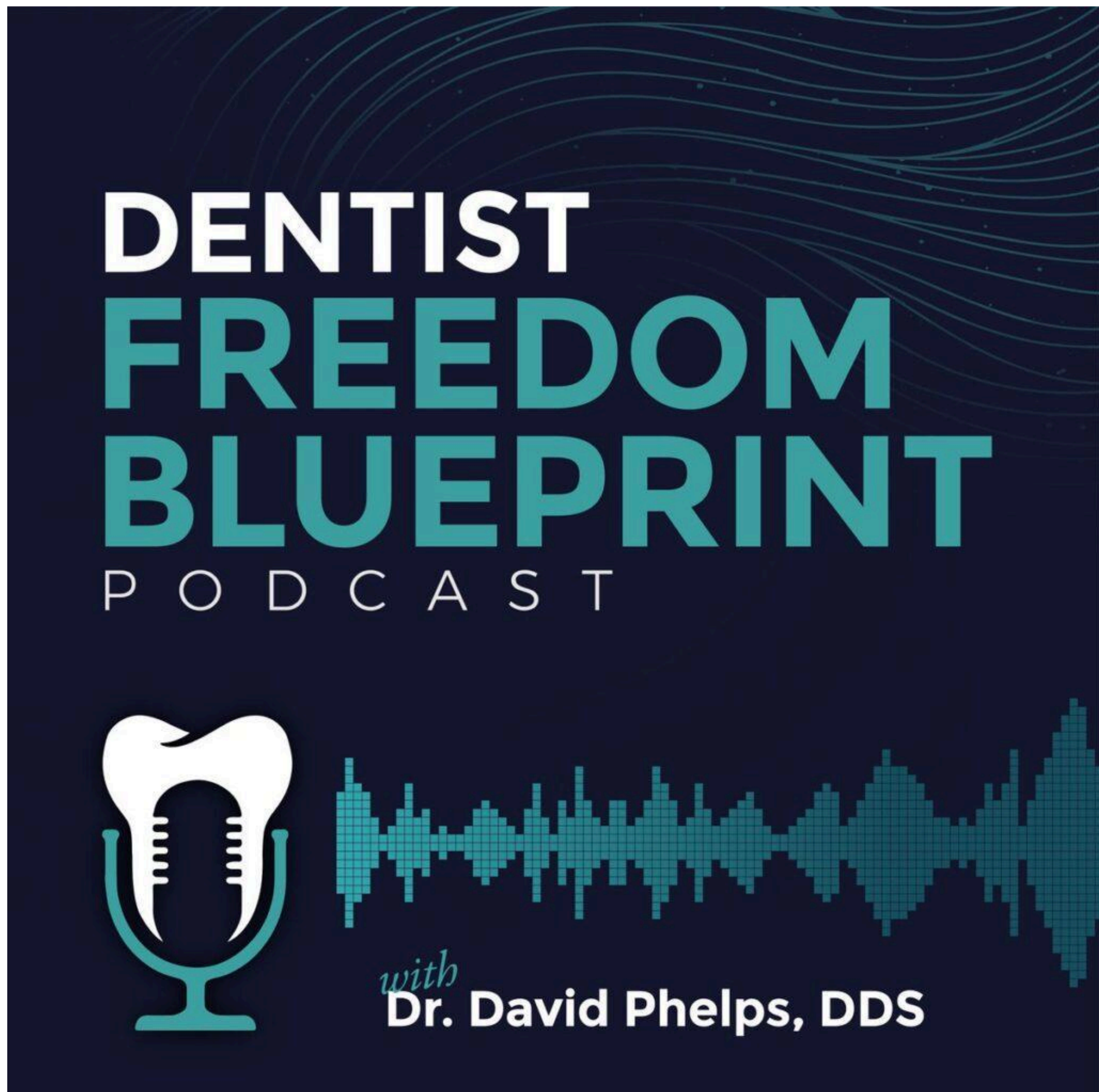
Leveraging Your Relationships + Market Cycle Dynamics - Bob Repass: Ep #492



Full Episode Transcript

With Your Host

Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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Bob Repass: *When you get to be at least my age and you want to downsize, you can't downsize because wherever you're going to downsize to, you're going to pay more for less. Angie and I have been in our house since 1998. We'd love to downsize. We got a lot of equity, but it would take all our equity to get something small. I think the new word for that is like, we're locked in now.*

Intro:

"David was of course a dentist, but he was a very sophisticated real estate investor. He had run with a circle of probably the most sophisticated housebuyer types in the country."

"David is a student of the game."

"I would never say this about most people. I would get in a foxhole with David."

"His knowledge is unreal. I mean, it's off the charts."

"This is not some person in front of you going, 'Yeah, just give me your money and I'm going to invest it in real estate.' It's way more elevated than that."

"He speaks truth. He really cares. He's committed to this group like it's a family."

"You can't get higher integrity than David. If I named Top 10 smartest, most informed real estate investors I know, he's in that list."

"The most common message I get, I want to thank you so much for introducing me to Dr. Phelps because my wife and I—we went to Freedom Founders. We're on a path. We're going to be financially free. We are going to retire sooner. We are going to be happier. This changed our life."

Dr. David Phelps: Hi, it's David here. This week, I had the privilege of bringing on a long-time friend in the real estate space, Mr. Bob Repass. Bob is the COO for Revolve Capital in Southlake, which is one of the suburbs of Dallas, Texas. Bob has been in the—we call it the nonperforming, or the distressed loan side of the real estate asset class for over 30 years. [..] much experience there.

We started the conversation talking about relationships, and I think this is important for everybody, no matter what you're doing in your life, where you are, but how much relationships can matter and make a difference going through your life. It's something to respect, something we need to teach our kids as well.

And then, I wouldn't let Bob get away without talking about where we are in the market. And if you're considering how you're investing today, where you're investing, where we are in the credit cycle, where we are in, potentially, with the sentiment with the consumers and homeowners and the debt that is being carried not only by the country, but also by many consumers, what may happen next may be interesting for you to hear.

I'll let you take it and listen for yourself.

Bob Repass: Well, out of college, I did a job which I think everybody should do at one point in time, and that is to be a collector. I worked for a consumer finance company. So when I was in high school, I worked at a fast food restaurant, David. So if you work in fast food, and you're a collector, I think you'll have a good foundation of probably what you don't want to do for the rest of your life.

So after that, I went to work for a bank. You know, it sounds cool to be a banker, but you end up making less than everybody who has deposits with you. You just happen to be able to hang out at the country club with. It was time for Angie and I to make a decision to kind of, you know, build our net worth and kind of our career path for our family and so forth.

So I took the plunge to join Metropolitan Mortgage. As you know, back in 1990, there wasn't an Internet and there wasn't really Excel. So I learned how to use a 12 HP-12C, which I still use today. I got it right here handy with me.

Dr. David Phelps: There's, mine.

Bob Repass: There you go. All right. And then basically smiling, dialing, making cold calls, trying to find brokers or note holders.

You know, there were no platforms where you could go source inventory. We didn't do a whole lot of direct mail at that time at Metropolitan. We just basically beat up the phone and I was lucky enough to make some good relationships with some folks that had some inventory or new people that had inventory.

And as a matter of fact, I still do business today. But one of the first ladies that I drummed up a conversation with back then, Linda Tilly, a lot of people in the industry know her, she's been around a long time and I've done deals with her probably every year that I've been in business. The various places I've been, she's introduced me to a lot of people and it's just that networking thing. David, you know how it goes, you just get connected with the right people, you treat them right.

And they're going to spread the word for you. And all of a sudden it's like, "Hey, Linda told me to give you a call and here I am."

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Dr. David Phelps: Let me ask you this question. Over 34 years, going back to some of the original relationships that you built, do you work on intentionally maintaining touch points, even with people that maybe you worked with or you had more of a relation with a certain period of time when we're going through a market cycle and then market changes and people may move, but do you try to keep up with certain people?

I'm just curious. Is there certain people you try to keep in that digital Rolodex closer or some that maybe, there's still people that you could call tomorrow, but maybe you haven't talked to them in 24, 36 months. How does that work in your world?

Bob Repass: Yeah, I think a lot of times people get wrapped around how many friends you have on Facebook, how many followers, how many LinkedIn connections, and, you know, they all go for the quantity. And I've always tried to focus on the quality of the relationships.

To your point, try to develop that dozen or so core relationships that, you know, can spin off into other relationships and stay in constant contact, whether it's, you know, how the market changes. And now this is the kind of product we're looking for, or what are you doing now that you've moved to a new operation yourself and just.. I try to make sure that I have a follow-up system where I touch base with probably about a dozen folks at least twice a year.

Whether it's.. Nowadays, it could be a text or an email or a phone call. It just depends on how you want to connect with somebody and just stay in front of them because, as you know, the market's always changing.

And all of a sudden, what they didn't have six months ago has come across their desk and you need to be top of mind. It's hard to be top of mind with a hundred people, but if you can get a core group of folks, say, you know, a dozen or so, and just stay in touch with them.

Let me tell you a quick story. When I was at Metropolitan, Paper Source was the convention back then, but it was always held in Washington, DC. And since I was in North Carolina, I got to go represent Metropolitan. At that time, Associates was one of Metropolitan's competitors, and I got to know John Zarrillo, who was the head of the Associates operation there. We became friends, and we'd go to hockey games during the convention, just kind of hang out.

And then in 1997, John needed someone to move to Dallas to work for the Associates and kind of take the operation to the next level. So I took that relationship with John as a competitor, and both John and I moved to Dallas and checked off the private mortgage operation for the associates here in Dallas.

And that's really where, you know, I was able to take my career to the next level by one, moving from North Carolina to Dallas, and that was in 1997. So I've been here

now almost 27 years. So I guess like they say, I got to Texas as fast as I could. Things changed. Well, now John works for Rocktop and I've bought hundreds of loans from Rocktop from John.

And it's just, "Where are you now?", "What are you doing?", and "Let's do business." Those relationships, well, they may lead to an opportunity or they may lead to a transaction or a deal you can do.

Dr. David Phelps: I think what you just pointed out in terms of, oftentimes, in life and business, we see somebody else as our competitor because we're in the same business. And so, you know, "I don't want to share anything with that person. I really don't even want to be friends with that person."

You obviously take a different stance and I try to do the same thing. Even in the same industry, we're not all chasing the exact same type of patient or treatment. We all have different aspects of what we like to do, don't like to do.

The art of collaboration is much different than the dissonance of competitiveness. And I think we learn to look through a different lens and say, well, that person who's in my industry, in my field, but let's get together and maybe we can find a place where, as you said, there's things that I don't like, or people I don't like. You can't be all things to all people. There's different things that you want to get good at.

And I think the smart people like you and companies that you've headed and worked with, you try to stay in a certain lane, right? You try to focus on the lane because if you try to get too spread out, the market is changing too fast and you can't keep up with the different things.

So you say, "Well, who's that person?" And John Zarrillo was that person who had a place where he could take some of the assets that didn't fit your box and you guys would trade back and forth.

Bob Repass: I always refer to them as counterparties as opposed to competitors. And a counterparty is someone you can do business with on the buy side or the sell side.

As you know, David, things change over time as far as the capital stack goes. And what I may have available to deploy at this moment may not be able to fill particular trade. And to be able to help my client, my long-term relationship, execute that trade, I may need to partner up and co-invest with someone.

You know, one of my "counterparties" that can help take down that trade. So, knowing other folks and being able to help them, whether it's close out of fun by buying some of the assets they have left or being able to sell assets to people, whether they have a fund or even individual investors that are looking to deploy

retirement funds or whatever they have, just trying to keep that network of people that you're able to help, whether it's on the sell side or the buy side.

Dr. David Phelps: So, we talked about how relationships can provide opportunities either for elevation, moving to a different sector or a different company when things change. Or in cases where you have assets or products that others can help you with. What about—do you have a story or a time when a relationship sort of saved you from something?

It could have been just, you know, like you said, a trade or something bigger. Was there a relationship that when you were going through something that was challenging at a time in some regard, that knowing somebody that you could reach out to that maybe wasn't like in your base, at that point, you said, "Ah, I know who could help me fix this" or who could maybe even give you feedback?

Bob Repass: Yeah. Let me give you a little bit of a story here. So when I moved here, went to work for The Associates, that's how I really got to know Eddie Speed. And I had known Eddie when I was at Metropolitan, but he was dealing with another buyer at the time.

So I just knew him from, you know, at an event or something like that. Well, when I came and worked for The Associates, Eddie became one of my customers, so to speak. And we developed a long-term relationship. And then in 2000, I went to work for Bayview, and Eddie and I did a lot of business. He would aggregate loans and sell them to me when I was at Bayview. Everything was great. I was buying a lot of loans from him.

And then we all know 2008 came and, you know, I had to make a phone call, not only to Eddie, but to a lot of my relationships and basically tell them Bayview was done buying assets. Our model was to exit through securitizations. That market had dried up. We had no liquidity.

You know, it was like, "Hey, I got like 10 deals in the pipeline." And, "I know, but I can't do anything. Management was hammered down. We're done." You know, that was one of the most difficult phone calls that I had to make, was to call everybody and tell them that.

And then you fast forward and I see what Metropolitan through 2012. You know, as Bayview Loan Servicing, and work through the HAMPS and the loan modifications, other loss mitigations. I left Bayview and started doing some consulting, and one of my relationships that I went consulting was with Eddie. And Eddie was at a point where it was like, "I really don't want to rely on institutional capital anymore, and I'm looking at entering the capital fund business."

And so, I joined Eddie and we started our capital fund and had a nice 10-plus-year run with Eddie on that. So, taking the distressed market phone call of, "I'm sorry, we

can't do business like we have been," and then turning that into an opportunity to where Eddie and I had a good enough relationship where, you know, we knew each other and we thought working together, we can serve this capital fund. And we had a really great run.

Dr. David Phelps: A lot of my listeners, as you can imagine, are also, you know, investors in their own right, more passive investors, but we teach them about the capital stack and look at the markets and how things are changing. So, let's talk for a minute or so about the distressed market.

And you mentioned back in 2008 going through that cycle, which—we're expecting another one. You might be able to give us some insights into where you see us in the cycle. Of course, natural markets, real estate assets, but you talked about liquidity, right? And liquidity, it either drives expansion or it causes contraction.

What would you tell our listeners today who are investors in their own right, in terms of what you see in the credit markets, what your sense is of where we are in the cycle? You can describe it however you want to. If you wanna talk about where we are in innings, like nine innings, what you see, what's your best guess?

Or maybe how are you as a company or as an individual hedging against what you think might happen at some time? How does that work for you obtuse?

Bob Repass: Right. Well, as you know, in January I came on board with Revolve Capital and I'm working with Chaz Guinn here. And our main focus right now is on the non-performing loan side.

To your point about the market now versus 2008, the main difference is equity. Back in 2008, everybody was underwater, meaning they owed more than their house was worth. Now, a lot of folks have equity. Now, it's more based on the BPO value and how much they owe and pricing off that. If you want to look at it as far as where are we in the game, I think we're finally, at least, past halftime. I think up until probably the last six, eight months, there was a lot of denial going on in the market.

People just thought that, well, rates are going to come down. There was a quick spike up. Values are always going to keep going up. You know, "I don't have to sell my assets." And I think now, we're getting more into an environment of acceptance. Perhaps they're getting capital calls due to funds expiring, and they're going to have to do something like in the multifamily sector.

There's a lot of syndications coming due for, they thought they'd be able to refinance at a 3% rate, and that's not going to happen. And on the debt side, folks have loans on their books longer than they thought they would. They thought they were going to ride them out. And I think they're starting to accept that.

And we're starting to see, you know, more product heading into the end of the year. But we're also hedging our bets by looking at some nontraditional distressed debt product, such as reverse mortgages, such as non-performing bridge loans. Now, performing fix and flip loans, a little bit more of a property play on both those categories, because on the reverse mortgage, which, you know, we refer to industry-wise as HECMs— home equity conversion mortgages, you know, that's an REO play, you take it through foreclosure and you end up with the property back because the borrower has passed away.

And then on the fix and flip and the bridge loans, you know, you may end up with a property that's 75, 80% complete. You're going to have to get in there, finish the rehab. So you have to have the boots on the ground. You have to have the infrastructure in place, the expertise to really play the REO space, as opposed to just a loss mitigation effort on a traditional non-performing loan.

Dr. David Phelps: Well, that's looking at, certainly, the opportunities and somebody has to fill that void. We know, you know, when the market starts to turn. So with what you said, and I agree that the difference between now and 2008 is there certainly is overall more equity versus people being underwater.

Are you seeing the consumer being also, you know, owner-occupants of homes also, even though they have equity being stretched, paying the bills, paying the mortgages, paying the property taxes, insurance, even though there's equity distress or are people being more realistic and are people trying to sell to get out of a situation that maybe can't see themselves making it going forward? What are you seeing in that arena?

Bob Repass: Over the last probably 18 months, I've been to various conferences, done presentations, done panel discussions. And one of the questions I always like to bring up is, you know, in one word, what is your top concern in the market today? We hear answers like rates, inflation, recession, unemployment.

And my answer has always been affordability. It's not just whether or not you can afford your house payment, got your electric and then you have your food and, you know, just the normal everyday expenses of maintaining that household to your point. Like, what are the borrowers able to do?

We're lucky enough to live in the DFW area. The market is pretty solid. The downside when you get to be at least my age and you want to downsize, you can't downsize because wherever you're going to downsize to, you're going to pay more for less. Angie and I have been in our house since 1998 and we'd love to downsize. We got a lot of equity, but it would take all our equity to get something small.

I think the new word for that is like, we're locked in now. You know, we have a low-rate mortgage. We're fortunate enough to have a low rate and we're not going anywhere. That puts less houses on the market. So that's just, you know, folks our

age aren't selling the properties to downsize and it's keeping a lot of inventory off the market.

The affordability is an issue. And then when you had mentioned, you know, our borrower selling their property from a data number crunch, you would say, "Hey, your house is worth 500, you owe 300, just sell it, take the 200 and move on," right? "Hey, don't go through foreclosure." And I think the reality is, well, where are they going to go?

Everybody's in the same situation. They got to figure out where they're going to go if they leave this house. You know, different people in different cycles of their life. Maybe they don't want to leave because your kids are in school in a certain neighborhood or, you know, like us, maybe they can't downsize or they don't know what to do.

But there's a lot of people sitting on equity that are just kind of stuck in their hoping that something's going to work out and I just don't see it happening.

Dr. David Phelps: You know, we went through the COVID pandemic, which was, you know, totally disruptive and I think changed mindset and sentiment where, you know, a lot of people maybe did jump in and buy houses because they could when they could and they grabbed interest rates wherever they were before they started to rise.

And yet it is, as we know, that the pressures on consumers, the families today are tough. I think there's maybe a tendency today—you tell me if I'm wrong—but that more bailouts are coming. 'Cause every time we see something happen, COVID was the big one. Like, well, the government came to the rescue.

I mean, they just flooded money direct to consumer everywhere. I guess. And I think there's maybe some, there's some of that feeling still there. Like, "Oh, if it gets bad enough, someone's going to come bail us out." I don't know. You deal more in that arena than I do, but any thoughts there? Just curious.

Bob Repass: Well, you know, I said my answer to the one word of what your top concern was affordability, but what I've heard lately is election. I've heard a lot about the uncertainty of what's going to happen regardless of blue or red, whatever administration ends up there. It is regulation versus rescue, you know. Are they going to tighten up certain regulations?

Are they going to bail people out, right? We all know, like you mentioned, the moratoriums for evictions and foreclosures because of the pandemic, the influx of pandemic-related COVID funds. As a matter of fact, we're still getting reinstatements on non-performing loans from various states, housing assistant funds.

We had a loan in California where the state, three years past due, paid all their payments plus three payments ahead, all their back taxes, everything, and just wrote him a check, which was, you know, good for us, good for the borrower. But somebody ought to pay that tax bill. That's a great question. Is the government going to bail out?

I think sooner or later, I don't know if anybody ever say no in our lifetime, David, it seems like you just print money. There's probably some hoping that, you know, if I waited out long enough, Uncle Sam will write me a check.

Dr. David Phelps: Bob brought some great insights into the current state of the economy, He brings a unique perspective on the debt side of real estate, private lending, private credit, as well as the affordability crisis and how that will be a major factor moving forward.

As a follow-up to our conversation, I want to share some higher-level perspective on where we are in the larger secular cycle of the markets, as well as some key factors that are affecting those shifts. I also want to unpack the capital stack framework that Bob briefly mentioned. This is a powerful tool for understanding the different ways one can invest in real estate and how to shift and adapt your portfolio based on where we are in the market cycle.

The capital stack is a way of evaluating debt versus equity investments. Bob mentioned how current equity in the markets is a major driver of the affordability crisis. The capital stack is a way of understanding debt versus equity and how to adapt one's portfolio based on what the markets are giving us.

I'll unpack more about that in a few minutes, but first, a perspective on the overarching secular cycle and a little bit of a deeper dive into affordability, inflation, and debt. And what this means for us as investors, as we are living through and experiencing a time period in our lives, that is quite a bit different than we've known in the recent past, say the last five, six, eight, nine, 12, 15 years, since the 2008, 2009 great financial crisis.

And even going back before that period of time, all the way back to when I was a kid getting out of school in the early 80s. We're going through these vast movements, and I've talked about those before the long-term secular cycle, the 40-year, give or take, secular cycle that we often talk about in the book, "The Fourth Turning," and then we have the cycles in between the longer wave cycles, the market cycles, the normal market cycles, which anything and everything is everything but normal today.

Everything's abnormal today. We're living in one of those cycles right now, but the long-term secular cycle, I believe, is fully in place. And we're seeing the uprise in interest rates, and I think we're going to see a continuation of that, not necessarily rates going super high, but who knows, because we've got inflation.

I think it's going to be embedded within our culture, our society for a long, long time. Let's put it that way. And that means interest rates can probably not likely go back down to where we saw them back in the last few years before they started to raise the rates. I think rates are going to have to stay in some modicum of middle ground.

And again, that's a range, right? So, understanding that we have to look at, well, how do we navigate the future? With the understanding that without any other knowledge, we just know things are going to be different. And that doesn't give us a lot of certainty to go forward on, does it? Because when we have experience in a certain model, a timeframe, it could be your business timeframe, or now we're talking about investments that we do.

We certainly like to rely on, well, what we've known in the past, because that gives us some basis of predictability, not necessarily reliable, but we think, "Well, whatever we've known in the past, it's going to continue." That's really what we experienced in whatever form or fashion you've been doing business or doing investments the last 12, 13, 14 years.

And even if you go back to when I started back in the early 80s, notwithstanding the market cycles that happened in between, the long-term cycle has been typically lower, lower, lower interest rates, which have provided the tailwinds that have, over time, propped up most assets, financial and tangible hard assets, alternatives have kept those propped up.

But I think those days are over where the propping up and the Federal Reserve and the government being able to come to the rescue. Why? Because of the huge amount of debt that this country has taken on and continues to amass at an unprecedented rate, even with the strength of what used to be a superpower, our country, which I would say probably we don't really qualify.

We still think we do. I think, in the minds of many of our politicians, they still think that they have the magic printing press that can go on forever. I think that, unfortunately, that day is going to come to an end at some point. And therefore, we have to understand that what we thought we knew in the past is not going to be going forward.

All right. I think you've got that. But I have to keep saying that because it's just easy to forget it and think, and you hear all the other media pundits talk about, "Well, if the Federal Reserve..", "they're probably gonna have to lower interest rates," you know, coming up in the first or second quarter of 2024 and dah, dah, dah, dah, dah.

And it's like, it's noise. It's all noise. You just have to step away from that and realize it's just noise and there's no substance to it. It doesn't matter. When we look at our investments in the past, let's just take the last 12, 14 years, pretty much everything that we did, whether you were, you know, financial markets or real estate, even in your respective businesses, you've done well on a relative basis.

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We've had a great period of call it 'wealth building 'for the top tier in this country, which to your credit, you did the work to get there. You did the work to climb that ladder and work really, really hard to gain the technical expertise and take the risk on to build, you know, businesses, practices, and to create a certain amount of wealth.

And if that wealth was dispersed over any number of different kinds of assets, pretty much over the last 15 years, the top-tier in this country, the top 10% have done well. And, unfortunately, it's that bottom 90%, which a big chunk of that used to be a middle class and that middle class is just getting squeezed, squeezed, squeezed down.

This is all not healthy now for a brief discussion about the capital stack. This is a simple framework that I can explain and help you visualize. If you'd like to see it, you can download a digital PDF illustration in the show notes or description below with the capital stack diagram here on the iPad.

You'll see that, again, we're going to show the two essential parts of the capital stack. I'm going to draw a line right across the horizontal between equity and debt. Now, there are subsets of equity and debt. You can see that on the diagram, there's senior debt and mezzanine debt, and there's preferred equity and common equity.

But just taking aside, just the description between equity and debt, you now have an idea what that looks like. If you are investing in equity, you accrue all the benefits that equity owners would get. I just laid those out. If you lend money, like a bank, if you're a lender, then you do get certain benefits, but you don't get the same benefits that equity owners get.

If I'm a lender, if I'm the bank, I get what's called 'first money out'. Well, let's think about it. When you borrow money from a bank and you're the equity owner of a business or a rental property, your revenue comes in and the bank is always there with their handout every month. Usually, it's every month for a payment that's due, say principal and interest standard center loan terms. The bank gets paid first. That's an important concept to understand. The bank is also getting paid a set and a fined amount, it's contractual. When you sign a loan, a note to the bank or anybody from whom you're borrowing money, there can be set terms, interest rate payments, a structure, whether it's monthly or quarterly, it could be annual, but typically, say it's monthly and amortized over so many years.

So, there's a set payment due every month on a loan. That's contractual. It doesn't matter how the economy is doing. It doesn't matter how your business or your rental property is doing. The bank is there every month saying, "That's how much we agreed upon. Okay, I need my payment." They don't—the bank doesn't have to mess with your tenants.

It doesn't have to mess with storms or natural disasters or anything else that you have to deal with as an owner. The bank also doesn't get to ride the appreciation

curve. The bank's not there participating as a value-add owner. So, when there's growth or a capital gain profit somewhere down the road, the bank is not entitled to that.

That's not part of the terms. The bank doesn't get offsets in depreciation or tax benefits. The bank is a lender, gets paid first. And that's the primary benefit of being on that, we call the lower end of the capital stack.

Let's go back to the diagram. So here it is again, debt, senior debt would be a first lean mortgage, a first position mortgage, which is typically what you go to get when you buy a property, you can obtain a second mortgage, which would be mezzanine debt, could be a HELOC—a home equity line of credit—could, would be typical of a mezzanine debt, or just call it a second or subordinate or junior lean position. Some banks will make loans on that basis. Not all banks will.

It's usually a different lender as a private investor lender. Do I make second-lean position loans? I do on occasion. I do on occasion. It's my choice. Safer is going to be the first position because again, the first lane senior debt gets paid first. After that, then the mezzanine debt or the second position that we get paid after that, let's go back to the diagram, would be preferred equity.

Preferred equity would get paid next in the capital stack. Preferred equity is going to get paid on better terms, a better return than debt, but not as good as common equity. Common equity is the equity position that is taking on the greatest amount of risk because they're getting paid last. When you get paid last, then you're proportionate.

Hypothetical or assumed return should be higher than everybody else. That's the way it works. Does it always work out that way for equity owners? Well, you know, in your own life, it doesn't. Not always. When we've had this great growth spurt in the business cycle in the last, we'll call it the last 15 years, but a lot in the last four or five years in equities, that great spurt equity owners accrued that those benefits now, when the market goes down and corrects, goes to a recession, equity owners can also take a hit, right?

Values can go down. Revenues can go down. Liabilities can increase. So you have to decide, where do you want to play? You don't have to be all or none. You can allocate your capital investments proportionately the way you see fit between equities and debt. And that's exactly what we do in Freedom Founders.

Whether you're in the stock market or in the tangible assets of real estate. In the stock market, you have the equities by buying stocks or you can buy mutual funds that invest in stocks. On the safe side would be bonds. Bonds are debt. So when I invest in a treasury bond today or a treasury bill or a treasury note, different terms of maturities, but I invest in and say treasuries, those are bonds.

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I'm investing in debt. It's not an equity. There's not going to be an upside growth to it. There's not going to be tax benefits. But what I do get is a consistent return guaranteed in this case by the government. That's pretty good guarantee that I'm going to get a certain rate of return on that capital for the.. out of the maturity length that I decided to have that investment.

So you can do that on Wall Street. You can do it in real estate. Most people don't understand that you can be a lender in real estate. And as I said earlier, there are some significant advantages to investing in debt.

Particularly if we believe we're at nearing the top, at the top of a market cycle, because as I just said, when the market cycle corrects, we go through the forestfire of a recession. Equities are going to take the first hit, meaning the valuations will come down in equities. So if I can position myself and be a little bit less heavy on equities, but I think we're getting close to a market cycle and a little bit more on the debt side, whether it's bonds or lending money to real estate borrowers, that's where I want to be in the overall market cycle.

So that's a quick concept of the capital stack and the difference between debt and equity and how you can position yourself in either of those arenas. According to where we are on the market cycle, according to your goals and according to your risk tolerance and experience, all those factors will weigh into where you invest.

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I'll see you next time.