Real Estate Reality Check: Strategies, Caution, and Cash Flow for Today’s Market – Mathew Owens: Ep #518

Mathew Owens:

This was a 12 unit. It was the biggest one I've done and I totally underestimated the rehab and I ended up losing $50,000 on that deal where I was stressed out. I remember going back to my wife saying, oh my God, I just lost a salary today. I remember waking back up and saying, okay, you know, how do I make this back? What am I not thinking about that's big enough to be able to make this money back right now and get this deal done that next couple of days I got a deal under contract. I was able to wholesale to another 1031 exchange investor, another multifamily, and I made a $70,000 profit and it clicked then that it's a matter of your mindset, are you focused on finding a solution to that problem? Or are you just so caught up in the emotion that you're getting dragged down by that problem?

David Phelps:

If you are stuck in a job that's sucking the life out of you, but you haven't found the courage to pursue anything else, or if you are pursuing tangible investments with as much simplicity and reliability as possible, this episode is for you. Today I interviewed Matthew Owens, a CPA real estate investor and CEO of OCG capital and OCG properties, flipping over a thousand houses, raising over $150 million for real estate and lending over $35 million to real estate flippers. Matt is more than experienced to help other investors create financial freedom on their terms and he has a financial background as a CPA. Matt is also the host of the Masters Real Estate podcast, of which I was recently a guest. There's a wealth of knowledge about the different real estate markets, the players, their strategies, and their stories found in this podcast. Anyone looking to dive deeper into the nitty gritty of real estate will not be disappointed.

In today's episode, expect to hear a mass advice for real estate investors in today's economy. How to start investing, how active you should be in real estate, the due diligence basics to perform on every investment and operator. The pros and cons of private lending versus equity investing, the differences between the traditional accumulation model for retirement versus reliable replacement income and much more. Ladies and gentlemen, please welcome Mr. Matthew Owens. Matt, it's great to have you on a date and like myself, we both got into some very stayed stable professional careers early on in our life and we both migrated out, so our stores are similar in that regard. From your standpoint, I'd like to go back in time first, what was it that drew you to accounting and tax work? I mean, obviously you had to be good with numbers and you lack detail, but what else was it?

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Mathew Owens:

It's funny, I went to uc, Santa Barbara, and I actually wanted to be an architect at first and that was my mentality. I loved the draw and everything and that was actually right in the beginning of computers. I think I had computers for Microsoft Word and Minesweeper. That was pretty much it, and right at that time I was like, okay, lemme do the whole architecture thing. I really love the drawing stuff, but it was all going onto the computer aspect and I wasn't really sure what I wanted to do. I took a couple of those classes and didn't really care for them that much and really just didn't know what to do. And I was the sophomore in college at uc, Santa Barbara, and I'm going, I'm not leaving the school. There's girls everywhere right now. What do I do? And that was literally my mentality. I told my dad, I'm going to become a CPA like you dad and I'm going to do an economics degree and become a cpa. And he's like, are you stupid? You're going to never get spring break again. What's wrong with you? You don't want to pick your degree because there's too many girls at the school and you don't want to leave. Whatcha thinking that's what you go through at 19 years old?

David Phelps:

No, that reminds me of, it's like George Costanza on Seinfeld. You always say you want to be an architect, right? Could never quite pull it off, but he wanted to be something good. So it's kind of funny you bring that up.

Mathew Owens:

I ended up actually going to, like I said, UC, Santa Barbara went and got a job at a CPA firm afterwards and studied for the CPA exam and passed that and was doing public accounting in that arena. And I was actually really good at it helping accountants communicate better because most accountants can't communicate for dam and really just saw some of the inner workings with regard to multi-families because a lot of the work I was doing had to do with real estate and that aspect of things. I ended up going to a smaller firm, got to see the inner workings of a lot of businesses in southern California. It was actually a lot of great education doing the tax side and the audit side and I was good at it, but I was bored out of my mind. I'm like, this is not my personality.

I should be out talking to people and getting out there and analyzing deals or finding out a new way of making money. And I remember thinking, should I start a bar? Should I, what the heck should I do? Should I start doing tax work on the side? I'm like, that's just as boring. Why would I do that? And then I took some classes. My stepbrother called me one day and he's like, Hey, you got to go to these classes. There was URI at the time, it was back in the day an educational course, and I ended up taking the courses with him and was immediately drawn to the real estate stuff. I was like, wow, this is exactly what I was looking for. There's a way that I can path my way through education to this and took two years of education and then quit my CPA firm job when I got my first deal under contract and I thought I was going to make 30 grand, but I made 20 grand.

Luckily, I'll say in my first deal it was out in Memphis, Tennessee and we did an analysis on all these different markets around the country for rent to price ratios, economic stability and that kind of stuff. Of course, nothing was stable in 2006 and we ended up taking a big punch in the face in 2008 and I went into business with my two stepbrothers that were computer programmers and electrical engineers. We had an office at the World Trade Center on Long Beach on the 23rd floor. We're killing it. We're selling a bunch of houses all of a sudden, financing was super easy. You could just literally go do seller financing and then have them immediately refinance and at a higher appraised value pay us off our seller finance deal. And so we were doing a lot of those when the lending market stopped completely and I was like, oh crap.

Mathew Owens:

And I had a seven 90 credit score at the time and 200 grand or 290 grand worth of empty credit card lines available to me. They were just passing out credit cards like hotcakes at that time. And I ended up taking out 200 grand on my credit cards, paying my investors back, and then I went down with the ship and lost everything at that time. And to me, that was two years of salary or more from my CPA firm job. I didn't know what the hell to do and I ended up hunkering down my investors, saw what I did at that time and I was just thinking in my head, oh my God, I can't let them lose hours of their life. I'll find a way to make it back. And I hunkered down and I started doing joint venture flips with people where I would get a $5,000 acquisition fee and rehab management fee for doing the work and finding the deals and we would joint venture on those types of deals. And that's how I kind of got started and realizing, oh wow, I can make five grand a pop. Lemme do 10 of these, lemme do five of these. And so I started wrapping up doing more and more of those and that's how I started my say a thousand flips now, which is brain damage and you realize how much I gave up by selling all these houses. So

David Phelps:

It's a pathway, right? I mean we all have a pathway. Very few people can leapfrog a lot of steps. I mean there's a few people maybe that do and maybe they sort of get lucky. Maybe it's just the environment. Maybe they connect with the right people at the right time, but there's something about the journey and the path that we all have to go through where there's twists and turns, there's setbacks, there's downturns. The world calls it failures. I call it just testing, right? Testing different models and taking what the market gives or takes away from us because that's another part of it. You just mentioned market cycles. Let's jump in and I'm going to go back to some stuff you talked about earlier, but since you talked a little bit about what happened in 2008, most people will probably listening to this and you'll have some context about 2008, whether they were in business or investors or maybe saw their parents go through it, whatever it was,

Mathew Owens:

You remember where they were then, for sure.

David Phelps:

Yeah, yeah, you remember where you were, right? What would you say today as a knowledgeable, formidable investor active in what you do today? We don't know where the market's going. I'll talk about that a little bit more before we finish today. I believe we'll go there, but what would you say today because we've had kind of this rocket ship highs of the recent past couple of years and it's been promulgated a lot by the massive stimulus coming out of covid and cheap capital, and we're seeing the fight against inflation recently and the hike in interest rates. It's having some effect in some sectors of real estate, more commercial western housing, but since we don't know where things are going particularly, what's your overall generic advice to investors, whether you're active or you're passive, what do you want to do at this point in this juncture in the market? Do you keep piling onto what you think has worked or do you set some capital aside and protect it? Do you keep some liquidity? I mean, what's your generic proposal to people that are thinking about what do you do now?

Mathew Owens:

First there is danger out there and to be careful of, it's a completely different market than 2008. Even though we've seen a major runup that's bigger than 2008, mostly you look at the amount of money that's printed, it can't not have a runup. Everything is going to have a runup at the same time.

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Mathew Owens:

We have good debt this time around. We have low delinquency rates, but the market is still broken, so you're still dealing with very low demand and a very low supply at the same time. So I wouldn't say we're oversupplied in the market or there's more demand than there is supply in the market in particular because of what you're seeing is proper negotiation between buyers and sellers. Right now, we're still seeing an uptick in pricing across the country except for some specific markets that I think like Tampa and Texas and certain areas and stuff like that.

We're seeing some really faltering, but those are the ones that went crazy, right? They went nuts in an upside and the affordability just was not sustainable. And so that's going to have a bigger swing the other way. Very similar to California, that's a much more volatile market than a lot of the markets out there. From one side, I'd say air with caution. First, do your homework have low leverage ratios? I always believe in long-term investing. So if you can weather any long-term storm, get cheap debt and be able to ride that wave of inflation up, your real estate prices might be going up like this, but inflation might be going up at a much higher pace, and so you might be losing purchasing power on that divide, but then you might be gaining purchasing power because if you have cheap debt in place that's below inflation, that inflation is going to decimate the value of that debt also at fixed rate debt.

And so you might be gaining your wealth or at least preserving your wealth by owning real estate comparative to inflation versus owning cash. Now, right now, I think it's super important. If you're investing, you should have 12 months of personal living expenses. Put aside reserves for major expenses. You should have buffers for problems on your individual investments and excess cash on your deals as well because inflation could occur, tariffs could happen at increased prices, right? There's a lot of potential issues out there. So I think having low leverage ratios and still investing, but then also having good cash reserves as well and holding back a little bit while you strategically place your funds into something that's going to build your wealth. I think the inflation is going to be one of the biggest challenges we have in the future. I don't see a way around it right now and diversification out of the US dollar to a degree, but at the same time, it's all relative to other countries and how much money they're printing as well.

So I would say the low leverage and the high cash positions is key. And working with operators that have seen a downturn that when you ask these questions about what's happening in the market right now, they understand and are showing you why they think they'll be in a good position long-term given the challenges or the potential risks we see out there. There's some black swans. We can't do anything about banking crisis and things like that, that liquidity crisis, these things will affect the whole market, and it's a matter of hunker down for a minute. I'm okay, am I still making my mortgage payments when something like that happens and then seeing what occurs afterwards and not making any immediate decisions on liquidation or decisions when something occurs, right? Because there's changes that happen.

David Phelps (Subscribe/Follow Ad):

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I'm personally excited about the upcoming guests books and projects that I'm working on and sincerely don't want you to miss out on any of them. So hit that subscribe button, stay tuned for more. Now, back to our conversation.

David Phelps:

A lot of wise words there. Let's go back in time. Back to when you quit your job in accounting and you stepped out and got involved doing your first deal. Were you married at the time?

Mathew Owens:

I wasn't and I didn't have kids then, so I had a lot less risk at that time.

David Phelps:

That's important because we both know that there is a propensity for people who look at real estate, study it, and particularly when we're younger, many times do it yourself starting with rentals or whether you're flipping or wherever you're doing. I mean, that's how you start. And when you have more time than money and your time value is not so high, then it makes sense, right? It makes sense to get your hands a little bit dirty. You learn a lot that way. But to your point, when you start to have a family, you get married and it may start to have kids, now your time gets really, really spread out thin. And if you're still working a job, a career profession, another business that you actually trained for trying to stay active in real estate starts to become problematic. So whether through your own experience or through the experience of other people you help, for those who feel like they want to get in the game of real estate and be more active in some component of it, I don't know short term rentals, which has kind of been a fad, but I'm not saying it's a bad thing, but rentals period.

They wanted to create some flipping business or build a long-term portfolio or maybe even learn enough to syndicate other people's capital. How difficult is that pathway? I'm not trying to tell people not to do it, but I want people to understand that it's not so easy. There's a dedication to this, right? And you can't do real estate as a hobby very well.

Mathew Owens:

I remember quitting my CPA firm job thinking, I'm going to have time to go to the gym now. I'll have all this access free time because I can do what I want and all this. And yeah, 14 hour days later, pushing through stuff, doing 10 flips a month for a period of time, that's brain damage. It really is. And I think it's important to maybe be active on a few deals so you understand the inner workings from an operational perspective because it helps you be a better passive investor. But when I look back at the time that I spent versus the profit versus the profit I would've made being passive, I probably made $15 an hour for many years in this side over here building this thing, but I'm also building my knowledge base. I'm taking hits and learning from these things of course as well, people stealing from you, learning how to do marketing, learning how to do sales, learning human resources and all the other parts of business that I thought, Hey, I'm just going to be a pet technician and as long as my books are done, I'm good to go and I'm a good business owner, which is the furthest from the truth.

And so I would say for the bang for your buck, if I look back at it, I would've made way more money if I just stuck with the adding income coming in and investing passively versus actively. If I look at the value of my time more than anything else, and especially now with kids now, that's way more important to me, of course, my time and thinking about, Hey, do I want to go flip way more houses right now and take that

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Mathew Owens:

time away from my kids, or do I want to just focus on my primary income source, which to me is my lending business right now and different strategies that I deploy, I have good systems set up versus going out and trying to do new projects and doing new things for other people. That's their job right there. That's that consistent income stream. And they don't realize necessarily that they can build and a lot of times make a higher level return passively than they can actively, especially if you're talking about the time value of your time.

And I've seen great returns on syndications. I've seen some bad ones too, of course. And you got to watch out just like you're going to have a bad deal being active, you can have a bad deal being passive, and that's what the purpose of diversification is. So you don't put all your eggs in one basket. And what I like is you really don't have a lot of risk when you're investing passively other than the money that you have in that deal in itself. You're not qualifying for the loans yourself. You're not having to go through and deal with operations. You don't have to worry about getting sued personally for your operations and stuff like that or doing something wrong from a tenant or all these different operational components that go into it. People don't realize that's a lot of work. Asset management fees are barely worth it if not even really from my experience. I mean, I love the active side from the learning component, and I think everybody should be involved to a degree maybe on a couple of deals to get that learning done because they become better passive investors. But the goal is passive investing for sure.

David Phelps:

I agree. I went from being very active in my early years to migrating over time a little bit more and more passive, and I agree that considering time value of one's money, whether you still have a business professional practice that you still enjoy and your time value there is very good. It's active income, it's taxed in a higher rate than your passive investments. But let's talk a little bit about some of the caveats. You mentioned a little bit outside of black swan events, which that's where you and I would both agree that if you're investing your capital actively or passively, you do need to study macroeconomics. You've got to have some feel for that. And again, we're all guessing a little bit, but we talked a little bit about it front end of the show, hedging a little bit against the dangers out there and they're there. But let's put those aside for a minute. What are some of the key elements that you would say are important when someone wants to invest their capital passively a limited partner, for example, into someone else's syndication or maybe a fund? Some of the things that you look at. You mentioned a little bit about someone been through at least a full cycle. What else are you looking for particularly from either the operator or the asset side, Matt?

Mathew Owens:

Yeah, I think this is the most important thing that most people don't do, right? I'd say 90% of people don't do the homework they should do. If you really want to be good at this, then you really need to be doing that homework on people and making sure you go through the steps and take the pain of reading all the documents, doing the background checks and criminal checks and things like that. We have a 200 point due diligence checklist that we use on our stuff. And what I do is I'm looking at first the operator. What is their personality? Do they have the personality of, hey, investors are at risk, all the risk I'm going to put it on them, or am I going to be working with someone that's going to do everything they can to protect the investors? Do they have some excess cash available to solve problems when they come up themselves and have some personal liquidity to put in if they needed to? What is their operational expertise from each department that goes within a company? To me, because I'm A CPA, the most important aspect is the accounting department and understanding because it tells me the story about what's actually happening with the company.

Mathew Owens:

So that accounting department aspects and the financial reporting to investors, the communication with investors on that side, and do they have that in order? Do they have their marketing and their property management in order? Do they have their asset management? What are their policies and procedures with regard to asset management? What are they doing on a weekly and monthly basis and who's doing it and what's their expertise? Who on their team is responsible for specific aspects of the deal? This gives you clarity and understanding how set up they are or are they a one man shop or a two person shop where they really don't have the bandwidth and what's their interest?

Do they have other income sources to where they don't need this deal a hundred percent to make all their money, meaning I don't want them struggling on a month to month basis and have to go get other income sources, not have time for my deal that I'm working with them on. Because sometimes there's a lack of incentive for performance, which is really what I look for is that incentive for performance piece. Is there a preferred return? Is there too much fee structures upfront on a deal? Is there incentive for performance on the back end where say they hit a certain hurdle rate and they get a better return or a better split for them to do that? So I'm looking at this structure, I'm looking at the legal documents and saying, are these fair? And I kick them out if they commit fraud because I've seen a lot of these where you can't even kick 'em out for fraud, and that's insane.

So things like this from the, who is the character of this person? How buttoned up are they as an operator, can I do background checks on everybody in the company as well? All the GPS involved, and sometimes GPS don't want to go through that, and if they don't want to go through that, then don't do business with them the wrong people in the first place. And that tells you a lot. Right? I think we mentioned previously that one of the best ways to do that is ask 'em upfront. If anything's going to show up on the report

And see what they say, if they lie to you, then obviously there's a problem there. You're just like, you're done immediately. Those things I think are really important. I also look at the financial plan and say, am I okay with all the financial assumptions that they put into their financial model? I have 2 47 inch wide monitors behind me all for financial modeling, and that's my superpower and I love doing that stuff. And at the same time, I understand what that means with those assumptions and how much those assumptions can affect the profitability of the deal. Just because they're aggressive on certain assumptions doesn't mean they're going to hit those things, and you got to be careful on that side. And so these are some of the main pieces that I look at when I'm first starting to invest in and see if something even makes sense to look at further.

David Phelps:

Matt, the accounting piece, the financial reporting, the flow of capital, obviously that's something because you're a CPA and an auditor, you know what to look for. Would most GPS to a rank and file person who's not a CPA or have auditing experience even want to open their books up very far? And if they did, what's a lay person who doesn't have your capabilities going to really look at? I can look at a balance sheet and look at the asset liabilities and see as you said, how much liquidity do they have? I can look at some of those basic things, but I wouldn't have the eyes or the experience that you have in dialing that in. What can a general LP like me do to get help? And again, how far will a indicator or GP open their books? How wide should they open their books? I guess another question to ask you.

Mathew Owens:

Yeah, and that's a hard thing, right? Because some people are newer as well.

Mathew Owens:

They don't look as good financially and they're reluctant to necessarily show people they might have liquidity and they just might have had a loss year or something like that. And they're nervous to tell the people that there's a number of reasons why they'd be just uncomfortable. That doesn't mean they're being shady or anything like that, but nobody wants to be like, yeah, here's all of my assets and financials to every investor that comes in. I would typically come in and ask for a personal financial statement or a general understanding of where they are on a cash basis and their different income streams that I'm seeing so that I understand from that aspect. And a lot of times I'll be asking these questions. I may not go into depth on the auditing piece of this and detail deep dive audit on their stuff where I'm going to make 'em show me the books of every single entity they own and all of their different assets and all that kind of stuff.

But I might want to go through and say on this particular deal, how much liquidity are you putting aside for yourself out of this and why are you not needing it for your other projects? Are you going to have this liquidity available for these other projects? And I think this kind of more deeper dive and questions started on the financial side, not really because I'm a CPA or anything, but because I used to own a property management company and I run a lending business, and you realize in those two businesses that 90% of people, including business owners do not have their crap together when it comes to their financial situation. And they run out of money and they use money for their in reserves for other projects. They commingle their personal with business because they need to because barely getting by or they overextend themselves or there's a rehab overage or million reasons why they would need to do that, and then they can't live.

And if they can't live, then they can't operate those deals and those deals could have a problem and there's a risk if they're in a bad financial position of them stealing more or misappropriating funds or there's a million reasons they could go into that. And so that's kind of what I look at when I'm doing that, but I just ask for that personal financial statement mostly. And then I ask for, Hey, the financials of that deal or what this is going to look like on the financial projections, I might ask for more information on their primary business or something like that. If that's their bread and butter and I'm seeing income, I'm like, can I verify that, hey, you're doing this many loans or doing this many flips or doing your business, how do I prove that out so that you're okay on the financial side, if I see them marketing their company, I might go look at their companies and the history of those companies to see is there any bad remarks or negative things about those specific companies as well. So I'm doing more of that kind of stuff than necessarily every aspect of their financials. Depends on the situation though and how much I'm investing. If I'm putting in 25 to 50,000 bucks, I'm going to do a lot less. If I'm putting in a million dollars or something like that, I'm going to go deep dive on every aspect of that person

David Phelps:

And with that proportionate amount of capital, a good operation expect you in that case to ask for that. So it comes with how much capital, you're exactly right. If I'm putting in a big chunk, then I'm going to demand a little higher level I want to see inside. And if I'm the operator, I should say, yep, Matt, I'm going to show it to you, putting in a bunch of capital. So yeah, it works both ways. The other thing that I know we've both seen, and particularly more recently since we've had the rise in interest rates out of 22 so quickly affecting the NOI, the operating cash flow, and you talked about if somebody is marginal for strapped or ling funds, that's where unfortunately good people with best intentions can go bad. There's a difference between maybe more naive or have not developed the financial acumen and the financial infrastructure and background. They don't have the people around them that they probably should have, and they've kind of made it through a market cycle that's been a run-up.

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David Phelps:

They've been nose to the ground and working hard and doing the best they can, but maybe scaling up too fast, maybe capital's coming too fast and all of a sudden they get kind of one of their ski tips and they can go bad. It can happen to anybody. Obviously we both look for people even if they've gone bad in the past, what have they done to rectify the situation? You talked about just opening up your lines of credit and just paying back your investors. That's what I look for. I don't look for people with a perfect record that's like I want people who have gone through and have some war stories to tell me, yeah, I went through this tough time, this is what I learned and here's how I dealt with my investors. Maybe it took me two or three years to pay people back, but I got it done. I slugged through it. It's like, okay, you're my man. You're my man.

Mathew Owens:

Yeah, you're like, what did you do in that face of adversity when stuff hit the fan and you're like, how did you fix that? What action did you take during that time? It's funny because I think you have to take a few punches in the face to realize that as well, to realize, hey, in business and investing is going to be dependent on how many times you can take a punch in the face and stand back up and fix the problem because there's always going to be problems or something that occurs and how can you focus on that solution? I had a deal where I was working on a multifamily deal, it was one of my first ones. I had done some smaller fourplexes and six unit type stuff, but this was a 12 unit. It was the biggest one I've done and I totally underestimated the rehab.

And I ended up losing $50,000 on that deal where I was stressed out. I remember going back to my wife saying, oh my God, I just lost the salary today. This was 2011 or 12 when the salaries were 50,000. Now they're like, I got to be much higher. But anyways, at the end of the day I remember waking back up and saying, okay, how do I make this fact? What am I not thinking about that's big enough to be able to make this money back right now and get this deal done? And I ended up that next couple of days, I got a deal under contract that I was able to wholesale to another 10 31 exchange investor, another multifamily, and I made a $70,000 profit. And it clicked then that it's a matter of how is your mindset? Do you focus on the solution immediately and find a solution to that problem?

Or are you just so caught up in the emotion that you're getting dragged down by that problem and not able to really function or make the right decision making ability in that case. And everybody has that push and pull on any deal, someone could make the wrong decision. It doesn't matter how many times you were positive mindset in the past, you still could have a problem in the future if it's big. I've had a lot of problems where I had a contractor steal $500,000 from us on a deal now, and I was shocked that I was able to just be like, wipe it off my shoulder. Maybe it took me a day or a couple days. I was like, alright, let it go and focus. We ended up suing him. We ended up winning in court proving fraud when he tried to declare bankruptcy and now he's going to jail so it doesn't really matter.

But he did this to like 50 people as well, this contractor, and we found out this on Facebook and everything. And you realize through a deal like that, that takes a two year time period, the grind of pushing and pushing and just skid through and real estate is one of those things that just drags like crazy until there's a solution. So finding that drive and that grit, I'll say through these adversity things is super important for your success as an operator. And so people that I look for people that have had and gotten through those pieces versus somebody that they started in 2012 and now they're just been an upward trajectory the whole time, pretty much in no major adversity event that has occurred in that period of time.

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Mathew Owens:

And there was a couple of falters there, but for the most part, real estate specifically has not had that major issue. And when you see that, you're like, okay, that's great, but what adversity have you faced because you're trying to look for that. What are they going to actually do if there's a problem?

David Phelps:

Matt, let's talk just briefly a little bit about the lending business. That's kind of like your core business you mentioned. When did you start that and what was the opportunity that you saw?

Mathew Owens:

So I started that and I believe it was 2016. So I run a nonprofit group called for investors by investors with some partners of mine here in Southern California. We've been running it since 2008 where we do monthly reoccurring meetings and we teach financial education and real estate education. And we're doing that every month since 2008, two of these a month and just meeting a ton of people. And after a period of time, I had all the money I needed for my own flips, I didn't need that capital anymore. And I had some good friends of mine reach out and they're like, Hey, you might have some capital for this. And I started lending to them some of my close friends and people that I've known for 20 years in the industry, which does not make them good investors by the way, just because they've been in the industry a long time.

There's a lot of bad investors out there that have been doing this for a long time, but that's how it kind of started. And then I saw, wow, I didn't have to do anything on that and I made this interest rate spread on my investors' capital and I did one deal inside my 401k, which was like my aha moment with lending, and I did a deal where my 401k lent $500,000 to a flipper at a 14% interest rate, no points, nothing, just a flat 14% rate. And then my 401k sold off $450,000 of that note at a 8% interest rate to one of my private investors. So if you do the math on my $50,000 left in the deal, that's a 68% return on my money and I'm like every CPA in the world is like, oh my god. So when you see that type of thing, and that was just 50 grand, it wasn't like a crazy $2 million.

Now I have 35 million lent out doing this where I utilize my private investors' capital depending on how much capital they put anywhere between seven and 9% on average. And I go through and I first position and you see all these new structures out there, and there's a big structure out there for lenders to try to automate a lot of these processes and technology out there because some really big banks that got a lot of money put into this to be able to lend consistently. And so there's a lot of tech around it. There's good infrastructure around selling notes, insurance companies buy notes, registered investment advisors, buy notes. There's buyers out there that where you can consistently go and liquidate those notes and make your interest rate spreads on top of your private investors that you raise to do that as well. To recapitalize, the hardest part is juggling when all of a sudden you got 4 million, 5 million of loans coming in and you are in the process of selling notes off and they're not sold yet or something like that, and you're juggling and going, crap, I need to make sure that I have my money here.

And so having those outlets is crazy important if you're going to do that at scale. And I like the scale because if I have one note or five notes and one goes bad, that's a giant chunk of my portfolio or my interest spread, especially if I'm covering any negative for my investors and taking out of my pocket first. But if I have a hundred notes and one goes bad, it's like a blimp on the screen as far as what that profitability is on an annual basis or during that foreclosure process or issue that occurs on that note. So the pooling of these things makes it a lot safer in my eyes.

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Mathew Owens:

And when you see the spreads on these things, it becomes very interesting. I put my money in these things too. If I can go make an interest rate on that high on my stuff, that's where I want my cashflow. I want a piece for cashflow on notes and I want wealth building and real estate over here with tax benefits and leverage and all that kind of stuff. That goes with the benefits of this, having my expenses covered with notes while I build my wealth on this side. That's my primary strategies that I use.

David Phelps:

That's perfect because that's where I wanted segue here. Just to wrap things up here with the conversation with you today, I see a lot of hardworking people, and I know you do too, that are hardworking in their career, business, job, whatever it is, and they want to be good stewards of their capital. People always think about traditionally retirement, retirement plan and 4 0 1 ks and stuff like that. And I'm not saying that anything's bad. It's doing something right, but there's the period of time when we're typically younger in life and we are active, we have an active income of some kind, so building wealth growth, the equity is really the play. Of course, you've got to take what the market gives you again, and sometimes you've got to be a little more careful like we're talking about now, maybe a little more liquidity, maybe you're a little bit more on the private credit side, which is going to provide income but not the growth factor.

When we get a little bit older down the line, we'd like to sometimes at some point trade the growth, the equity, the wealth that we created through our efforts inequities and turn that into what I just call replacement income right now. That's where your private credit contractual starts to produce that income. And so do you see that as kind of a trajectory for people to look at wherever they are on the spectrum? Because what I see in the financial markets, and I talk to doctors all the time, is they've had a financial advisor who's helped them navigate whatever they've done and when they go to their financial advisor when now we're talking about they're in their late fifties in their sixties, and they're asking the financial advisor, well, how am I set up for retirement because I'm kind of burning out here? The question they'll always say is to the financial advisor, do I have enough?

And the financial advisor goes, I can't really answer that question. It's just like, because always accumulation, right? It's accumulate, accumulate, accumulate, and they never really have a great pathway to turn the accumulation into the income. It's about depletion. Well, we'll put you in something safe like bonds because we can't take any volatility, and then we'll have a depletion model of maybe 4% per year, so hopefully you stacked up enough and inflation's not going to kill you and you're not going to live to 108. How do you build that communication to people that are asking you the same kind of question, how do I do this?

Mathew Owens:

I actually went and took all my financial planning classes and decided not to go get my licensing for that specific piece because of the lack of investment strategies that I felt were viable in that arena because the whole idea is, hey, build up enough so you can deplete it until you die and you die broke, right? That seems like a horrible strategy to me. You don't know that million dollars or $2 million or $500,000 in your retirement account if inflation is working against you on top of that, that's going to be depleted like that. What that entire system produces is 1% of the retirees over the age of 65 or self-sustaining. That's a horrible strategy. And the whole purpose of this was to siphon money to the big companies, the Fidelitys, the swabs, all these big companies out there, these big investment houses, and they say you can self direct it, but you can only self direct it into items that they control and stuff like that as well, versus you taking control of your financial future.

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Mathew Owens:

The problem with that strategy is that people rely on investment advisors to be able to tell them what to do and be able to build that wealth, and maybe they're great at the equity play because they're able to go through and put it in there. I look at it as not having control over my assets by investing in these where it could go up and down and break me, especially with the broker fees, they take like 65% of your actual profitability out of these with the broker fees back and forth on mutual funds and stuff. So you look at that difference and it's really scary. And then there's a big lack of understanding from financial planners as well as investors on how to create cash flow streams that keep up with inflation or beat inflation along with having inflation hedges in place with those strategies.

And that is a big learning curve that I think is very much, and I think it's on purpose because the big investment houses don't want people to be educated on those topics. So the Forbes magazines don't talk about cashflow strategies. They talk about equities all the time, right? They own these different media and educational outlets. Luckily with the internet now, a lot more people are self-directing their retirement accounts into real estate and creating cashflow streams in their retirement accounts so that this sustains their lifestyle. They don't ever deplete the principle, and that's the idea. Leave all that to your kids and let it grow. If you're living expenses or 15,000 a month, your goal should be 20,000 a month, so you can take that extra 5,000, keep growing that and investing that extra $5,000 consistently into more deals and more cashflow, and also to keep up with inflation in case inflation runs rapid. And that's really, in my eyes, the key to this whole thing is the cashflow strategy is what gives you that long-term stability, and without that, you're at a whim to the market. You don't really have that kind of control over your life and your ability to survive in your older years.

David Phelps:

Well, I can't say any better. I knew we were philosophically aligned. I think we're putting brothers from separate mothers or something, something there because it's like, okay, exactly what I preach all the time. So when it comes from a CPA, then I feel like the credentials are there, so it backs a dentist who learned finances. So it's a little different story from my standpoint. Great conversation today. I know I want to have you back again probably after the first of the year. We'll see what's happening in the markets and there's other things. I want to go down the rabbit hole with you. It's a lot of fun to have the conversation with you live, your mindset, your experience, and I guess I'm kind of biased because we think the same way, so it's always good too, but you speak the truth, so I want the truth.

Mathew Owens:

We're in our social media bubble right here, all saying the same things, right?

David Phelps:

Yeah. We're financial bros here, right? I just say, listen to us. We got it all figured out. So again, you mentioned the nonprofits. You do you want to give us that link

Mathew Owens:

So you can follow me? You can go to my website at Matthew Owens com with finance. Yeah, so matthew owens.com, YouTube channel is U CG Masters of Real Estate, so if you guys want to follow us on there, you can as well. So if I can add value, teach anybody something, help people not lose money to real estate or make a ton of money and create value the cost.

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David Phelps:

Matt Owen, thank you so much, sir.

Mathew Owens:

Thank you.

David Phelps (My Commentary and Lessons Learned):

I was recently asked, David, is there a single most important factor to protecting one's wealth when investing? And if so, how can one prioritize that single thing in 2025? I'll say there's probably not one single thing. I could probably give you two or three top level things that I would say to consider when making your decisions for investing in the future. One is understand what it is you're investing in. I think that's a big, big problem today. A lot of people have become complacent about investing. Maybe they've been disciplined about saving money, putting into certain accounts, buying certain financial products, putting an IRA or 401k or just a tax brokerage account just to do it, to put something away. And that discipline in itself is not a bad thing. In fact, I applaud that discipline, living beneath your means and putting away as much money as one can to potentially grow it and have it available for later retirement, whatever needs may be.

That's important, but the problem is the advocation not really knowing what people are doing. As I ask people oftentimes, well, what's in your 401k? And they'll many times, give me a blank look like they're supposed to know. We just give it to a money manager and he or she, they just allocate and diversify for us. That's really not a prudent way to go about investing. Yes, you may want to use other people to help you decide where to allocate, how to diversify that may be important for you to do. I'm a big fan of learning as much about that as I can myself, and again, that takes some time, but I think the focus on becoming your best advocate for your financial future and then utilizing outside expertise or guidance or information you may gather is a smart thing to do. Another key element in how to protect your wealth would be knowing when to hold 'em, when to fold 'em, and what I mean by that is when to take profits.

There certainly have been some big run-ups, as we all know in the last several years, even in this last year of 2024 as we roll into 2025, it's been a big bull market in the equity markets overall. Now, not unfortunately, but it's been driven mainly by tech and by seven major companies. Most of the rest of the market has been pretty flat. So if you take the tech out of the equation, really, the market has been pretty flat in many cases, but if you've been an index fund or ETF player, you've overall done pretty darn well. And what I'm saying is when the markets are at all time highs as they are today, might be wise to take some of the profits and put it on higher ground, higher grounds, not sexy. It's not what we want to do to continue to compound our big returns, but if you don't know when to take profits out, in other words, when to fold 'em and when to walk away, then you potentially got to take the ride back down again.

It's been said many times that when markets go up, particularly on a strong parabolic rise, as we've seen the drop back to what we call reversion to the mean, it happens all the time. You don't know when. We don't know when we don't know how much, but I think not trying to catch the very last push of the market, maybe only leaving a little bit of capital, there would be a smart thing to do those. Those are two areas I think are important. The third thing I'll say, and I've sort of alluded to it in my first dictum, of understanding what you're investing in. So being more educated about what the opportunities are. I believe that we're going into a decade, maybe more than a decade, where the focus should be more on hard assets, tangible assets, or we may call them alternative assets, alternative to the stock market.

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David Phelps:

You can have money in anything you want to, and I think, again, diversification broadly is wise. The financial markets, wall Street does give us some liquidity. You can typically buy and sell. The problem is when the market is dropping down and going through a corrective mode, then you're selling into a hole and there's no one to buy as the markets go down. So having some liquidity in the stock market, some diversification there, I think it's fine, but alternatives give us a better chance to be more specific about our investments is an inefficient marketplace, which means there's more opportunity for us as individuals if we're willing to do the work or gain the access to the network. The people understand the due diligence. There's more opportunity there, I believe, particularly in the next decade ahead. So we're the wise. Understand what you're investing in, know when to take chips off the table and probably think about becoming a more active orchestrator of your financial future than you have in the past.

People know that I have a bias towards more active involvement in one's financial future, and my bias means that I do speak out oftentimes against the abdication or complacency of just putting money in the traditional mode of the Wall Street financial retirement model, the IRAs, the 401(k)s, the tax deferral that for a number of years recently, so recency bias, looking back in the last few years, maybe the last even decade since 2008, we've seen a great rise in that marketplace. So if you've been there, then congratulations, you have done well, and you could say, well, David, you've been wrong. I've actually done quite well in the alternative space and feel very good about that. I do put time and effort into it, and I also believe that as the markets shift and change, particularly the equities markets in the financial arena, wall Street, as they change, go through a correction, it's going to leave a lot of people holding the bag and wondering, well, where do you go next?

What next? If you haven't studied the markets and studied alternatives and made access points into where to maybe take some of your capital, take some profits and move into other places where you can hedge against downside risk, then I think you're making a mistake. And many people just won't heed that advice. They look back and say, well, if the market's done this already, let's put more in. It's the fear of missing out, the fomo, the greed that drives people, and it's a human behavior. We all have it within us. I think just finding the ability to have the discipline and the knowledge base to know when to hold back or when to reallocate certain investment capital so that you don't take those big losses, the big corrections when they come, because they will come. They always do. The last one, really 2008, short one in Covid, spring of 2020, the next one.

I think it could be a big one, and you just don't want to get caught short. Understanding where the alternative investments are and how to access those, I think will be a big key for people going forward and maintain their financial freedom in the years ahead. I've always been a huge fan of creating multiple streams of income. Question is people say, well, how important it is that and how do you do it? I started back when I was in my early twenties before I actually had a primary means of income. Yes, I worked on jobs through school and college and mow lawns when I was a kid, and I waited tables during college and dental school, so always been earning money, which is something we have to do for at least a period of our life and the skill set, the education, the career path, the knowledge base, the value we bring to the marketplace through a business or professional practice.

That's a blessing and it's something we have to work for and continue to work in to produce that trading time for dollars, income, the active income, but to really have freedom in life and have the peace of mind and the security and have the ability to scale more time off, you've got to have outside streams of income.

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David Phelps:

Where do those come from? Well, I found it to be best to find those in the alternative space, primarily real estate to me, the simplest way, but not easy, but simplest way that I could have a handle on that even in early age when I had very little knowledge, very little amount of money to invest was the compound effect of making small decisions and compounding my wealth through the equity space in real estate, small deals, small deals. Today, I've graduated because I want more time back to more passive investing, but still through alternative space through other people.

That's a whole nother construct and something that we talk a lot about in Freedom Founders because most of our members come to Freedom Founders not wanting to become active real estate investor or business people. They don't want to go out and have rental properties to deal with or fix and flip or create syndications, and it's not what we want to do. We actually value our time because we've earned the right, but we only can earn the right and have the right if we take the steps forward to navigate or shepherd the capital we've built through our active income, through our practices. When we sell those through the investments we made, whether it's in the stock market or 4 0 1 Ks or whatever, the ability to actually transfer, translate that wealth, that equity, that net worth into replacement income. That's the key, and that replacement income can come in the form of multiple income streams that could be diversified, provide safety and a hedge when the markets are fluctuating and we go through recessions and corrections, you can hold steady with a diversified portfolio that's producing replacement income and still has a hedge against inflation.

Thanks for tuning in. If you like this conversation, click that subscribe or follow button. It lets us know what you want to hear more of and pushes this episode out to more people. One more thing. One of the greatest joys of my life right now is helping others take control of their lives in every aspect and watching them reshape their lives. Most believe in order to do this, you must first achieve financial freedom, and yes, it's incredibly helpful once you no longer have to work for your income for yourself, however you can start making progress on your freedoms and your desired life today. Yes, achieving such a life requires getting your finances in order and replacing your income little by little, but it also requires mindset shifts, working with your spouse or significant other, having the hard conversations, getting educated and creating the relationships that will help you along the way.

These are all keys I found in my life and I want you to have the same thing. This is the adventure we embark on in Freedom Founders self-awareness, growth, expanding what you thought was possible. The ones who have taken this path have discovered life changing relationships, financial freedom, and a passion and purpose for life just beyond your occupation. If you're ready to take action and take control of your life today, then my team would love to discuss how we can help you. Go to freedomfounders.com/ discover. Schedule your call. That's freedomfounders.com/discover. I hope to hear from you soon.