyone up on the stage, maybe 13 or 14 or 15 of you, and not only did you stand out because of your stature ... You're what? 6 foot ...

John: Some place in there, yeah.

David: So not only did you stand out in a lineup from your stature, but also your message, your transparency. I would have to say your authenticity. You weren't slick like a lot of people who sell a lot stuff out there, back then, and today as well. You just talked about strategy, a model if you will. It just made sense. So fortunately for me, you came back to Dallas/Ft. Worth, which is my hometown. You were coming back about a month later doing, back then, which is your 3 day seminar, called Brinks workshop, if you will, on ...

John: We called it Making it Big on Little Deals ... Making it big on little deals.

David: Yes, that's it. That's it. So that's what struck me, being this guys prudent self. I actually brought my dad down to that seminar John. David Tilney was in that same class, again you may not remember because you've done so many over the years, but looking back, that was a classic time for me. There's another guy, David Tilney, whose been with us, and still is a standout in real estate investment and management today. We all learn from ... I call you the four horsemen. There's you and Jack Miller ... Pete Fortunato, Jimmy Napier ... The four horsemen down there in Florida ... Sarasota, Tampa, St. Pete ... Jimmy over in Chipley and Pensacola. You four, really, I think, it's my consideration, when I was in my 20's, fortunately I caught hold of what you were giving to us and you really set my sails in the right direction early on, and taught me principles that I have continued to follow over the years.

I want to get in to some of those. I also want to tell people John, that you also give back. You give back in many ways. You serve through your work with Habitat for Humanity and today, the Fuller Center for Housing ... 20 years on the board of Sarasota Habitat, and about 7 years or more on the habitat's international board, and also on the board for Fuller Center for Housing. You're a graduate of the University of Florida, where you earned your B.A. from the college of business administration, way back in 1970. You are an accomplished boat captain, powered or sail, you're a fisherman, skier, both snow and water, and an instrument rated pilot.

John: I love… I won't deny it.

David: Yeah, you're a ...

John: I do ... It's my company. We specialize in incentives.

David: Today you're about lifestyle. You've always been about lifestyle, even when you were in estate building ... Lifestyle. You have 3 wonderful adult children that live internationally so you get to travel. You get to see them, be with grand kids ... Life is good. Let's go back in time. What was your connection to real estate? Did you jump right to single family or did you look around?

John: I started ... I'll go back to the beginning. I started in college by answering an ad for a property manager for a little six unit apartment building. I managed that for a year or two, until somebody came along and wanted to buy it. I called the owner up and said "is it for sale?" He said, "you bet". So I sold it. By that time I had my real estate license. I was senior in college. I was taking the courses so I collected a commission on the sale of that little apartment building. I made more money off of that sale than I would have working for a whole year for Sears or somebody. I thought I'd go into retail. My dad was in retail and so I decided I'll give this real estate a shot.

After I graduated, I came back to Sarasota and I had a license, so I sold things for awhile. Pretty early on, about 1973, I figured out that I liked buying things better than I did trying to sell things to other people. You don't have much leverage when you are trying to sell something to somebody. When I bought something and I held on to it, I managed it, I collected the money, I could see the end result was going to be good.

One of the first buildings I bought was a 9 unit apartment building and I thought that was going to be something that I would own for the rest of my life. That was until I met the tenants. I had to battle them for the rent every month. Every month I had to fight theses people to collect the rent. I did that for about a year until I decided there had to be a better way.

In '73 I bought my first house. I kinda stumbled into it and I found out that houses had a different type of tenant. They had more stuff. They stayed longer. They took better care of the property. About that time, I ran into my buddy Jack Miller, who was ahead of me. He had already owned about 20 or 30 houses. I was just starting to buy them. We compared notes and I got pretty aggressive and ended up with about 80 properties at one time. Mostly houses though. I was lucky because during these down turns, where the real estate just crashes, land values really plummet, commercial buildings had been empty for years and years, but my houses never sat empty.

Even during the worse recessions we've had ... We've had some pretty nice ones since 1970 ... I've never had a problem with major vacancies. Sometimes, during this last one, I had lost about 10% of my tenants and had to reduce the rent on another 10%, but 80% of my people stayed in those houses. They paid the rent. They gave me no problems at all. The rest of them, I rented back up again, I just had to drop the rent a little bit. It's a different game. Jack and I were the first to really get out and tell people about it but it's a different type of investment that other real estate ...

People tend to group real estate investments all together, but as you know, there's a big difference between a trailer park and motel and a mobile home and a apartment building and a house, or a piece of land. They're all way different. I learned to specialize and then that's what I kinda preach. I say, get good at something. I don't care if you like mobile home parks, or apartment buildings, or duplexes, but get good at it, what ever it is. I just like the lifestyle that I have because my houses are much more of a pure investment than a lot of these other properties, which are like operated businesses.

David: John, you talk a lot, and I learned early from you and also Jack, that real estate is still about people, and wanting to manage people. You put great emphasis, in fact you've done numerous seminars, you've got online courses at your website, which is Johnschaub.com ... I just want to throw that in. That's J O H N S C H A U B .com. All of your courses are there, which you update regularly.

The management is the key. Let's talk a little bit about what's your profile of the right house, which then brings you the right tenants today? You talk a lot about your tenants today, that you're in tandem ... Managing your tenants is something that is not a high intensity management like you would have in a mobile home park, or low rent property.

John: At one point we had many more properties than we had today, and we made a conscious decision to craft a portfolio that would require very little management, so we would have the ability to do a lot of traveling and do what ever we wanted, without being tied to going to the office everyday, or tied to a phone. We ended up with a portfolio of houses that attract very long term tenants. I've had a number of tenants, who have been with me near 15-20 years. My average tenant has been with me close to 10 years. Somebody who stays only a couple of years, I consider that a big failure.

I'm looking for long term people. If you think that way, then you start buying particular type of property that will attract long term people, which means a neighborhood is safe. A neighborhood is quiet. A neighborhood that doesn't have a lot of turn over, and then a house that's not going to require a lot of maintenance. All house require maintenance. You have to be smart enough to buy one that's not a maintenance hog that's breaks every month and you're always sending people over to fix it.

By combining those two ideas, by buying a house that's pretty well built, in a neighborhood where people want to live, because it's safe, it's close to things, it's quiet, and there's not much turn over ... The houses, when I own a house on a street, it's generally the only rental house on that street. There's not 10 rental houses. Mine's the only one. I want that rental house to look just as good as any house on that street. We maintain our property. We take good care of them. We take care of our tenants. We respond as quickly as we can when there is a maintenance problem, I don't have a staff, but I have contractors that work for me all of the time ... Plumber, electrician, AC guys ... Who will go out there the same day, most of the time, and will fix something because I'm a good customer. I pay them right away. I pay them a fair price. I just want good service at a fair price.

By combing those ideas, you can own a pretty good size portfolio of houses. I own many more houses than most people need, nad not work much. I hate to say I only work a couple hours a week but literally, I only work a couple hours a week, because that's all it takes. It's just a couple phone calls or a couple emails a week. That's all I need to do. If you set out with the idea of owning properties that are investments, rather than business properties, then you will have a better lifestyle.

David: John, when you talk about owning properties that don't take a lot of maintenance, are you talking about buying newer houses or when you buy an existing house that maybe is 20-25 years old? Are you pricing them in your acquisition?

John: The last two houses that I bought, had totally remodeled them before I bought them. All new appliances. All new plumbing. All new wiring, roof, AC, flooring, windows ... All new stuff, and then I bought them. I don't like doing the rehab myself David, because it takes a lot of time as you know. When you do the rehab yourself, you're paying retail for both the materials and for the labor. As in retail, maybe I can get 10% below retail, but it's not wholesale, especially in a market like today where things are busy. People don't want to work cheap. They can earn a good dollar by working that high price.

I'm much more interested in buying something that's in good condition today. You've heard me say this, but I like to fix the financing, not the structure. I don't like to rehab the house. I like to rehab the financing. If somebody has a bad loan or a financial problem, I can solve that with a stroke of a pen. That doesn't take any time at all. I've got the financial resources. I can fix that problem. I'm looking for opportunities to fix financial problems, not physical problems.

David: John, I know some of our listeners are thinking, you're acquiring better houses in good neighborhoods, close to schools and things they want. They're in more occupied neighborhoods. I know the tenants that you are renting to have good jobs because that's how they pay you rent. You've done some background checks. These are good people, that have good track records, and they're staying 10 years or more. Why aren't they not buying homes today? Why would they not turn around and …

John: The world continues to change. For the last two years, in order to get a loan, you've got to make a fairly good down payment and have a stellar credit code. Very few people have been buying … comparable basis over the last two years. Now things are loosening up again, and the credit gets incredibly loose like it did back in '06 ... I lost tenants in '06 because they went out and bought houses, because they thought it was a good deal. Now unfortunately, they paid too high of a price for most of those houses. That was at the optimal market. Even at the top of the market they could get a loan.

So many people got burned because of that. A lot of the people I rent to today, lost houses or did short sales, or had a problem during the down turn, and they don't want to go through that again. They would rather rent from somebody who's reputable and takes good care of the house ... Who keeps the rent at a reasonable price. You're right, today, if somebody had really good credit, they can go out and buy the same house that I rent, and they can have a lower payment if they own it. There's that wildcard of maintenance, and some people don't want that responsibility. Some people would rather be able to call the landlord and get things fixed, than worry about the roof or air conditioner, the plumbing ...

I will tell you, probably 30% of my people, that's just round numbers, are retired. They are folks who have sold their house, put money in the market, or they've got CD's or whatever, and they don't want to own another one, because they're 60,70, sometimes in their 80's. They just want to rest. There is a market out there for it.

David: My target listeners are primarily very busy professionals. Most of them, in default mode, invest their money traditionally on Wall Street ... 401K's often times. They've been beat up in several areas. Everybody has ... High taxes because of ordinary income, so they get bet up there. High regulation, profit margins are down because of overall healthcare changes, and many understand intellectually that real estate is a great place to go but they have concerns.

They haven't tried it. They don't have the administration background. They read these horror stories ... Which they should, about people that lost their shirt because of a over speculation at the top of a market. Most of them would be our typical, potentially ideal private investors, and I know that you advocate, and I Don't know if you still do because you're a long ways down the road in your ability, but you utilized selling to fancy and private capital investors. I thought we could talk a little bit about how busy professionals, who really don't want to get out, and they don't have the where with them all the time, to really learn how to find the opportunities to negotiate them, but if they could tag team with somebody, like you've helped so many over the years, then …

John: First of all, something that will shock some folks, but you know this, I have never borrowed money from a bank to buy a piece of real estate. When I first started the business, I was young, and didn't have much money, and didn't have that much credit. My credit wasn't bad, I just didn't have any, so the banks wouldn't lend me any money. When I found the deal like that apartment building, or a motel I bought, or duplexes, or houses, or whatever they were ...

The first house that I bought, just to give you the real story, I bought this from a retired car dealer. He was a retired Cadillac dealer from Boston, Ma. Going back, I scratch my he'd and say, that wasn't very smart John. This guy had been in the car business for 50 years, he probably knew how to negotiate. I went and I bought this house from him. I wanted the house. I still own this house. It's the best investment I ever made. Not because I made a good deal, but because I still own it. I've owned it now since 1973. That's a long time.

He wanted $33,000, so I offered him $28,000. He said no. I ended up offering him $32,500 I think. I bought it for just about what he wanted it for. I wanted to buy it with 5% down. No, he wanted 20% down, so I ended up paying him 20% down, which I borrowed from one of my salesman. Then he wanted a certain interest rate. I paid him 7% interest rate in 1973, which was retail. So I paid a retail interest rate. I paid a retail price. I paid a retail down payment, but because I still own that house, and because the payments each month were low enough that I could rent that house, and break even to start with, and then make some money down the road, that house has been the best investment I 've ever made.

The total down payment at the time was $7,000. Today that house makes me $12,000 a years, and is worth $600,000. You run the math on those numbers, and you say that was pretty good. I wish I could do that over and over again. Well, you can, if you find people who want to sell, and will finance the property from you. I'm looking at several deals right now where people are offering to finance the property for me ... To me ... At 4% interest, because if they put the money in the bank, they're going to get like .4% interest. 4% is a lot better than .4% ... 10 times better. There are folks who don't need the cash when they sell the property, who will finance property for you, and those people are excellent people to buy from because it's a good deal for both of you.

To take it one step further, when you find somebody who wants all cash, and you don't have all cash, but it's a terrific deal, then there's a lot of money ... The banks get there money from somebody right? They don't print it. They get money from depositors. If you know a depositor who has money sitting in the bank, a significant amount of money, they would probably be much happier with a 4,5, or 6% on real estate, than they would leaving it in the bank over a long period of time.

I did a seminar fro a local dental society, I think in 1984-5, someplace like that. A long time ago. We had probably 20 guys in a room ... Endodontist and the whole range. It was pretty funny because one guy, I won't tell you his name on the radio here, but he owned this office building in town, which had been empty for 6 years. I used that for an example when I first started talking.

He came up to me on the break and said, "John, please quit talking about my office building. Everybody knows I own that office building." Well, that might have been a good tax shelter but it wasn't making him any money because it sat empty for so long. What I learned ... To get back to what you're talking about, is these guys were too busy. Most of them were too busy. They had very profitable practices going and they didn't want to go off and be part time landlords but they were certainly willing to invest with somebody else who would do all the work ... Who knew how to find a property ... Who knew how to manage the property and would manage it well. It was pretty conservative. They didn't want to lose their money. Lot of times this money was siting in a pension plan or something.

You're right. There are plenty of people out there that have money sitting in the ... Pension plan, a personal savings ... That would be well served if they could link up with somebody who's honest and knows what they're doing, and is a good manager, and had a long term out look. I'm convinced the difference between people who are successful financially and the rest of them, is the perspective they have. You know, the people who will accept delayed gratification ... Who will wait 5 or 10 years for a profit, because there's big cycles in this business.

If you started to invest today when we're in kind of the top half of the market, you'd progress kind of slowly and not load up today's prices, but you know there's going to be another day here, come, maybe 5 or 10 years down the road, where there will be a lot of buying opportunities. If you're ready for that, when that day comes, you can make some terrific deals.

David: You kind of went into the next area that I want to talk about and that is cycles. I know you just kind of yawned because you've been through the major cycles. I've been through most of them as well. We see this every time the market starts to rise again, as it has the last four years, across the country, John. We know that a number of the major markets …

John: Which nobody thought they would, by the way. If you go back and read the papers 4 or 5 years, everybody thought they would never come back. Here we are again.

David: Typical of what we see ... We see it now, and saw it back in 2005 and 2006, there's certainly a lot of investment seminars going around the country. There's more shows on t.v. ... Flip this house and home and garden t.v. We've got part time people who would not normally look at real estate, that are now flipping houses or involved. That always starts to tell me, we're at least on the other side of this half of the up turn. Cycles are always going to be there. We know that with cycles come big opportunities. What would you tell people though that haven't been through the cycles and are looking at real estate today? A question would be, have I missed the opportunity? Is it too late to invest right now? Do I just wait until the next down turn? Are there still opportunities I can get involved in today?

You touched on it a little bit already, but maybe dig a little deeper.

John: The cycles are a good thing. The only thing you said that I disagree with is that I yawned through them. That's not true. My heart beats pretty fast . No yawning going on here. Some people think they can anticipate these cycles, but they're wrong. Everybody anticipates about a year later after they've happened. You just need to be ready for them. If you're a beginning investor and don't have much money, you're in a perfect situation because you don't have much to lose. If you're a 28 year old doc and you've got a $20,000 to invest, go ahead and invest. If you lose it, you didn't lose much. Give it a try. You'll learn something every time you make an investment. You learn something about yourself, and you should keep a journal.

One of the smartest things I've learned, back when I was a young investor, was to keep a journal. Write down why you bought something, the day you bought it, and why you thought it was a good idea, and what the market was doing. Go back and read that journal 10 years later and you'll see either how smart you were or how dumb you were. Most of us evolve right at the top of the market. I certainly have. The good news is, I don't buy all of them at the top of the market.

In my book, I give the advice to people to buy one house a year, which seams to be pretty slow, but if you're going to live 25 more years, that's 25 houses. That's a lot of real estate for most people. If you average in, if you buy just one a year, and you don't get carried away, and go out and buy 5 or 10 in the years where you think it's going to double again in the next two years, you won't get caught.

There's always a good deal out there David, you know that. If you go looking ... What I teach my class, the students actually go out, in the field, knock on doors, and they find deals. We always find deals. We found 12 last year. I teach a class once a year. I teach it in Sarasota, Florida. It will be the 14th and 15th of January this year. We teach it in Sarasota because it will be 80 degrees there, and it will be like minus 80 up north some place. People like to come to it.

We go out and find deals. You have to learn how to recognize an opportunity. We teach people what to look for and then we show them how to negotiate the purchase and we teach them how to manage it. Those are the three steps to the seminar that I teach. I recommend that people buy the book that you mentioned before, Building Wealth One House at a Time, before they come to the class. The book ... We build on the book. The book is kind of the overview, and it has a lot of details, but there's a lot more to learn than you'll ever learn in just one book.

David: John, talk to us a little bit about liquidity. Particularly

John: When the banks shut down, and they do ... When we have these big recessions, the banks just quit lending to investors. There's zero loans to investors for several years. When investors can't borrow money, investors don't buy investment properties. They stop buying land. The stop buying apartment buildings. They stop buying duplexes. The house business continues on, hopefully you don't have to liquidate everything in a down turn, but if you did, you take les of a hit. You'd have to take less of a discount when you sold with a house than you would with other types of property. Simply because, even in the worse times, there's still people making house loans.

We try to strategize a little bit. First of all, we never invest more than 10% of our money in any one deal. I don't care if it's you calling me. No matter how good of a deal it is, only 10%. I can never lose more than 10% in one particular deal. The other thing we do, is we try to keep some liquidity. We always have enough money sitting on hand so if the world stops for awhile, we can sit around and look at it and figure out what we're going to do next. As you know, I paid cash for the house I live in, back in 1982. I've owned it free and clear ever since. Owning some free and clear property, it gives you some liquidity.

You can get liquidity a couple different ways ... One is cash in the bank, and we don't have too much cash in the bank. The other is having an asset you can borrow against. A free and clear house that you live in is an asset that you can borrow against in any market I've ever seen. Somebody will loan you some money, maybe not 80 or 90% but probably 50 or 60%. If you needed cash and you own something free and clear, and it was a house, you have some liquidity. It's a lot longer discussion than just what we've said here, but liquidity, and having things that are fairly easy to sell, which are decent houses in decent neighborhoods, not real expensive houses and not real cheap houses, give you that liquidity.

David: One of the conundrums that many hard working and high income professionals find themselves in, is towards the end of their career, when they want to get out, and maybe they've been somewhat successful and disciplined in accumulating, aggregating a certain amount of capital, and wherever they put that, whether they've got some real estate or maybe they've put most of it in the stock market, but the problem for most of them is, once I quit active income, and now I've just got this, this amount of capital, my sale of my practice, after taxes, this is what I've got to last maybe maybe another 25-30 years of livelihood, and most traditional advisors would use that 4% rule ... I'm talking about, well, if you've got a billion dollars, you can take 4% of principle out ... $40,000 a year ... Live on that ... 25 years, you'll be down to zero. That's kind of …

John: I don't know anybody ... Successful in real estate that would even consider 4% as a starting place. Everybody does better than 4%. The reason they do better than 4% is because you go back to the numbers I shared earlier ... You invest the money and you leverage it today. You start off with some leverage, and an interest you can afford to repay, and then overtime, that loan will pay off. If you bought an asset in a growing town, and it's a good part of town, the asset will probably appreciate in value, and your rents will go up. You'll wake up 10 or 15 years down the road and you have an asset that's producing a lot of income based on your original investment, plus it's gone up in value.

It's a fairly simple formula. I have a ten year retirement plan I've talked about over the years. If people would buy 1 house a year and keep it and not refinance it ... Just hold on to it, 10 years from now, if the houses were worth someplace between $100-$150 range, 10 years from now, they'd probably have about a million dollars in equity in their property. A million dollars in equity is a lot of equity. If you had a million dollars in equity in real estate that you liked, that you liked to manage, in a good part of town, you probably wouldn't sell it when you retired. You'd keep it. You could sell it if you wanted more money, but you'd probably be happy with just the income that it produced because it will produce more income every year.

One sad thing I've seen, especially in the dental business, is a lot of people, when they get ready to retire, they can't sell their practice. I have a good friend who's an oral surgeon. He tried to sell it for years. He just shut it down eventually. A business is different than investments because a business without the person who has the skills, sometimes will go to zero, where investments ... If you own 10 free and clear houses, they're never going to go to zero. They'll always produce income. The percentage you get will be a lot higher than 4%.

I did a class on retirement investing a couple of years ago, and I start off by saying, you shouldn't have lower expectations when you retire, you should have higher expectations. You should have a better lifestyle. Don't feel like you have to cut down to 2 meals a day and drive slow to get by. Have a good time.

David: Yeah. I totally agree. That's very, very good advice. So John, what would be some advise you would give young people ...You've got young who are successful in their own rite ... Kids that are doing all different things in life, but lets talk about anybody who has a career, and they're earning active income because they like what they're doing. It could be a doctor, a dentist, a teacher ... But they also understand that investing in capital assets, either real businesses or real estate, is the way to develop a passive income and earn that well, outside of the career. What would you tell a young person? Maybe you're talking to your own kids, or it's the conversation that …

John: Step one is to develop the skills that you need to succeed in the real estate investment side, and probably the primary skill that you need is management. You need to learn how to manage people, which is managing the people who live in the properties. You put that whole piece together where you understand what property to buy, and then you know who to rent it to, and how to rent it to them, and how to take care of them so they stay a long period of time. I've always taught management. My student aid does a good job teaching management. That's step one.

Step two is, you don't have to get really good at this, but you need to buy the highest quality property that you can afford. The people that buy junk, and some people, and unfortunately some people my age, will go out and buy low income properties, that produces a lot of cash flow but no growth, and they end up paying more taxes. It always makes sense to me. I've been a high income person pretty much all my life. When you make a lot of money, what you want to do is defer the income from your investments, not cash it in today. One reason I have a little net worth today is, I've pushed my profits ahead of me for years and years and years. I haven't taken money out of my pension plan. I have sold real estate. I still own almost everything I've ever bought. By doing that, you end up with a pretty nice net worth, and it gives you a lot of flexibility of how you want to take the money out. You can take it out as capital gains. You can set up a foundation or charitable trust if you want too. You can do a lot of things with it to avoid paying taxes down the road.

You want to have a plan to accumulate assets. You want to have a plan to accumulate assets. That's what I tell the kids ... And assets that will pay for themselves or pay themselves off, and then the next important part of that is, don't refinance it, unless you can lower your interest rate, and create cash flow. Don't go pull money out in advance. Let that money grow up. Let those investments grow up so that one day you'll wake up and you'll have a little money.

David: Last question here John, and it's in regards to leverage. There's lots of different ways to utilize leverage, and use other people's time skills, experience ... Let's talk specifically about financial leverage. I know you're a big advocate about paying off debt, I ma as well. We both know to really build an estate, to build that worth …

John: Even to this day, and sometimes I have money sitting in the bank and I want to use that money, but let's say I don't have the money sitting in the bank, and I find a good deal. I want to leverage the tar out of that new purchase. Here's what I won't do David. Here's the mistake I think people make. They go back and re leverage property that they already own and they put that property at risk to buy a new property. That's what I won't do.

For example, I won't take the house I live in that's free and clear, and borrow money against this house to go out and buy an investment property that may or may not make me any money. What I'll do, is I'll make that new investment property that I buy, stand on it's own two feet. I'll make it support the leverage that it has. If I can buy a house with a very low down payment, I'll do that, as long as the payments that I have to make each month, are covered by the cash flow that property has. Leverage is a very positive thing as we both know.

A couple of things I'd like to see people avoid, especially professional, I'd like to see them avoid personal liability. If you have personal liability on a debt, when we have one of these down turns, I have a good friend here in town, who's an oral surgeon, who didn't do very well because he went out and signed a lot of bank notes, in this last run up, and then during the downturn, he wasn't able to make the payments. You can be very smart in one area, and not understand the ramifications in another area. When you have personal liability on these notes, like you do with bank loans, then you're putting things at risk. You're putting your portfolio at risk. Risk management is important to ... I've done a lot of writing ... I did a whole course on risk management. People need to balance out the risk with leverage, against the profit that you potentially have when you borrow money.

David: When money's cheap John, and relatively accessible like it is today, it's hard not to go access bank loans. That seems to be the soup de jour for investments ... In fact a lot of people who run businesses in real estate, not so much investing but the house flipping, there's very little creativity.

John: I think as it gets easier ... It hasn't been all that easy. The money is just getting loose now. The money's been cheap, but it hasn't been loose. Now we're going to see a reversal of that. We're going to see more expensive money that's easier to get. You watch. Interest rate are going to, I call it about a year and a half ago, but interest rates are going to continue to increase, but at the same time credits going to get looser. People are concerned with increasing interest rates effecting real estate prices ... I've always said it's not the interest rate that effects the prices, it's the availability of credit that effects the price. People go out and get 100% loans ... They don't care if their paying 7 or 8%, they'll take the money. We will see a run up in prices.

You talked about Trump a second ago. I think Trump's going to be very good for real estate. In the short term .... How it's going to play out 10 years down the road, but I think in the next 2 or 3 years, we're going to have a pretty nice run. Everybody's pushing money right now. We're going to have inflations. It's going to push prices up.

David: Well John, thanks for your time today. Thank you on behalf of our listeners. From my own personal standpoint, I just want to take this public opportunity to thank you for giving me direction in my own life and giving me a course that I could learn to become free, and enjoy what I do much earlier in my life or maybe not at all had I not followed the footsteps that you left. Again, I want people to have a chance to connect with you because you've been a prolific writer and educator for now over 40 years, so the website is John, J O H N, Schaub, S C H A U B .com

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