Dear Real Estate Investor,

When investing in real estate there are many different directions to choose from. When deciding which direction is best for you, it’s important to consider the difference between passive-income generating avenues and earned or working-income generating avenues. In fact, in my opinion, understanding the difference between passive income and working income is one of the most important things to consider when investing in real estate.

**Working Income vs. Passive Income:**

**Working Income**: Working Income is buying a house, fixing it, and then selling it for a profit. Or building a house then selling it for a profit. Or my favorite is buying a house, holding it (hoping it will appreciate in value, while losing money every month), then selling it.

**Passive Income**: The best way to understand passive income is to play Robert Kiyosaki’s board game, “Cash Flow 101.” To win (get out of the rat race), you have to get your monthly passive income to exceed your monthly expenses. It’s a real eye-opener. In his game, the quickest way to achieve this is purchasing cash flowing rental properties. Passive income is income that is earned without you doing the work to earn it. Investing in Real Estate Mortgages is a great way to create passive Income.

-Troy

Who is Troy Fullwood?

Troy Fullwood is an award winning speaker, self made millionaire, trainer, and coach. He has presented keynote speeches, workshops, and seminars throughout the United States. His high quality, high content, high energy programs are well researched and delivered in a down to earth style that everyone will remember.

Prior to becoming a professional speaker and trainer, Troy Fullwood was and still is a successful entrepreneur. He built a Real Estate empire from a $1500 investment in 1997.

In 1997, Troy founded Pinnacle Investments, since it’s inception, Pinnacle Investments has purchased over 12,000 first and second lien position notes totaling over a billion dollars. With Troy Fullwood’s creative knowledge of investing, Pinnacle Investments holds the title for being the number one principal buyer of Simultaneous Closings as well as being one of leading real estate note buyers in the country.

Since 1997, Troy has been sharing his knowledge and has spoken to over 300 audiences. Many of them repeat engagements. This includes The American Cashflow, Personal Real Estate Investor, and Peak Potentials. His clients include corporate leaders, real estate investors, and entrepreneurs.

In 2002, Troy was inducted as a VIP member of the empire Who’s Who among Executives and Professionals and in 2008 he was inducted again as a VIP member of Who’s Who among Executives and Professionals in the field of Creative Financing.

Straight Talk

on real estate

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Stem with leaves and fruit

# **From the Desk of Troy…**

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What is a Real Estate Note you ask? Well let me tell you. A note is simply an IOU. A payor has promised to pay someone else, called a seller/lender, a certain amount of money. The payor may agree to pay interest on the money, and to pay part of it back in daily, weekly, monthly, yearly installments or in one lump sum in the future. We, as note buyers, will buy that IOU from the Note Holder (i.e. the person receiving the payments) for a lump sum of cash now. How much we will pay depends on the discount we can convince the beneficiary to take from the face amount of the note.

Any seasoned real estate professional can recite a litany of anecdotes about investments that looked really great on paper, but in reality were a Pandora’s box of costly problems.

For example:

An investor buys a commercial property in an up-and-coming section of town, expecting to lease it for the short term and then cash in on the predictable spike in real estate values, to make money on both ends.

The following year a national development company opens a shopping mall on the other end of town, draining all the consumer traffic away and creating a rush to open stores closer to the mall. The investor’s property sits empty as the equity vanishes, replaced by monthly debts that cannot be offset.

A homeowner decides to fix up a garage and convert it into a rental apartment.

The extra income will be enough to pay the mortgage on the house, which will essentially transform an empty garage into an investment project that produces a steady cash flow while the equity of both properties – the house and the new garage apartment – rise.

Before the renovation is completed – but long after legal agreements are made with contractors to do the work and the building materials are delivered to the site – the local preservation society manages to get the neighborhood included in the state historical record. No new construction is allowed under the strict guidelines, which are imposed to discourage modernization. The plan to rent out the garage is now against the law, but if the contractors are not paid for their materials and contracts, they can impose a lien on the main house in lieu of payment.

An investor finds a vacant apartment complex in need of repairs, but the cost of repairs is minimal compared to the immediate income and cash flow that can be had by renting out the property to military families at the nearby Naval station. The repairs are completed ahead of schedule and a newspaper and billboard marketing blitz is planned, in order to fill up the thirty units as soon as possible. An ad agency is hired and completes their plans.

But two weeks before the planned ribbon-cutting ceremony and launch of the publicity campaign, the government closes the base and ships the personnel and equipment elsewhere, in order to save money and streamline the organization.

“A Note is Simply an IOU”

# **Buying Property That Looks Good on Paper…**

**"Forget past mistakes. Forget failures. Forget everything except what you're going to do now and do it."**

– William C. Durant

– William C. Durant

This month’s featured book is:

**Leadership and Self Deception: Getting Out of the Box** By: Arbinger Institute

The "disease" of self-deception (acting in ways contrary to what one knows is right) underlies all leadership problems in today's organizations, according to the premise of this work. This straightforward book explains how leaders can discover their own self-deceptions and learn how to escape destructive patterns.

For more information on this book, please visit: <http://www.amazon.com/Leadership-Self-Deception-Getting-Out/dp/1576751740>

# **Recommended Reading…**

Although these are fictional stories, they demonstrate the fact that although in real estate “location is everything”, it doesn’t mean that location is always a good thing, or a dependable one. And other factors can bite into the profit margins of a real estate investment project before it reaches completion. These include unexpected spikes in the cost of repair materials (due to everything from hurricanes on the other side of the country to inflated prices at your local gas station), inclement weather (which can delay projects like pouring concrete, painting an exterior, or repairing a weak foundation), fluctuations in the labor market, and a variety of other issues.

Many investors finally opt out of the hands-on real estate game completely, or decide to at least supplement some of their investments in physical “brick and mortar” property with a portfolio of real estate debt notes or mortgage paper.

At a time when interest rates are rising – making debt instruments more attractive in the short term, many investors are looking for alternatives to low-yield instruments, such as bank certificates of deposit and Treasury notes. They frequently find higher returns and plenty of liquidity in the market for real estate paper, which not allows offers better short-term yields, but the opportunity for long-term or time-staggered investment strategies as well.

And when rates rise, the stock market has historically gone bearish. But by the time most people figure out that their gains in the stock market are dwindling, it is often too late to get into the bond market, because the bargains are gone. Those who keep a strong portfolio of real estate paper, however, can potentially profit from both economic climates, and enjoy the diversity of owning real estate as part of a well-rounded investment allocation plan, but without the day to day risk of being a developer, landlord, or rehab project manager.

Regardless of what kind of investor you are, real estate notes or “mortgage paper” can provide diversification, cash flow, and hassle-free convenience. Ask your local real estate note broker to explain how a real estate investment that looks good on paper can also be found through the global market for real estate-based paper debt transactions.