FOREVER CASH

Forever Cash Real Estate Podcast 035

How to Optimize the ROI on Your Forever Cash Investments

Hosted by: Jack and Michelle Bosch

Intro: Are you ready to transform your financial future? Here's your chance to see inside the mindset of self-made millionaires, Jack and Michelle Bosch as they pull back the curtain on secrets that can make you rich. Discover how everyday people are breaking the norms and building empires from the ground up, using a little known yet proven and time-tested wealth building real estate strategies. It's my pleasure to welcome you to the ForeverCash.com podcast, and introduce you to our hosts, serial entrepreneurs, investors, educators, and best-selling authors, Jack and Michelle Bosch. Strap yourself in for the ride of your life.

Jack: Hello everyone. This is Jack Bosch...

Michelle: ...And Michelle Bosch.

Jack: And welcome to the Forever Cash Real Estate and Freedom podcast.

Michelle: I like the freedom podcast part.

Jack: All right, wonderful. Michelle, we ever seem to start at the same way, right? What are we going to talk about today? Well, actually before you tell us; let me remind everyone first of all that the podcast notes are on ForeverCash.com/Podcast. Also, we have a brand new different gift on ForeverCash.com/Freedom which will blow you away. Go check it out on ForeverCash.com/Freedom. It's no longer the free course, mini-course on how to invest in real estate. As a matter of fact, you not only get now access to one course, you get access to 100 different courses for free if you go to ForeverCash.com/Freedom. All right. Is that cool?

Michelle: That is cool, super cool.

Jack: All right. So now, let’s start talking about what we're going to talk about.

Michelle: Well, what I would like to talk about is Forever Cash planning. So when we started out in real estate, it was with one and one single focus in mind. And that was how can we create right now one-time cash that we can roll into temporary cash, which we can roll ultimately in to forever cash, meaning forever cash, cash where we can work for it once and it brings in passive cash flow forever, hence the name forever.

And so we have right now over the last, I think, three to four months, have been looking at extending our Forever Cash plan. And so we wanted to discuss in this podcast a little bit like give you like a sneak peak, let you into what's going on and bring behind our head in terms of what we personally are doing to basically increase our forever cash.

Jack: Wonderful. Okay. So I like that because it is really... it comes absolutely close to our hearts.

Michelle: Yeah.

Jack: As Michelle mentioned, she mentioned three types of cash. There is... We wrote a book called Forever Cash. It's under my name but really, it's our story. In the Forever Cash, the name is born because we believe that cash is not created equal. Now if you have a $100 bill in front of you or even a $1 bill, you can buy with that $1 bill. If you have three different $1 bills in front of you, you can buy the same thing with that $1 bill. It might get you, I don’t know, a piece of candy somewhere or it might get you a chewing gum or a hotdog if there are still $0.99 hotdogs or $1 hotdogs. But it buys you the same but it wasn’t created necessarily the same way.

There's three ways to rate cash. In our definition, which Michelle already mentioned, one of them is called by doing one-time cash activities, which means you work for something one time and you get paid one time. And then the second one is, so therefore if you have that dollar that you did, if you're like a 10-

year-old boy who gets a dollar for doing a chore, when he spends that dollar, that dollar is gone and there's no new dollar coming afterwards.

Michelle: Uh-huh.

Jack: So it's one-time cash. You're paid quick and work one time, you get paid one time. So the cash only comes one time. Our second way to look in at cash is what's called temporary cash. And temporary cash is basically where you work one time but you get paid again and again and again but only temporarily for a certain time of period.

So for example, you start... You lend somebody money and they agree to make monthly payments and after one year pay the money back. Well, that's a temporary cash activity. You get interest on the money, and then you get your money back, so that's temporary cash. Land flipping, the way we do this with seller financing is a temporary cash activity. And then there's forever cash. And temporary cash is awesome because if you get that dollar, you spend it and then guess what? Next month you get another dollar or another $100 or whatever that number is.

Michelle: Uh-huh.

Jack: So without you actually working anymore, you still get another dollar sent your way. And the third way of cash is obviously the ultimate. It's the holy grail of financial freedom which is forever cash. And forever cash means you work once and you get paid again and again and again and again, well, forever. So cash comes in forever. So what we love about that part is for example... It's where we love real estate and a rental real estate for example is that part. But also royalties are a part of that. Also, dividend stock is part of that. Also, really anything that gets you paid forever.

Michelle: Uh-huh.

Jack: So the beauty of that is that if you now get that dollar or $100 and you spend it on something, next month you get another $100, and another $100, and another $100 and it will never stop. As a matter of fact, if you set it up the right way, it will actually increase every year, the amount of cash that you get without ever having to work for that again. And if you do that, if you have enough of these forever cash streams of income, and if you optimize them, and that's really what we're going to talk about today.

Michelle: Yeah.

Jack: If you optimize them, you will... If you have enough of them and they're optimized, you will really never have to work again in your life after they're set in place.

Michelle: Yeah, so I want to give you guys a timeline just so that you can see basically what was happening in our lives and how we were basically putting this forever cash and plan of going from one-time to temporary cash to forever cash. So to start at the timeline, let's go back to 2001. And from 2001 all the way to 2003, and actually prior to that with our jobs, all we did was focus on one-time cash.

Jack: Which is the way the world works, unfortunately.

Michelle: Yeah, absolutely. And then from 2003 up until today, we have focused in temporary cash and how have we gone about focusing on that? Jack already alluded to that. We basically sell a lot of our land, a huge percentage of our land using seller financing where we're basically becoming the bank and we hold notes and that is the asset basically. It's yes, the underlying asset of the land, but more importantly is the note that is actually producing the cash flow, the temporary cash flow either in the form of a 5, 10, 15, 20, even 30-year note depending on the value of the property that we're selling on seller financing.

So 2003 to today, we continue to do this. But back in 2009 because it's only in 2009 that at least in the market that we live in, it made sense for us to start rolling some of that temporary cash into forever cash. We started doing that.

And we started doing that by buying residential single-family homes and we basically were able to put together a very nice portfolio of forever cash asset starting in 2009 and rolling a lot of the note basically cash flow into that.

So now, let’s fast forward to 2015 and what we have noticed especially here in the Arizona market, in the Phoenix market, is that when we were starting to buy residential real estate back in 2009, I said it made sense, and that's because we were able to buy properties from anywhere between $30,000 to $40,000 50,000 and get anywhere between $800 and $1100 worth of rental income forever. And when we set out to buy those, we went out there and actually bought cash because we were sitting on all this cash from all the notes. And so we were able to roll that and continue to do that to this day. But what we've noticed is that fast forward to 2015 is that the value of a lot of these houses has not only doubled but almost tripled. And so now...

Jack: Which is a good thing for our assets.

Michelle: Which we were never out to do. Our game was never appreciation. Our game was always cash flow.

Jack: Which is a wonderful, wonderful thing that your assets have tripled but it puts us right now into a little bit of a dilemma.

Michelle: It's a great dilemma. It's like a first-quality problem.

Jack: It's a first-class problem, exactly.

Michelle: First-class problem, yeah.

Jack: First-class quality problem. So here's the thing. We were not buying houses in 2006 because it didn't make sense because we are cash-flow people. So even though we flip land, we're cash-flow people. So in 2006 we were buying, because at average a house would cost $250,000 and bring in $1,200 in rent. That doesn't make sense on a cash-flow basis. 2009, we were buying like crazy because all of a sudden the cash flow made sense. So we could buy properties just like Michelle said that made a great return. So it's always about... It's a question of your ROI.

Michelle: Uh-huh.

Jack: So we looked at that in 2006, six...

Michelle: That's Freudian.

Jack: That's a Freudian. All right, not two thousand and sex, 2006. In 2006, we looked at the ROI and the ROI on a house would have been like 1% of that or even negative. So it's like, does it make sense on a cash flow at least? Appreciation was still there but that soon afterwards stopped too. In 2009, we looked at that. It was like, "If we can buy a house for rehab for $50,000 and we can get a $1,000 in rent, then even after expenses we're netting, let's say $700." So we're making over $8,000 a year on this house and it costs us $50,000. I mean, that's a 16% return, cash-on-cash return on a free and clear house. Now that's way better than investing it in the bank, putting it in a bank, or way better than doing other things. Now it's not as good as our land returns...

Michelle: Yeah.

Jack: But you have to take always into consideration that the more long term you invest, the less returns you get to a certain degree. If we were to finance these houses, we would have gotten up to like a 40-50% cash-on-cash return. As a matter of fact, we did that. We also then went... After we used up all our cash, we went and refinanced these houses and bought more properties and so we could buy as many as possible. And on doubles, we got a 40-50% from cash-on-cash return.

The key now is that, as Michelle said, fast forward, and now these houses are not worth $50,000 anymore, now they're worth $130,000 to $150,000 in some cases and we're faced with a first-class dilemma. The first-class dilemma is what do we do? If you look at return on investment, our return on investment on these houses continues to be 16%. Our return on value, our return on equity in the properties starts being back in the very pedestrian, 4 or 5%.

Michelle: In the single digits.

Jack: In the single digits, because if you look at the return on equity, the return on equity, what is the equity on this houses? We own it free and clear. We now have $150,000 in equity on these properties, and we're making $700 a month in net, or let's just say $8,000 a year in net on a house. So we're based on a $150,000 equity. That's only about a 6% return. Now 6% is still not bad but it's nothing that juices us having being used to 16% or even with a little leverage, 40-50% cash-on-cash returns. So now, we're like, "Well, wouldn't it be better off rolling these houses, selling these houses or leveraging these houses and going to a different market and buying more properties there?"

Michelle: And that's basically where we're at. For the last I think three months, we have seriously entertained and we actually flew out to the Midwest.

Jack: That's a couple of weeks ago.

Michelle: I think it's just a couple of weeks ago and we're starting to look into selling our properties here in Arizona, at least a few of them, and buying properties in places like Ohio, Indiana, Illinois and basically...

Jack: Potentially in Florida.

Michelle: Potentially in Florida and anywhere where it basically it makes sense. And so before though you go out there, and I don't know whoever is listening if you have the cash source or if you have assets and you can basically sell and roll into other assets that give you higher returns, the consideration is then you need to have before doing such a jump out of falling, because these are the same considerations that Jack and myself have been going through, which is number one: are the numbers making sense? Can we get homes for about anywhere from $30,000 to $50,000 just like we did here in Arizona back in 2009?

And number two: do we have a local partner? We're not doing it here in our backyard and we're doing it remotely. Do you have a local partner that you can trust that will help you basically assess the actual homes, the neighborhoods, that will help you take care of repairs because there will be repairs after acquisition, and getting them ready, tenant-ready for that first tenant that you're going to get in? Is this person also good at letting tenants? Are there any considerations in terms of area of the country based on whether you should buy it right now or you should wait? Because for example in the Midwest, it's getting really, really cold and people don't move in cold weather.

So if we're looking into buying right now, that means that we need to be prepared to probably sit on those homes for a couple of months after the holidays to start getting rental income in. So those are some of the considerations that you have to make. Can you take that? Or are you okay with that or should you wait until January and so on and so forth? How are you're going to acquire them? Are you going to use your own cash? Are you going to go out there and use other people's money? So those are the kind of things that you should be thinking about.

Jack: Well, in our case, we have an ongoing discussion about whether or not we should sell some of our houses or we should just get a commercial refinance loan at 5 to 6%. They're available from multiple companies that refinance small portfolios, small to midsize portfolios of properties. And ours is not so small but it's not a huge one either, not like other people have thousands of houses.

Michelle: Yeah, that's more like institutional.

Jack: Those are institutional investors. But bottom line is, should we refinance them and run the risk? And if there's another market downswing, we're actually upside down on these houses or but at least we keep them in long term. They're going to recover yet one more time and they'll recover on long term and they're going to stay there. And then or then we pay them off from the cash again. Or should we sell some of them, perhaps some of our headache properties and the ones where they have the most turnovers and most repairs and so on, and roll that money over? So there are multiple considerations that you need to do. So it's not just a monetary game. So for example, let's talk about the monetary game for just a second.

Michelle: Yeah.

Jack: And the monetary game is a very simple calculation. And the simple calculation is right now, if we are getting, if we can rent an average house for let's say $900 and we're netting $600 on that house with no mortgage... Let's just say to simplify it. You can make your own calculations adding your mortgages. So if we're netting $600 a house, so we're making let's say $7,000 a year on a house, and that's great. But if this house is worth $150,000 right now, well that's less than a 5% return.

If we take this house and sell it and roll it over to a 1031 exchange into three houses somewhere in the Midwest or in Florida and now we're getting each of these houses' rent for $900 and cash in $600, we just effectively taken a positive cash flow of $600. And by just flipping it into three houses, we're now turning that into $1,800 a month. Now that's sounds cool. Now if you do that with ten houses and basically if you do that ten times, you sell ten houses a year, you'll get enough cash out from these houses to buy 30 houses in another market. You just effectively turned $6,000 of cash flow into $18,000 in cash flow.

Michelle: Uh-huh.

Jack: And that's obviously a phenomenal way to build wealth and to build cash flow for generations to come. And then even if this market appreciation happens too, perhaps you're still a few years behind... There are some signs in the market we're looking at that there's some levels of appreciation, not like it was in Phoenix, not like it was in L.A. and parts of Florida or Vegas. But if there is some appreciation over the next ten years, it's very possible that these houses also double or triple in value in the next 10, 15 years. And now not only did we create or triple our cash flow, we also tripled the value of our portfolio. And obviously in that moment, I just saved the dilemma again, and now we would need to take the...

Michelle: Do that again.

Jack: ...Sell those or refinance them from there and turn the $18,000 now and double that against somewhere else and turn that into $36,000 a month in a different market. But we as investors, we have never counted on appreciation.

Michelle: Yeah.

Jack: We are cash flow people. And that’s really one of the important things that I want to bring home in this thing. When we bought these houses here in Arizona, we did not care. We actually personally expected for the recovery to take 10 years.

Michelle: Yeah.

Jack: But it wasn’t about creating or making a quick buck. The 2004, 2005, 2006, 2007 boom was about making a quick buck. Everyone out there was... Not for us, but for all everyone out there, they were all out to make a quick buck. They were buying properties with negative cash flow only for the appreciation and to flip them. And it was like a game of musical chair that once the music stops, the whole bunch of people were caught without the chair.

And that’s never a game we play. That’s a very dangerous game to play because it's a speculation game. It's not much different than buying a stock today and hoping it goes up tomorrow. What we invest only is on fundamentals and fundamentals of cash flow but also the fundamentals that Michelle talked about. Those fundamentals are just as important. So instead of jumping out, you got to be aware of all the other soft factors that Michelle talked about.

Michelle: Yeah, yeah. And I want to also just mention something that came to mind as you were talking which is the fact that... It's a very nice analogy from the guy from

Shark Tank, Kevin O'Leary where he says, "One dollar goes in there and I think of my $1 as a soldier and he goes out there and fights for me," and so on and so forth. So for us...

Jack: It comes back with prisoners.

Michelle: And he comes with...

Jack: And the prisoners are interests.

Michelle: ...Or more money. Yeah, exactly. And so for us, it really means... How I think about that is that every single dollar that goes into our investing wheel basically or forever cash assets, every dollar needs to go back and it only gets reinvested and never comes out of that investing wheel. We don't use it to go and all over sudden go... I don't know; blow it on something that is not going to give us a return. So that's just...

Jack: A Gucci bag.

Michelle: A Gucci bag. That just goes towards basically showing you that it's not just the ability to entertain complexity in terms of numbers but that this game of wealth building requires persistence and discipline.

Jack: And I mentioned a Gucci bag because I just bought Michelle a Gucci bag the other day. But the thing is...

Michelle: Not with the underlying asset though.

Jack: We didn't sell a house to buy a Gucci bag. They're not that expensive anyway. We used the money that the house throws off to buy the Gucci bag.

Michelle: Yeah.

Jack: So that's the definition of forever cash. So now Michelle has a beautiful Gucci bag and guess what? Next month, there's the same amount of money coming in to the bank account that will allow her to buy another Gucci bag. Now of course, she's doesn't do that because she's a very frugal person. She doesn't really want a second Gucci bag. I hope not, at least. But the point is you could buy a freaking Gucci bag every single month from what the assets spit out. Now in our particular case, we don't even... At least in the moment, we don't even touch the money that comes out of these houses, at least not a lot of it. The vast majority of that even gets reinvested...

Michelle: Yeah.

Jack: …Gets put into what we call the seed money account, so that we can actually use the fruit from the investments to make more investments. So it's not like that we have to sell a bunch of houses to buy houses in other markets, we also... What these houses produce allow us to buy more houses in other markets.

Michelle: Yeah.

Jack: So once you really have that understanding, once you have that engrained in you that the purpose of money is not to be spent, the purpose of money is to be invested in something that spits out more money so that you can then spend that money. So the purpose of one-time cash is not to be spent. The purpose of temporary cash often is not even to be spent. The purpose of those is to be invested in forever cash in an optimal way over time to be optimized, and then the fruit of that forever cash investment is what you ultimately then go and spend.

Michelle: Yeah.

Jack: All right. So keep those things in mind. So for example, we can do an entire separate podcast about how to find contractors in other markets, how to go about managing properties from a distance and so on. And we will probably will as we expand our own experience there in other markets as we buy more in other markets. We'll probably expand on that and create a podcast about that as we learn and go along. But bottom line is you got to have a plan. You got to have a plan in place because if you just buy something in a different market based on the numbers, you're just ready to be screwed and you're ready to lose money. It is a little bit more involved but there are tools around there that can help you with that. Tools like special kind of insurances, like what we have on these home warranties.

Michelle: Home warranties.

Jack: Like home warranties so that when something breaks, you can just call the home warranty in the location where the property is and they send somebody out there and fix it.

Michelle: Yeah.

Jack: Things like renter's insurance that you ask your tenants to have so that if they break something, you don't have to fix it, you just tell them to file a claim with their insurance. Tools like knowing what makes a property management company a good company versus a bad company. And how did we learn that?

Michelle: The hard way.

Jack: The hard way. We were ripped off by a bunch of property management companies until we learned what a good one does. And now we can tell the difference. So we'll do podcast episodes about all of that but in the meantime, I wanted to basically just summarize it quickly. The key here is you want to invest in forever cash assets, and you want to also optimize the return of these forever cash assets. So look at them repeatedly over time and if they've gone up in value a lot, it might makes sense to take extra money out and buy more forever cash assets in other markets where you still get the same returns that you did when you bought the ones in the first market in the first place. All right?

Michelle: And I think that's all we have to share for that.

Jack: All we have to share. So again, make sure if you join us, go to iTunes and leave us preferably a five-star review. Don't just express the five stars but also say something. Tell the world about how you enjoy our podcast. Do that right now if you can if you're on your computer, if you're close to your computer. Just go to iTunes and put it on there. And then with that, also remember there's access to literally over a 100 free courses on ForeverCash.com/Freedom. A hundred courses that you can check out and look at. It's completely a free access pass for a time period, so make sure you go there right now. Thank you very much.

Michelle: Thank you.

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