Ep #170: John Schaub - Opportunities and Pitfalls in the Current Market

Full Episode Transcript

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Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps and Evan Harris

Ep #170: John Schaub - Opportunities and Pitfalls in the Current Market

John Schaub: When should you start paying off debt? The simple answer, I think, is after you have all the assets you need to meet your goals. So if your goal is 10 free and clear houses, you want to go out and buy at least 10 houses before you start focusing on paying debt off.

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps. 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 Phelps: Good day, everyone. This is Dr. David Phelps of the Freedom Founders Mastermind Community and the Dentist Freedom Blueprint Podcast, here with you today with what's going to be a real treat, a real treat for me and I think a real treat for you. The gentleman that I had the honor and privilege of interviewing today, one who got me started in real estate back when I was in my early 20s, when I was in dental school but also realizing that I needed to create some alternative wealth, alternative revenue streams. I'd read books on the stock market, I'd read books on real estate. The stock market made no sense to me, real estate looked like something I had some opportunity to control and so fortunately through my reading and some conferences, I ran into a gentleman named Mr. John Schaub.

John, how are you doing this morning?

John Schaub: I'm doing well, David, thank you.

David Phelps: Well, thanks for being here. John, I'll give some of your history in a moment and your background, why it's great to have you here because of your wealth of experience. I wanted to relate a quick story to you is that it was 1985 and you were part of the Robert Allen, not part of his group, but you were in some of the conferences, and I remember you were up on the stage with maybe 13, 14, 15 other people that were doing some breakout sessions at Robert's conferences.

You listen to the pitches of what people were going to be teaching, and I just remember two things about you. One, when you spoke, you spoke with meaning and content that made sense. A lot of other people were selling the "what's hot today" in not always, I think, good formulas for long-term wealth investment. It was a lot about how to make a quick buck today and those strategies don't have a lot of longevity.

You spoke about long-term investing and about really what I think real estate's about. The other thing that made you stand out, John, is you stood way above the rest of the crowd and I mean that in two ways. One is I think you spoke much better than the rest, and you're, what, about six foot seven?

John Schaub: Oh, six six.

David Phelps: Six six. So two things made you stand out. But here's the back side of that story. You're doing your Big on Little Deals seminars back then and I signed up for one of those and brought my dad, my dad down from Colorado, where I grew up. We went to your course back in 1985 and not only did that help propel me forward and give me, I think, the governance to do the real estate investing the right way, to follow some basic tenets that you continue to teach today, but I got my dad involved. He built up his own portfolio, a hardworking, practicing physician, but it got him excited enough to do that.

John, he passed away in December, but I look back on those great times and some of the stuff that we did together and that was one of those that brought back some great memories. So I have to thank you for that, for being out there, and not only being a great humanitarian but also just being willing to teach what you've learned.

John Schaub: Well, thank you. It's been a great privilege to teach the course and I enjoy it. You know that, when you speak to a crowd and they catch on to some new ideas and they light up and they go out and use 'em to improve their lives, it's a wonderful thing.

David Phelps: It certainly is. I'm not gonna call you old because I'm not too far behind you, but I'm gonna call you wise.

John Schaub: I like that better.

David Phelps: You graduated from University of Florida back in 1970 with a BA from the College of Business Administration. You jumped out and got your real estate broker's license pretty early but you didn't stick with brokerage, right?

John Schaub: No, that's right. That's right. Well, I was in college, actually, I got my salesman's license and sold an apartment building while I was still in school. But when I got out, I bought a brokerage operation and I found out I didn't like it. I had 13 salesmen and I was just babysitting salesmen all day long. So my heart was in acquisition and management of property, so I switched pretty quickly. I bought my first house in 1973 and I still have it. So we started pretty early in the game.

David Phelps: Yeah, no doubt. And so through those four some decades now, you've experienced three recessions, a multitude of tax law changes, the most recent one just happening at the end of this last year, and interest rate span from probably what we have today, all the way up to, what did we have back in 1980, '81, up to 18, 21%.

John Schaub: The highest I ever paid was 14, but you're right, the rates got up way into the high teens. The interesting thing was, people were still buying houses. We'll talk a little bit about that, if interest rates change, how that'll affect the market.

David Phelps: Yeah.

John Schaub: Yeah. It was interesting to live through, so you experienced it.

David Phelps: Yeah, no doubt about it. You evolved pretty quickly from buying houses that you probably wouldn't buy today and I think that's where a lot of people start with their investing. They'll buy the cheaper houses because they're essentially easier to acquire. They may be cheaper, that kind of thing, but what you found out is that better quality, better located properties attract better tenants and that's just worked out a whole lot better for you and that's still what you would espouse today, correct?

John Schaub: Oh, absolutely. Absolutely, and then if you're already doing something else for a living, most of us have other things we do other than just real estate, you want to be as efficient as you can with your time. Rather than having 20 $50,000 houses, you're much better with ten $100,000 or five $200,000, or even one million dollar house if you can make the numbers work because it's just, it's the same amount of real estate. We're trying to control as much real estate as we can and get the best cash flow we can off of it, with as few moving parts as we can. So more moving parts is not my goal. Having a whole bunch of tenants is not my goal. Having as few as possible is my goal, so that's taking a little different approach than some people.

We started off, David, you know I started off buying apartment buildings and duplexes. I thought that's where the money was because everybody knows that cash flow looks better on apartment buildings and duplexes. I soon found out that the management was just killer. You couldn't do your day job and manage a bunch of apartment buildings and duplexes because the tenants were just always causing trouble. We pretty early on transferred out of those type of properties into houses that were a lot lower management and gave us the same returns but at a lot less personal cost. I didn't have to spend as much time managing them.

David Phelps: That personal cost is something I think a lot of investors or maybe newer investors don't really understand. As you said, the personal cost, the moving parts, cost you time. There's also expense. More turnover. Turnover's the biggest expense we have. When you have houses that are less desirable, let's say, tenants don't typically stay as long and that are usually not as responsible. They may be harder to collect rent from. When they leave, oftentimes they leave the property in not very good condition.

New investors sometimes getting frustrated because they think they're doing the right thing by getting involved in real estate, but as you said, the people I'm talking to today on this podcast are typically professionals. There's dentists, doctors, chiropractors, veterinarians and what I try to teach them and you do the same thing for people who don't want to be in the business of boots on the street and managing properties, is those better properties give you a lot less headache, so that return on your capital also has to be combined with your return on effort, your return on time. And that's a big piece that many times I think people miss, right?

John Schaub: I agree. Quality of life is so important and that's why we do this. Really the reason you invest is to have a higher quality of life, more freedom to do things. If you're not educated and you don't think through it, you end up buying the wrong type of property which just causes you trouble. A lot of people do burn out. It's not for everybody, but if you're smart and buy the right type of property and finance it properly and learn how to manage it well, it's a lot easier.

David Phelps: I think a good place to go is where we are in the market right now. In fact, I'm gonna mention something today because it's relevant. You've been giving seminars. You're not a seminar a month guy, you're really, you do one yourself a year. You do one with our mutual friend, Pete Fortunato, you've got one coming up in Tampa, May 5th and 6th. The topic is Opportunities and Pitfalls in the Current Market.

Let's talk a little bit, just maybe peg a few of those things. People would say that right now, John, we're somewhere near the top or maybe near the end of this long bull run we've had since the last downturn in 2008, and the opportunity's passed us by. Should people be holding back and waiting for the next downturn? What's the strategy in this, the basic strategies in the current market where we are as you see it?

John Schaub: Well, you know, in my book, Building Wealth One House as a Time, I encourage investors, especially investors who have another job, not to go all-in in any market, to average in and average out. By doing that, by buying one house a year or if you're more aggressive, two or three houses a year, but for most people, one house a year is enough. Instead of buying more houses, you can buy a little bit better house if you want to invest $400,000 instead of $200,000, you know, buy a more expensive house. We'll talk a little bit more about that later. You don't want to buy a fancy house. I don't want people to misunderstand that. When I buy a more expensive house, it's generally because it's on a more expensive lot. Still a fairly basic house but it's in a better neighborhood so it's on a better lot.

So by buying one at a time, they buy one a year, even if this is the end, you're not gonna get hurt much. If this is the end, you'll know it next year. Next year, you'll start getting ready and what will happen to you, you know you can't sell short in the real estate business. It would be nice if we could sell a house short. You can sell some stocks short that are real estate related, but as far as hedging your bets, the best way to hedge your bet in a real estate business is to be ready for the next cycle. Cycles are natural things and in the real estate business, cycles are caused by prices going up.

One day investors and people who buy houses will wake up and say, well these prices are so high that an investor will say, I can get a better return just putting my money in the bank, or just putting my money someplace else because if prices get high enough, and we had this at the end of the last cycle, where in my town anyway, houses got to be $350,000 and they were renting for $1,200 a month. Well if you look at the comparison of the relationship between rent and the price, you say, why would I buy a house for $350,000 that only rents for $1,200 a month? So people quit. The same thing happened to homeowners, of course. They looked at that $350,000 and said, we can rent that house for $1,200 a month. Why would we buy it for $350,000?

So there are just natural cycles. There's a natural balance between rates of return and rents and prices in the house business. When they get way out of whack, then you can see that the handwriting's on the wall, that the market's gonna slow down or stop.

I have a little different perspective, though. I just spent three weeks in Australia. My daughter lives in Sydney, so I go over there three or four times a year. We spend a good portion of our year over there. They've had about a 20 year run in their market. It doesn't always, some people say well, every seven years or every eight years, there's a cycle. That's just simple thinking because cycles are not that predictable. They're generally caused by different things. The last one was caused by a wild credit market where anybody could borrow money, even without income, and we don't have that today. There'll be another cycle, but we don't know what's gonna cause it yet. Although some people will predict it, everyday people predict stuff all the time and they're rarely right.

David Phelps: So John, the people that get hurt in market volatility, particularly when they're investing, maybe the word is not even investing. Maybe I should say the word is speculating in a market like we're in today perhaps. People that get hurt are those that don't have any long-term outlook. People that acquire and invest in the right properties, even if we have a market recession, a reset, and values go down. Even if you have to lower rents a little bit to retain tenants, what does that do for us when we go through that market cycle? So say someone buys that house this year, say maybe next year we do have a reset. If that person has acquired the right house with the right financing, what are the issues? Are there any?

John Schaub: Well, sure. What I've done, have been in the market now and my bio says three recessions, I'm up to four now and I'm looking forward to the next one. I will tell you, the first one was no fun at all because I didn't see it coming, but after you've gone through one bad recession, and I'm, we had one in the 70s, then you start paying attention. You say, let's not get in that position again. Back when I first started I had a lot of short-term financing, and that'll really get you in trouble in a recession because let's say, for example, you took out a five-year loan today or a three-year loan today, you don't know what rates are gonna be like or what the credit market's gonna be like. If we're in the middle of a big recession when your note comes due three or five years from now, you're toast because prices will be down and it'll be really hard to borrow money.

When you think about it, that's what causes recessions, typically. The banks get in trouble and they just stop lending money. I've been giving speeches for a long time and it's funny 'cause in periods where money is really loose, people just can't believe that'll happen. I was talking to a real estate groups here back in, ten years ago, right before the last recession, I said, you're not gonna believe this, but there'll be a time when banks won't lend money to investors. Everybody laughed and said, oh that's not true. You'll always get money from banks. Well, of course they shut down. They shut down investors and they shut down homeowners, so when the credit market disappears, that really hurts the real estate market.

When they stop lending money on real estate, there's not that many cash buyers and the cash buyers, of course, get bargains. A lot of markets saw a great increase in cash buyers. I'm sure you did in your market, where there were more people buying for cash than there were financing at some point in the market because banks weren't lending and that's when the real deals are available is when the banks don't lend.

So if you're gonna be a long-term investor, you wanna be, you wanna stay in a position so then if there is a cycle, you can take advantage of that cycle. You'll find that your prices get a lot better relative to real value in a recession than they are today. You can still find a great deal today, but they're harder to find because there's not many people in trouble. The great deals today are typically from folks who have opportunity, not people who are in trouble.

David Phelps: Let's define a great deal. Most people would think that a great deal means you have to buy something at a discount to the current market value of that particular asset. That certainly can be one way, but in a market today where values are higher, what are some of the ways to define a great deal for you, John? How else can someone create a great deal?

John Schaub: Well in my book I talk about, and this is pretty simplistic, but I'm talking to newer investors here, I'm saying that you should always buy at least 10% under the market, not put more than 10% down, and not pay more than 10% interest. People say, well 10% interest is pretty high and I say, well, you go out and try to buy a house 10% below the market with 10% down and then see how easy that is. You've got to work to do that.

So I'm not telling everybody that's easy, but just put it in relative terms that really the benefit of buying today, I think, is the financing. I'm gonna, this class I'm gonna teach with Pete here next weekend, my advice to people getting started is, go out and borrow a million dollars as fast as you can at four percent for 30 years. These rates are just terrific right now. I think we're gonna wake up in five years and see much higher rates because you've been around for a while now and you know that four percent is not a normal interest rate for a 30 year loan. The average is generally seven or eight, so these are kind of half-price loans and for people getting into the business today, even if they pay a retail price for a house, if they can get a really good loan, they'll have cash flow. They'll be in a safe position.

The game today really is to borrow some money at really good rates rather than try to buy a house for fifty cents on the dollar which it could happen, but that's a long shot today because the only person that's gonna sell you that house for fifty cents on the dollar is a person who has terrific opportunity someplace else, maybe just inherited the money and wants to put the money someplace else, so they'll sell the house real cheap.

David Phelps: Yeah. Good points Good points. We have a generation right now that is facially called the Millennials. I think maybe you got, I've got a daughter who's a Millennial, but you've got some kids that are Millennials. The greater majority of them have held back from buying houses. They've been renters for various reasons for the last four, five, six, seven, eight years. Seems like the tendency now is mainly they're starting families now and they're entering the homeowner market. Do you see that regionally? Do you see that nationally, John, and what effect does that have on the real estate markets?

John Schaub: Well, I agree with you. I've been talking about this for a couple years, but that's a big generation. I have three kids. Two of them have babies and the other one will soon. I shouldn't say that on radio, should I? But yeah, the next generation is starting to reproduce and when they do, you're right. They move out of the apartments and start looking for a house. They may rent for a while, but eventually these kids are all gonna buy houses.

So there's a big boom in the apartment building business right now because there's so many of these people renting houses. When the apartments all fill up, and the apartments they're building in this town are pretty expensive, they're not cheap anymore. They can go out and buy a house today and have payments for about the same amount they're paying for that apartment. I think they'll be moving into the house business and we're seeing big booms in house prices in areas where Millennials are moving into.

We've had some big run-ups in those prices here just the last couple years because most of them that I know anyway have good jobs. They're making good money and they want to buy a nice house. They're spending that money on houses so I think it will affect the market.

And the other thing is, people on the other side of the specter are the people in the 75, 80, 85-year old, they're trying to stay in their houses. Many of them are in good health and many of them will stay in their houses five or ten years longer than their parents did. People aren't moving out or not selling as fast as they used to, so most markets have a real shortage of housing inventory right now. The builders are trying to catch up but it takes a long time to develop a piece of land and build a house anymore so they're not catching up very fast.

David Phelps: Yeah, exactly. John, you often describe three subsets of population demographics. There are the Starters, or we just talked about the Millennials, getting started in life, first home whether they're renting or buying. You've got people that are in mid-career, we call those Estate Builders. Then we have people on the back end, you just mentioned as well. They're staying in their homes longer. You used to call those Enders, I think now you call them Spenders, right?

John Schaub: That's Valerie's word. She didn't want to be called an Ender. She says, I'm not an Ender, I'm a Spender. That worked out pretty well.

David Phelps: Yeah, so with those three different categories, how should investors look at those categories and utilizing the relationships or the differences in goals in life for those three different people? How does that all work?

John Schaub: Well, you know, you and your dad are an awful good example of that and my dad and I did the same thing, basically. I didn't have this thought early, but I had this thought later in my career that I'm only gonna inherit property once, I might as well inherit more. So rather than buying a lot of insurance, like Merchant home insurance or other type of things which you may or may not use and may disappear, we helped Dad start to buy houses. So we bought a bunch of houses and of course when Mom and Dad both passed, we inherited those houses and got a stepped up basis and that was a big deal. That was a big deal.

Helping other people, generations working together, is a wonderful thing. I had a good friend who taught me tax law years ago and he said, the best estate planning, the best asset protection you can have is a family that gets along. If you have kids or you have parents or you have relatives of any kind, or even good friends that you can call financial friends. You don't have to be related, necessarily, but people that you can do business with and get along with, there's some remarkable advantages to that.

We do, when we talk to these classes, we recognize in these classes we have people who are just starting and people who maybe have their first million dollars and then people at the end of their career who are trying to convert, probably don't need growth as much as they need income. There's a natural way for these folks to fit together.

For example, somebody who's retiring might be looking for somebody to manage their properties, and they can find some younger person who's getting started who has some experience in managing, who knows how to manage, but of course they could learn from their senior partner, too. You could, just like in a law firm when they bring in a new lawyer, they don't, they're out of law school but they really don't know what they're doing yet. You link them up with somebody who knows what they're doing and you teach them.

An older investor, if a younger investor and an older investor can link up, and I did that. One of my first investors was my landlord in a little place, a little office building where I had my office. He'd been a landlord for 40 years. His name was Joe. Joe taught me a lot about landlording just because we started buying stuff together and he gave me helpful hints. I'd do all the work but he was a great mentor. So finding that type of person to invest with or to borrow from or just to have lunch with. I used to take Joe to lunch every week and I'd always take him to Wendy's. And this guy had a lot of money, but people with a lot of money, it's like that book, The Millionaire Next Door.

David Phelps: Right.

John Schaub: It's funny, people with a lot of money don't want to eat caviar and drink champagne at lunch. They want Wendy's.

David Phelps: Well, they're people that like people that like them, right? No matter what age you're at, if you've been in the game to some extent, you still want to be in the game. In this case, when you're getting up in years and you've got the wisdom and experience, it is fun to live vicariously and invest somewhat vicariously, more passively, maybe through that younger starter or that estate builder, right? That's where the fun is.

John Schaub: I talked to one of my students who's a retired doctor, but he just retired when he was 85, so he worked a long time. He's now 94 and he's thinking about selling off some of his property.

David Phelps: You think?

John Schaub: He took my class back in the 70s, so he's got 40 or 50 properties, and he's thinking about maybe starting to sell some of it off. Isn't that something? I think, and as you pointed out, staying active keeps you young. It's good for you. Gives you something to do. I really pity people who have nothing to do but play golf. What a frustrating game, you've got to play it every day.

David Phelps: Yeah. No, no doubt about it. No doubt. So let's talk a little bit about debt and leverage. There's two side of that. We know there's really good debt, there's bad debt, or consumption debt, lifestyle debt. People should look at debt as some opportunities, both from an acquisition side, you mentioned long-term, fixed rate financing being a great opportunity today. Other than the fact that we need debt, we need to use debt, we need to use leverage to acquire assets, and again we're talking about cash flow-producing assets, again not lifestyle, but that's a critical part. When, John, should people turn the corner and start paying down debt? Is there a time in one's life when you should shoot to be debt-free, do you think?

John Schaub: Well, debt-free is a wonderful thing. I've encouraged people for years to get the house they live in debt-free because that makes you, that's a warm and fuzzy feeling knowing you come home every night and the house you live in is paid for and you're not gonna lose that. In fact, I wrote a little monograph on that years ago about how to get your house free and clear. We paid cash for our house in 1980, and we still live in the same house, it's been free and clear ever since. I'm thinking that you're in the house business, you should be able to live in a decent house and it should be paid for.

But to your point, there is a transition period. Answer the question, when should you start paying off debt? The simple answer, I think, is after you have all the assets you need to meet your goals. So if your goal is 10 free and clear houses, you want to go out and buy at least 10 houses before you start focusing on paying debt off. If you just bought one house and try to pay it off first before you bought your next house, you'd never make very much progress.

The program should be to acquire assets that hopefully will grow in value, that produce enough cash flow to pay off their debt, and then have a plan to hold them until the tenants pay off your debt. We don't typically go out and write checks and pay off debt early unless there's some extraordinary circumstances. For example, when we bought a bunch of houses back in the 80s that had high interest rate loans on them. They were 14% loans, but we were able to buy them at deep discounted prices. We were able to buy them with nothing down, just taking over the loans, so they were good assets to buy at the time for us. We did refinance those loans as soon as we were able to. We sold some of those houses off, paid off some of the other houses, so in some situations, you pay off your debt early just because the debt is expensive.

Today, if you go out and borrow money, if you can get a six percent 30 year loan or a five percent 30 year loan, I would say the plan would be to hold on to that loan until it got so small that it didn't make much difference. You wake up 15 years from now and your house is worth maybe $400,000 and you only owe $60,000, maybe you pay that $60,000 off because it would increase your cash flow by 800 bucks a month or whatever the loan payment would be.

There's a time where it becomes pretty obvious that it's the right time for you to pay off debt. When I teach, I taught a class on Retirement Investing a couple years ago and the title was, How to Retire Sooner with More. In that class, I make the point that I think it's always good to have some leverage as long as it's very safe leverage. So if you have a $50,000 loan on a $200,000 house, you're never gonna lose that house with that small a loan. But if you're gonna borrow more money, as you get further along in your career, then you wanna make sure that is very safe debt. No personal liability, no variable interest rates, no balloon payments, the things that can cause you problems down the road.

David Phelps: No, that's great advice, John. We've mentioned, I've mentioned you've written several books, you have done a number of home study courses which are actually the recordings of live seminars, workshops that you've done over the years. You've got 10, 12, dozen or more and also the class you're doing with Pete Fortunato coming up. Best place for people to go and get more information to find the resources you have, follow you, your website, johnschaub.com best place to go?

John Schaub: That's correct. J-O-H-N-S-C-H-A-U-B.com

David Phelps: Everything's there, so if you like some of the things you're hearing about, John's broken down a lot of these concepts into some nice courses. I've got every one of them, John. I bought everything you had over the years because you've endured, as you've said, through all the cycles in the interest rates. You're a guy who's still standing tall, at six foot six. I like to follow people that have a proven track record because there's always change in the marketplace. There's always turbulence and volatility and to follow someone who's weathered that, who's gone through it and stayed up on top. That's the key to everything in life, 'cause we're always gonna be in a changing environment and to understand how to position oneself to be not reactive but be proactive, I think, is the key.

John Schaub: I agree and it makes it more fun. If you were in some market that was just steady as the day is long, had your money in T-bills or something that never changed, then that would be pretty boring. What we do is not boring. What we do is interesting. I like that part, but again, and I tell people this, don't look for excitement in real estate. If you want excitement, let's go skiing together and I'll take you down a black bump route, that would be exciting. But, no, you should look for, real estate should be somewhat predictable, but as you point out, it's always interesting because the markets change. You're dealing with people and every deal you buy is a little bit different. The structure's always a little bit different, every tenant you rent to is a little bit different. I really enjoy the buying part, I really enjoy the managing part, I enjoy the financing part. I just like what I do, so I'm very fortunate to be in a position that I have fun every day.

David Phelps: Well, John, we've finished the tail end of about a 40-year cycle of declining interest rates, going back as we mentioned, back in the early 80s to down to where we were down four, five percent. Today, rates can really only do one thing and that's go up. Now again will we have a long-term trend of rates going up? Who knows. But let's talk a little bit about what happens to the real estate markets when interest rates do go up. Again, you've seen it both sides. What should we look for, what should we be aware of, what are the pitfalls of rising interest rates, what are the opportunities?

John Schaub: Well, you know, actually they can two things. They can just stay where they are or they can go up. They've pretty much stayed where they are for a long time now if you think back on it. We haven't had much movement in interest rates in the last number of years.

What my experience was when rates went up, back in the 70s, which is a long time ago now, the rates were going up because of inflation. I'm a lender as well as a purchaser of real estate. I lend money to people who buy real estate, who invest in real estate, and people come to me all the time for loans. So if somebody came to me today for a 10 year loan, I would think very hard about that because I'm anticipating that we're gonna have some inflation over the next 10 years and I'll adjust my interest rate to compensate me for that inflation because when I get my loan money back in 10 years, it's not gonna be worth as much.

Well, that's why interest rates go up is when lenders anticipate inflation. People who buy these mortgages on the secondary market anticipate inflation, which is investors in the bond market and everything else, it drives the rates up.

Well inflation also affects house prices. So if we have five percent inflation next year, house prices, the cost of materials to build a house, the cost of land to build a house on, all of those things will go up in price. It doesn't mean they're becoming more valuable because the dollar's becoming less valuable is what's happening. So when the dollar is becoming less valuable, you wanna be invested in an asset that benefits from that. Of course if you're invested in a house with a mortgage on it, a fixed rate mortgage, you're in the best place in the world. That's why Warren Buffet said a year or two ago, that if he could figure out how to do it, he'd go out and buy $100,000 houses, a 100,000 houses with fixed rate loans because he says it's a slam-dunk deal. Houses will go up in price with inflation and mortgages stay constant. So it's not rocket science, it's a simple formula that works very well.

David Phelps: A number of years ago, probably 20 years or more ago, John, I remember you saying something that really stuck in my head. It made a big difference for me and you talked about the fact that in real estate, we're in the money business. I had to think about that for a little bit 'cause I thought, well, money business? We have to have money to acquire real estate, but I didn't think about being in the money business. I thought about, as you said earlier, the moving parts. Acquiring property and maybe fixing it up, rehabbing it, managing the tenants. But you said something that really hit me and that said, you said, I'd rather rehabilitate the financing for property rather than rehabilitate the property itself, meaning that you don't like to go in to do heavy renovations, you'd rather deal with financing.

Talk a minute about that. Just give our listeners a little bit more of a concept of what you mean by that.

John Schaub: Yeah. Well, that came from experience when I'd rehabbed a couple houses, as most people have, and it always takes me longer to do the work and it always costs me more to do the work than I thought it was going to cost going in. When you rehab a house, the house is sitting dormant not producing any income for a period of time, plus you're putting more cash into this investment. So even if you bought that house with nothing down but then you spent $30,000 rehabbing it and it took you six months to do it, you've got $30,000 cash into it and you haven't collected any rent for six months. So the math doesn't work out for me, not to mention just all the soft costs, like somebody has to go out there and pick the paint colors and talk to the roofer and all the stuff you have to do to make it happen. It just wasn't a very efficient use of my time.

The bottom line was, I wasn't having a good time doing it. My philosophy is if I'm not enjoying the job, I should let somebody else do that job. So the last two houses I bought have been totally rehabbed by somebody else. Well, that's my kind of deal. I like to buy houses in perfect condition, that somebody else has picked the colors and done all the work on and now will sell to me cheap.

So as you say, I'm in the money business. I'd rather keep it as clean as possible and not get my hands dirty going out and supervising a construction job if I can just buy something cheap or buy something with a loan that I can renegotiate or somehow make a deal because I negotiate a deal, not because I used my back to make this deal, make a house better. No, I don't want to rehab it, I want to buy it on good terms or buy it at a good price.

David Phelps: Good. Good. All right, last concept I wanna hit with you here this morning and that is liquidity. So, again, talking about being positioned for volatility, changes in the marketplace whatever those may be, but being opportunistic. Can somebody be still relatively well-invested with their capital but still be relatively liquid or positioned for changes in opportunities?

John Schaub: I think so. In the real estate market, we have the opportunity to buy with leverage most of the time. Now you can buy for all cash and get a great price sometimes, but in a market like today, you're not likely to do that. I think today if you're getting started or if you're a seasoned investor and buying more properties, you're gonna buy with leverage to start with, which means you're not gonna use too much of your cash.

I think it's wise to have some cash set aside at all times. If you're far enough along where you own some free and clear property or have properties that have a lot of equity in them, then you have the option to raise money from those properties. You can either borrow against them or sell them and get cash that way. When you anticipate that we're getting close to the end of the market and if you talk to people who have a lot of money you'll see that they're getting in stronger cash positions now because they don't know when it's gonna happen but they're pretty sure at some point they'll have the opportunity to buy at really, really good prices again. If it's one year or five years from now, you're not giving up a whole bunch while you wait if you have a little bit of money sitting in cash.

The other thing you should have is somebody who'll lend you cash, and I'm not talking about a bank. I'm talking about knowing somebody who understands what you do, trusts you, who'd be willing to lend you some money for a really good deal. During the last downturn, we bought some terrific deals and I ran out of money, so I talked to friends who had money and they put up the money. We bought more terrific deals. It was just remarkable.

So now's the time to be talking to people you know or make new friends. If all your friends are poor you need to make new friends and have some financial friends who understand what you do and they'd be willing to invest with you during this downturn.

There's almost 20 trillion dollars in retirement plans in this country, and a lot of those only earning two or three or four or five percent, if that. So a lot of that money, you know some of it's in great big plans, but there's a lot of individuals like you and me that have retirement plans and need to invest that money at a little higher rate, those are good people to talk to.

David Phelps: Yeah. Absolutely. Your network is your net worth. The people you know, the people you surround yourself with, to me that's the best insurance policy, John. Solid people that are with you when you, maybe you need some help but if you've got assets, you can always liquidate if you've got people around you that understand what you're doing and looking for opportunities to invest with or through somebody else that knows their way around.

John Schaub: I agree.

David Phelps: Very good. Very good. Well, John, it's always an honor and a pleasure to be around you, whether we're doing a podcast interview or I get to sit in one of your workshops. So we actually have the benefit of having you come to our Freedom Founders meeting and you're gonna keynote for us, coming up in our June meeting. We're really looking forward to that and I think there's a few guys that are bringing some tennis racquets. So if you're up for that, might have a little doubles going on.

John Schaub: Okay. Okay. If you're kind to me.

David Phelps: All right, well, John Schaub, thank you again so much. You can find more about John, books, courses that he does at johnschaub, J-O-H-N-S-C-H-A-U-B.com. John, I always appreciate the time and everything that you do to give back to people and the community and the world as you do so well.

John Schaub: Okay, thank you so much, David. I appreciate it.

David Phelps: You bet.

John Schaub: Bye bye.

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