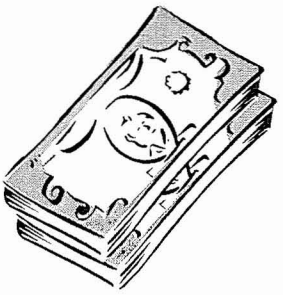
Who Wants to be a Millionaire?



Become a Real Estate Investor!

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Start Your Real Estate Investment Strategy...

If you've ever thought about buying real estate as an investment, but decided that it was too big a financial gamble, ***think again!***

Real Estate will be the largest contributor to achieve financial security. The reason we all aspire to own real estate is simply this: ***"We desire to accumulate wealth and real estate is the foundation"***. Without it, you may find it almost impossible to gain access to the kind of capital you'll need to support your growing financial needs throughout your life and into retirement.

Since 1991, overall housing prices have increased while mortgage rates have dropped dramatically.

FOUR GREAT REASONS TO BUY

- ***Real Estate makes a Great tax shelter***

  1. Taxable Loss to lessens tax burden
  2. Additional income typically with no additional tax
  3. Depreciation allows for additional "Paper" Loss

See a Sample Schedule E Below for a Property with Positive Cash Flow that shows a Negative Cash Flow "Paper" Loss with Depreciation

Sample Rental Schedule

	Purchase Price $500,000 **Property Address**
Rents Received	$34,500.00
Interest on Bank Accounts	$24.27
Other Income/commission	
Advertising	$250.00
Auto & Travel	$1,352.00
Cleaning & Maintenance	$250.00
Insurance	$1,200.00
Legal & other Prof. Fees	$150.00
Management Fees	$250.00
Mortgage Interest Paid	$19,500.00
Repairs	$250.00
Supplies	$150.00
Taxes	$3,000.00
Utilities	$150.00
Closing Costs purchase/sale/refinance	$126.66
Postage	$56.02
Yard Care/Landscaping	$150.00
Total Expenses	$26,834.68
Net Income/Loss Before Depreciation	$7,689.59
Depreciation	***$16,667.00***
Net Income/Loss After Depreciation	($8,977.41)

Income	
Less Depreciation	
Net Taxable "LOSS"	

$641	Additional Monthly Income
-$748	Net Mnthly Tax Savings

$1,389	**Net Monthly Income Benefit**

Real Estate is an Investment that Someone Else Buys for You

1. What other investment is structured such that some one else provides the money to invest.
2. You earn monthly income while accumulating equity that someone else is contributing through rent.
3. Have a Free & Clear Asset that earns annual income for which someone else paid.

See a Sample Rental Property owned for 30 years:

Investment Property	Purchased in 1973	Today	
Mortgage Amount	$85,000	$0	
30 Year Mortgage payment @ 8%	$870	$0	
Monthly Rent	$950	$1,400	
Annual Income While Mortgage	**$960**	**$16,800**	***Retirement Income for which someone else paid***
Take this Income x 5 units		**$84,000**	
Take this Income x 10 units		**$168,000**	
Take this Income x 15 units		**$252,000**	
Take this Income x 20 units		**$336,000**	***Now that beats Social Security!***

- ***Real Estate as a leverage Tool makes your cash investment earn a greater return***

4. Leverage is using a small asset to leverage a larger asset to earn a larger return.
5. The compounding nature of return on investment means that the returns grow exponentially
6. You can sell real estate and leverage gains "tax free" using the appreciation to double or triple the number of your investment units through 1031 exchange.

Sample Investment Comparison

10 Year Investment Comparison Stock Vs. Real Estate

Average Return @ 10%	Stock Investment
Initial Investment	$100,000
Year 1	$110,000
Year 2	$121,000
Year 3	$133,100
Year 4	$146,410
Year 5	$161,051
Year 6	$177,156
Year 7	$194,872
Year 8	$214,359
Year 9	$235,795
Year 10	$259,374
Gain on Investment	**$159,374**

Average Return @ 6%	Real Estate Investment
Down Payment on $500K Duplex	$500,000
Year 1	$530,000
Year 2	$561,800
Year 3	$595,508
Year 4	$631,238
Year 5	$669,113
Year 6	$709,260
Year 7	$751,815
Year 8	$796,924
Year 9	$844,739
Year 10	$895,424
Gain on Investment	**$395,424**

Net Annual Income
$3,480
$3,828
$4,211
$4,632
$5,095
$5,605
$6,165
$6,782
$7,460
$8,206
$9,026
$64,488

Difference in Investments	**$300,538**

Real Estate as Supplemental and Retirement Income

1. Social Security will not be enough if it even still exists.
2. It is suggested that to retire, you'll need to build up enough assets to generate yearly income of 70 percent of your pre-retirement income. That's a tall order!
3. Through the concept of compounding returns you will be a Millionaire before your retire.

Sample Accumulation of Assets

Accumulation of Assets for Retirement					
	Purchase				
Year 1	$250,000	Purchase			
Year 2	$265,000	$250,000	Purchase		
Year 3	$280,900	$265,000	$250,000	Purchase	
Year 4	$297,754	$280,900	$265,000	$250,000	
Year 5	$315,619	$297,754	$280,900	$265,000	
Year 6	$334,556	$315,619	$297,754	$280,900	
Year 7	$354,630	$334,556	$315,619	$297,754	
Year 8	$375,908	$354,630	$334,556	$315,619	
Year 9	$398,462	$375,908	$354,630	$334,556	Total Accumulated Asssets
Year 10	$422,370	$398,462	$375,908	$354,630	$1,551,369

Use 1031 Exchange to Compound Results									
Assume sold 1 property every 5 Years and Bought 2									
	Purchase	Purchase							
Year 5	$350,000	$350,000	Purchase	Purchase					
Year 6	$371,000	$371,000	$350,000	$350,000	Purchase	Purchase			
Year 7	$393,260	$393,260	$371,000	$371,000	$350,000	$350,000	Purchase	Purchase	
Year 8	$416,856	$416,856	$393,260	$393,260	$371,000	$371,000	$350,000	$350,000	
Year 9	$441,867	$441,867	$416,856	$416,856	$393,260	$393,260	$371,000	$371,000	Total Acumulated Assets
Year 10	$468,379	$468,379	$441,867	$441,867	$416,856	$416,856	$393,260	$393,260	$3,440,723

Retirement Income

Investment Property	Purchased Today	20 Years From Now	
Mortgage Amount	$250,000	$0	
30 Year Mortgage payment @ 8%	$1,285	$0	
Monthly Rent	$1,400	$1,700	
Annual Income While Mortgage	$1,380	$20,400	*Retirement Income for which someone else paid*
Take this Income x 5 units		$102,000	
Take this Income x 10 units		$204,000	
Take this Income x 15 units		$306,000	
Take this Income x 20 units		$408,000	*You won't be earning that from Social Security*

- Use leverage to start small and buy up.
- Future appreciation is just a prediction, but the concept of leverage makes housing an excellent investment and real estate consistently out performs all other investments over time.
- You may feel there is plenty of time to get started. You'll probably need the profit you'll make by selling your "starter" house to be able to amass this level of assets.
- You may wait a long time to see rates this low again. Taking advantage of low mortgage rates gives you greater cash flow potential. Waiting could cost you a bundle.

How to Finance your investment if you don't have $100's or $1000's to invest

- **Leverage what you already own** - If you already own a home you can take the equity from it and use it as down payment for an investment property.
  - You can refinance your current property and take cash out to fund the down payment on an investment property.
  - You can obtain an Equity Line of Credit against your current home, many times up to 100% of the value, to use for down payment on an investment property.
  - Or do both. Many times we can lower your monthly house payment while obtaining the required cash for and investment property, maximizing your monthly positive cash flow.
- **Use "No Down" or Low Down Loans** – Use 100% or 95% financing options that require very little cash to get started investing.
- **Rent the house you currently own** – If you currently live in a home that you would not consider your permanent "Dream" home, rent it and buy a new primary with $0 or very little down.
  - Use a cool tax advantage to make your gains on the home in which you currently reside "Tax Free". The current capital gains tax code allows you to rent the home in which you reside for up to 3 years and, as long as you lived in it as your primary residence 3 of the last 5 years, you can sell that home (prior to the 3 year period) and earn the gains tax free. ***That's "Free" money!***
  - Use the money from the future sale of your current primary to leverage 2 new investment purchases.
  - Plan to move every 2 years… Until you own you Dream Home!
- **Buy a multi-family property and live in one unit**– If you don't already own a home, purchase a duplex or triplex and reside in one of the units and rent out the others. You can utilize 100% financing options at lower Owner-Occupied interest rates. Many times you can earn sufficient rent from the other units to live with a $0 monthly house payment or even make a few bucks.
- **Buy with a Partner** – Pool your funds and the fund of an investment partner and buy something together. Hold the property long enough to earn gains on a sale, split the profits and go out on your own. Or build a business together.
  - Make sure it is someone that you really like. Or, more importantly think like!
- **Ask the Seller for Help** – Many times your Real Estate agent can negotiate a seller credit your some money to help offset the closing costs associated with buying. This can help lessen the amount of money you will need to close.

Think Like an Investor

You must change your current thinking to think like and investor.

So you ask… How does an investor think?

- **Don't Buy for Love** – You will no longer buy houses based on falling in love with them. You will now buy either for the monthly cash flow potential or the appreciation gain potential. ***Now, It's all about the numbers.***

- **Evaluate The Cash Flow Positions of Your Entire Portfolio** – You must look at your entire real estate portfolio and evaluate how to maximize your cash flow postions of your real estate portfolio combined, rather than focusing on one loan or one property.

  - Many times you may change the financing on the property/properties that you currently own, to maximize your monthly cash flow.

  - You may use Adjustable Rate Mortgages where you have a fixed now in order to maximize your cash flow.

  - Using adjustable rate mortgages today to maximize your cash flow will allow you to maximize your leverage earning a greater return on investment and earn future gains that will reduce your mortgage debt in the future.

- **Learn to New Financing Strategies**– Consider using alternative loan programs to maximize your cash flow and allow for a sufficient hold period to earn gains on your investment.

  - Using adjustable rate mortgages now will allow you to maximize your cash flow and allow you to own more units.

  - Use the equity one property to help fund new one

  - Use loan programs that allow for Cash Flow Management in fluxuating rental markets.

- **Decide How Long You Will Hold the Property** – You will not hold all properties forever.

  - Decide if the property is a "cash cow" and you are buying it for positive cash flow that you may hold longer-term.

  - You may purchase a short-term ownership with an anticipated appreciation gain over short period of time.

  - You may purchase a fixer-upper that will be a very short-term ownership and you will utilize the property to leverage other investment units in the future.

Don't Get In Over Your Head

You need to plan for a rainy day. Below are a few things to consider so that you don't get in over your head.

1. **Try to avoid too many negative cash flow properties.** You may purchase a property that negatively cash flows because the anticipated appreciation over a short term (year or two) is great. Make sure that you earn sufficient income from other sources to fund the monthly negatively cash flow.

2. **As you gain greater tax advantage, adjust your withholdings** on your W4 form at work to keep it in line with your tax benefits. You will actually increase your take home pay! Consult you tax accountant to make sure your don't over estimate your benefit and end up owing taxes at the end of the year. ***This is like giving yourself a raise!***

3. **Determine what appliances, fixtures or repairs will be needed after you close** and plan how you will fund those additional expenses. You may need to ask the seller to pay for these items and include the cost of them in the purchase price, therefore including it in financing rather than coming up with additional cash after closing.

4. **Keep sufficient assets in reserve for the unexpected.**

   - Unexpected Repairs
   - Unexpected Rental Vacancies
   - Down turns in the rental market
   - A bad tenant

5. **Plan for Maintenance Expenses.** If you are buying single family houses or multi-unit properties you will need to count out monthly and yearly cash out-lays for general maintenance and up keep. It is important to keep you investment property in good repair to maximize your potential rents and to maximize you your potential gain on sale.

6. **Plan for a "rainy day".** You may not have a lot of cash laying around when you begin investing. Make sure to have Equity Lines of Credit available for unexpected expenses as your financial "Safety Net".

7. **Try to avoid a rainy day.** A large, unexpected repair immediately after purchasing an investment property can put a large strain on finances. Get a home inspection or homeowner's warranty before you close to hedge against a large, unexpected cash out lay after closing.

8. **Remember to calculate in the extra costs.** If purchasing a condominium or townhouse there will be additional monthly homeowner's association (HOA) dues that could significantly effect your cash flows. Many times this cost will be offset by reduced maintenance costs of the exterior of the property and eliminate the need to yard care and typically includes the majority of the cost of homeowner's insurance.

9. **Using adjustable rate mortgages and other creative financial vehicles** will help you get into investing. Make sure that you have a plan for the future so that you don't end up over leveraged. Understand the possible future payment increases and make sure that you have planned for new financing or the liquidation of that property.

10. **Always have a hold strategy.** The market can take many turns up and down. Make sure that you have the financial "safety nets" in place to hold through a down-turn in the market. You will lose money investing in real estate if you have a "panic" strategy and must sell during market down turns. Although, as an investor, you will be looking for ***others*** that use the **"panic"** strategy.