**PEP 125 Edited\_Transcription**

[Daniel Hill] (0:05 - 31:09)

Welcome to the Official Property Entrepreneur Podcast and 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, and welcome to the next episode of the Official Property Entrepreneur Podcast.

I'm going to take you through a game changing blueprint today and I do think that this is going to be one of those ones that you share with your business partners, your investors, your friends, your family, your kids. And what it's going to do is show you the 10 layers of wealth and the blueprint that I've built over the last 20 years to achieve financial independence, retire at 35, move to a stage from high risk, high returns, down to de-risking, de-leveraging, getting yourself in a really safe position. And the aim of the game is to achieve genuine financial independence using this blueprint.

And it won't be whilst some of these layers will apply to you this year, it won't be that all of this applies to you right now. This really is, I mean, in my case, probably a decade's worth of deliberate work to move through the layers, through the levels, build up as we go. And it's the blueprint that you can follow moving forward.

When we think about wealth creation, really, and this is one of the messages I try and get across on Property Entrepreneur, you can look at all the blueprints that we do in the world. But the aim of the game really is the only game in town in business, property, entrepreneurship, the only game in town really is financial independence. You're going to work hard.

You know, you've probably always worked hard. You're going to do it for years, decades, maybe your entire life. But at some point, you're either going to want to stop or you're going to have to stop.

You know, the market changes. You find yourself in bad health. A family member becomes dependent on you and you're going to need to tap out.

Like we do. You know, we don't do it for the money. We do it for fun.

It's a passion. We enjoy it. Of course we do.

That's why we're entrepreneurs. If we didn't have those things, we wouldn't do it. But when that day comes, when you have to hit the button and tap out, you need to know that 10 years, 20 years, 30 years worth of work has all been worthwhile because now you've got genuine financial independence.

You've built your financial fortress and that's everything you need. Unfortunately, the reality is most entrepreneurs don't build their businesses like this. They don't have the mindset of this.

Most people want to be rich, which has, you know, spending all the all the money on all the things to be perceived as as doing well. What we're talking about here is being really, really wealthy. Most entrepreneurs will focus on the top line, you know, more revenue, more growth.

Remember, more revenue does does not mean more profit, but they'll think more revenue is more profit. Bigger is better. Go national rather than local and spend loads of time building really, really challenging, difficult, noisy cash flow businesses.

When you understand how these blueprints work, however, what it will do is it will enable you to be highly, highly strategic with what you do. You'll be strategic in your plans, your businesses, your deals. You'll be highly tax efficient because you understand it's not how much you make, it's how much you keep.

You'll move through these levels. And what you'll notice is through the strategy, the structure, the tax efficiency, the returns you make will compound really, really effectively and really quickly. And the aim of the game is ultimately to achieve genuine financial independence.

So what I mean by this is not, you know, people think financial freedom is what they're aiming for. Financial freedom basically just means you don't work for somebody else. That means you're self-employed.

We're talking about having financial independence as an entrepreneur where you genuinely never have to work again because you're living off the steam. My promise to you is I absolutely guarantee if you listen to this podcast, you write down this blueprint and you put it into place, even if you just choose the first one or two for you this year and then come back to it next year, I guarantee you, you will get to a place where you can work once, build a financial fortress once, but you can earn, you can live, you can survive forever on that one piece of work, that one period of work that you've done. I'll use this blueprint to retire at 35 with financial independence, like genuinely, as long as I don't do anything stupid, I've built up a portfolio of assets, a strategy and structure that manages my risk well, and as long as I do nothing stupid, I'll never have to to work again. If you've not listened to episode 96, which is called Living Off The Steam, I'd recommend make a note of it now, save it into your podcast, forward it to yourself on WhatsApp and listen to that because it goes really well with this blueprint because Living Off The Steam tells you the basic fundamentals of how to build a financial fortress.

These 10 layers of wealth are the blueprint that goes on top of that. This is a more advanced blueprint to share with you. What you're going to need is a pen and paper, jot down these 10 layers, listen to episode 96, which is Living Off The Steam, and it'll explain to you what financial independence actually is.

And then eventually you want to get to a point where you've built out a financial fortress dashboard. Now, this is something we only actually teach on the board level of a property entrepreneur. However, I will do a podcast in future explaining how it's built out and then you can go and build your own.

So I'm going to take you through this now. These are the 10 layers and I'm calling them 10 layers because they are layers, not necessarily levels, because it depends who you are, what your age is, your risk appetite, the strategies you use. You might not necessarily go through them in a sort of chronological order.

You might adjust it slightly. But essentially, these are the 10 layers that you need to enable you to get to a point of financial independence and ultimate wealth, not just wealth creation, but ultimate wealth management, risk management and enabling you to de-risk, de-leverage, diversify and protect that money that you've actually gone out there and made. So I'm going to take you through these 10 layers and by the end of it, this is the blueprint you'll have to enable you to move forward in wealth creation, wealth management and then wealth preservation.

So the 10 layers of a financial fortress, the first layer, and this is basically the red level. This is what we call PCM. So if you think about PCM, per calendar month also stands for personal cash flow management.

And this is where you've got to a point where your personal cash flow management is explicitly clear and without having to do a significant amount of work every month, your money in versus your money out not only is in a positive position, so you're spending less than you than you earn, but also it's fully automated. So down to the penny in five seconds, you can see exactly how close you are to your budget on a monthly basis. This is a blueprint that we teach on the three day blueprint event takes about two 90 minute sessions to set up.

But once it's there, you know explicitly what's coming in, what's going out and automate the whole process to give you a few sort of considerations with this. I would say that in order of how you do this, the first step is you want to get to a point where you live in a lifestyle that costs less than you earn. And you've probably heard people talk previously about living within your means.

The sad reality is most people don't live within their means, and that's either because they overspend or they just have no idea what their means actually are. And that's the first thing you want to spend less than you earn. The second benchmark is when you can actually get to a point where you're earning from your businesses as much as you're spending.

So step one is spend less than you earn. Step two would be to save as much as you earn. So whether you're spending £2,000 a month or £10,000 a month, you're also saving the same amount each month.

And then obviously every month you can stay in the game. Essentially, you've got a buffer there to protect you for the same period. So every year you work, you've got another year of contingency where you could live off.

It wouldn't be the steam. It would be essentially the tea. But you've got that buffer, you've got that war chest, you've got that get out free jail card.

So that's number one is setting up your personal cash flow management and getting to a point where you can actually see what you're doing. Step two, which is sort of as I've alluded, is what we call cash flow. And what this means is that now you can see what you're doing.

You've built your lifestyle in a way that you're drawing enough money to cover your lifestyle and from a cash flow business. So cash flow business is a business that releases money every month without fail. It's predictable.

It's repeatable. As long as you've got a business model that generates the revenue that matches this. And if you have a loose idea of what a cash flow business is, it would be something like a HMO portfolio or a letting agency or a subscription based business where you do the work once you get the clients on.

As long as you service them well and you deliver good performance for the business, that money comes in reasonably predictably. And that's called a cash flow business. Layer two is building a cash flow portfolio, a cash flow business that earns you enough to cover your salary and enable you to break even on a monthly basis.

So your lifestyle is covered. That's level two. Level three is to get debt free.

So most people will have expensive private debt. Now, this might be you've taken out personal loans with investors where you owe, you know, maybe you pay it, maybe you owe £100,000 or £1,000,000 and you're paying it at a very high rate of interest. If it was in an asset and it was servicing that, so let's say you borrowed £1,000,000, you're paying 12% per annum on that £1,000,000, but you're doing a development or a deal that's going to make £500,000 profit, as long as the profit justifies the interest, that's not necessarily what we're talking about here.

What we're talking about here is private debt, which is just being dragged around with you that needs to be paid off. So it could be you've got an overdraft or you've got a few thousand pound on a credit card. The best return on investment you can get is paying that debt off, because if you're paying 10, 20, some of these credit cards are even sort of 30, 40% interest.

There's no point even thinking about saving money when you're spending that on a credit card. The best thing to do would be pay off. And then actually you're already achieving a net 10%, 20%, 40% return on investment because you're removing that loss, which is adding to the amount of money you're making or the surplus you've got each month.

So number three is once you've got your PCM sorted, you've got cash flow coming in from a business which is now covering your salary, use the excess money to pay off any private debt that you've got that's expensive. Number four is the reason that we start this off quite early, but it might sound a little bit alien, would be your director's ISA. So what we want to do is build up a tax-free drawing facility where we can start to draw either, in the future, interest-free or tax-free income from certain vehicles.

There's a number of these and you'll hear them as we go through, but director's ISA is a fantastic one. The only real limitation, and this is why I've included it quite early, is that you can't go back for it. And what I mean is, similar to a pension that has a £40,000 allowance that will come on to, a director's ISA, you can only put £20,000 in a year.

So if you wait until you're making £100,000 a year to then start putting £20,000 in your ISA, the challenge then is you'll have to build it up over a number of years to enable it to become effective. A director's ISA enables you to draw money tax-free from your businesses by using an interest facility with inside a tax wrapper. So director's ISA, I'll do a podcast specifically on this at some point, but when you have say £100,000 in your director's ISA, you lend that £100,000 to your company and your company pays say 10% or 15% or 18% interest.

That 10%, 12%, 18% interest is paid into the ISA tax-free. It's an expense to the business, so it's pre-corporation tax. It's not taxable on your income because it's within a tax-free wrapper of a innovative ISA, director's loan account ISA, and then it can compound.

And when you compound this up over about 17 years, it is realistic to build a million pound ISA where a significant amount of that has not had to come from your own post-tax money because it's come from a company and also all the income that's earned every month into the ISA and then bringing it out of the ISA is tax-free. So best case scenario, you get to a million pound ISA, you can lend it to your company, it can pay it back at 15% interest, which is tax-free to go into the ISA. It's corporation tax-free because it's an expense to the business.

That'd be £150,000 a year out of your business as an interest cost into your ISA, and then you could actually draw that tax-free from your ISA. And there's very, very few, in fact, there's probably not any similar mechanisms with that level of liquidity that you can achieve. So that's why we include it quite early on.

The next is, once you've got that sorted, so you're debt-free, you've got your cash flow coming in, your ISA's set up, is we need a rainy day fund and we call this a war chest. You want to have a war chest which has got between three and 12 months of overheads in the bank. So what I do is, in the Financial Fortress dashboard, I have all the bank accounts that I have.

I then have a column with all of the monthly overheads. So for example, if it was a development, let's say it's a block of apartments that I own and the monthly mortgage is £10,000. I would say, right, the monthly operating cost of that, if it was just on a lease, for example, and there's no other operating costs, £10,000 a month.

Whereas a business, maybe there's a larger business that you've got a number of employees in and your overheads are, say, £30,000 a month, you'd put that into the column. And then what you do is decide on personal preference, how much rainy day fund, how much you want in your war chest. And the rule is, you never spend the war chest.

So in the war chest, what you do is you say, well, I'm going to keep in this account between three and 12 months worth of overheads. And then it calculates it as a total. And then what I do each month is you put in your, so that will say, right, based on the businesses and the properties you own, your war chest, you know, you might have some to say at 12 months.

So if, for example, you might have a single let, the mortgage is 200 quid. And you might say, well, I'm going to keep 12 months rainy day fund in there for whatever it needs, you know, might need a void issue or whatever, just a rainy day fund in there. And then in the column, you put how many months, anywhere between three and 12.

And then what it does is it calculates, this is what you should have in the bank account. You then have a column which says actual bank account amount, and you populate it on the first Saturday of every month. Populate that and it'll say, right, based on your portfolio, you should have a minimum of 230,000 pound in the bank.

And then you've actually got 260,000 pound in the bank. You've then got 30,000 pound surplus. And then we would move that up the layers in the financial fortress.

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.boomorbust.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 that's number five is the war chest.

Number six, as I've just alluded there, would be to start your financial fortress. And what this is, is a holding company that sits above the group. You definitely need to get your own tax advice on this.

But the way I do it is I have my holding company at the top of the group and it also normally owns shares in the sort of local companies. And then every month pay a minimum stand in order of 80 pounds. Some of them pay 80 pounds.

Some of them pay 20,000 pounds. But every month, on the 28th of the month, every single company, every portfolio pays up to the holding company. And then the aim of the game is not to win the game.

The aim of the game is to stay in the game. And on the 28th of every month, you open up your Tide account, or your Starline account, or your NatWest account, look at your holding company and you've got however many businesses you've got. You've got three, five, twenty transactions going in, ranging from 80 pounds up to tens of thousands of pounds.

And you can look at that on the 28th of the month for things. You know what? Despite the challenges, despite the difficulties, despite the deals and things that do your head in, that was worth going to work, worth going running the business.

And bang, 28th of the month, I'm staying in the game, making money, happy days. Just makes it all worthwhile. And then we use that.

The financial fortress is what we do is we use that to build the moat around the estate. So if you think your estate is your businesses, your properties, yeah, that's what we own. And everyone normally stops there.

What we're talking about here on Property Entrepreneur is that the blueprint you need to go around that is the moat to your estate. And the moat to your estate is if all else failed on the estate, it would be the moat that bails you out. So this is what we're talking about here.

If you're not listening to the podcast, Financial Fortress, The Basics, I forget which episode it is, but that would tell you how to set this up. It's very, very straightforward. The seventh layer would be once you've got all of that set up, cash flow covered, debt free, directors, ISA, Warchest, and the financial fortress structure in place, what we then do is not build more cash flow, more noisy, more headache businesses, more revenue, more employees, more issues.

What we do is we use the cash flow business that's noisy to pay our salary, but then we actually start doing number seven, layer seven, which is what we call profit strategies. And if you want to get really wealthy, like genuinely really, really wealthy, it's very challenging to do that from running a cash flow business. What you need to have is profit strategies which achieve large capital events.

And this is where net wealth is created. If you think about layer two, which is cash flow, that's about the P&L. It's about every month making sure there's enough money to pay the salaries and hopefully a bit left over after all the chaos.

Profit is no overheads, no employees, no running costs, no operational challenges on a cash flow basis, but it's large capital events. So it's once a year or once every two years, you have a large capital event. Now, you can get to a point where you sell your cash flow business and that is a large capital event.

Maybe you get a million pounds, you sell your business, get a million pounds, and you've had a large capital event. The problem there would be if you haven't built all these layers, you would then lose your cash flow. So actually you go back to level one, you've got a million quid in the bank, but you've got no cash flow.

That's not a good place to be. Other large capital events would be things like doing flips. Build a portfolio or build a property, build a block of flats, build a HMO and flip it and make yourself 100 grand, half a million pound as a large capital event.

Could be brokering deals for people. Now, I'm brokering some deals at the minute and my fees on those are six figures. There's no overheads, there's no risk, there's no cost, and I could do six months worth of work and not get paid.

But when I do get paid in six months, 12 months, 24 months, the money comes in, it's in the bank, it's a lump of capital and it's there in one sitting. Those large capital events from selling properties, selling portfolios, selling businesses, brokering deals, deal packaging, they are large capital events that go on the balance sheet. And this is where you really start to create your net wealth.

That net wealth is then moved up to assets. And this is layer eight is where we start to focus on low risk, low return, and living off the steam. So getting to a point where you don't have five HMOs that have got tenants and voids and arrears and utility bills and compliance and regulation, but you've got a small block of flats, a couple of HMO, a couple of single lets, they're low risk, they're low return, commercial building on a lease.

And what you're doing is you're living off the steam. You made 500 grand in a large capital event from flipping a development or whatever. You bought yourself a couple of flats, little block of flats, put it on a lease with someone, bought yourself some single lets, rented those out as long as they're cash flow.

Obviously the market is not probably primed for doing that right now. But what we're doing here is taking that capital, which is the T, and if you listen back to that podcast episode number 96, it'll explain living off the steam to you. Low risk, low return assets.

These are the sort of things that you'd want to retire on. And what we do is we repeat layer eight until it replaces layer two. So layer eight is your assets.

Let's say for example, layer two is you've got five HMOs, they pay your salary, pay for the family. It's a part-time job, happy days, stop there, get it done. But then assets, we use the money that we've done from flipping HMOs or packaging HMOs for other people or selling deals.

And we use that money to then build a financial fortress strategy and living off the steam strategy, a low risk, low return strategy where HMOs might get you 20, 30% ROI, whereas an asset might only get you six or 8%. But these are the layers of the game. You wouldn't want to retire on a portfolio of HMOs, but you'd be very happy retiring on a commercial building that's on a 20-year full FRI index-linked lease to Starbucks.

It's that sort of game at layer eight. Layer nine is when you start to really get that surplus is using the most of your tax draw-ins. So you have a £40,000 allowance each year for your pension.

You can back that at three years, that'd be 120 plus the current year is 160. There's a really good opportunity there to remove money from the company pre-corporation tax into a pension. And then you could either obviously compound up that tax saving just by using trackers or things like that, or more strategically in advance, start to use things like SIPs, SAS to compound those returns.

There's other benefits. I'm not going to get into so much into the tax side, but there's other structural benefits, inheritance planning, et cetera, legacy planning that will support with that. And that's layer nine, making sure you're using that pension allowance and then dropping it down.

And then layer 10 would be once you've actually got all that in place and every month, this is pretty much where I am now, every month, everything's covered. Your money's going into your ISA. Your maximum allowance is going into your ISA every month.

Your maximum allowance is going into your pension every month. Most of my cash flow comes from commercial, blocks of apartments, single lets, just really low risk, low return portfolios. They might only make £200 to £500 a unit per month, but when you've got 100 of them and they're on five-year leases, or they've got tenants that have been there since day dot, it all starts to compound really nicely.

And then layer 10 is basically just protecting the houses. Number 10 is to protect it, is really focusing on three things. One is de-risking.

So for example, over recent years, paying down debt, paying off portfolios, having unencumbered stock in the portfolio, things like that to de-risk. De-leverage, paying down debt. I've aggressively paid down debt over the last few years, especially during the pandemic.

My gearing is probably now too low. My bank debt is about 50%. It's the sort of average recommendation to run a portfolio at.

Mine is actually closer to half. It's probably half of that. It's probably closer to a quarter bank debt leverage, 25% bank debt leverage than it is 50%.

So it's probably a bit low. But when you get to the top layers, the aim of the game isn't how hard. And for those of you that are at the beginning of your journey, you may not get this straight away.

But at the beginning of the journey, you want to risk it all. You've got nothing to lose. So you're happy to spin the dice.

Once you've achieved the things you wanted to achieve, it's then more about protecting it, looking after your dependents, your assets, your family, looking at long-term family wealth planning, and really just trying to de-risk, de-leverage, pay down the debt, and then potentially diversify. Some people will choose to diversify, but that's open to everyone's plan or preference. Hopefully you got value for that.

As I said, I'm sure this is going to be one of those podcasts that you'll share with a friend, family member, husband, wife, partner, perhaps even your children. If you want your children to become genuinely wealthy and to go through these layers, teaching them the basics of understanding where you've got to start, if there's somewhere specific you want to finish. And if you haven't listened to podcast 96 already, go and give that a listen.

A few tips to finish, probably just three today. The first is on this blueprint, you just can't skip through the gears. Don't skip through the gears.

It's a complete false economy. If you head out and start doing development, build to sell developments where you think you're going to make half a million pound or a million pound in 18 months, and you haven't got your cash flow covered, it's a complete false economy. Because for a year and a half, you'll be going in the red, you'll be racking up debt, get yourself in a difficult position.

Hopefully the development will go well, they don't always go well, and you'll get a lump of cash after two years. Then half of that cash is going to go pay off the debt you've racked up surviving for the last year and a half. And then the next amount is going to keep you going until the next one comes through.

Just don't skip the gears. It's a complete false economy. Trust me, I've tried it, I've seen it, it doesn't work.

The second is also keep moving through the gears. It's very easy to get complacent. It's very easy to get comfortable.

But what you want to do is look at what you're doing. Don't carry on doing each layer for too long, but equally understand what each layer is. And just go back and listen to those 10 layers and think this year, what am I going for?

Keep moving through those gears, keep pushing up to the next level, and don't stop. Your mindset will change, your risk appetite will change, your target returns will change, but only if you have the business savvy to actually move through the layers. Most people will do the first few, get financially free, which is basically self-employed, working twice as hard for half as much as a self-employed person.

We're talking here about financial independence, being a real entrepreneur, generating wealth, building a well-balanced portfolio, and covering all bases. So definitely don't stop, keep moving through the gears. And then finally, it's very easy to look at this and think, you know what, that seems like so much work.

That is 10 or 20 years work there. But the reality is, if you want to become wealthy, slow and steady absolutely wins the race. If you play the long game, if you've not read my book, Karma Credits, go get it from Amazon, and read that when I talk about the long game.

It's all a long game. Play the long game. Slow and steady absolutely wins the race.

But if you're jumping from strategy to strategy, following the next hot topic, throwing all your money on Bitcoin, these are not necessarily long-term wealth creation strategies. Slow and steady wins the race. Go through the layers, bit by bit.

Hopefully you've enjoyed that. And I'm going to do a few more podcasts in due course. Go back and listen to those ones I've recommended.

If you've enjoyed this one, and you don't want to miss any of these blueprints, the ones I've talked about as I release them, we do these podcast episodes every Tuesday. We want you to stay ahead of your competition, gain everything there is to play on this game of being an entrepreneur. So click subscribe, click like now, whichever platform you're listening to.

And if you're not already following me on Instagram, I do some content on there during the week. Go to propertyentrepreneur underscore for more content, deals, hacks, and blueprints. But until then, I look forward to seeing you on the next episode, which will be on Tuesday.

That has been the 10 Layers of Wealth. It is the only game in town. And I guarantee if you want to be financially independent and live off the steam, put this in place.

And I guarantee you, you'll get to where you want to be. You can work once, earn forever. I wish you the very best of luck.

And I'll see you on the next episode. 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 already following me on social media, Instagram is propertyentrepreneur underscore, Facebook is Dan Hill. And if you're not already in the Official Property Entrepreneur community on Facebook, there's over 8,500 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 will 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.