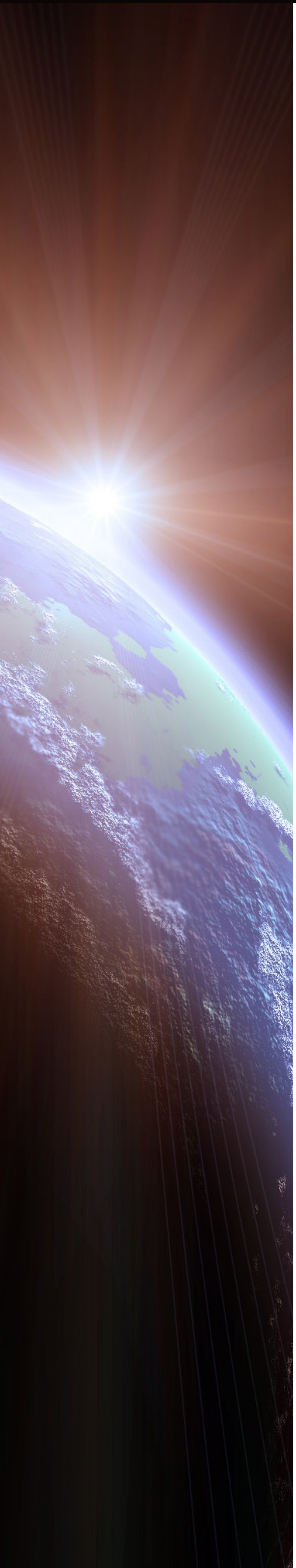
Wake-Up Money

FINANCIAL FREEDOM INVESTMENTS



Have you ever wondered what it would be like to wake up in the morning with enough money coming in that you could do what you want that day?

Would you consider yourself Rich?

Financial freedom occurs when your annual investment income (your money at work) exceeds your annual lifestyle expenses. At this point you have **Wake-Up Money.**

We have many customers who have achieved (or are on the path to achieving) this **Wake-Up Money** lifestyle. Many of them have modest incomes but have become Rich through their investment in local real estate - specifically homes and condominiums.

These customers understand that we have three choices in life.

1. You at work. Do you worry you will have to work the rest of your life?

2. Your money at work. Do you dream of someday not having to work?

3. Charity. Do you worry about being dependent on others?

If you prefer choice #2 and want to get on the path to **Wake-Up Money**, this simple brochure is devoted to showing you the way.

Peter Lynch, the great stock market guru and author of Beating the Street was once asked what he thought was the greatest investment. His answer: **a single-family house.**

A SIMPLE INVESTMENT

Warren Buffett, one of the world's richest men, offers this investment advice, "Only invest in things you understand."

Homes are one of the three basics of life: food, shelter, and clothing. Homes and condominiums are simple investments that most people understand because they already live in one. Ask yourself these questions: Do I own a home? Has it been a good investment over the long-term? What would my net worth be like if I owned ten of them? What would my lifestyle be like if they were all free and clear?

WHAT IF?

If you purchased ten houses 15 years ago (average price then was about $200,000/ each) and financed them on 15-year loans, today your houses would be free and clear. Today, they are probably worth about $400,000 each and your portfolio of ten houses is worth about $4,000,000. After expenses that should be net income of over $20,000 per month in **Wake-Up Money**.

Will Rogers said, "Just the name 'real estate' implies that all other forms of investment are illusory."

THE BENEFITS OF RESIDENTIAL REAL ESTATE INVESTMENT

Residential real estate offers five major benefits. Most other investments offer only one or two.

1. Cash Flow - The rent provides income, i.e. **Wake-Up Money**. This is your ultimate goal. When your property is free and clear, you have the maximum cash flow and **Wake-Up Money**.

2. Leverage - You can own $300,000 worth of real estate with only 20% - 25% cash. Your short-term goal is to use leverage to acquire a portfolio of real estate. Your long-term goal is to pay the loans off and own your properties free and clear.

3. Debt Reduction - Real estate is one of the few investments where someone else will make your payments. In essence the tenant makes the payments and reduces your debt.

4. Tax Savings - You are allowed to depreciate the house and write off your expenses in order to reduce your taxes.

5. Appreciation - Over time the value of houses and condominiums have risen. Even though the value of houses and condominiums have risen over time, we believe appreciation is the icing on the cake, not the cake.

Here's a definition of Rich that we like:

Rich is the ability to wake up in the morning with the physical health, knowledge, friends, financial freedom, and passion to do what you want that day.

FREE AND CLEAR

These are three magic words for the person who's committed to creating **Wake-Up Money**. Many investors consider **free and clear houses** as the **ultimate investment** for three reasons:

1. The house generates cash flow.

2. The house is appreciating in value.

3. There is very little risk because there is no debt.

FOUR RULES OF THUMB HELP INVESTORS BUILD WEALTH QUICKLY

1. The "Rule of Financial Intelligence." Wake-up Money investors understand these basic definitions (courtesy of Robert Kiyosaki, Rich Dad. Poor Dad):

- **Asset -** something that puts money in your pocket.
- **Liability -** something that takes money out of your pocket
- **Good Debt -** finances assets and someone else makes the payments
- **Bad Debt -** finances liabilities and you make the payments

2. The "Rule of 72" is used to estimate how long it will take your money to double itself at a given rate of return on your investment. If you divide your rate of return into 72, the answer is how long it will take your money to double. For example, if you earn 6% on your money, it will take you 12 years for your money to double in value – 72 divided by 6. If you are able to increase your return to 10%, your money will double in 7.2 years – 72 divided by 10.

3. The "Rule of Leverage." One of the benefits of real estate (as opposed to other forms of investment) is that you can use leverage to increase your rate of return. You leverage your investment by using a loan on the property and reducing the amount of your own money you invest. The tenant makes the payments for you by paying rent (good debt). When you leverage (use a loan), your rate of return is increased. For example, if you purchase a property for $300,000 cash and it goes up in value by 2%, you have earned 2% on your money ($6,000 divided by $300,000) - plus the cash flow from rent collected. However, if you purchased the property with a 20% down payment ($60,000) and a $240,000 loan, your rate of return from appreciation will be 5 times greater or 10% ($6,000 divided by $60,000). Since, with leverage, your cash flow is reduced, leverage is used to assemble a portfolio of properties. Once you have "enough", the goal is to pay them off. Having enough free and clear properties is the ultimate goal of "**Wake-Up Money.**"

4. The "Rule of Return." Here's a simple way to figure your return on investment:
a. Convert your down payment to a fraction.
b. Multiply the denominator times the appreciation rate to find your first year return on investment from appreciation.

For example, if your down payment is 20%, when we convert it to a fraction your down payment is 1/5. The denominator is 5. Multiply the denominator (5) times the property's appreciation rate (say 2%) and your first year return on investment is 10%.

WAKE-UP MONEY EXAMPLE

Here's an example of how to purchase a **Wake-Up Money** property. This property was priced at $300,000 and sold at full price. Here's how the investment works on this property.

$300,000	Price
$65,000	20% down payment + $5,000 closing costs
$240,000	Loan @ 5.5%; 30-year; fixed rate
$1,363	Monthly principal and interest payments
$225	Monthly taxes and insurance payments
$100	Monthly reserve for maintenance/repairs
$1,800	Monthly rental income after management
$1,147	Total monthly expenses
$112	Monthly cash flow

Here are the 5 Major Benefits of owning this **Wake-Up Money** house.

1. Cash Flow - $1,344/year; $1,344/$65,000 = **2.07% Return On Investment**
2. Leverage - You own $300,000 of real estate for a $65,000 cash investment.
3. Debt Reduction - $3,233 in principal reduction the first year. In essence the tenant is buying you the house and giving it to you at the end of the loan. $3,233/$65,000 = **4.97% Return On Investment.**
4. Tax Savings - About $8,000/year in depreciation. This means that your income from this property will not be subject to tax. (See your tax advisor).
5. Appreciation - If this house goes up 2% in value this year, it will increase by $6,000. $6,000/$65,000 = **9.23% Return On Investment.**
(If the house doesn't go up at all, there is no return from appreciation.)
Total Return On Initial Investment of $65,000:

2.07%	From cash flow
4.97%	From principal reduction
9.23%	From appreciation
16.27%	Total return on investment

When this property is free and clear, you will have nearly $18,000 a year in Wake-Up Money. Of course by then the rents (and the **Wake-Up Money**) will probably be higher, as will the property's value.

TOP TEN TIPS FOR CREATING WAKE-UP MONEY

1. Buy residential properties. Houses, town houses and condominiums. Stay away from land and commercial real estate unless you are an experienced investor or are buying as a business user.

2. Buy mainstream houses and condominiums. Buy properties that are at or below the average sales price. Buy properties that appeal to most buyers. Avoid high priced or unusual properties. Buy houses with at least three bedrooms and condominiums with at least two. If possible, buy properties with a garage.

3. Don't buy with partners unless you have to. If you have to have partners, make sure they have the same goals and values, are of similar age, and have job, geographic, and marriage stability.

4. Believe in the long run. Real estate markets are cyclical but the long-term trend has been up. Hang in there for the long run. The great investor's lament is I should never have sold that property. The other investor's lament is, I could have bought that property for $_______!

5. Take care of your property and it will take care of you... It's your golden goose. If you don't like property management or are too busy, either hire a professional property management firm or buy condominiums and town houses. They take a lot less management. The homeowner's association takes care of most of the property management.

6. Get started early. Put time on your side. Albert Einstein was once asked what he thought was the most powerful thing in the world. His reply, compound interest. Don't wait to buy real estate. Buy real estate and wait!

7. If you don't have the money, make a plan and a commitment to get it. Savings? Stocks? Have your retirement plan purchase properties?

8. Know your enough. How much **Wake-Up Money** do you need? Know when you are ready to stop accumulating property and start paying off what you have - and enjoying life!

9. Work with knowledgeable people. Pick REALTORS®, accountants, attorneys, and property managers who know what they are doing.

10. Have a goal and a plan. Develop your goals and a plan to achieve **Wake-up Money**.

SETTING YOUR INVESTMENT GOALS

1. Where do you want to end up financially? How much **Wake-Up Money** do you want each year?

2. How soon do you want to get there?

3. What do you need to do each year to get there? What do you need to do today to get started?

4. How much money do you have to invest? Can you get more from other sources - borrowing from other properties, sale of stocks, etc.?

5. How much risk are you comfortable with?

6. How much time are you willing to invest to find, buy, and manage properties?

7. Are you handy with tools and can fix things or do you prefer to hire someone to do it?

8. Do you have the time and knowledge to manage your properties? In town? Out of town?

9. Will you want to hire a property manager to manage your properties? Do you know one you have confidence in?

10. Do you have geographic stability in your job/profession?

11. Do you have a plan to fund your children's college education?

12. Can you hold the property for at least three years? Five years?

13. How you can leverage existing properties to buy more?

14. What types of properties are you most comfortable owning?

a. Single Family Homes Where?
b. Town homes Where?
c. Condominiums Where?
d. Student/Campus Housing Where?

15. Other than the economic benefits, for what other reasons do you want to invest in real estate?

CONSULT YOUR ADVISORS

We strongly encourage you to consult with an attorney and an accountant before making any real estate purchase. Also, we can help you connect with a lender to learn about today's loan options and interest rates.

GETTING STARTED (STEP-BY-STEP PROCESS)

Step 1: Pick a qualified REALTOR® - Three C's - Competence, Confidence, Chemistry.
Step 2: Set your investment goals
(Your REALTOR® can help you.)
Step 3: Create the criteria for the properties you will buy.
Step 4: Set up your systems

a. Meet with your lender and get pre-approved for your loan(s).
b. Talk to your accountant/attorney - how you want to take title.
c. Select your property manager if you are going to use one.
d. Gather your paperwork - leases, applications, etc.
e. Set up your bookkeeping system - Quicken, files, etc.
f. Make a list of your service workers and their phone #'s.

Step 5: Start your search.
Step 6: Identify potential properties.
Step 7: Estimate rents. Call property managers and other owners; check newspaper or online "for rent" ads and call on them.
Step 8: Drive by - look for big values, neighborhood, other properties for sale or rent, price relative to neighborhood, Who would want to live here?
Step 9: Have your REALTOR® make an appointment to see the property.
Step 10: Do your investment analysis.
Step 11: Write a contract - keep your big picture, long-term goals in mind.
Step 12: Have the property inspected.
Step 13: Closing.
Step 14: Leasing.
Step 15: Property management. Take care of your property and your property will take care of you!
Step 16: Asset/portfolio management - Golden Geese and Getting to Enough.

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