Ep #203: Paul Moore - How to Lose Money

Full Episode Transcript

With Your Host

Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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David Phelps: Good day, everyone, this is Dr. David Phelps of the Freedom Founders Mastermind Community and Dentist Freedom Blueprint podcast. Have today with me, a gentleman I've been looking forward to having on the podcast today and to have an interview and have a real conversation. Learn more about his background, really why he does what he does, and a little more about the backstory, which is always interesting to me. So let me welcome our guest today, Mr. Paul Moore. Paul, how are you, sir?

Paul Moore: I'm doing great. Thanks, David.

David Phelps: Great to have you here today. Paul and I have had a chance to meet in person a couple times this last half a year and I'm really looking forward to this opportunity just to get to know you better. This is not just for our audience. It's for me too as well, Paul, because I think there're some synergies and things we think a lot like and things we're doing with people we work with. Let me give people a little bit of an idea of who you are.

After graduating with an Engineering Degree and an MBA from Ohio State, Paul started on the management development track at Ford Motor Company in Detroit. After five years, he departed to start a staffing company with a partner. They sold it to a publicly traded firm for $2.9 million five years later. Along the way, Paul was a finalist for Ernst and Young's Michigan Entrepreneur of The Year two years straight. Paul later entered the real estate sector where he completed 85 real estate investments and exits, appeared on HGTV Special Real Estate episode, rehabbed and managed dozens of rental properties and developed a waterfront subdivision.

Started two successful online real estate marketing firms. Three successful developments including assisting with the development of a Hyatt Hotel and a multifamily housing project led him into the multifamily investment arena. Paul cohosts a wealth building podcast called How to Lose Money and is a frequent contributor to BiggerPockets, using live video blog content on a weekly basis. Paul is the author of The Perfect Investment: Create Enduring Wealth from the Historic Shift to Multifamily Housing.

Paul, the podcast, How to Lose Money that seems totally opposite to what most people out there today, Plus people tell you, they're talking about, how to get rich and how to make a lot of money and how to live the big life. So why did you want to label a podcast title How to Lose Money?

Paul Moore: David, my daughter and I, I've got four kids and my oldest daughter who's 22 now, she and I used to go to a father-daughter retreat at Callaway Gardens in Georgia. Every year the speakers and the leader of the retreat would get up and they would talk about all their wonderful success stories and how they would trump it kind of parade their family in front of the group. In fact, they would actually show pictures and say, "Here's the outing we went on. Here's the great trip we took to Europe. Here's the one fun things we did. We just made a movie."

I would sit around the table and we'd have these discussion breakouts with the guys at the table and they would actually, they would start hanging their heads at some point saying, "I'll never be that way. I've got a 50-hour week job. I don't know how to get to that point. I don't know how to be a good dad like that." And my daughter, about three or four years into this said, "Dad, I got to be honest, I'm sorry, but I kind of wish I was part of one of their families because they don't argue and we do and they do all these fun adventures," so I started challenging the people. I would write these things at the end of the retreats and say, "Hey, why don't you tell us about your failures or problems?" Because I actually got to know one of the main leaders kids pretty well. They got to know our kids and they said oh, they fought like cats and dogs at home. And we were shocked. But I actually felt hope rise up in my heart.

And I said, "Hey, wait a minute if they argued than maybe we got hope." And later I found out that there were a lot of problems in those families and some of them, unfortunately, came out really publicly. So when I wanted to go to start a podcast, I wanted to talk to successful people who had problems in their past. Problems, failures, mistakes, things like that that we could learn from because I wanted to give people hope. I wanted to say, "Hey, if Wade Meyers, who lost $71 million of Goldman Sachs and Morgan Stanley's money in a deal on a dot com blowup is now as successfully as he is." He's a guy out of Dallas. You might know him and other people we've interviewed. Then there is hope for me. There's a story about a guy sitting in an airport, and he said he was sitting next to a guy, and the guy told him his dream of starting this new ... Inventing this product and starting this new company.

That guy mailed him a million dollars later and he went out and they both became really, really successful and wealthy. Now, if I hear that story on a podcast or wherever what can I do with it, David? Do I go sit in an airport and wait for some wealthy guy to come along and invest in my ... It doesn't work. But if I heard his failure and I heard the process he went through to get back to success, that's really helpful. So that's why we do what we do.

David Phelps: Yeah, I love that. I feel the same thing as you go to conferences, you go to meetings, you go to seminars and yes you like to hear the instructional steps that someone made to get to where they are, but if they don't lay in right, bring in the areas where they failed and they had to figure it out and step back in. I don't feel like we come away with nearly as much and so I love the fact that you've highlighted and you go this direction because the lessons are really key.

You're in your own life, you've got a background story that you went from riches to rags and back again. Let's just take this opportunity to talk about what you've learned in that process, Paul. Kind of lead us through that story and what were some of the lessons you learn and how did you come back? Because it's the comeback story. I think people love that. It's the underdog. How they come back from where they were and in back to success again.

Paul Moore: Well, this is certainly not your typical story, I'll tell you that. But we had a company after we left Ford Motor Company, my partner and I. Five years into it Wall Street got really enamored with our type of business which was a professional employer organization, a PEO. You might've heard of Administaff down in Texas and your area.

David Phelps: Yes.

Paul Moore: We had a company like that and Wall Street, a publicly traded firm, actually wanted to acquire our company and I found myself at 34 years old, semi-retired and with a couple of million dollars in the bank. Now, you may think that semi-retirement at age 34 is great and it's a dream and all that. But it was miserable. I became the worst version of myself. Worse version of myself as a dad, as a husband. I was a high-energy entrepreneur, David, and I couldn't sit still. So I started this nonprofit organization doing outreach to international students studying in the US. And that didn't go incredibly well.

One of the things I did wrong, I did two major things wrong in the next couple of years. Number one, I started chasing shiny objects. Some of the wealthiest, most successful people in the world. People like Bill Gates, they knew what they wanted to do at about age 20. And they just stayed completely focused on that. And they said no to 10,000 distractions. Gary Keller in the book, The One Thing says, "Saying yes to your one thing means saying no to thousands of other potential distraction." So I did that wrong for a number of years.

The other thing I did wrong, David, was I confused investing and speculating. Investing is when your principal is generally safe and you have a chance to make a return. But speculating is when your principal is not at all safe and you have a chance to make a return. And I thought I was an investor and really I was just kind of a punk in his mid-thirties who didn't know anything about the difference between investing and speculating. So I lost a lot of money over those years. Now, thankfully I made more than I lost, but I did find myself one decade after we sold our company being two and a half million dollars in debt.

One of the things I love about real estate to this day is there're hard assets involved in all my debt. Every bit of it was tied to real estate, whether it was my personal home or vacation home or about nine waterfront lots that we had. We went into the end of 2007 and it was already, things were already in our area near DC already on the way downward in a downward slide. And I was sitting in a chair. One of my personal practices is I try to meditate every morning. And I was sitting in my chair one morning and I thought this thought came to me, "What would George Mueller do?" Now, George Mueller was a pastor. He was a hellion actually who became a pastor in England in the 1830s.

He lived all the way through the rest of the 1800s. He started an orphanage, actually multiple orphanages that housed a total of 10,000 kids over the years. 10,000 orphans. He was rabidly opposed to debt. So I already have one strike against me. Right? He also was incredibly generous, so he raised hundreds of millions of dollars in today's dollars. And he did it all, by the way, without ever asking for a penny. He did it all by his mission, his vision, his faith. I mean, all of that was where he focused. But I thought, what would George do well? He would be incredibly generous.

So I called a couple of friends together and they said, "Hey, you're going to probably have to declare bankruptcy," because my partner quit. And he said, "Sorry, all the debts yours now." He couldn't make his half of the payment anymore. I don't fault him for that. We're still good friends, but he quit. And my friend said, "You're going to have to declare bankruptcy." I said, "I don't think so. I'm not ready to do that yet. I'm going to try to give my way out of debt." They said, "What are you saying?" I said, "I'm going to try to give my way out of debt and see what happens," and I told my family. I called my four kids and my wife together and they said, "Well, okay, I guess."

We started giving a specified amount every week as if we were making half a million dollars instead of being two and a half million dollars in debt and, David, four weeks into this crazy experience, which I had no idea of where it would end. Four weeks into it, I met a real estate developer at a Subway restaurant and he made a random comment that led to this light bulb moment that put me in front of the Planning and Zoning Commission at the local county.

Two days later with my surveyor. My surveyor's got his head in his hands like, "I can't believe you're doing this," but I said, "Hey, I've got this five-acre piece of land that you guys won't let me subdivide. What if I," and I called this kind of obscure law on their books, and I said, "What if I use this law?" And they said, "Well, that won't work." And I knew that. I said, "Yeah, but what if you read it this way?" And I kind of flipped the law and just made it look ... I mean, I said, "You know what, if you looked at it from this other angle?" And the lady looks at me over her glasses and she said something like, "I've been working here for 30 X years and nobody has ever come to me with such an outrageous proposal." And then she started laughing and she said, "You can do it." She's said, "I see what you're saying."

She allowed me to subdivide the land. Well, what happened is I had to go through all these hoops with my bank and another bank and all the ... I had to line up four buyers for these five lots. And I had to make these five transactions actually, that happened right in the middle of the financial crash of 2008. And my bank held on. All these buyers, these four buyers held in there. I actually found myself 13 months after we began to give outrageously, I found myself completely debt-free.

David Phelps: Wow. So kind of the moral of the story is then, I mean, you said it from George Mueller, who you followed his example, but just having the faith in giving that you'll receive in multiples of what you give. Is that essentially the way you live your life, the rest of your life going forward now? Right?

Paul Moore: Yeah, we were already in that mindset, but I mean we were really challenged. I mean, it would've been really easy to say, "Well, we don't have any income. We're not going to give anything." But I actually basically exercised a level of faith to say, "Look, we're going to act like, or we're going to pretend, I guess you could say, that we're making this certain amount. We're going to give in advance, and we're expecting the income to come and follow." And that's what happened. I think it's a law, a universal law. Some people call it Karma, some people call it sowing and reaping. I believe it's a universal law.

David Phelps: Yeah, I do too. Just curious, when you were chasing some of the shiny objects and you said you were speculating more than investing, what were you speculating in? What kind of investment? Well, you thought they were investments, but what were you actually, what were you doing? Just out of curiosity?

Paul Moore: I'm not knocking you or anybody else, but if Bitcoin would've been around at the time, I'd have been all that, let's put it that way. But I didn't realize that commercial real estate or real estate, in general, should have an income stream attached to it to make it to create its value. Okay. So I was buying gold and I was buying silver and I'm not at all against those things now, but I am saying that those don't have an income stream attached to them, so there's no set value that you can evaluate independently. They're speculative in nature. I also started a wireless internet company with a friend. I did other things like that that were speculative nature and none of those things are wrong. It's not wrong to speculate. It's just important to know number one when you're speculating versus investing, and number two that you don't put all your eggs in that basket. Because think about it, David, if you keep playing double or nothing with all your assets, what's going to happen when you land on nothing? What will you have left to double?

David Phelps: Exactly, exactly. So just something else that you said when you were 34 years old and officially kind of semi-retired, you had a lot of money in the bank, but you knew very quickly at that point that you weren't ready to "retire" in the sense of what we call retirement today. In fact, I would say were the same ilk. I don't even use that word retire because I think until the body gives out to the mind just can't function. Why would you not want to be a relevant or significant some way, have some purpose in life? Now, the cool thing is is that we can evolve, we can shift, and you did, you did. Then you had to shift again because of your chasing bright, shiny objects.

But that's who you are. You learned how to focus. You have the comeback story and today you're doing more. For a lot of people who get into a career profession. So I'm talking to a lot of my professional practice owners who listen to this, a lot who are part of the audience of this podcast. I feel that part of their fear factor of letting go of that practice, which has been their whole soul life and where they made their income, it's who they are. It's the letters after the name.

It's being a doctor, right? Who carries respect. And even though financially ready to leave, I think there's a whole back of like, "Well, wait, who am I going to be?" And from that standpoint, can you speak to what you also see in challenges of what's your next? Because you didn't have a next after you, after you sold out to it to Wall Street. You had a lot of money. He didn't have to do anything, but you didn't automatically have a next. How important is to have an extra way building a next in life so that you can transition from one life to another and still be relevant?

Paul Moore: Yeah, I think it's really important to have a big why that is overriding everything and hopefully, we can talk about that in a few minutes. But no, I think it's absolutely important to have a next. And I thought the next was this nonprofit organization I was starting, but that kind of speaks to the importance of having a team that has a similar goal and mindset. Because I had this dream of starting this nonprofit. I bought 120 acres on top of a mountain in the Blue Ridge mountains of Virginia and I invited five friends of ours, five families to move onto the edges of the property. We subdivided and we were going to do this nonprofit thing where we had all these international students. Ninety percent of international students studying in the US spend an average of five and a half years here in the US and they never set foot in an American's home.

We were going to give them an experience where they could ride a goat and milk a cow or maybe vice versa, fish in a pond, go hiking. We had all this land on top of a mountain. Well, it was great and I wanted to do a retreat about once a week, so I was pretty aggressive, maybe every other week. And the people there when they all moved in and got settled, they said, "Well, we thought maybe once or twice a year." What was I going to do with the other 11 and a half months? We're talking about two weekend retreats a year. So we kind of compromised and did one every two or three months. But I got really bored and I just became, just again, I needed to have something else entrepreneurial to do and I'm glad I finally found it when I started flipping houses.

David Phelps: Well, let's, let's talk about how you set up your company today, Wellings Capital. You've got another passion, another place where you like to provide and be instrumental and that is in human trafficking, fighting that. How have you set things up to do that and what was your entry to being in that position to want to do that, Paul?

Paul Moore: Yeah, David, this is kind of personal, and I haven't said it very often, but I can tell you that three at, who knows how many before, but three generations of my family that I know of and that would be mother, wife and one daughter have been seriously impacted by sexual crimes. And it's very, very painful for our family. I've seen what these ... compared to somebody who has been trafficked and whose owner, if you want to call it that, is making up to half a million dollars a year from one child. One girl. The incidents that they had happened to them were relatively, I hate to say it, relatively minor compared to that, but yet I've seen the damage it's caused them and the years and even decades of pain that they've been through. David, did you know if you took the record, not the average, but the record annual profits of Apple, General Motors, Nike and Starbucks added that together, doubled that number. That would be the approximate revenue generated by human trafficking in the world today.

It is a human rights crisis and it's not in the headlines like it was in the 1860s or so in the United States, but it's real nonetheless. I like to believe that if I was alive in the mid-1800s, I would have been fighting for the abolition of slavery. And I'd like to believe if I was an adult in the 1960s, I'd be fighting for Civil Rights. Well, we have a slavery issue, we have civil rights violations right here in front of us, but it's not headline news. So what we're doing at Wellings Capital is we've dedicated a significant portion of our profits to going to fight human trafficking and rescue its victims. We've identified a few really organizations. We plan to do a lot more in the future who are involved in this and we are trying to get the word out and funnel money their way as we have the opportunity.

David Phelps: Paul, thanks for sharing that story. There's nothing like being in business, having a company, having a team and sort of doing whatever you do to be in business to be profitable. That's great. But having that bigger mission and that's what carries the day, right? That's what we stand up and you got to have something to fight for in life and I just got to thank you personally for being a part of that fight in such an important area. As you said, just those numbers you gave me a minute ago. that's just, it's unfathomable to think that much is going on, but it's there and as you said, it doesn't make the media. I mean you see bits and pieces here and there, but not very much.

Paul Moore: That's really, really good.

David Phelps: Let's talk a little bit about the current state of the real estate market. That's something we, we both also have in common and with Wellings Capital, you moved from obviously flipping houses and doing a lot of that, so understanding the real estate markets, then you moved into multifamily, you wrote your book The Perfect Investment: Create Enduring Wealth from the Historic Shift in Multifamily Housing. Talk a little bit about that and then again, the market is still in another shift mode right now. Give our listeners a little bit of your perspective being that you've been in the arena for a lot of years. How are you looking at things now? What are you doing with Wellings Capital to kind of prepare for what might be next?

Paul Moore: Warren Buffet and Howard Marks who I've read and listened to a lot have said that, "They can't time the market, they can just act appropriately at this point in the cycle that they're at." So I think we're at a point in the cycle with multifamily and with some other real estate classes that it has gotten quite a bit overheated. I mean, not only in places like Dallas, LA, San Francisco, New York, where assets are trading at record numbers. In terms of a cap rate, they will be maybe a three or 4% cap rate, which is the expected rate of return in those local cities. But I mean, even in small areas, I live near the Blue Ridge Mountains now we moved to a city and that we have Lynchburg, Roanoke, Blacksburg, Charlottesville, Virginia, around us.

The cap rates here are at record numbers in the five and 6% range. It shouldn't be that way. So Wellings Capital set ourselves up a number of years ago as a multifamily syndicator.

But all of the owners had the same mindset of not losing money. We, therefore, came into the business as very conservative investors. Therefore, we were beat out. I mean, for years we've been beat out time and time again on deals and we have chosen to willingly not bid on deals that were already overpriced upfront. And so about nine months ago, David, right before you and I first met, I was actually, we had closed on a multifamily deal in Lexington, Kentucky, 125 unit town home community. And I had investors who were saying three months later, "Hey, what's next? We want to invest some more. Come on." And I said, "I can't in good conscience tell you that we're going to have anything anytime soon."

So I decided maybe I should look outside of multifamily. So I started looking at self-storage. I started looking at mobile home parks and I thought, "Wait a minute, I'm telling these people that if people are going to give me millions of dollars to invest for them, I can't go in as a new operator and do that." And I came to the conclusion there's a time in the cycle where it's so largely overheated its time for experts, people who have operated and syndicated through the last recession. Through perhaps two recessions before that.

So I began kind of a one year, almost a one year process now of vetting operators and I was looking for people who were experts. People who survived or even thrived through the last downturn or two and people who didn't have their own capital raising arm. People who raise their own money from their family or friends, but they would like to grow. And so I've been looking for companies like that that most people would never hear of. And I've identified a handful. So Wellings Capital is pulling together a both an income fund and a ground-up development fund. We call it a growth fund. And we're going to allow our investors access to invest with these types of sponsors. And we're kind of stepping back at the moment from being a syndicator our self at this point. That's where we're at.

I think the market, I wrote a blog post for BiggerPockets. It's about to be published. It's called Stop It. And I'm basically encouraging people not to overpay for multifamily or any other assets. And I've got a long list of reasons I think people are doing it and I'm saying, "Look, be aware of this. Don't invest that way. Don't syndicate that way."

David Phelps: Really Smart Advice, Paul. I couldn't agree more. As you said, I think a lot of syndicators, sponsors have the pressure, have all this capital, all these investors who are just wanting to handle money hand over fist. It's very few people like you who would actually say, "No, stop. I'm not going to have anything or we're going to change horses here," because that pressure when you have capital on your hands, the investors expect to return. I mean, that's why they give you the money. And so the pressure for a syndicator or a sponsor to go out and find some asset to put that money into it's pushing the price points or you said the cap rates way down right now. The margin, the cash flow margin you talked about earlier. It's so tight now. That much change in the at all is I fear is going to cause some major problems for a lot of people.

We both see it out there. We see, in fact, you said it well too is you're looking for expert operators. Operations and capital raising are two very separate skill sets and most people do one or the other well. I've seen very few that can do both well. I think for you to do what you do well because you're very good with communication and you've experience in the real estate arena to go look for expert operators and putting one of the criteria to be those who have gone through at least one recession. How many people are out there today? We see them all over who got into real estate space in the last four or five years? Never seen a recession. They don't know what they don't know and it's the exuberance of the marketplace. It's the adrenaline rush that I know that they get because, "Hey, I just locked down this next deal and the money just keeps pouring and pouring and pouring in," and it's well, I can't wait to read your blog posts and BiggerPockets let me put it that way. Stop it.

Paul Moore: It's a takeoff on the Bob Newhart video. I don't know if you remember the Bob Newhart-

David Phelps: I do. I do. Yeah, I loved that. Really good. Really good. Well, this has been fun, Paul, to have you on today just to get to talk to you a little more. I knew some of these things about you, but as our audience got to hear more from you today. It just leads me to be someone who's very much someone who likes to follow other people who've gone on the road, who are willing to share their experiences in life. Not just all the positives, but you know the stuff that, the lessons. How you lost money on your podcast, How to Lose Money. It's called. Oh, great. So best place for people to connect with you, obviously, Wellings Capital is the website, wellingscapital.com.

Paul Moore: wellingscapital.com yeah, it's right here. That's it.

David Phelps: And then your podcast, How to Lose Money. They can go there and here you and then a BiggerPockets. Definitely, a place where you are a regular author there. So a lot of information there. Anything else that we should look for?

Paul Moore: yeah, I would really if your heart was moved at all by the issues and the plight of people being trafficked. There's a lot of places I could send you, but one I would send you two would be Exodus Cry and that's exoduscry.com and that is an organization that made a very startling movie called Nefarious or Nefarious and they're doing a lot of great work in this area.

David Phelps: exoduscry.com. We'll put those links in the show notes, Paul, thanks. Thanks again for sharing it, sharing your stories, sharing your passion, sharing your why with all of us today. It's been a pleasure.

Paul Moore: Yeah, thanks, David, it really was an honor to be on here. Thank you so much.

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