**PEP 96 Edited\_Transcription**

[Daniel Hill] (0:05 - 43:25)

Welcome to the official property entrepreneur podcast with myself, Daniel Hill. We are now ranked top 10 in the UK for all business entrepreneurship podcasts. Last year we were ranked the seventh top property podcast and every month we are ranked in the top 5% of all podcasts around the world by download.

Thank you to everybody who shares, subscribes and supports this podcast. It is literally my life's work in simple blueprints broken down to enable you to achieve everything you want in wealth, health and life by design. I hope you enjoy this next episode and if you're not already joined one of our exclusive and private VIP WhatsApp groups, check out the show notes, come join the party and I'll look forward to seeing you in there.

Success and failure are both very, very predictable. Let's get into it. There's a huge difference between being self-employed and being genuinely financially independent.

And I've just finished recording a podcast. It's 32 minutes long and I guarantee you it would explain to you in crystal clear terms the difference between being self-employed, which is having a job, having a business, having a portfolio where you don't have to work for anyone else and you get paid, but you still have a job working for yourself, to being financially independent. Now this is one of the most misunderstood elements of property, business and investment.

But when you get it, I guarantee you it's crystal clear. It's a piece of cake. It can be done in three years rather than three decades, but only if you know how it works.

This is the art of living off the steam. And in this podcast, I'm going to take you through the next step of the financial fortress. I hope you enjoy.

Hello, hello, hello. And welcome to the next episode of the official Property Entrepreneur podcast. It's Tuesday.

It's time for your weekly episode. And this one is going to be an absolute game changer for you. This is going to be one of those podcasts that you hear and for the first time ever actually understand what financial independence is all about, how to go through the steps to actually achieve it.

And I suspect it'll be one of those podcasts that you start sharing with your business partners, your life partners, your investors, all of those who are striving for this elusive financial freedom, financial independence, where is there in the finance sort of space. So this podcast is called Living Off The Steam. And if you've not already downloaded the Bounce Back Boom report, we've just released or in fact, a couple of weeks ago, we released the new Boom or Bust report.

And in there, we're talking about strategically the five actions you need to take to protect your finances through this recession period. So if you've not already downloaded it, go to www.boomorbust.co.uk. It's completely free. It's about seven or eight pages.

And it'll talk in there about the strategic side of what to do as we go into this recession and this changing economic environment. But personally, it doesn't really matter which of those strategies you choose to do. The main focus here for financial independence is to understand where you are on the journey.

Now, this journey does have a start and it does have an end. And you may be right at the beginning. You may have already in your head completed it, but equally, it can be ongoing because even when you become financially independent, your then definition of being wealthy or overheads or how long you want your net wealth balance sheet to last, you know, your life, your children's life, your grandchildren's life, perhaps you want a bigger legacy piece.

The game does continue and the goalposts can move. However, this is the definition and you may or may not have heard it described like this previously. I suspect probably not.

This is what financial independence is about. So people talk about financial freedom. People talk about being self-employed, talk about being an entrepreneur, talk about wealth, wealth creation, being rich, generational wealth.

Two other podcast episodes, if you're not listening to them already. One is called Rich, Bad, Wealthy, Good. I forget what episode it was, but go back, find that and that'll explain the three layers to you, which we're going to kick off with.

And then second to that is we've done a podcast episode previously called the Financial Fortress, the basics, and that talks about how to set up a holding company if you've not already got your holding company set up and your financial fortress is basically the only aim of the game in wealth creation. This being an entrepreneur is fun. It's sexy.

It's exciting. It can be adrenaline rush. You know, it could be a challenge.

It can be great. But financial independence is what it's all about. And you don't want to get 10, 20, 30 years down the road and have worked twice as hard for half as much and, you know, not really got the fruits of your labor.

So what this is, is what is financial independence? So what is the definition of financial independence and how do we get there? So the definition of financial independence is when you can cover your day to day outgoings from the assets you own and the passive.

We can talk about passive and explore that the passive income that they generate now. That for some of you that might sound, oh, yeah, that's really straightforward. Others might already be lost.

So I'm going to try and make sure that this works for everybody. So what we're looking to do here is create a portfolio of assets. Basically, you're going to work your backside off, make a load of money and then rather than spend it on fast cars initially, you know, you can have whatever you want once you made it.

Rather than spend your money on designer suits, fast cars, things you can't afford to impress people you don't, you know, you don't even like. Before we do all that, we want to focus on financial independence. There's two things here.

One is to reduce your outgoings to a point that you can live a lifestyle you're happy with without excess. This is again, we're talking about getting you there for the first time. So if you've got an outgoing of quarter of a million pound a year and you're struggling to break even each month, this is going to take you longer than somebody that can survive on the average salary in the UK now.

Something like, obviously, we've got inflation at the minute, but it's going to be something like £30,000 a year is the average UK salary, which you should be able to live a reasonably comfortable lifestyle on. I think the degree of nominal or diminishing returns, I think like most studies say that when you get up to like £70,000 to £80,000 a year, the sort of additional impact of money that's made over that for comfort, happiness, things like that, starts to drastically reduce. So somewhere between £30,000 and £80,000 a year is going to be that sort of income.

If it's you on your own, £30,000 to £50,000. If it's you with a partner, £30,000 to £80,000 to £100,000 or £60,000 to £100,000 as a household income. And what we're looking to do here is get comfortable on that money.

Now, we have people on Property Entrepreneur who want to get to the financial independence point, to be able to build their financial fortress and get that freedom. And they strip their overheads all the way down. We've had people move into rooms in HMOs, people go and live with perhaps parents, do anything they can to bottom out their outgoings.

I actually did two years on a narrowboat, which cost me £750 a month to live. Obviously, the amount of wealth that you can accumulate during that period is significant and sizable. The more you spend, the harder it is going to be to complete this.

So financial independence, the definition is having a portfolio of assets that generate passive income, and we'll talk about what passive income means, that cover your overheads. So there's two ways to get here. One is to reduce your overheads as far as possible, because then it's obviously easier to get to a point of breakeven.

And then the second is to increase the amount of money you earn passively from investments. Now, where people get this confused is some people might say, Well, that's cool, because what I've done is I've moved in my partner. My partner is employed.

They earn £30,000 a year. I have used my parents' pensions or I've used my savings and I've bought myself one HMO and two service accommodation units. And that's now paying my salary of £30,000 a year.

And so now I'm financially independent because I don't need to get a job. My business that I've built is paying me £30,000 a year. I'm now financially independent.

Now, obviously, there's different levels to this. Now, I would say that that's actually self-employed. So self-employed, the definition of self-employed is where you don't have to work for somebody else and you can run your own business.

You're employed by yourself and you earn enough money to survive. That's self-employed. Financial independence is where you no longer have to go to work.

So self-employed would be step one. And then financial independence will be a little bit further down the line. When you've built a portfolio of assets that generate you that £30,000 a year, but you don't have to work.

Now, this is that definition of passive income and passive income can be very much confused. So people might say, you know, I've got a HMO, I've got a six bed HMO and it pays me £12,000 a year and it's passive income. It's not really passive because you've got to keep an eye on the utility bills.

You've got to manage the letting agent. If you're self-managing, you've got viewings and tenants and maintenance and people drinking each other's milk and all this stuff. It's not really it's income is self-employed income, but it's not necessarily passive income.

Now, how passive can income really be? Some people will say it doesn't exist. Other people will say it is passive.

It is possible. I've got, for example, first charge loans on portfolios that I've lent to people and then they pay me money every month and it's reasonably passive. I have to do very, very little work.

And you would say that is to a degree passive. I've lent somebody money. It's secured first charge against an asset that I don't necessarily own, but I have security over.

I have no operating responsibilities, but I do need to make sure that that standing order comes in once a month. And if it doesn't come in, then obviously I've got some work to do. So that's, that's quite passive and there's going to be a degree of what passive means to you.

Just to differentiate it here, when we're talking about financial independence, which is covering your costs from assets you own in these inverted commas, passive, the opposite of that would be a single let property that's managed through a letting agent and you don't really have to do any work on. So I bought a property in 2012 in somewhere near Sheffield in Barnsley, I think it is. 2012, bought it from a deal sourcer, paid £56,000 for it.

The same family have lived in there since the day I bought it. I've never seen any management, any maintenance cost goes out. They look after it better than somebody would who owns their own home.

Hardly any maintenance. I think maybe there was like a boiler job once. They've lived there for 10 years.

It's made me £350, £450 a month, every month. It's been with a letting agent who I haven't spoken to for a decade, but every month that money comes in, the mortgage gets paid, the insurance gets paid, and that's pretty passive. Other examples would be like, for example, the private schools that I'm buying at the minute.

So we're just in the process of doing a national roll-up of private schools. And I own PropCo, so I own the building. It's then leased out to OpCo, which is an operating private school that I also have an interest in, but I have no operating responsibility of that.

Essentially, I own a building. It's then leased out for 10 years to the OpCo, which is the school, and that's 10 years of reasonably passive income. Obviously, you have to make sure the money comes in every month.

That's done by my bookkeeper and my executive assistant. You have to do your rent reviews every year just to see what's going on with inflation. You have to make sure your insurance is up to date.

But with assistance and other people to do a bit of work, it's still reasonably passive. Other things would be, I've got a block of eight apartments with a four-bed executive HMO on top, big grade two listed building, built it out, could easily run it as service accommodation myself, could easily let it through a letting agent. But then I would have gas bills, electric bills, voids, maintenance, management costs, management time, all these things.

Rather than do that and maybe make on paper a 20% return on investment for all the headache and the operating margin, I would take maybe a 6% or an 8% return on investment, but it's leased out to a company. So they get their margin. Which is the cashflow margin.

I get my margin, which is the asset margin. And that's pretty passive. It's been leased out to them for three years.

The lease is just coming up for renewal. There's another three years, they're renewing for another three years. It's pretty passive.

Other sites we've got blocks of beds, it's blocks of apartments, leased out to charities, homeless organizations, housing associations, social housing, commercial buildings, leased out to commercial operators. There's anything like this where it's a three, five, 10 year lease. It's one tenant rather than 20 tenants.

It's one payment and no overheads, no operating costs, no voids, no maintenance. These are the sort of things that we're looking for as financial independence and passive income. So how do we build up towards this?

And obviously there's a lot of fluid terms I've talked about there, but what does this actually look like for you in practice? Well, basically you are wherever you are now, and we want to get you to a point where you're living off the steam and the steam is the money that comes from those assets that I just talked about then that covers your overheads with very, very little work time cost or risk. So how do we get that?

Basically five steps for you to follow. So the first is to understand the three levels. And if you go back to rich, bad, wealthy goods in about 18 minutes, I described to you how to generate generational wealth through three levels of wealth creation.

And it's really, really straightforward. The first level, and you've got to go through the levels. You can't skip the gears.

The first level is cashflow, which is basically becoming self-employed, doing a job, making money, enough money from your business to cover your overheads. So you had a job wherever, Audi, a graduate job, Microsoft, whatever. You're making 30 grand a year, 50 grand a year.

You've got to cover your overheads. Let's say 30 grand a year, you know, trim things off, get savvy with your tax, use your expense account and don't go silly and just play the game to try and get financially independent at in three years rather than 30 years, drop those overheads down 30 grand's worth of overhead to live, mortgage, car, everything. And the first level is you've just got to make enough money to cover that.

And this will be noisy. It'll be service accommodations. It'll be HMOs.

It'll be refurbs. It'll be project management. It'll be the noisy stuff you've got to do.

We all have to do it. We start there. You'll have employees, you'll have tenants, you'll have management costs.

It's a normal operating cashflow business. But the good thing is every month without fail, the money comes in, you turn up to work, you do a good job, the money comes in, the mortgage is paid, happy days. Now the aim of the game here is to reduce your outgoings, increase that cashflow income to a point of break even, then stop.

Where people get this wrong is the thing, right? I'm making 30 grand a year now from my service accommodation portfolio. Do you know what I'm going to do?

I'm going to make 60 grand a year from my service accommodation portfolio or HMO portfolio or hotels, whatever you do. If you want to increase your outgoings to 60 grand a year, that makes sense because you work harder, you take on more overheads, take on more staff, you take on more risk, and then you can live a more expensive lifestyle. Fine.

But if you actually want to increase your wealth, you want to stop at that 30 grand, earn 30 grand doing the heavy lifting, the hard work, spend 30 grand on your mortgage, your car, your bottomless branches, whatever you want. But then what you've done there is buy back your time. And then hopefully on two or three days a week, you can pass that time and pay your overheads.

You can rest, sleep at night knowing your money's made or your mortgage is paid. And then what we do is move up to level two. And level two is profit.

Now you've got time to breathe and time to go out and make some proper money. We do profit, which is lumps of cash. But running around building cashflow businesses, there may well be a nice lucrative exit at the end.

You know, a nice, I've sold, I don't know how many companies now, 20 companies. And they can genuinely be a nice six, seven figure exit at the end of the rainbow. Most of those businesses are at the end of five years, 10 years, 20 years of operation, and you've got to catch the market in the right, in the right time.

Now, a year ago, we sold about 13 companies. I think if we were trying to sell it now, it'd be a very different kettle of fish. What you want to do is use that cashflow business to pay your overheads, but then use that time to make some lumps of cash, because if you're going to try and become financially independent on building a cashflow business, it's going to take you forever, it's going to be exhausting.

It's not going to be the one. Whereas if you just pay your overheads through cashflow business, then make some lumps of capital. This is where we start to move from profit and loss, which is cashflow to balance sheet, which is profit.

And step two is all about the profit, make some lumps of cash. So you might do a flip, which might take six months or 12 months, but rather than it pay you two grand a month, it makes you a hundred grand in 18 months. And you wouldn't want to live off it.

You want to pay your mortgage off it. But when you add it up, it's significantly more lucrative because you've got the time to do the bigger, bigger deals. So cashflow level one, profit level two.

And then what we do is the profit we make from level two, deal packaging, flip in, build to sell developments, anything that makes those lumps of cash, consultancy. We then invest that up to level three, which is assets, could be single could be built to rent developments. It could be commercial.

It could be private schools, could be hostels. It could be social housing, anything that gives you that real low risk, low return, boring asset level income. And then what we do basically is just repeat level two and level three until the money from level three covers the money at level one.

So let me just take you back through that. You're living off 30 grand. You you've built yourself.

You've got one HMO, two service accommodation units, and they're paying you 30 grand. Great mortgages paid. Happy days.

You're self-employed. You don't have to go to work now for somebody else. You got to work for yourself.

You know, you, you do what you got to do and you make your money on the side. You then start doing, we've got loads of strategies. We teach on property entrepreneur, but as an example, you might then start doing C4, A4 PD development flip.

So basically buying a three bed, a four bed C4 property in an article four area using PD to take up to a six bed or a seven bed. And then you decide to flip it on and you make it 50 grand, a hundred grand, 150 grand, but it takes you six months, nine months, a year, maybe 18 months, it may, but it makes you a lump of profit. And for the first time, you've got your first hundred grand in the bank or 150 grand in the bank.

Excellent. Now what we're doing is we're increasing our net wealth. We've got that lump of capital.

We then move it up to level three and say, right, I'm not going to go and do more HMOs with this, which are noisy. I'm not going to go and do more service accommodation with this. I'm not going to go and do any more bed and breakfast with this because they're noisy, their cashflow.

But what I am going to do is I'm going to go and buy my first block of apartments. And what I'm going to do is I'm going to, or even better, I'm going to go and develop my first block of apartments. I'm going to buy a cheap rundown block of apartments, single freehold, spend some money renovating it.

I'm going to refinance it out, get some of my money back, but not a lot of it. And then I'm going to lease that block of apartments to a charity framework or whoever you want to work with, lease it out to them for five years, and it's generating you 5,000, 6,000, well, let's just be conservative. Let's say it's a block of, if you've got 150,000, you could gear that up optimistically to maybe a block of like, let's say five apartments.

And it's going to make you, after refinance, make you 1,500 pound a month, 200 pound, 2,000 pound a month, but it's passive, it's locked in. You don't pay the insurance. Oh, sorry.

Yeah. Well, you don't, you don't pay the insurance. You don't pay the maintenance.

You don't pay the utility bills. You have no management costs because you have one tenant. It's FRI linked.

So you, so it's a FRI insured. So they, they look after it. It's index linked.

So if inflation keeps going up, we've just increased one of ours last week from 82,000 to 96, you know, because inflation has gone up. So the rent's gone up, no new tenant, no new refurb, no new anything. It's just a index linked lease.

And then that asset is now going to pay you a thousand pound a month or 2,000 pound a month for the next however long. And then within a year or two years or three years or four years, you keep repeating number two, making the profit, move it up to level three, buying the flats, leasing them out, and then eventually the money that's coming from the flats, you got, let's say you get three blocks of flats running, one's got six and one's got five and no one's got four and they're all leased out. It makes you 3,000 pound a month, which is very realistic.

3,000 pound a month because it's leased out to whoever, service accommodation, charity, housing association. Leased out to them. And then that covers your income.

So now you're doing your day job, running around with tenants, drinking each other's milk and service accommodation, tenants ringing you at two o'clock in the morning, but after they've been out for a skimful and they've lost the keys and they're a new earning 30 grand a month running that portfolio, but then in the background, you're also making another 30 grand from the boring assets, the pension pot, the leased out assets.

And this is where you start to get your financial independence, where when that day comes where you can't be bothered to work with HMO tenants anymore, you can't be bothered to work service accommodation. It might be in a year's time. It might be in 10 years time, or maybe the market changes, regulation changes, HMO laws change, service accommodation, night limits starts to get restricted like they did in London, whatever it is, it doesn't matter because you've got that financial independence, whatever happens, you've got that portfolio in the background, the world can end.

Well, obviously that's probably a bit dramatic. Let's hope it doesn't happen. But you know what I'm saying?

A lot, it gives you that sustainability and that security to have financial independence. Okay. So just jumping in to make sure you've got all the information you need.

If you've not already listened to the official Property Entrepreneur podcast episode called Recession is Coming, I would highly recommend going back and listening to it after this episode, where it explains what we expect to happen in the UK property market during the 12 to 18 months ahead, we're now three months in and we are absolutely bang on the money with the forecast to date, go back and listen to that, get up to speed.

And if you've not already downloaded the Boom or Bust report, we've published an eight page report talking about why recession is coming, the five things you need to do, and you can download it for free at www.boomorbust.co.uk and you can download that completely for free. It has the five actions that I'm taking, I would recommend you take, and it will align perfectly with the Recession is Coming podcast episode a few weeks back. Back to this episode.

So five steps. So step one is the three levels, cash flow, profit, asset, repeat two and three until level three, the assets replaces or covers the same income as the cash flow. And then when the day comes that cash flow doesn't work anymore, you can step down and you are genuinely financially independent because you've got a portfolio in the background, that pension pot covering your back.

If you think about cash flow is survival, profit is your offensive. So in a wealth creation strategy, you want to have an offensive and a defensive strategy. Your offensive strategy is high risk, hard work, high profit, and it makes the cash.

It's your offensive, go out and score goals, increase your net wealth. Defensive is all about retaining and all about wealth management and keeping money, like not risking your shirt, protecting the downside and making sure if the proverbial hits the fan or the boat hits the iceberg, you're always covered. It's what we call on the board lifeboat money.

It's always there. You're always covered. You can sleep at night and you never have to worry about, you know, it doesn't matter how many snakes you step on.

You don't go back to, you know, a game of snakes and ladders. You don't go back to number one. You always, always covered.

So step two is repeat. So step one is understand the three levels, cash flow, profit, asset. Number two is complete steps two and three until you replace one.

And you might keep going at step number one for three, five, 10 years. You know, it could be a letting agency, service accommodation, hotel, bed and breakfast. You could love it.

You know, you could, you could be a career for 10, 20, 30 years, but in the background, you've built that financial independence and the day comes where the market changes, the tax changes, the government or Uber or Google create something that does exactly what you do for free. And it, and it disappears every day. You've gone to work and done the heavy lifting.

You've built your, your financial fortress in the background. Step three is in order to start to move in this direction, you want to have the big picture. And this is a very advanced strategy.

Um, the basics are on the previous podcast, financial fortress, the basics. This is probably missing a couple of steps and taking you a bit further. But this is sort of the, this is the stuff we teach on advanced and we teach on the board.

And this is what we'd call you. 60 second strategy. So step three is you want to have a 60 second strategy where you can explain to anyone and yourself exactly what your wealth creation strategy is.

If you want to become financially independent, you need to understand living off the steam. And this is your 60 second financial fortress, uh, strategy. So why is it called living off the steam?

Well, there's basically three steps to living off the steam. Now, if you can imagine in your head, uh, a teapot, now a teapot full of tea, not a kettle, a teapot full of tea, um, pours tea out of the teapot into, into a cup. Now the teapot that generates the tea, you know, the tea tea comes out of the teapot is your trade in businesses.

So you turn up and you go to work every day, whether it's cash flow or profit, you have a day job and you go out. I do deals. I buy companies.

I sell companies. I invest in companies. I do developments or I build portfolios.

I run training companies at training and trading companies. That's my day job. I go to job.

I go to work. That's my trade in businesses. And that's what you do.

What then comes out of going to work is the tea and the tea goes into the mug. And that is called the financial return. Now you go to work is your teapot, whatever that is, your businesses, your portfolio, your HMO service combination.

And that releases the financial return, which is the tea. Now, if you go to work every year and pour the, and the result of you running your business is 30,000 pounds worth of tea into the cup and you drink 30,000 pounds a year and drink all of the tea, there's nothing left. So you've got to keep going and filling that pot up.

And so you can pour out your financial return into your cup and you can drink 30,000 pounds a year. Now you're not going to get any wealthier. And even if that teapot's kicking out half a million pounds a year, but you're drinking half a million pounds a year, you were never going to become financially independent.

You're never going to increase your net wealth as quick as you could. The aim of the game is to produce more tea than we drink. And then what happens here is let's say you're trading businesses are kicking out 50,000 pounds a year, pouring out 50,000 pounds of financial return into the cup, you're drinking 30,000 pounds.

Cause you've got to, you know, you, we've got to survive. We've got to stay hydrated. We've got to pay the mortgage.

We've got to pay our car. We've got to pay for all the, you know, bottomless branches, but there's 20,000 pounds worth of tea left in the cup. Now, rather than look at that and say, Oh, amazing.

Let's go to Thailand for a month and have a great holiday or let's get upgrade the car. Let's let's have an extension on the house. Rather than spend that extra money that you haven't spent.

What we do is we invest it. And what happens there is you don't drink the tea, you invest the tea. And what the tea then does is it produces steam.

And what you do is you start to live off the steam, not the tea. So let's just go for that again. 50 grand financial return into the cup, 30,000 pounds.

You drunk the other 20,000 pounds worth of tea. You've not drunk it. You'd invested it somewhere in a single letter property in a.

A government bond, not the best option, but an illustration. And then what happens is that releases steam. And then because you've saved the tea, it will always release the steam.

So let's say, for example, you get to a point where you've earned your 30, you earned your 50 grand, you've drunk your 30,000, but you've also made your a hundred grand on a flip. You've now got 120,000 pounds worth of tea. If you can go and invest that and make a 10% yield that tea every year on 120,000 pounds, if he was to get 10% return on investment would deliver you 12,000 pounds of steam.

And the aim of the game here is you don't drink the tea. You don't live off the tea. You make that 125,000 pound, 20, 120,000 pound in tea.

It releases the steam and you're living off the 12,000 pounds. You're never actually living off the capital. You're never actually spending the money.

You're never actually drinking the tea. The tea is then producing its own steam and you're living off that. So to give you an example of what that looks like.

So the offensive, the day job, I go to work. I run a group of companies called PPN UK and there's like 20 or 30 different companies there, but it's my day job. You know, I go there, I have employees, I have portfolios, I have developments, I have event companies.

I have all sorts of stuff, loads of stuff, a lot smaller. I used to have like 40 odd people directly employed. I now have four.

So I keep it really small, but then we have loads of subcontractors, contractors, professionals, project managers, QSs, event managers, directors, et cetera. Non-execs, like just people out there running, running all the activity. That's my day job.

I go and make my money. Now, every year, because I go to work still out of choice, I release my, uh, earnings, my, my money earn out of the teapot into the teacup, which is my financial fortress. This is my holding company, which if you go back to the basics, it'll explain to you as in my holding company.

So all of that money that comes out. So my teapot pours out a significant amount of money every year. And I drink the tiniest bit.

Like I'm not exaggerating. I pay myself 50,000 pounds a year through the most tax efficient model possible. And within that, I also save 20,000 pounds in my director's ISO, which is a whole nother story.

But those of you that have done probably entrepreneur and have done the blueprint events will understand how a director's a DLA works. It's like absolutely ridiculous. It's crazy.

But I still have 50 that I pull that tea out. And then the tiniest bit, literally 50,000 pound a year is all that I drink out of my holding company pays me my, my salary, everything else is then invested so that that tea that I've made. The 90, 95% that I don't drink is then invested.

And then that releases its own tea. And as you can appreciate when this starts to compound up, when you've got low overheads and you can get yourself to that breakeven point and you can rinse and repeat steps two and three enough times, it gets to the point that not only is your tea generating steam, but the steam that you've generated is then releasing its own steam, which would just be like, you compound that up over a number of months, years, decades is where long-term wealth creation is really made. So when we talk about a 60 second strategy, it's like, what is your 60 second strategy? Well, mine is I go to step one.

I go to, I go to work at PPN UK and I'll make as much money as I can in a year doing things that I enjoy doing, et cetera, et cetera. That's my day job. Step two is all of that money using the basics, which is on the previous podcast episode, financial fortress, the basics.

Step two is all of that money is drawn up to my holding company and that's where it goes. My dividends, income consultancy, profit shares, anything all drawn up to my holding company. That's my tea in the pot.

Out of the tea in the pot, I pay myself the tiniest amount to cover my annual outgoings and then the rest of it gets moved up into other investments, which thing are you, that tea is moved up. I made the money once, moved it up, and then it pays me forever off the passive income, off the steam that's generated. And in that, I, in that step three, my financial fortress, I have two strategies.

One is capital, one is cashflow and the second is capital. So without confusing it too much, if I want, if it's my own money that I've made in my holding company, I want it parked. I want it secure on it.

Low risk. I want it low return. And that goes into paying off mortgages.

So I've got a one holding company. That's got no mortgages, block of flats, single let's just pay the mortgages off. That's basically a war chest.

I then have my investment company where I buy single let's single at houses, little niche, unique apartments, anything that I can get a solid 8% return on. And that's my, I'm just parking the capital, getting that little bit of steam off, but getting a long-term capital growth, getting the cashflow on that parking, my funds, and then things like my schools, the private school roll up, just parking my funds in those investments and that generates cashflow. So all the money I make each year goes into there and then I'll get 8%, 8 to 12% on most of those investments, kicks out steam.

And then obviously as that steam comes out, it goes back in and the compound effect there is quite powerful. And then the second is equity. If I'm doing my development deals, which is where I create large amounts of equity, the deals might take a year or two years or three years, but then at the end they'll kick out 500,000, a million, 3 million pound equity.

The cashflow after refinance would be say 5,000, 10,000, 20,000 pound net cashflow a month. There's no way I could do those strategies if I didn't have this. Approach and this mindset and this, this setup.

So the 60 second strategy is I go to work. I make money. I live off 50 grand.

Everything else goes in the holding company. And then the holding company invests its capital into cashflow assets to generate a minimum of 8% return on investment, pension pot, low risk, low return, boring assets. And simultaneous to that, I'll do my long-term equity gains in developments.

And I use, I may use some of my own capital there, but normally I will use all of my own capital for cashflow because I park it. I don't want to worry about investors. I don't want to be sitting on a ticking time bomb.

If it's equity, then I want the development to make the money after it's funded itself. So if I'm doing, um, so Wycliffe mill, uh, last one I've just completed, we used a third party, uh, development company. We actually use crowd property for that one.

They must, they probably made a hundred thousand, maybe 120,000 pounds on lending us the money to do the deal. We went and made about 800,000 pounds on the equity. And then after refinance, it makes four or 5,000 pound a month in there, leased out for five years, no voids, no maintenance, no costs.

It falls into that, that category. So the, my capital goes into the cashflow side and the development tend to sometimes use mine. We've just done manacle house at the minute.

I bought that cash use a fair amount of my own capital for that one. But as we go into the build, cause it's quite a big one, that'd be, uh, maybe 6 million pound build on that. We'll refinance my capital out and then use a development company or a development finance company to come in and then build that, that, that development out.

So that's step four is like living off the steam is our understanding that the aim of the game is to go to work, make money, live off little invested and get the steam. And then as you want me, and then step five is once you've got that 60 second strategy, you get to that point, then you can do whatever you want. You know, if you've got, if you're, if you're Steve, if your steam is, if your portfolio is kicking off 50,000 pound steam, you can quit your job.

You can retire, you can sell your business. You can do whatever you want. As long as your overheads are 50,000.

If you want to increase your overheads to 60,000, 70,000 core of million pound a year, you can do that, but you've got to appreciate that there's going to be a bigger fall. If you haven't built up the financial fortress in line with that, my recommendation would be never to allow it. Once you get through the first few phases of this, never allow your annual outgoings to exceed annual committed outgoings, you know, mortgages, cars, the things you're committed to, if it's cash, you know, if you want to go and buy yourself a Lambo or Ferrari, and it's whatever quarter of a million pounds, then, and you want to go and buy it from cash that you made flipping a deal and making a million quid, you know, more speed, fair play. But if you want to commit to a 6,000 pound a month lease for a Ferrari, you want to make sure that when, if the proverbial hits the fan and your business goes out of business, you've got tea in the background, that's releasing enough steam to cover your overheads. So you never have to worry about being in a difficult position.

Hopefully that makes sense. And this is the concept of living off the steam. The only thing you need to do in simple terms is get up each day, go to work, make money, work hard for cashflow money, take that money, invest it into assets, keep your overheads low while you do it, get the assets to replace the money that you generate from going to work.

And then, you know, then you are genuinely financially independent. It doesn't matter what happens to your HMO portfolio. What happens to your letting agency?

What happens to your service accommodation portfolio? None of that matters because the steam from your portfolio covers your monthly outgoings, that business can go bastard. Nothing else matters because you have genuine financial independence.

I hope you've enjoyed that slightly bit more of a steel vibe for today's podcast. But that is the definition of financial independence. That is what I would recommend all of you do.

And when we talk about the financial fortress, I always talk about the aim of the game is to take money off the table. And this is a double entendre. So the first, the aim of the game is to take money off the table, is if you're going to own a business, you've got to take money off the table.

Don't do delay gratification. Don't be the last one to get paid. Don't roll the salary up to the future.

Every month, make sure you're increasing your net wealth by drawing that money up to your holding company. And then the second phase of that, the double entendre element is the aim of the game is to take money off the table. I can't even start to try and explain to you the feeling of confidence, security, peace you have when you know that your monthly outgoings that you live off are covered three, four, five, 20 times by the assets that you own.

So pretty much everything could go wrong in your trading businesses. But because you've built the net wealth, you've built the portfolio, you've built the assets, you've saved the tea that generates the steam, anything can happen. And you don't need to worry about going broke, not paying the mortgage, not meeting your overheads because every month you stay in business, you're earning yourself another two, five, 10, 20 years of monthly outgoings.

So it's there's so many more layers to this. There's so many more levels. We can start talking about pensions.

We can start talking about director's ices. We can start talking about compound return and all of these things. But the main thing for you to remember here is the aim of the game is to live off the steam.

If you want to be genuinely financially independent and not just self-employed, you need to save the tea, invest it in assets and get to a point where you live off the steam. And then probably especially going into this next phase of the economic cycle with this recession is the number one rule is do not run out of money. And I would say if there was ever a time to be reducing your overheads and committing to close that gap, it would absolutely, absolutely be now.

So if you're not downloaded the Boom or Bust report, go to www.boomorbust.co.uk. In there, I talk about the strategies about protecting your models, protecting your margins, a few ideas of what you could be doing. But it all comes down to this model of building that portfolio to live off the steam. You can sell your company for a million pounds and a million pound in the bank, but you can be less financially independent than somebody that earns 30 grand a year and spends 25.

Because if you're chipping away at the capital, you're in the red. You're in the infrared. You're losing money every month.

It's all a game. Success and failure are very predictable. I hope you enjoyed this.

Like I said, a bit more of a finance, a bit more of a steel podcast. But if you've got investors, business partners, friends, family, brothers, sisters, husbands, wives who haven't grasped this concept yet, share it with them. And in the 32 minutes of this podcast, hopefully it's explained crystal clear.

The aim of the game is financial independence and the three levels you have to complete to enable you to get there and live off the steam. Tune in again next Tuesday for the next episode of the Official Property Entrepreneur Podcast. If you like this episode, please take a minute to offer us a review on whichever platform you're listening to.

Share, subscribe, appreciate the ongoing support. And I will see you next week for the next episode of the Official Property Entrepreneur Podcast. Success and failure are both very predictable.

All the best, guys. 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'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.