**PEP 24 why wanting to be rich Edited v2\_Transcription**

[Daniel Hill] (0:05 - 17:16)

Welcome to the official property entrepreneur podcast with myself, Daniel Hill. On this Strip Back podcast, we're going to be going behind the scenes with special guests to provide insight and inspiration on all things business, life, and the actual realities of high performance in practice. Success and failure are both very predictable.

We hope you enjoy. Good day, good day. I hope you're all having a great afternoon and enjoying the English sun as it finally appears.

On this Facebook Live and official property entrepreneur podcast, I'm going to share with you a blueprint that we teach on our property entrepreneur program. So we have three values on property entrepreneur. There's only three things we want all of our clients to achieve.

And the first one is wealth. And there's a big difference between being wealthy and being rich. The second is health.

There's no point being the richest man in the graveyard. And the third is a man or woman in the graveyard. And the third is life by design.

Whatever you want to be the next empire builder, the next take over the country industry world, or you want to have a nice stay at home, family life, lifestyle business, whatever's important to you, we build a life based on that. I'm going to do a series of these. And in today's, I'm going to talk to you about wealth creation, and how the concept of being rich is very different to the concept of being wealthy.

So being rich, as a term on property entrepreneur, we refer to it as having all of the tangible successes that come with success in the eyes of society. So cars, houses, expensive clothes, jewelry, things like that. And we talk about wealth in a completely different sense.

And wealth is long term financial independence, it's assets, it's security, it's financial independence, it's freedom from the requirement of covering your overheads. Now, there's nothing right or wrong with either of these. In fact, I've lived both lives.

And it all pretty much comes down to personal preference. But the most important thing is that you understand where you are in your journey, you build your financial, what we call a financial fortress, strategically, and that it delivers exactly what you want. So when I experienced when I first got to a position where I was making good money, I started to attract all of the overheads that come with that sort of lifestyle.

So I had fast cars, I had an Audi R8, I had a brand new Mercedes, had multiple houses, I was spending lots of money every month on a lifestyle. And in order to keep up with that, I obviously had to earn money to service it. Now having scratched that itch and enjoyed that, I realized that actually, for me, my preference is probably more on the simple things in life.

And I now live at the other end of the extreme, which is on as far polar opposite as you can get really, in wealth creation, which is living on a narrowboat. So I live on a narrowboat, my overheads have gone from 1000s and 1000s and 1000s of pounds a month to 750 pound a month. And for me where I am in my journey, that is my life by design.

Wherever you are on that journey, there's a very clear blueprint to wealth creation, I'm going to take you through the three steps to creating genuine wealth, genuine asset backed, long term generational wealth that can give you financial independence, and a level of freedom that you may or may not experience living a rich lifestyle. So the three phases you have to go through, and all people have to go through this, whether you're working for it, you're building a business for it, or you're investing for it. There's three phases to wealth, genuine wealth creation.

Now, the first is cash flow, the second is profit. And the third is assets. I'm going to take you through how this works.

So the first is cash flow. And what this means is, you need to spend your time, effort and energy creating a cash flow stream of income, which enables you to service your monthly overheads on a monthly basis. So you've got enough money coming in every month, repeat money, predictable money, consistent money, like a salary to cover your overheads.

And that's the first port of call. So if you were building a business, it would be a subscription based business, or it'd be a repeat customer business. If you're investing in property, it would be service accommodations or service accommodation or HMOs, or a portfolio management company, something that generates cash flow that comes in every single month.

And you work really, really hard at that until you get to a point where you've built a team and you've got systems, or you've delegated the workload and the money that's coming in every month from your interests covers your outgoings. But there also has to be time left. So either you've built the business to enough that it pays you a salary, and you don't have to work 100 hours a week to achieve it.

Or you've reduced your outgoings to a level where you can work less and the money coming in every month covers your costs. And you buy back, you actually buy back some of your time. So that's the first step is all you want to focus on is cash flow.

How do you build a business or portfolio that covers your overheads, covers your team's costs, pays your mortgage every month. And that's what we call your salary. So you build a business just to do cash flow.

That's the first port of call. You can't skip the gears on this. You can't go straight into development and flips and buying and selling companies because that would just be full of huge anxiety if you're trying to pay the mortgage every month based on what we'd call profit strategies, which is step two.

So step one is to get your cash flow nailed. Reduce your overheads or increase your business revenues and surplus so it covers your costs. When you've got that freedom, you've then bought yourself time freedom.

And the mistake some people make is that they will then carry on doing more and more cash flow because they think they want to get rich. And they want to go from having 100 grand a year income or 50 grand a year income up to half a million pound income. So they work harder and harder and harder, build more and more cash flow strategies.

And cash flow strategies are traditionally noisy. They've got employees, they've got tenants, they've got voids, they've got overheads, they've got costs. They're necessary evil.

We all need them. It's the step one of wealth creation, but we don't need to keep going like that. Nobody ever created...

Well, that's a bit of a flippant point, but there's easier ways to create wealth than building cash flow businesses. Cash flow businesses are a means to an end, that is all, because they're noisy. So you do that until you get to a point where all of your overheads are paid, all of your team is paid, all of your monthly costs are paid, and you've now bought back your time.

What we do with that time is we then start to move to the second level of wealth creation. And the second level of wealth creation is profit. So you've got your cash flow covered, you're covering your income on a monthly basis from noisy businesses, and then we use that extra time that we've bought back to do profit strategies.

Now, profit doesn't come in every month, it doesn't come in every quarter, it might not even come in every year. But when it comes in, it's a large chunk of capital. It's what we call large capital events.

In order to create genuine wealth, you need to move above the salary bracket, and you need to move into wealth creation, where you start to create genuine lumps of capital in your life. So have a number of large capital events. And what this does is, if you think about cash flow as your salary, then profit is your end of year bonus.

It's liquid capital that's left in the bank at the end of the year, that you don't pay your mortgage with, you don't put food in the fridge with, you may wish to spend on fringe, not fringe benefits, but like cars, holidays, things like that. Or if you want to move up the wealth hierarchy and start to build your wealth, then you would actually move into investing it. So once you've got the cash flow, got the salary paid, we then move to step two, which is large capital events.

And this would be things like flipping property, or buying and selling companies, or doing developments. Anything that takes a longer amount of time, but you can have time because your salary is being paid by the cash flow business. And you create large capital events, whether that's 20,000, 50,000, 500,000 pounds, the large capital events start to actually increase your net wealth.

Cash flow is salary. Profit is end of year bonus. Cash flow is profit and loss.

Profit is balance sheet. And we start to really increase that net wealth position using lumps of capital, which would take forever to create if you were relying on cash flow strategies. And then once you've got those large lumps of capital in level two, in phase two, we then use those levels of...

We use those lumps of capital to invest into assets, which is stage three. And assets are boring assets. They're long-term investments.

They're low noise, low risk, low yield, low return. And what these do is these provide you long-term secure income, but it's significantly lower. If you were to build a cash flow portfolio on assets, single let's, dividend paying stocks, anything that delivers a single digit return in most cases, but it's predictable, it's secure, it's guaranteed, it's not noisy.

And that's what we moved to in step three. And that would take forever as a cash flow strategy. So we do it as an asset strategy.

And what you do here is you buy long-term investments, which what we call... This is where you start to create what we call your financial fortress, which is a portfolio of assets that have low risk, low yield, low return, but they're 100% predictable, 100% secure. And that is what we call your pension pot.

So you've got your cash flow, which is your salary. We then move into profit, which is end of year bonuses, lumps of cash. And then we move that capital into the asset category, which is phase three, building the financial fortress.

The aim of the game then is to rinse and repeat that strategy with levels two and three until you get to a point. So basically, do profit strategies, have large capital events, 50,000, 100,000, half a million, large capital events, and then move that capital into really boring, low risk assets until, and this can take years, until you get to a point where your assets replace your cash flow. So you've built up enough boring assets with low risk, low return, you've played the long game, and actually now that becomes your primary income rather than the noisy cash flow portfolios, businesses that we used to get our head above water in, in the first phase.

So there are the three levels to, and the three stages of genuine wealth creation. Now you can't skip the gears. It takes years, not months to move through it.

And having lived both the rich and the wealthy lifestyles, I would say that this one is my personal preference. And this is the strategy that we encourage all of the property entrepreneurs to execute as part of their strategy every year. To give you an idea of how this would play out in practice, or how it played out for me, is in phase one, if we use property specifically, in phase one, I invested in portfolios of HMOs, built a reasonable sized portfolio of HMOs, and got the cash flow up there to a level where it paid for a team to run it, it paid for the office overheads, it paid for the cars, it paid for my salary.

And what that did was it got the business running independently, had all the resources of a company, including my salary, and that took probably a year and a half, two years, but it was done. I mean, that was very aggressive. We did 18 HMOs in the first year.

So that was very aggressive, but that was phase one. Once that was established, we then started to move on to profit strategies, which were deal sourcing. So we started to package up HMOs and developments, which we now do for, we've been doing for a long time through investors.

Our minimum fee for HMOs is 15,000, our minimum fee for developments is 40,000. We started doing deal packaging and started doing flips and started doing developments and started selling companies. And what that did was it created a number of large capital events where chunks of initially 10, 20, 30,000, more recently up to hundreds of thousands in large capital events, where you've got money in the bank, your balance sheet's increasing, you've got funds that you can invest.

And then in more recent years, moving into the asset strategy, two and a half years ago, I started to invest in single let's single let markets been pretty hot for the last few years. So what I did was actually build a portfolio of actually just developed some blocks of flats and took that profit. So the cash flow is paying my salary, took that profit that had been created and started to build and develop blocks of flats for the long term hold.

And this is where my financial fortress was created. So blocks of flats leased out, so buy a building, develop it into a block of flats and then lease out to, we did one lease out to a service accommodation company. So it's a lower yield, but it's lower risk, it's guaranteed, it's secure, I don't have any voids, tenants, maintenance, it just runs in the background.

Another one, a block of 18 hostel units, a license for 25 people that's leased out to a third party charity and care provider, housing association. Just finishing one at the minute, which is 20 apartments that's going to be leased on a five year lease to interim halfway house center. And that'll be a five year lease, FRI lease, guaranteed income.

And you can see that these assets at the top provide not only long-term equity and security, but they generate the cashflow that's required to then replace the bottom level. You wouldn't really want to retire on a portfolio of HMOs. Now HMOs are noisy, they have voids, there's risks associated with both the management and the market.

They're great for cashflow strategies, service accommodation is great for cashflow strategies. But as you move up the wealth hierarchy, you can start to allow other people to make that margin with the housing associations, rent to rent operators who perhaps lease some of our HMOs. And they can take the cashflow margin and we'll just take the asset margin.

We'll have a lower return in exchange for lower risk and play the long game. That is the strategy for wealth creation, is to start off with cashflow, get your business going, build a cashflow business that pays your salary and all your overheads. Second, as soon as you've got the time to be able to breathe, is buy back some of your time, put systems and people in place and then have a few large capital events in your life.

This is where wealth is really created. Flipping property, flipping companies, doing development, build to sell developments, deal packaging, get those lumps of cash coming in the bank every year that you can then invest and then invest them into assets. Boring, low yield, low return, highly predictable assets that you can sit back and enjoy the cashflow off having done the hard work for the last three, five, 10, 20 years in order to get you there.

And then if you do that and simultaneously reduce your overheads, that creates real relative wealth where the difference between the money you make and the money you spend is significant. And on an annual basis, your net wealth just keeps compounding. And it's a really great, really great position to be.

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