Man 1: Welcome to the REI Diamonds Show with Dan Breslin, your source for real estate investment jewels of wisdom.

Dan Breslin: All right, Steve. Welcome to the REI Diamond Show. How you doing today?

Steve Selengut: I'm good. It's good to be with you.

Dan: Nice. So we're taking it different direction completely than like 98% of the guests on the show and we're going to be talking about buying stocks, securities, closed-end funds, the kind of investments that quite frankly a lot of real estate investors who are probably listening are like, "I'm never going to do it or I did it and got burned and I'm getting out of it." But to anyone having those thoughts right now stay tuned what Steve and I are getting ready to talk about is interesting and that's coming from like my own background as a fully committed real estate investor and operator. So why don't you maybe, Steve, give the evolution, brief evolution of your career what you do today, and maybe you even tuck in this little bit of the story about your dad that we were talking about before the show.

Steve: Yeah. I think that's a that's really a good place to start. It might, some of your audience might even know like a Patcong in North West Jersey where my father was a real estate developer. He had probably a thousand homes in the development over the years on like Patcong and I never wanted to go there because of all the time, he spent in planning Board meetings and talking to town officials and just he seemed to be working 24 hours a day. And of course what happened to me, I wind up in a different area working pretty much the same amount of time. But a lot there were a lot of parallels when I look back at it and in listening to like I said to some of your podcasts, he owns land, he built homes, he ensured those homes. He gave people the mortgages. He had rentals. He sold and resold again, and he even owned a Lumberyard with his attorney so that they could get a break on the supplies as that they went into building houses.

But the thing was and what he schooled me on was that the important thing about the whole process was to fund the developments, to fund the building from the rentals and the mortgage interest you receiving, the insurance premiums you would get, and so on. So he always had this cash flow as the big deal. You can't go out and buy another lot or start another building unless you have the cash to do it with. He made sure he had that cash. He also had a very expensive wife, my mother. So he had to have a lot of cash. So I came away with that and when I did, I don't know, I got a business degree Gettysburg College in Pennsylvania. I don't know if some of you might have gone there and the ideas that I came away with from him to put into my own set was that I was going to make sure anything I had. And from day one when I was 12-year old mowing lawns, I put the money away and tried to earn some interest or whatever. I always focused on income from what I was doing.

Finally, I wind up in an insurance company in New York, got out of college and I wind up in the Pension Investment Department which was really where I got my start in the investment world and I was flying all over the country with Account Managers. And these guys are managing billions of dollars mostly for defined contribution plans, which is the equivalent of today's 401K. We didn't they didn't have 401Ks back in the '70s. We'd go to all these companies and I talked with them, but I'd also be looking at the things they were investing in in their manage portfolios for these people. And I tell the story in my first book, The Brainwashing of the American Investor, about my trip to the Boeing company and we were on our way out there and I say, "I noticed that you have a gazillion dollars worth of Boeing stock in your portfolio here and you're carrying it at maybe a 2 to 1 profit and only pays like a percent or two in a dividend." It's a good quality company dividend stock and all that stuff, but the amount of money was negligible. So he said, "Steve recognize that they are one of our biggest insurance clients and they like us to have a lot of their stock in our portfolios." So a light bulb went off for me. Let's see now. Is this economics or is this politics and why they're holding Boeing stock?

So I made a decision at that point since I didn't know why Royal Dutch or GM fluctuated the way it did. I was never going to let a profit get out of my hands, a reasonable profit, because I didn't know what the cause was. If Boeing decided to go to to another ensure equitable would sell all their Boeing stock and they don't so much of it that it might impact. So there was this thing that came in my eye into me. Okay, I'll buy the highest quality companies fine and I'll watch their price movements. If they go up 10% I'm selling them and I'll find another one to invest it. So that's how I started this whole investment business and it stayed like that with a focus on income a need for profit taking. I never held onto to something, "Oh men, look at that thing go." It's like in the late 80s, I guess when I wrote my first book one of the illustrations was if you retire today with a million dollar portfolio in Microsoft stock, how much income would it be paying you to retire on? And at that time, the answer was zero. Nothing.

So 1979, I left that company and I started to my buddy said, "Okay. I see what you've been doing. Your own portfolio, you left and started your own business." I was making 4 or 5 times my salary on investing at the time, and you can manage our small portfolio. I think they both started with something like $25,000. So here I am, new business. I got $50,000 under management, and I try to build a business. And I did. And I did it differently from what most of you are familiar with. I didn't focus on the growth of market value year to year. I focused on the growth of the income year to year and the growth of the market value from cycle to cycle. It's very clear. If you look at any chart and any of the indices that are popular the even the NASDAQ, which is almost pretty much the tech sector and almost nothing else, but the Dow and the S&P if you look at their charts, you'll see that there is a distinct cycle. The market goes up for a while, something happens, and for whatever reason it's totally unpredictable but it's there. So I try to use that in my investing and try to say, okay, if the markets going up I'm not going to buy as much of this stock because when it goes down I want to add to that position and reduce my costs increase my yield.

So that type of scenario went along for a while before I really became as income-focused as I am now. But that's the build-up. That's the story. The parallels between my father's income focus in real estate. If somebody came to him and offered him a price he couldn't refuse he sold the property and found another one. He didn't hold on to it because maybe tomorrow the price will go up. It's a reasonable profit. Take it, do something else. Those types of principles guided me in my investing. So I was never a person that saw their stock price go from a high of 200 down to a high of 100 and scratching their head about all the money had lost because I took that profit. I took that profit and on the way up, I probably took a profit and that stock three different times because I would go back then. That's pretty much how I got there. I [inaudible] long time about that.

Dan: Yeah. We had mentioned that you had sold your... There's a management business, right Steve?

Steve: Yeah, just this past May.

Dan: So you were managing clients. What did you end up, you started at $50,000 and what was it when you sold? Do you remember?

Steve: Yeah. About $110 million of capital.

Dan: Congratulations.

Steve: And that was me only. I manage it through a brokerage firm certainly and the people there I tell them what to buy or sell and they placed the orders and all that. All these years, I've been managing money for almost 50 years and I've never actually pushed the button say buy this, sell that on my own like you guys do all the time online. I haven't got my first chance to do that yet because I had to go through other entities to actually make trades. So I'm looking forward to next May when the deal is finally over. You know how these deals work where they pay you some money up front and then they've...

Dan: I was got a hold, you got to perform and then you get the rest of your money later, kind of deal.

Steve: Yeah. So I got a way to get until May and next May before I can say to them, "Okay, I'm not going to pay you to help me manage my own money anymore. I'll do it myself."

Dan: Got you. So Charlie Munger just passed away and I guess what a week ago, two weeks something like that. And one of the interviews I just happened to be nostalgically listening to after that occurred, Charlie was saying something to the effect of you can get good return managing small amount of money. Let's say a million dollars, $5 million, maybe even a $100,000 million. And then the larger that you get if you're trying to do that with a billion or $2 billion, it becomes a lot harder to hit those same thresholds of return that you're capable of doing to the smaller portfolio size. Is that ring true at all Steve?

Steve: I guess. It depends on what you mean by return. Return to most people means change in market value over the year you started at X, now you have x + 5, your return was 5. I look at since, I'm looking at growth of income and growth of capital, I call it working capital and the working part is the distributions that is paying out. I'm looking my returns are realized returns not paper returns.

Dan: Okay.

Steve: That's just like having a condominium complex with everything rented, it doesn't do you any good unless the people are paying their rents. It could go up in price and you might be able to sell it eventually, but what if you have a recession and the price stays the same. As long as you have that income coming in you're ahead of the game. You could reinvest it. You could buy another condominium, and that's my theory. My returns are realized returns. So what he says rings true for people that are investing in the stock market for returns in terms of the growth of the market value of their assets year over year. I'm looking at returns as the growth in my income and my capital year after year because if I get, let me explain that. If I get income, let's say I get $10,000 in income and I don't spend it, I reinvest it. That increases my capital by $10,000. If I don't get any income and my market value goes up by $10,000, my capital hasn't changed unless I take that profit and add the $10,000 to my capital. So that's the difference between returns and realize returns are in growth or realized. I realize my growth capital by taking profits and reinvesting my distributions to the extent possible. And I always used to tell my clients that as long as you don't withdraw and as they and I got older, people start to take money out of their investment accounts. And as you get older, I kept telling them if you take less than 70% you leave 30% there for me to reinvest, I'll be able to continually grow your income for you and your capital.

Dan: That would be what, 70% of the...

Steve: Income.

Dan: Like dividend income in that portfolio?

Steve: Dividend income and/or capital gains that are made. Now, you don't make capital gains every year. In a year like 2021, we made as much in capital gains as we did in distribution. So at that year, we started with about $90 million. We ended the year at about $110 million, which my timing of getting out was pretty good and we generated $7 million in distributions and now 7 million in capital gains. So that was so nice in a sense what we did and that year with the capital gains. We paid every investment management fee for every client for the next 5 years in one year with the capital gains. So that was always my spiels when I took on a new client, I said I will make more for you and capital gains and you pay me in fees.

Dan: If I'm doing the math and I want to the tied realized returns, I can spend the realized returns in a sense. Am I simplifying it?

Steve: You could. Yeah.

Dan: It could be like my cash flow in real estate, right? I have rental property. Over a hundred rental properties, however many I have. At the end of the year after all the expenses maybe there's I don't know, $200,000 sitting there. And I could spend the whole $200,000 those would be realized returns in a sense on real estate, or maybe I'm going to go with your rule and I'm going to put $60,000 back into renovating 3 of the units and so that I can push further the next year's returns, but I'd be left with $140,000 or 70% of the $200,000 in my pocket. Let me pull on the thread a bit. You said $7 million in distribution. So are we talking, is that like 8%, 8.5% return?

Steve: Probably around 7%, 7.5% at that time interest rate. Interest rate is still very low, right?

Dan: Yeah.

Steve: Interest rates are low, the prices were high, so distributions are standard. If you have a preferred stock or a bond, a treasury, it's paying a fixed. They call these fixed income securities, a fixed amount every month or well in those cases every 6 months or quarterly or so on. So when the price changes or interest rates change, nothing changes with that income. It's just like rents. They don't change just because the market value changes. So your income is staying the same and if you can put back you can buy more of those shares when they're down like we have for the last 24 months the shares have been down. You take most of that income, you add to those shares, you're reducing your cost and increasing your yield for two years. So now the average yield is over 9% on those same securities.

Dan: Yeah, it's almost like the interest rates rise that causes the security prices to fall.

Steve: Right.

Dan: If you're doing this right, your return Steve should be some correlation to the federal reserve's interest rates are set. If they go down a little bit, the values of the stocks go up and therefore your returns are 7.5%, 8% but because they go higher now, you might hit 9% or who knows maybe 9.5% or 10% 0r 11% on certain conditions.

Steve: And when they go down, the prices go up. So then you're in that position where I'm still getting that same of rent, but all of a sudden this particular area the country has become really popular and now people want to live here. They want to come here. My rents are-, I can raise my rents a lot. So that's the same principle. The price interest rates go up price to go down, but when they go down the prices come back up and that's why you add two positions. And that's what the market cycle is all about where you know when prices are up eventually, you're going down. You know when interest rates are up, they're going to eventually, "Look what happened today. All the guy had to do was announced." We're not going to raise many more this year big deal. It's only two weeks, but we're going to lower them maybe three times next year. So everybody is running to get into these fixed income securities now that are paying 9% and 10% because if they buy them now and those prices go, when the rates go down if they do push them down next year, prices are going to go up and then they can take profits. My people take profits. People that have read my book will take the profits. In fact, I just went out to all the Facebook groups that I'm in and I said my simple statement was this: "Aren't holiday rallies fun? Don't forget to take your profits. And that's the message of the new book.

Dan: Yeah. I really like it because a lot of my real estate investing philosophy, we flip a whole lot of houses. So we're constantly taking profit in real time with the houses we flip, but then the stuff that I have bought and held, I would have this mindset may be looking up at the guys who have come before me 20, 30 years my senior and they bought these houses for $5,000 in the 70s and they were $500,000 now, right?

Steve: Right.

Dan: So it's like you got to hold everything forever, Warren Buffett and Charlie. What's the best hold period? The best hold period is forever, but that's upside down compared to the take your profit mentality and a lot of times people would advise against trading in and out of securities the way that you've done successfully for your crew. They would like advise against that. That would be like the common knowledge. That's certainly was what I was trying not to do and then on top of that Steve, I would say here's where my greed would come in to play with that philosophy, hold forever not taking the profit along the way, oh, it's taxi fishing. And I'm looking at the story here about so-and-so bought Apple stock back in the 90s or whatever for like $9 a share.

Steve: Sure.

Dan: And he held forever, right? Or the guy who bought Bitcoin. I don't hold any Bitcoin, but he bought it for like whatever it was back then $20, $30 and now he's got it and it's worth $30,000 a piece. And I guess it's like my greed always looking for that long shot is why I bought a collection of stocks a few years back and then luckily I think I got out of him some time in '21, so I didn't take a look, but it wasn't the kind of loss I would have today if I didn't get out of then. But the philosophy was exactly the opposite of what you're describing. It had nothing to do with income, it had everything to do with values and appreciation and the ego of catching this winter for $20 and now it's worth $100. Let's see how far it can go versus take the profit when it was up. And had I taken some profit one of those up, I probably would have made 8, 10, 12%. But in my mind it was like, I wanted 20, 30, 40%.

Steve: Right.

Dan: So [inaudible] of this unrealistic return that actually had me harvested by the market. So everything you're saying here and in the research, I did leading up to our podcast, it makes sense how to look at the market. But I think that probably the first guiding principle if you will would be like, let me set a realistic target profit return. What's going to be my realized return? Am I going to be happy with 7%, 8%, 9%. That's pretty good. I can loan my money to other flippers and make 10%, 12%. In fact, I pay out 10%, 12% when I'm flipping a house to my private investors. That's pretty good, but I don't have a house to flip and keep your money working 365 days a year. I have your money for 90 or 120 days and I'm giving it back and then it's in your hands and then I need your money again four months later. So it's not like it's a set and forget it kind of investment and neither is your type of investing a set it and forget it kind of investment either. What do you believe or what would you advise to anyone who might be listening who had more than mentality like me like we want to hit the Tesla stock and we want to buy it at the beginning, right?

Steve: Yeah.

Dan: It's like what is the realistic return Steve, that an investor should expect with minimal risk?

Steve: If you did some research and you look at all the new issues and all the new things, the IPOs have come out in the last 100 years, you'd find that the big names of today in numbers are a very small percent of the number of IPOs that have come to the public market. And knowing which one is going to be the good one, would you really have expected Tesla to be quite a successful as a stock as it is? But how many years did it take for that stock to turn public to return a dividend? I'm not sure it even pays a dividend now because I never really followed it. And there's one person who's gotten extremely, extremely wealthy and I don't begrudge him that at all. And a lot of shareholders have, but not all this year. They didn't get on soon enough or whatever or is employees have they gotten this wealthy? I'm not saying you can't make a lot of money if you're lucky. You can. But it's really a matter of luck to pick that winter. Nobody knew Google. Nobody knew Apple even was going to get there. Very few people have a working crystal ball. I know I don't have one, I never have. So what I've said to myself is, I'm going to... There are six principles of investing that I follow and I mentioned in the book. But when it comes to most of the individual stuff like that is really more speculation than it is investing. When you're trying to hit that home run singles, the guys who bet 300, 330, they're probably a better bet to have in your lineup than the guy that's going to hit 4 or 5 home runs. I've had a couple of home runs, but they've been luck. Somebody, you want, you get up there, you wake up one morning and you know there's been an offer made to buy this were to merge two oil companies. "Oh my God, I own some one of them. Good. It went up 25%. Sell it. That's what we used to do. We used to come in and can my broker is sell-off and that was to everybody who worked for him and in his office. I only had my wife in my office, but everybody has office, "Sell off." They all yell, "Sell off!" Then we'd make money for 50 or 60 clients on that one one particular stock. That's a rarity. That's a rarity.

In the time since I've had my current account right now, I had to change account numbers, but it's only been about 4 months. I've traded 150 different closed-end funds for small profits between almost nothing and 5, 6% in the past 3 or 4 months. A 150 different ones. I have 200 different closed-end funds in my personal portfolio. None of them comprise as much as 3% of my total portfolio. So if one of them becomes an end run, if one of them becomes and I'm going to say Merrill Lynch, a lot of people don't realize it. A Merrill Lynch actually did go bust It still exists with Bank of America, but the shareholders who owned it during the recession came out with zero. So if that happens to anyone of the funds that I own which is very unlikely because of their makeup and we'll talk about that, I might I won't even notice, right? It'll be less than 2% of my portfolio. So what? It's like having a fire, an uninsured fire in a condo if you own two 2000 of them. It's just not as big an impact. I've see portfolios in my coaching business where somebody will come in and say, Steve take a look at my portfolio for me for a $95 special. I'll look at it and I'll see he's got a million dollar portfolio and he owns 10 positions. Ten positions. So before I even meet with him I say, "Before we even meet, you should consider what if any of one of these positions goes bankrupt tomorrow. How are you going to feel?"
And then they should take some action. But people tend to load up on what they call winners and other things they call losers. They throw away too soon or they throw away. I have a different approach. I only buy, and it's exactly again, the parallels with real estate are great. You're not going to go out and buy a rental property that needs a new roof, has mold inside, has evidence of water leaks and stuff like that. You're not going to buy that for your portfolio of rentals, are you? You're going to look at...

Dan: Well, we actually buy them but we're buying them for $0.50 on the dollar and putting the $0.30 on the dollar in there. So we have our 20% percent margin of safety there. But to illustrate your point, we are not buying that one at a retail market price. That's [inaudible].

Steve: Right. So what I'm saying is, what I look at and I did this when I was a stock market only investor 20 years ago as well. What is the qua, what's the in those days SP had a monthly guide and it rated the Securities by fundamentals. Right now, most people only talk about technical things like where's it's on its charts and things like that. They usually use fundamentals. Is it profitable? What's the PE ratio? What's its debt to equity ratio and stuff like that. Nowadays, it's that so S&P stop publishing that guide but before that it had to be B+ or better. In order to be B+ or better, you had to pay a dividend. It had to be traded on the New York Stock Exchange because the New York Stock Exchange had tougher rules than the NASDAQ had. So I only traded there, how to be profitable. Remember, the.com bubble?

Dan: That's right. Yeah.

Steve: People on the radio, the announcer is saying that used to call the no value rally. None of these things had ever turned a profit and they're just flying through the roof [inaudible]. I never bought any. I never bought new issues. Too risky. I never even bought mutual funds for other reasons. But the point is you have to determine the quality of everything you invest in. You have to have strict rules. I use closed-end funds now and I have rules for them. They have to be in business for 5 years. There have to be more than 50 different Securities inside. One of my requirements as they to be very volatile in price. That kind of should raise an eyebrow. It just did. Because all you hear and read, "Oh, the markets volatility is so bad. It's terrible." I trade in volatility. I want prices to go up and down a lot because I trade. So volatility is important to me, that's part of the quality as long as it meets all those other tests I mentioned. So again, you have to have principles of what you invest in and then you can get away with, you can come up with a list of 200 or more of these funds all with this high quality level that you can pretty much use as exchangeable parts, replaceable parts. It's like you sell this one, you buy another one, and you do it over and over again because they're all averaging. And we don't talk about how they can pay that much in distributions, but they right now they're all averaging. Even after this little run up and this is not I shouldn't say a little run up, this has been a great run up in the stock market and in anticipation of lower interest rates at the same time, which is wonderful. Even now, there's still yielding at a 9% range.

Dan: Wow.

Steve: It could be 8, 9%.

Dan: Before I pull on that thread, something jumped the mind here from the real estate brain of mine, one of the things I've noticed Steve I've been party to transactions. I've had I don't know the pleasure or displeasure of witnessing a lot of I don't know if it's a transfer of wealth the estate issues, the family feud's that occur on the heels of that and real estate is very very messy asset. It's not liquid and a lot of times the heirs who are left property are they're not really capable of selling that property for the highest amount and making quality decisions on how to market it, what offers to accept, how much work to do before we go to market, and the list can go on and on. If you get into commercial property, it's even hairier than 10 or 12 rental houses that at least make some logical sense and there's comparable sales and things of that nature. I'm only 43, but I'm trying to build my estate from the ground up in a way that will be manageable upon my death to my heirs. And like I said, real estate is messy and I would probably say that's a long lead into a question. If you have a million dollar portfolio in these closed-end funds, just how liquid is that? How much easier do you think? And I know you're not the real estate guy, but is it any easier to unwind that and kind of disperse that to an estate with six heirs or something of that nature versus three gas stations, an apartment buildings and 10 rental houses?

Steve: Well, I've never that question but the answer is really clear because it's really there's no trouble and all. The closed-end funds doesn't mean that they're limited market ability or they're difficult to get into. It's not like a private [inaudible] if that's what you were comparing it with maybe. Closed-end funds...

Dan: Yeah, or even just houses.

Steve: Closed-end funds trade like stocks.

Dan: Correct.

Steve: Your closed-end funds are a pass-through trust actually their structure and part of what I think is their allure. Is there a pass-through trust and if you're a pass-through trust. Pass-through trust means all the earnings go through to the shareholders so that we, the trust don't pay any taxes. I don't know if I used don't or doesn't there. They don't pay any taxes. The shareholders do. And that's one of the reasons their yields are so high because everything, 95% goes through to the shareholder. So it's not in the position that it really can grow it's capital base or it can grow its business because it's only using 5% of the income after its expenses. But they're liquid. They're just like stocks. I sold. Geez. I sold, I had a good day today and I must have sold 12 positions at 5% or so gains today because what was going on market, but I also bought 15 positions because price is even though they're higher in the interest rate sensitive market and real estate is also interest rate sensitive. The parallels are just a lot buried. So then people know what I'm talking about, but prices are still low in the interest rate sensitive market in securities. Okay. I'm still buying and selling at the same time, which is some people say, "Oh you're either going into market, you're going out." You're not. You should be doing both. You can do both same time.

Dan: Yeah. And my thought when I asked the estate question is like if I pile-up, let's say I'm just kind of thrown scenarios. I'm 43 now. Let's say when I'm 63, I want to be proficient at doing what you're doing and assuming that's 20 years from now there's going to be some form of yields still left in the market. But somebody might be listening who already is 63 and they've own their rental properties for 25 years and they're like having the thought of their son and daughter trying to unwind this 70 unit portfolio. Well, maybe somebody in that position could take the next 5 years and sell out of the real estate. Because here's why else real estate is messy, Steve. You own all these houses, but you got to be doing the kitchen and this one and this one has the fire and this one has the basement flooded and this one the sewer lateral. So you're constantly putting out capital expenditures that I think a lot of times heirs like sons and daughters, if you left it to your mom and you were young those numbers would scare the crap out of your heirs to have to send all $15,000 for this and $38,000 for that. They wouldn't even be able to almost stomach managing the 70-unit portfolio. So that person who's 63 right now could make a plan to sell off some portion or even all of it over 5 or 10-year period and then get it into something that's a lot more liquid like the closed-end funds where the day we all must face at some point. Now they just pushed the button, call the broker, sell all the Securities and the money cycles back through to be dispersed, right? And it's a lot cleaner that way and the person who is very competent and capable in building up this portfolio of assets is the same person who is maximizing the sale values along the way and making the highest quality decisions that can be made on those assets to get the highest price they possibly could and, then maybe get them into something that's a little more clean for the next chapter. And I know if someone's listening, Dan, you're an asshole, like what are you talking about? I'm going to hold these. So I'm just playing devil's advocate here, but I'm kind of throwing the scenario out.

Steve: We're talking about something that could be a book right here. I've never thought of this scenario, but the answer is I want your interest. I wrote you an article real estate investing no plungers, no headaches, no debt and that's what closed-end funds were and you can invest in real estate through them. But what you're saying, they're totally liquid. There is no problem doing just what you said. If you had a portfolio like a 7-figure portfolio of closed-end funds just a [inaudible] 3000 shares, a thousand for each share. I've seen people do that. With some of my clients I wind up, sometimes I used to get the heirs as clients as well and we'd split the portfolio of the deceased parent and each one would get a share. Some of them would stay with us, and some of them wouldn't. But, yeah.

Dan: It is fair too, because like one of the examples that comes to mind is there was one son who was somewhat financially savvy and then the other 3 or 4 siblings were not really active in the portfolio. Well, this thing is winding its way now through its third year in court and the savvy son maybe took out more mortgages and he shuffled the money around. Maybe he did the right thing, maybe he didn't. But the other heirs aren't even really, they're not. It's not that they're incompetent, but they're not competent in the complex real estate dealing to know whether or not was this all done in a fair manner or was it not a fair manner and he actually need a money grab and I imagine people are doing that kind of thing all the time. I know they are because we're part of the transactions a lot of times buying them where someone was a little more savvy and just didn't necessarily follow through with Mom or Dad's wishes with the portfolio. And there's no way to get around that if you're saying here's a million in Securities and it goes three ways. It's as simple as that, right?

Steve: It is. And the and even if they have to spend part of it, the administrator if they're liquid. So they can do whatever they have to do to get it to the final point. They even pay themselves for doing the work to do. So, yeah. Closed-end funds for that particular purpose would be ideal. Even better than regular stocks and so on in the market because although they have the same liquidity, you can't be as patient with them because they don't pay as much income and there may be a need for income and the heirs as well and that would continue. It would be, the transition would be perfectly clean.

Dan: Yeah. Well said. Agreed. And that when we booked our booking agents got together to get us on the radar, that was probably one of the most important considerations that I would personally have about wanting to dive in, read the book and maybe I do that, Steve. I read retirement money secrets and I'm like, what's not for me, but maybe it is some day. Or maybe I read it and I put a little money to work and start to kind of get comfortable with it at the 7 to 9% return in the background and preparing for the future to like clean up the estate the best I can when that day comes, you know?

Steve: Yeah. And if you're still active, let's say the 40-year old and you're still doing it, it prepares you. You get used to dealing with that type of security become more understanding of it and you can use it as a source of income for your other ventures as well. There's a lot to be said for instead of having a savings account which right now of course is paying 5%, but for the last 10 years you're getting nothing in the bank, you'd have a portfolio that's generating a good deal of income that you can use in any way you choose. It doesn't have to stay in that portfolio.

Dan: And the other nice thing for real estate folks to be aware of, and I'm not doing this. So I'm outside of my circle of competence by mentioning it, but I know people who are. You can actually borrow against some of these portfolios. So from a real estate investor perspective, a lot of times the thinking is like, "Well, hey Steve, I have $500 in cash but I don't want to like lock it up and secure it. I sell all the Securities if I want to flip a house, I could buy for $200 put $100 in for 3, sell it for 4, I don't want to sell it. It's possible to get portfolio loans against portfolios for real estate investors that then kind of double work for the money if you will.

Steve: You can in the individual account. You can't do that in IRAs and things like that. Okay?

Dan: Correct. Yeah. That makes sense.

Steve: You can't borrow against them. You can borrow against, there are limits in how much you can borrow on a portfolio. I've never actually managed money for someone who borrowed against their portfolio and if they did an emergency, yeah, but we'd pay it off real quick from sales. And if they didn't like that, if they wanted to keep it balanced then I'd have to fire them because it's not a good way to run a investment portfolio because it's a variable interest rate and the brokerage firms that are loaning you money are not kind in the way. If you have 5% interest rates on margin rates, probably right now on the 8% rate. You're not you're not going to do well. It's going to be more than the income being generated. It's not a good strategy. In an emergency, okay. You got to pay it back and you got to make sure your advisor says, "Okay. Anything we sell for profits going against that loan until you get rid of it" because that advisor has to say to you, you're in deep if you go into the margin business. It's just not a way to approach an investment, a quality investment program. It's scary. One of the big objections and yes, debt is a very big part of the real estate business. That's one interesting. My father never ever borrowed money from back.

Dan: Wow.

Steve: He always did it all from income. So he never grew. He never grew and he had his one development and he had opportunities throughout our area. It was right around Lake. Can you imagine eventually how much how popular that kind of land is, but he never borrowed money. So he always was, he made a lot of money but he always reinvested his own money or did mortgages, but I'm pretty much I just think I just lost my train of thought of that.

Dan: Yeah, we're good. I see we're getting close to the top of the hour, Steve. Do you want to talk about the book? Maybe that's a good next place for listeners to gain a deeper understanding of what we barely scratched the surface on today.

Steve: I can, I'll give you a little synopsis. The book is called Retirement Money Secrets and although it's designed for an older audience, it's really something that younger people it should get them to pay attention to income and just as you are in the real estate business, you always apply yourself to income. But most investors and most investment advisers don't emphasize that enough. There are six basic principles to investing that the book really goes through and they shouldn't be secrets but they probably are. And the first one is always invest in quality situations and there are rules for that. Always diversify your holdings just like you do in a real estate portfolio. Always generate income. Again, the same as you would in a real estate type portfolio. And the and the fourth of the big four is the profit taking. If you can get in a reasonable profit to take it and find something else to invest in. And that's another thing that closed-end funds are so good for because there's this 200 issue, 200 funds available for you to go back into. Two other things that you have to understand is that the markets are cyclical no matter what market you talk about, the real estate market, the stock market, the interest rate market, they're all cyclical and you have to understand where you are. You can't predict anything but you can identify where you are. You know if you're higher or if you're lower. You don't know what it's going to change but you do know where you are. So you have to make your investment decisions based on what's likely to happen next. If your way up, likely it might go down. Your way down, it's always gone back up, that type of thing. And the next thing is you have to focus on, you have to be purposeful. Why am I doing this? Why am I investing? And for me, you're investing to grow your income and grow your capital. You want to have more houses and hotels on your Monopoly board. You want to keep making more of them and more of them. So you focus and you analyze your performance on am I growing income, have I grown it? Am I growing my capital? Every year, every quarter, it should be growing and that's what the book teaches you how to do.

Dan: Nice. Is there a website set up or just go on sale on Amazon? Where to go to find it?

Steve: Amazon, Barnes & Noble, any of the e-book places. You can find it. I have a website same name as the book.com and coaching website is the incomecoach.net and you can buy the book there, too.

Dan: Nice. So as we close, are there any other books that you might recommend to people wanting to invest or should they just stick with this one for now?

Steve: Well, there's lots of different books to the talk of different aspects of investing and I think if they went again on Amazon and just plugged in what they're looking at, there's probably books that focus on real estate and focus on technology stocks and things like that. I think they should look at some economics and understand things like that. Broad brush of Education about what is this. People get a 401k, they have mutual funds in it or ETFs and they really don't know what they own. I've had people who have come to me with a portfolio full of mutual funds and they don't even know they're in the stock market. They don't know. They don't. There are advisors, Bankers who have never heard of closed-end funds. Closed-end funds were out there before mutual funds were invented. There are 120 years of experience beyond ETFs. That's how long they've been in existence. So, there are a lot of things that you just don't learn about.

When I was in high school, most of the people who graduated, they couldn't even balance a checkbook. Finance and economics and things are not taught as much as they should be and most people go, that that first bonus you get in an employment you get hit with $40,000 of bonus. Most people call [inaudible] say, "What's Hot?" Roll my money back instead of having a plan. You got to read enough to understand what's going on the economic world and get a plan. I don't think my book does that for you. It's better at teaching you what to do with the money once you've actually accumulated a bunch of it, it will help you but there are books that you must read before you even think about buying a stock. You just got to know what a stock is. You got to understand you're owning part of a company. It's like starting your own business, what [inaudible].

Dan: You're owning a partnership with that company. That's like how you should think about it, yeah.

Steve: And big companies don't treat you like a partner. They've got your money they're not going to be there more interested in growing their market valued and they are of paying their shareholders a lot of money for the use of their money or even their employees for that matter. You know?

Dan: So Steve, my final question before we close, what is the kindest thing that anyone has ever done for you?

Steve: The kindest thing? The kindest thing anyone's ever done for me? Holy mackerel. My wife saved me from working for a major company in New York and told me that I wasn't going anywhere that I better do it on my own. That was the kindest thing.

Dan: I see

Steve: It changed my life.

Dan: Fantastic. Well, we're at the top of the of the episode here. I feel like I had my mind open to another level around stocks before we had this conversation. I probably would shut down and have a completely closed mind about anything having to do with stocks whatsoever. So I thank you for broadening my horizon around the possibilities that might exist here and I'm looking forward to getting the book. Steve, I really appreciate you coming on the show.

Steve: Oh, I enjoyed it too. Good talking with you.

Man 1: The REI Diamond show is sponsored by Diamond Equity Investments, a private Equity Firm focused on buying and selling residential and commercial property throughout the United States. If you are an accredited investors seeking double-digit returns, you can sign up to review Diamond Equities Passive investment opportunities at www.fundrehabdeals.com. And if you're an investor who is seeking deals that you can buy, fix and flip, please go to www.dealswithroi.com. Thank you for listening to this episode of the REI Diamonds Show with Dan Breslin. To receive email notifications of new weekly episodes, sign up at www.reidiamonds.com

[END]