

39

Magic Number 5



I asked Josh Randall to write a goal of how many rentals houses he would own. He not only met his goal but blew past it!

Buy five rent houses and be set for life! Seriously, just five. This is a LONG chapter. It's long because it's super important and a very easy way to be financially set for life. You don't have to invent anything, patent anything, survive on reality TV show, and have Simon Cowell think you sing well, or pick the right lotto numbers.

All you have to do is be boring and buy 5 rent houses. Remember Chapter 34 about listening to advice from people who have done what you are looking to do. I have done this very thing many times over. When someone says this won't work, ask them how many rentals they personally have? Just buy a rent house every year or two or three until you get to 5. I will tell anyone who will listen if you are doing just OK, well in life if you simply buy five quality rent houses early enough in life, 30s or 40s, you will be set for life.

There are some basic reasons why this is almost sure fire advice. First it takes discipline to stick to this investment program, and discipline to any sound investment program is a great way to build wealth. Secondly, without you really thinking about it, this action of having five rent houses is a form of leverage and, wealth is rarely created without leverage. What I mean by leverage is typically you are putting up 10-25% down payment on the rent house you are buying and the bank is putting up the rest of the money. Thirdly, someone else is paying for your retirement; the "someone else's" are the renters who will inhabit your rent houses for the next 15-30 years.

Think about this, if your employer offered you a profit sharing plan that you put 10-25% down and then they put up all the money for the next 15-30 years, would you take that deal? I can hear you now, what about leaky toilets and times that the house isn't rented? You are 100% right. That's expensive and inconvenient, and it's the same reason 95% of people won't do this Plan. But I can tell you the rewards are totally worth the hassles.

Funny thing when someone loses tons of money on a bad business deal or a stock market crash that's a "hassle and a pain"

too! At least with your five rental houses you are in control instead of something that for no reason destroys a chunk of your wealth overnight. Just this week at this writing, China adjusted its currency and delivered us the rockiest stock market in years, but guess what, my houses are just fine. The fourth reason is long-term tax benefits. If you make \$10K profit this year in the stock market you pay this year's taxes on that money. In addition that stock you bought you paid dollar for dollar for the stock you bought; a bank didn't give you 75 or 90 cents of that dollar—it was 100% of your money.

With rent property you are writing off depreciation and building phantom losses (the money you paid for the leaky toilet comes back tax free when you sell). You depreciate that home over 27 and half years. If the house cost \$275K, then that's \$10K a year of depreciation; thus, your 1st \$10K of income or profits are tax free. Fifth, if you buy five great rent houses, here's what's working in your favor, rents will go up, so you might have been break even or making a little or losing a little doesn't matter because over time those rents will go up, so you will be making positive cash flow. In addition, each and every month you owe less to the bank (you are building Equity). My favorite is appreciation!

The house you bought for \$169K about eight years ago is now worth \$330K (an actual example, my Burney house). Finally, you are building all this wealth virtually tax-free (pay taxes on the positive cash flow IF your rents are more than your expenses that year) and when you sell (I HATE selling) because of the before-mentioned depreciation and phantom losses you cash out a fairly low-tax burden. If you borrow against the equity, you have zero tax burden. So if you have \$200K equity in the house you pocket \$200K, nice little retirement and you have five, so $5 \times \$200K$ equals a cool million. Congrats, you are in the top 1.4% of Americans because you were the rare individual who was willing to put up with leaky toilets.

As you read before, I had a goal of buying a house before I turned 20 and thankfully I did. It's probably the Top 5 proudest things I have done because it set a lot of great things into motion

at a young age. It's neat to think I left my parents' house at 18 years and 6 months and had a house at 19 years and 10 months!

I love that this chapter is No. 39 because I'm going to write about my dear friend Josh Randall (Owner of Central Screen-Printing) who is 39. But at age 31, we had a talk about what his life might look at when he was 40 years of age. Josh's family business does all the screen printing and embroidery on the items we sell through our company GOLOGO. Josh started coming down to Texas for a break from work and because he is a die-hard Dallas Cowboys fan, we would go to a game once a year. At the time of his first visit I had just turned 40 and reached my goal of having 10 rent houses by 40. By achieving that goal of 10 houses and two other business goals I rewarded myself with a Lamborghini for my 40th birthday.

So Josh showed up in Texas and we are watching some college football up in my media room and he was so stressed out he couldn't even chill out. Josh works super hard and he has four kids and a great wife named Crissy. Josh was so wound up he couldn't relax on his vacation. We had a candid conversation, because I saw all the good in my friend Josh, but if he didn't start investing, he was just going to be a good guy who works 80 hour weeks, has a nice life and some money but no real wealth.

I said, "Josh, in nine short years you are going to be 40 regardless, so you can be 40 with rent houses or you can be 40 without. Which 40 year old Josh do you want to be?" We then jumped into the Lambo and he was driving that thing 100MPH which might have helped solidify that thought.

You have to realize I have similar conversations with anyone who wants help (not always punctuated with an exhilarating Lambo drive) and almost all the time it results in no action from the person that wanted the help. It bums me out for the person who doesn't take action but it's to be expected. People want a pill, a quick solution. Josh was the rare person who took it and ran with it.

I love that this chapter is No. 39 because Josh is now 39 years old and just texted me 45 minutes ago that he bought his 71st rental today! I don't think it was a coincidence that I was right about to start Chapter 39, I call good coincidences in my life God winking at me! Josh Randall is set for life, his wife, kids, and probably grandchildren are too! All because he took the first step buying his first rent house.

On August 11th, 2014, Garrett, our 12-year-old bought his 1st rent house. It's a three-bedroom, one-bath in Central City, Ky., for \$38,000. Because he is 12, I'm holding the transaction in my corporation and will transfer everything at 18. Garrett visited all of our properties in Kentucky and wanted to buy his own rent house. He has a ten-year note at 5.5%; he put \$8K from his \$16K in his Scottrade account. His payments are \$325, plus small taxes and modest insurance. His house rented in one day for \$500 a month. He will be positive at least \$100 a month and have a free and clear asset at 22 years of age. His goal then is to refinance and pull \$40K from his house that should be valued at \$50K by then (it appraised for \$45K). That \$40K will be tax-free because nothing was sold, it was refinanced. He intends to put that down on a \$200K house, get two roommates and live for free—all the while having two investment properties! People give me tons of reasons why they can't or don't have rent houses. I will say this, the income I earn from work allows me to live well, but the way I have built wealth is Real Estate.