**PEP 112 Edited\_Transcription**

[Daniel Hill.] (0:05 - 24:29)

Welcome to the Official Property Entrepreneur Podcast with myself, Daniel Hill. We are now rated in the top 10 of all business entrepreneurship podcasts in the UK. Last year, we were rated the seventh most popular property podcast.

And every month by downloads, we are rated in the top 5% of most popular podcasts in the entire world. Thank you all for your support, for sharing and subscribing to these podcasts. This is literally my life's work broken down into simple blueprints for you to execute everything that you want, be it wealth, health, or life by design.

Success and failure are both very predictable. Let's get into it. Hello, hello, hello, and welcome to the next episode of the Official Property Entrepreneur Podcast.

It's Tuesday. It's time for another episode. It is autumn.

So it's all about cave time. It's all about journaling. It's all about strategy.

And for all of our property entrepreneurs this year, it is about leveling up. So it's our 10th anniversary of running Property Entrepreneur. And what we're going to do to celebrate is we're taking all of our property entrepreneurs through a level up year.

And the logic here is that wherever you are in what you're doing, we're going to level it up. And this doesn't necessarily mean smash out of the park of your business. It could be a level up with your business.

It could be a level up with your health, or it could be a level up with your life, raising your standards, taking things to the next level. Life is for living, growing, personal development, enjoying things to the best you can. There is an area of your life that you can level up.

In this podcast, I'm going to take you through the three levels of wealth creation. Now, if you're on Property Entrepreneur, you will have heard of the three levels of the wealth hierarchy. What I'm going to talk about here is that plus another layer of leveling up.

And there's only three levels of entrepreneurship. So three levels where people focus on different things. Now, when you're broke and you're just starting out, you will be focusing on one core element of the business, one core financial focus.

And as you progress through it, your focus, well, as long as you understand this, your focus, your strategy, your attitude to wealth creation should and will, if you understand it, which you will do at the end of this podcast, take you to the next level and allow you to progress through it. So reasonably quick podcast this one. And this is from broke, where you will start out to balling when everything's sorted, finance, money's off the table, and you're into generational wealth and protecting the estate.

So, oh, and actually, I'm going to give you a bonus at the end, which is there's 10 layers to wealth. And if you want to, I've been doing this for 20 years now. And what I've done this year is actually consolidated that down into the 10 layers.

Now, you can do them in a little bit. You can some of them depending on your personal circumstances, your asset, the asset class you choose to focus on your age, your personal preferences, it is possible that you will approach them in a slightly different order, but roughly they'll go from from one to 10. And the aim of the game is to collect is to collect them all.

So and to work your way through. So to start off from broke to ball in the three levels of wealth creation. The thing to note here is success and failure very predictable.

Now you've heard me say this before, there's a blueprint for everything, all you need to do is find the right blueprint and execute accordingly. This blueprint is how to go from broke to ball in through the three levels. And a key note here is you can't skip the gear, but you just you can't skip the gears, you need to earn your stripes, you need to go through the motions, you need to progress through each level to get to where you want to get to.

So the first thing is, you can't skip the gears with this. And, and the second is, well, the second is essentially what I'm going to take you through now is it will tell you what to focus on and when and do do not get seduced by the upper levels. And then at the end, I'll give you the 10 layers to go on top of this.

So if you've not already listened to the podcast episode called rich, bad, wealthy, good in there over about 1520 minutes, I talk about the wealth hierarchy model, and how to create financial independence through a three step process, which I rarely hear it taught anywhere else in this capacity. And from my own experience of trying lots of different models, hands down has been the most effective, the most lucrative, the most strategic, and it just makes so much sense. And you'll get a flavor for it here.

But go go and listen to that episode after this one, this is a quick one, go and listen to that. If you listen to already listen to it again, and it'll talk you through this. So there's actually 10 layers, which I'll give you at the end of this, the three levels to this based on the wealth hierarchy and the three levels of entrepreneurship.

The first is cash. So when you're broke, and you're starting out, all you really care about is cash is that you live off the bank balance? Is there enough cash in the bank to pay myself at the end of the week at the end of the month?

Can I pay the overheads? Can I if you've got a team, can I pay the team? Step one is what we call it on property entrepreneur cash flow, which is all about the objective of getting to the point of break even to buy back your time.

In this scenario is all about cash is all you care about when you're broke. At level one is can I get enough cash through the door into the bank account to pay the wages? Now you'll see this a lot in startup businesses, small businesses in property, you'll see it with many trades, construction companies, many small construction companies, you know, they all need pay in every Friday, they're strapped for cash, they're in that dash for cash stage, you know that I don't say they're broke, but they're living hand to mouth, you know that all they care about is cash.

Is there enough cash coming in on Friday to pay everyone's salary? That's level one. That's where we all start out.

That's where you want to get to. You want to play that game until you get to a point that you start to find that the focus on cash starts to reduce because you start to find some rhythm in the business, you start to find some consistency in the business, you start to find some predictability and the money that's coming in every week, every month, and the money that's going out every week and every month. And the focus starts to stop, starts to stop, the focus begins to move away from cash.

So cash is level one, cash flow is level one of the wealth hierarchy. And that's where we all start. Level two is once you've got that, got over that cash, that dash for cash, that hand to mouth, we go to level two.

And level two is all about profit. So on the wealth hierarchy, we call level two profit, which is lumps of cash. If you go back and listen to Rich, Bad, Wealthy, Good episode.

And in the entrepreneur level, we move from focusing on cash and cash flow at level one to the P&L. And we start to look at the P&L report monthly, and we start to understand that business is about a lot more than paying the mortgage, it's about making a profit. And this is level two.

When you start to build a business that covers the costs consistently, and now all you're interested in is the profit and loss. So the profit and loss is how much, so your business model, assuming you hit your revenue targets and your associated costs of the model, what then drops out as a target budget forecast profit. And again, on Property Entrepreneur, we wouldn't advise getting involved in a business unless you can genuinely make 25, 30, 40, even 50% net profit.

Most businesses in the UK, well, in fact, most businesses in the UK are not making money. If you can make 10 to 15% in the UK, you are the country's elite. We want you to find models that do 30, 40, 50% and then what we do is we map that out.

So Ultimate FD run by Josh Keegan, if you're not already checked out Ultimate FD, go on there, you can do a scorecard. Just give it a Google Ultimate FD, you can do a scorecard on there, it will show you loosely where you are in your business from a finance side of things. And as we move into level two, you want that business model, you want that 12 month forecast.

And what we want to be looking at is the budget, which is what we hope to achieve, and then the actual. And the idea of not being able to pay the bills every week, every month disappears because you're not in that dash for cash anymore. You're now in level two focused on the P&L report, which is your budget, your actual, and looking at those figures every month, that's level two, where you focus on making profit every month.

That's where most businesses will get to, most entrepreneurs will get into that space, have a small team of maybe up to a dozen people, runs quite nicely. The hallmark we would say at profitability, at a minimum, is that as an entrepreneur, you want to make, you want to pay yourself the going rate salary for doing your going rate job. You know, you are doing a job for the business, you should get paid the salary that you would have to pay if you replace yourself.

And then because you're an entrepreneur in that budget, in that model, in that 12 month forecast, I want my FD to actually do a product called Future Forecast, where they'll do this for you. We want to make sure that before you spend the next year, two years, five years, 10 years building this thing out, you can earn as a minimum at level two, the going rate salary, which might be 30,000, it might be 50,000, it might be 100,000, depending on what job you're doing. And the same again, in profit.

The logic is, if you're only going to get paid what the market rate would pay you to work somewhere else, or what somebody else would get paid to do the job, or even in some entrepreneurs case less, why have the stress, the risk, the anxiety, the lack of security of being an entrepreneur, when you could go and do the job somewhere else, have four or five weeks holiday, sick pay, not worry about cash flow, etc. And just do it for somebody else.

You know, it's a hallmark that we'd encourage you to build out in your in your business model and in your in your forecasts. Just jumping in quickly with two things. So the first is if you're enjoying these podcasts, and you haven't already ordered a copy of my brand new first ever released book, Karma Credits, please go to Amazon now and order yourself a copy of Karma Credits by Daniel Hill.

And it'll explain to you the universal law of wealth, health and happiness. And the second if you want a free report that you can read straight away, go to www.boomorbus.co.uk to understand the five things that I'm doing as we head into this next phase of recession. Back to the podcast.

So the second is profit and focusing on profit, are you in a position and is this a model that's going to make you the salary that you earn for the job plus the same again at profit and that's number two, focusing on the P&L report. And then number three is assets on the wealth hierarchy. It's all about assets is about acquiring assets, increasing our increasing our net wealth moving away from survival, which is cash flow level hand to mouth into sustainability.

You know, if the market stops, if the revenue stops coming in, how long can we survive live this lifestyle before we basically run out of money? And what you're looking at a level three, which on the wealth hierarchy and you hear in the rich, bad, wealthy, good podcast is asset. What we what we look at a level with level three entrepreneurs is the balance sheet.

Level three entrepreneurs actually start to move away from they're not even thinking about cash because this is the last thing they need to worry about. We're not thinking about the P&Ls because actually the profit and loss is associated to the individual business, which in the same way you build a property portfolio, you build a portfolio of businesses, obviously you have you have the same, the model, the budget, the forecast. All you're really interested in is the medium to long term game of the asset, the balance sheet.

So we move from a profit and loss focus to a balance sheet focus. And what we're looking at here is investing either expertise or capital, whether it's your capital or somebody else's. Investing capital into businesses, distributing resources and then aiming to get a return on that investment.

So, for example, we're doing a roll up at the moment with private schools. Now, my primary interest is in the balance sheet is in buying the schools for maybe two hundred five hundred thousand pound less than what they're valued at. So for the balance sheet, I put a million pound in and then say it's worth on completion one point two, one point three.

That's my primary objective. I'm at level three focusing on the balance sheet. But then in addition, the so I get a return on investment on the equity allocation, but then also have an interest in the operations, which is P&L focused, which is delivering on a profit and loss.

Am I interested in the profit and loss on a daily amount? Am I interested in the cash to make sure we can keep going? Absolutely not.

That is not part of my interest. I wouldn't be involved in the business if I didn't think it could comfortably service its obligations. Am I interested in the profit it makes every month?

I'm interested in the business model and I'm interested in the management team and I'm interested in the management accounts and I'm interested in looking at how well the P&L is delivered against the plan. What I'm actually interested in is building a portfolio of them up on the balance sheet where we've got the equity slab, we've got the prop, the prop co asset allocation on the balance sheet, and then we've got a multiplier of the profitability and asset value to then go and do a large capital event in X amount of years and exit as it's basically a roll up. For those of you into M&A, it's a roll up strategy.

My interest is not in creaming out twenty fifty thousand pound a month from the P&L side. It's in making five, ten, twenty million pound on the exit, which is a large capital event focused at level three on the balance sheet. Hopefully that gives you a bit of insight into the three levels of wealth creation and the three types of entrepreneurs we have and the focus that you have at each stage.

First is cash, hand to mouth. Second is profit. How much profit can you make each month?

And then third, when you've completed both of those, you're more interested in the balance sheet. The large capital events return on investment, allocations of resources, non-exec versus exec, et cetera, et cetera. To finish off, I said I'd give you the ten layers of wealth creation and the ten layers of the financial fortress.

So to give you these working from one up to ten, number one is that dash for cash is what we call on property entrepreneur personal cash flow management. All of our property entrepreneurs get taught this during the winter and they run it as an automated system to spend less than 30 minutes a month on your personal finances. And you now know down to the penny, any second of any day during the month, you know down to the penny exactly where you are against budget on your personal cash flow management.

That is level one. If you haven't got that, it's all similar. You know, you've not even started the basics.

Number two is getting cash flow sorted. So building your cash flow portfolio of properties, businesses up to a point where every month without fail, you're breaking even. You covered your lifestyle, you covered your costs, you covered your teams, overheads, offices, cars, et cetera.

You get to that break even point and you've got your lifestyle covered. That's level two or layer two. Like I say, you can go through this one to ten or you may do a couple of these in a slightly different order, but you'll get the feel as we go through.

It's definitely a progressive journey. Number two is getting that cash flow covered. Number three is you're going to start to make a surplus and this is where a lot of people get it wrong rather than then start to invest that and save that.

Number three is just to get rid of expensive debt. You should be you should be personally debt free unless it's capital that's been allocated to generate a return. If you've got store cards, credit cards, overdrafts, people will have 20, 30 grand savings in the bank, but they've got two grand on their credit card at 20 percent.

Makes absolutely no sense. Level three is make sure you have zero personal debt and getting that paid down, getting completely debt clear. Number four is layer four is again, you can do these in any order.

Well, in fact, as I said, it depends who you are, where you are, but Lucy follows this order. Number four, you start to make a surplus. Now you've paid off your debt would be to start up a director's ISA, put 20,000 pound a year into your director's ISA, lend the money back to your company and you can draw up to 18 percent interest free every year, which would compound that up over 17 years as a million pound ISA where you could draw 180,000 pound tax free subject to the companies you own, the profitability you're making, understanding the complexities of it. But that's layer four.

Level five, layer five is the war chest. You then start to build up a surplus of between three and 12 months for your personal life and three and 12 months for your business. I used to have 12 months for both until inflation went high.

I've drastically reduced my liquidity, moved that over to in the main, moved that over to asset allocation, buying different businesses, paying off mortgages, pay it, buying unencumbered schools, private schools that we're buying, build that war chest up. I personally, I have very low personal overhead. So I have 24 months worth of cash in a war chest, which is just if the world ends, I can still live my current lifestyle for two years to sort myself out and then in a business between three and 12 months, depending how how lean you want to be.

Number six is then starting the financial fortress. This is the moat around your estate. So you build your estate, which is whatever pays your money today could be your business, your portfolio.

That's your estate. You know, that that estate is paying for your lifestyle, paying for your overheads. That's your estate.

Financial fortress is the moat around the estate. So let's say you need a hundred thousand pound a year to live. Your estate is paying you a hundred thousand pounds.

We then focus on not making two hundred thousand pounds, spending two hundred thousand pounds. We focus on building a moat around the estate, building a financial fortress that generates a hundred thousand pounds as passively as possible, low risk, low return. So that in the should the day come where your estate collapses, you lose it, you have to quit for whatever.

You know, you're real. One of your family members is ill. You wake up one day and can't be bothered.

You hit the button and the moat around the estate protects you. You move your standing orders from your estate to your financial fortress and your lifestyle doesn't have to change, even though everything else does. The next one, number seven is profit.

You then move into profit, making profit. If you're going to keep scaling, scaling, scaling, noisy cashflow businesses, you're going to have loads of noise. You have more noise, more people, more management, more problems.

Whereas if you move to profit, these are large capital events. You know, you don't need the money to pay the mortgage. So why not spend six months a year, two years rather than making an extra five grand a month, 10 grand a month, go out and do a large capital event that makes you two hundred thousand pounds in six months, a year, a million pounds in 12 months, three million pounds in two years, whatever you, whatever size, whatever level you're at, um, large capital events that that's number seven, which is profit. Number eight is then use that capital to go into assets.

So low risk, low return, enabling you to live off the steam, make the large profit, invest it. And then the steam that comes off of that 6%, 7%, 8% is your financial fortress. That is the moat around your estate.

Number nine is your pension. So whenever you choose to put that into the mix, 40,000 pound a year, you can backdate it three years. It's, um, in most cases, um, protected from a bankruptcy subject, assuming there's no sort of criminal investigation.

It, there's a number of tax benefits to do with it. You can also then use a SIP or a SAS to repurpose it. Lots of benefits.

Obviously it's ring fence, there's benefit in the risk and there's tax benefits, but it's also locked away. So there's, there's, there is limitations on what you can do with that. Um, and then obviously again, depends what you're at, what age you are, but you probably don't want to go over the tax-free threshold on that.

And then finally, number 10 is, is protect. You should get to number 10 and you just want to protect your investments. This is where I am now.

It's all about de-risking. It's about de-leveraging. It's about diversifying, moving into different asset classes, diversifying the portfolio, paying off mortgages.

Level one, the idea of having single lets or blocks of flats unencumbered with no debt would have been absolutely alien. It doesn't make any sense to anybody in those early stages. Cause you want to squeeze the pips, maximize the ROI, leverage up to the eyeballs and do what you want to do.

Absolutely. It's exactly what I did that level, but now I'm doing more paying down mortgages, unencumbered single lets, unencumbered blocks of flats, diversifying into blocks of apartments, care home or homeless supported living, private schools, single lets, diversifying my ISA, my pension, my stocks, diversifying into various places with the, with the ongoing logic and objective of how long can I make this last, especially if, and especially if the dominoes start to tumble. Hopefully that gives you a lot of value and a bit of insight. Appreciate some of that might be, uh, for some of you, it might be quite advanced in which case start off with the basics.

This is decades worth of work to get here, but if you follow the blueprint, success and failure are very, very, uh, predictable and think about where you are now, are you in dash for cash? Need to pay the bills. Are you looking at the profit and loss trying to make the profit or are you focused on the balance sheet and doing large strategic asset based, uh, focuses, deals, transactions, have a think about where you are, have a think about where you want to get to and think about in the year ahead as we go through the autumn.

Where are you now? Where'd you want to get to and what do you need to do to get there? Thank you for joining us for another episode of the official problem entrepreneur podcast.

If you've enjoyed this, please leave us a quick review just on the stars. Just click, you click it. It'll take you 10 seconds.

I'm still trying to get us back up with the ratings because we had a one star negative review, which apparently is like a competition thing to try and knock us off the hotspot. And it's not uncommon. They didn't leave any comments or reviews, but anything you could do, if you can leave us a star of you, even a little word to say you're appreciating this, I appreciate, I would appreciate you doing that and I will continue to keep giving you as much value as I can in these podcasts as we go through, uh, the weeks and months ahead.

So join us next Tuesday for the next episode of the official property entrepreneur podcast. I hope you enjoyed this episode of the official property entrepreneur podcast. If you are not already subscribed, click subscribe now to make sure you never miss an episode.

Again, if you're not ready, follow me on social media. Instagram is property entrepreneur. Underscore Facebook is downhill.

And if you're not already in the official property entrepreneur community on Facebook, there's over eight and a half thousand of us in there now join that group. And if you're not in one of the private WhatsApp groups, maximum of 20 people in each group in the show notes, type VIP podcast and send it to the number that's in the show notes on WhatsApp, and we'll get you added to one of the private VIP WhatsApp groups where you can request your own podcast, it'll be dedicated to you and your business and every Tuesday I'm in there answering questions, giving you one-to-one direct support, and we don't know how long we're going to keep these open for success and failure are both very predictable.

I will see you on the next episode.