You make a good salary, and you're putting away savings that barely keeps up with the cost of living. You need a professional, trustworthy team to build your passive income cash flow.

In *The Wealth Elevator: Real estate syndications, accredited investor banking, and tax strategies for first-gen millionaires*, real estate investor and fund manager Lane Kawaoka shows you how to ascend the investment floors to financial freedom. Discover how to:

- **Take the elevator from rentals to syndications to private funds and more**
- **Generate cashflow of $0 to $25,000 to $100,000 per month**
- **Harness legal tax strategies to protect your wealth**
- **Own your money with Accredited Investor Banking**
- **Make the ideal connections for your Family Office**
- **Build your legacy, as you reach net assets of $10 million and beyond**

Using this proven system, investors typically reach financial freedom in four to seven years. The author Kawaoka, a multi-billionaire, gives you the elevator. It's so easy, it's almost boring.

Lane Kawaoka is a professional real estate investor with a portfolio worth more than $2.1 billion. His Hui Deal Pipeline Club has syndicated over $205 million of private equity since 2016 with over $45 million of distributions back to investors. As owner of theWealthElevator.com, he is committed to serving working professionals who want a better path to financial freedom. Using his blueprint, members reach financial freedom in four to seven years.

THE WEALTH ELEVATOR

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KAWAOKA

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REAL ESTATE SYNDICATIONS, ACCREDITED INVESTOR BANKING, AND TAX STRATEGIES FOR FIRST-GEN MILLIONAIRES

Lane Kawaoka

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Accredited Investor Banking, and
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LANE KAWAOKA

[Publisher Name]

The Wealth Elevator: Real Estate Syndications, Accredited Investor Banking, and Tax Strategies for First-Gen Millionaires

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We put the international symbol of gratitude in the center using the background color for gratitude and thankfulness of dark pink. we utilized white space for access into the infinite and lower case lettering to show reverence to our universal connectedness or something similar.

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DEDICATION

To the hard-working professional out there who grew up under the mentorship of frugal parents: you were right—there is an easier way.

To the person who invested in the 401(k) system, never getting ahead, while Wall Street robbed your retirement with hidden fees . . . the person who didn't question what your parents, financial planner, and society told you: thank you for paying all your taxes and contributing to society, because someone has to do it.

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INTRODUCTION

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for." – Robert Kiyosaki

The Hamster Wheel of Money

You've worked hard to get where you are: a respected professional with a stable job and steady salary, promotions, and bonuses; a bright career; or maybe your own business. You might be an engineer, doctor, pharmacist, pilot, accountant, firefighter, teacher, or any other professional. Or you're a business owner wanting to sell a mature business and transition to a passive professional investor.

You've done all the right things to play the game the way society told you to: maybe you have a spouse, children, a home in a nice neighborhood, a reliable car, a 401(k) or other retirement plan, and savings for the children's college fund. You see yourself as thrifty, but cut loose to splurge now and then on a vacation to create memories with the family, and maybe the occasional high-tech toy.

You've played by the rules, built the expertise within your vertical, got along with most people, loved your parents and friends, and put in the long hours to get what you have. You're responsible and honest: a good worker bee.

Yet you feel trapped.

The excitement you once felt at work has turned into a dull burden. Maybe you don't like your boss, your peers, or those you now manage. Maybe a coworker was promoted over you. Or maybe you just don't like what you do anymore. You would rather have more time to spend with your family during their younger years. But the idea of getting another degree or transitioning your career tires you even more.

The thought of having to slave your way through work for many years more, before your kids go to college (or after, to pay that bill), weighs heavily on your shoulders. Maybe a decade or more of office politics, increasing expectations for more production, and never being able to fully unplug from the office seems like a heavy sacrifice for that traditional retirement plan.

You're on a hamster wheel of life—getting up for work, paying the mortgage, spending weekends with your family. You love your family, but you spend more time working, with less time for sleep.

Your bank account steadily goes up by a few thousand every month, but you wonder, *How am I going to afford sending my kids to college? By the time they're ready for university, the tuition might be $100,000 a year.*

That question unleashes more: *Will I ever get ahead with my current job? My salary has increased over the years with promotions and the obligatory inflationary increases, but aging out of the workforce is a real worry. It would be nice to have the means to not work anymore.*

Or: *How am I going to save for retirement? Having a net worth of $1 million or $2 million just does not seem like enough.*

You don't have time to manage investments, but you want to make your savings work for you. After all, you have substantial investable funds—you're able to put away $10,000 to $50,000, or even $100,000+, a year. Your 401(k), Roth IRA (individual retirement account), or other qualified retirement plans (QRPs) are taking advantage of the company match, and are even close to being fully funded year after year. But you feel like you could be doing a lot better, and you're getting killed with taxes.

You wish you could find another way.

You know that passive income is a solution, and you hear how the wealthy don't pay much in taxes. But how do they do it?

Question the Status Quo

You've gone online to search for investment solutions. But the stock market is too volatile, cryptocurrency feels like the Wild West, filled with scams, and real estate rentals require too much work. Furthermore, individual stocks and bonds, cryptocurrencies, or commodities stress you out watching volatile indices and click-bait financial headlines every day. Owning short-term rentals on Airbnb and VRBO causes more headaches—and isn't recession-proof when people stop taking vacations when the next recession hits.

> You've heard your friends' stories about making 20 percent or more in returns every year. Or $5,000 to even $50,000 in monthly passive income.

Then you came across or heard from friends about other forms of real estate investing: turnkey rentals, syndications, and even private real estate funds. You've heard their stories about making 20 percent or more in returns every year. Or $5,000 to even $50,000 in monthly passive income. *Really? Is it possible?* Fantastic for them. You trust your friends. But who knows what's really going on in other people's bank accounts and tax returns. After all, credit cards let people create any lifestyle they want with unhealthy debt.

You want to know more. But the noise from the get-rich schemes like Amazon eCommerce, Forex (foreign exchange market) trading, website funnel building, and drop-shipping is overwhelming. They all give you that same feeling as when some long-lost friend from college hits you up to join them in the latest multilevel marketing opportunity.

You wish you had a professional, trustworthy team to steward your savings into real investments—ones that weren't made for the masses like what the financial planners are selling with their high fee and commissioned investment products. There has to be a way to create passive cash-flow income to achieve financial freedom.

You want a way to make passive income the same way you've grown your career and family: with responsibility, honesty, and integrity.

Let me share with you the Wealth Elevator, a system for reaching financial freedom in as little as four years.

The Wealth Elevator is a proven, methodical, and even boring way of building monthly cash flow and generational wealth. Once you learn the system, you can exponentially accelerate your cash flow and stack your wealth. You will understand the ins and outs of real estate syndications, banking for accredited investors, and tax strategies, so you can become a first-generation millionaire.

By this, I mean the first generation to reach net worth of

$1 million in assets (minus all liabilities)—the first generation to create significant wealth that you can pass on to your family for generations to come. Once you reach financial freedom with the option for early retirement, your biggest problem will be figuring out how to spend money in meaningful ways as you grow into an individual who values time and health more than money.

The Wealth Elevator Way

This book is written either for the average Joe making a great professional salary, or for the high-income earner. It's not for someone with innately special outlier talent, or someone who inherited a large net worth as a trust-fund kid.

You most likely have not founded a multimillion-dollar company. You probably also have not inherited millions of dollars of investable capital from your parents. However, what you probably *do* have is a well-paying job or income source, and the ability to join a community of like-minded investors to get on the prudent path to wealth: riding the Wealth Elevator system.

The tactics and strategies used in this book are far from the traditional path. This is the alternative road to wealth building. The Wealth Elevator is the quickest and safest path to financial freedom. It lets you climb the floors of wealth building to expedite your ascent to the top.

And where is that? For my clients, that means anywhere from $10,000 to $50,000 in passive income per month. *Per month.* That's as much as $600,000 a year—basically, their money grows at a faster rate than they can spend it!

Using my strategies, I've seen clients go from $0 passive income to designing the affluent lifestyle they want. Among my clients, the immediate goal is $10,000 to $25,000 per month, in four to seven years—which gives them financial freedom and the ability to ascend into the higher-net-worth ranges for increased legacy creation. For some, this passive-income goal can be achieved in just a few days. And for high-income earners, it can save them $100,000 to $300,000 a year in taxes—every year!

Once they reach their freedom number (you will choose yours in chapter 2), my clients never have to work again (say goodbye to trading time for money!). They can focus on quality of life and pursuing their purpose, their higher reason for living. Or, they can go back to work and enjoy it, knowing they are there because they want to be.

Who am I to say this?

An engineer by profession, I became a real estate millionaire by age thirty-one and left my engineer day job by age thirty-five.

As of this writing, I control a real estate portfolio worth more than $2.1 billion. This includes more than seventy apartment complexes, office buildings, self-storage facilities, and other developments that serve the workforce (lower middle-class) population. My company has also pioneered Accredited Investor Banking™ and tax-minimization strategies, creating a holistic system for accelerating wealth.

I'm committed to serving working professionals trapped in the world of traditional investors. I started there myself, and I understand you deserve help the most. As part of the middle-class workforce, you are producing the most for society. But the wealthy and poor pay little or no taxes . . . Instead, you—the shrinking middle class—pay the bulk of them.

Since 2016, I've coached more than eleven thousand investors on the methods I share in this book. I've reached more than one million audience members through my podcast, "The Wealth Elevator" and my YouTube channel, "The Wealth Elevator." And I've empowered others like you through my bestselling first book, *The Journey to Simple Passive Cashflow: Real Estate Investing for the Working Professional*. Now, I share a more comprehensive system in this book, *The Wealth Elevator*, so you can reach financial freedom at your speed.

Financial freedom for regular people is possible—but it requires a specific set of strategies and connections.

The Wealth Elevator Action Plan

This is your blueprint to the Wealth Elevator. This is your way to avoid spending years investing in real estate wholesaling, flipping homes, or being a stressed landlord. It leapfrogs you into a system that cuts your time to financial freedom by a third.

Unlike other books that fill your head with good ideas but no actionable direction, I'd like to offer you a strategy consultation with me. This is a no-BS sales call with me (not some random sales guy) and my gift to you for reading this book. Sign up via our club form at https://TheWealthElevator.com/club/.

Now you can stop chasing wealth. Define your goal and hit it. Pick your equity investments based on your passive cash flow and tax goals. Surround yourself with the right ecosystem, put yourself on this fast path, activate cruise control, and then relax and enjoy your life.

Chapter 1

Road Map

"If you do what everyone else does, you will get what everyone else gets." – Stephen Richards

Trapped in 401(k) Jail

The idea of financial freedom can seem far away, especially if you're working a corporate job or in the rat race of your own business. How do you make $10,000 in passive-income cash flow per month, much less $25,000 or $50,000 per month? That's money coming in to buy you the perpetual lifestyle you imagine—without you even working!

As professionals, we're sold the dream that our retirement plans will lead to financial nirvana when we eventually retire in our sixties. We're given the illusion that so-called "traditional" investments are the safest way to grow wealth, because that's what everyone else does. However, if we stop and reflect, we realize that many of us don't even know exactly what our retirement plans are invested in. And if we backward-calculate the retirement benefits that we earn for those annual contributions, we see that the pension or retirement plan grew at a paltry low single digit!

Most of my clients with high incomes pay at least 25 to 37 percent in taxes, and they have been taught that the only way to lower that is to put money away in a deferred tax 401(k) (only to pay a higher tax rate in the future upon withdrawal). We're told the lie that "alternative" investments—such as real estate—are dangerous and unpredictable paths to wealth. We're told that if we want to invest in real estate, owning our own house and buying into real estate investment trusts (REITs) with low returns and high overhead is the way to go.

Why? We've been told these corporate lies about retirement savings because Wall Street benefits from you keeping the status quo and not questioning their investment products and sales teams. They make money regardless of whether the market is up or down, whether you make a return or not. They are the middlemen skimming your deposits through hidden fee structures that are not reported in so-called "expense ratios." If you have a financial advisor, they're getting part of the action too . . . They aren't wasting their time with you for free!

If someone said you could invest in something giving you 6 to 8 percent average annual returns, but at any point you could lose 20 percent . . . would you be down for that? "No" seems like the obvious answer, but that's your average American's 401(k) or professionally managed portfolio.

You may have tried investing on your own. But ETFs (exchange-traded funds), indexes, stocks, and bonds are volatile, Forex trading is scary, cryptocurrencies are even more risky, and commodities such as gold don't offer the yields you need. When you analyze the path of the wealthiest individuals, real estate investments (not including their residence) and direct ownership in businesses are a big part of their portfolio. Why?

Real estate is essentially owning a business that offers the advantages of cash-flow income, tax shelters, depreciation, and appreciation. Plus, if you optimize good debt, real estate can give you infinite returns and a cash-flowing asset for generations to come.

Maybe you've wanted to get into real estate. But as a working professional or entrepreneur, the thought of managing rentals or even vacation homes seem like too much work. Getting a real estate license to be an agent might save you some commission costs, but it's essentially another job that trades time for money—and you already have a highly compensated job as it is!

Yeah, we've all been taught these lies—including me, an ex-engineer.

What if you could go directly into real estate investing, without the headaches of managing a construction crew or unreliable tenants? Without the headaches of babysitting your property manager, having debt in your personal name, and risking legal liability? And what if you could seek out investments in the best emerging markets that are outside your home location?

Why Real Estate?

Real estate is a finite asset class that provides actual utility to the communities where you invest. While the economy (and your traditional investment portfolio) comes and goes, real estate holds its value. It is essentially a diversified commodity: think about the land, lumber, steel, and other raw materials that, as a whole, produce a diversified stream of income from renters.

As the saying "Leave the world a little bit better place than you found it" goes, real estate investing lets you put your money to work on improving communities. Wealth comes to those who create value: in our case, to rehab or build rental units. This mindset is in contrast to traders who buy low and sell high, adding no value to the system.

The best investments are, frankly, boring. They're stable because they're predictable. They're neither shiny nor sexy. They return time after time, month after month. They will serve you far better than any other investment—as long as you understand the system.

The Wealth Elevator moves past small, single-family homes and the local real-estate-flipper crowd. It focuses on reliable commercial assets and investment-grade assets that work well for higher-net-worth professionals like most of those in our Wealth Elevator community.

Plus, real estate offers unparalleled tax benefits. The politicians who wrote the tax laws were ultra-rich landowners, so it pays to play by their rules. The majority of my personal net worth is in real estate for the tax benefits! We will go more into detail about this later on in the book.

The Wealth Elevator of Investing

With the Wealth Elevator, you have the opportunity to bypass traditional retirement strategies and instead use alternative wealth-building strategies to go straight to financial freedom in as little as four years.

The Wealth Elevator system gives you an overall framework, a clear actionable strategy for each "floor," and an overall proven path for reaching financial freedom. It's how professionals like you can fast-track to become first-generation millionaires.

Each stage of reaching that freedom is like riding the elevator of a building where you can systematically ascend from the bottom to the top. When you're in the Basement, you can't see beyond the walls—you are financially broke. As you start to gain more traction and go up the elevator, you start to see better views and more cash flow. You learn to invest in rentals, syndications, real estate funds. You learn to cut taxes and earn interest on your own money.

When you reach the higher levels, you will start to feel the increased acceleration and financial freedom. By the Penthouse (a level that most people never get to see or even learn about), any path is open to you. Yes, as if it were riding the glass elevator in Willy Wonka's chocolate factory, your wealth can go anywhere.

If your net worth is already high, you can get into the elevator and head right to the Penthouse. This means earning passive income of typically $25,000 a month, $300,000 a year, in addition to your regular salary—that is, if you choose to continue working. If you're still building, you can start with $0 to $5,000 in monthly cash flow.

WEALTH ELEVATOR OVERVIEW

For a quick-reference, high-level overview of the floors and approximate net-worth income levels, see chapter 2 or check out the downloadable resources at https://TheWealthElevator.com/bookresources/.

The problem with traditional financial advice is that the strategy changes based on where you are on your financial journey, but the advice givers don't ask about where you're starting. This is the basis of the Wealth Elevator: my system acknowledges different paradigms for different investors in different financial situations. Each floor offers a new strategy for increasing your net worth, paying less tax, and earning passive-income cash flow.

Handing Over the Keys

I'm ready to send the Wealth Elevator back down to you because I rode it myself, on an unexpected journey from engineer to billionaire real estate operator.

I was born and raised in Hawaii by middle-class parents: my mom was a teacher, and my dad pushed paper and needed a doctorate degree to qualify for the career he was in. Collectively they made a good living for themselves, but nothing crazy.

In 2007, I graduated engineering school and landed my first job at a Fortune 100 transportation company in Seattle. As a young frontline supervisor, I managed crews and travelled to rural areas for projects. But my real focus was on my own personal finances, as I rented out my home in Seattle, which I had purchased in 2009. I got hooked on the cash flow and started buying more rental properties with stronger cash flow in Indiana, Georgia, Pennsylvania, and Alabama.

About eight years into my engineering job, I felt a sense of discontent. It had been growing since my very first day at the job, and had gotten worse since I found this source of rental cash flow, or "easy money." It wasn't just about money, though. The corporate culture of upper management disregarding workers and treating customers with a cavalier attitude rubbed me the wrong way, especially as I was the frontline officer who had to deal with the fallout.

Things gradually built up until the day that one of my past employees unexpectedly died from a workplace accident. In the aftermath, the whole company and immediate management team was business as usual. Shaken, I asked myself, *What am I doing here? Everyone is here just for their paychecks and scorecards to get their annual bonuses.*

The employee who had died was, like me, only in his late twenties, and he had spent most of his adult life living on the road away from his young family, giving his time and energy to the company. *For what?* I wondered.

By 2016, I owned eleven rental properties, making a few thousand dollars in monthly cash flow. The rental income (a lot of it tax-free because of real estate depreciation) was like a third additional paycheck a month. By then, my discontent was clear to my supervisors, and I was put on a performance improvement plan (PIP), which is basically the corporate doghouse. I decided to focus on what really mattered: not my company's agenda, but my own. I planned to acquire more investments—and to never have to work for anyone again.

It's funny. Reflecting back on that time now, I haven't lost that yearning for freedom. I still have it, as a personal and family value, and that longing propels me to invest more. Not to rid myself of a day job, but to acquire a net worth number that means I no longer need to deal with banks!

The rental properties gave me choices. They gave me extra cash flow and allowed me to cut my tax bill, which further increased my portfolio because I could plow all my savings into additional rentals.

As I acquired more investments, my motivation increased. I became even more determined to work harder (at a job I didn't really like) and to tighten my personal expenses even more to save more money, so I could invest my savings into more real estate deals.

As my cash flow increased, it seemed like I was on the fast path to financial freedom. I switched to a job that afforded me a better quality of life for slightly less salary—one that let me cruise a lot more. That's right—I started to work for the government!

Now working fewer hours and having less politics to deal with, I could focus more on having a life and growing my real estate portfolio. Interestingly enough, being less stressed allowed me to get even leaner on my personal expenses, since I wasn't spending my money to alleviate the stress that the job brought about.

But at eleven rental properties, my growth was impeded. The mortgage lending programs offered by the Federal Housing Administration—Fannie Mae and Freddie Mac—allow loans for individuals for only up to ten properties. I had maxed out on those loan products.

More importantly, running rental properties (even with a property manager) was starting to become a job in itself—and I wasn't even doing any high-risk remote rehabbing.

As I explored new ways to invest in real estate, I stumbled onto other accredited investors who had found a method to be free from managing tenants, create more predictable income, gain access to increased diversification from a geographical standpoint, and unlock the benefits of forced appreciation without having to deal with contractors directly: syndications. This allowed me to invest within a larger group into entire buildings, such as apartments, office buildings, and other asset classes.

INVEST IN A HUI

In Hawaii, groups of investors in large projects are often called a *hui* (pronounced hoo-ee). The historical term comes from a community (village) working together and pooling everyone's money to go after better buildings, businesses, or land.

Move Up the Elevator

I paid my dues as a syndication investor with countless of these online courses and expensive mastermind groups to start building my peer network. Private real estate deals and syndications operate much like a private country club, where it's who you know and who knows you.

My biggest lessons learned were through a few corrupt businesspeople, including one who swindled me out of $40,000 in a bad deal. I started as a passive investor—also called a limited partner (LP)—and eventually led my own syndication deal as a general partner (GP) when I realized how difficult it is to find good, reliable operators to invest with.

As a GP, I had a handful of great exits where I more than doubled investors' money—not in the full five-year pro forma, but in *half* the time! Doubling $100,000 to $200,000 in three years is a heck of a lot of cash flow a month ($100,000 divided by thirty-six months is $2,777 every month)! That's way better than a few turnkey rentals with the same $100,000 equity investment providing, at best, $1,000 every month.

The concept was proven. I left my engineering job behind to focus 100 percent on syndicating good deals for my investors.

In 2017, I met the love of my life, and moved back to Hawaii to build a life together. By then, my website (previously called SimplePassiveCashflow.com), YouTube Channel, and podcast had really taken off.

In 2020, when we crossed the $1 billion mark in real estate owned, life didn't seem much different—maybe because during the pandemic, people still needed a place to live, while the stock market lost over 30 percent. By then, I owned my own private family bank and legally paid $0 in taxes—both of which we will go into in detail later in the book.

In 2022, we had done more than sixty-five syndications with more than eight hundred investors investing at least $50,000 to $100,000 each. Our firm owned over $2.1 billion of real estate (over ten thousand units) and employed key asset managers with decades of industry experience. They had even taken over my role on the operations side.

Investor demand led my company to start a real estate fund and expand to ground-up apartment developments, where we aim to double our investors' equity in each short three-year project. Our Income fund covers a range of properties, offering double-digit percent annual returns paid like clockwork. That is true mailbox money! And we've also started specialty funds for specific investors needing augmented tax benefits.

GET TO RETIREMENT SOONER

I have empowered our investors to increase their passive income and drastically lower their taxes, thus cutting the timeline to retirement to about a third of what it normally takes a typical frugal investor.

Now It's Your Turn

It's now time for me to pass my knowledge on, by teaching hard-working professionals like you the Wealth Elevator system.

Most people who are trying to ascend the building are wasting time going the long, slow way by walking up the stairs. It's the hard way, and it's the way the system has been engineered to have you go. It's how the sheepo are supposed to do it. But by reading this book, you've been given the cheat codes to the game.

Like an elevator, the book is designed to be read in order. You may be tempted to jump ahead to Accredited Investor Banking, or taxation best practices (especially if you make over $300,000 a year). Don't do that. Go sequentially through the steps of the system. It's important that you understand the stages even if you'll be skipping the first few floors of the actual elevator, because you will see subtle themes develop from one floor to the next.

As a side note, I'm big on educating the next generation to take over our wealth, which is why many of our senior members interact with younger members in our ecosystem by bringing their adult children. It would be wise to understand the themes present on each floor to aid the knowledge transfer to the next generation. Or you can just gift this book to them.

Personally, I started on Floor One, not the Basement, because I had a good-paying engineering job and I happened to grow up in a frugal middle-class family. That said, it still took me a lot of time to get to $100,000 net worth, and then $500,000 net worth. More importantly, I experienced seeing my bank account go up $4,000–$6,000 month after month. I remember that feeling, and today I have gratitude for what I have.

Understanding each floor in the overall system will give you key insights into your own financial strategy. Each chapter topic takes you to the next elevator floor and key investment concepts:

- **The stages of investments (chapter 2)**: Learn the overall system to earn cash flow and reach financial independence. See features of each floor, preferred-investment vehicles, cash-flow ranges, and investment/risk/debt focus.
- **Rentals (chapter 3)**: Invest in different types of rental properties to get started generating cash flow. This is **Floor One** of becoming a sophisticated investor through the Wealth Elevator. Most investors over $1 million net worth, or incomes over $200,000 a year, may leapfrog this step, but it's important to understand some fundamentals of rental property ownership.
- **Syndications (chapters 4 and 5)**: Join other investors in larger properties such as apartment buildings, offices,

and shopping centers for greater returns. **Floor Two** of the Wealth Elevator is about expanding your peer group with other passive investors and choosing general partners and projects for equity growth and/or passive cash flow.

- **Private funds (chapter 6):** Earn consistent monthly passive income through private funds focused on a variety of properties. Unlike a real estate investment trust, these private real estate funds offer higher returns because there's no middlemen or institutional bloat. On **Floor Three**, you're starting to transition to a focus on preservation of capital over equity growth.
- **Tax strategies (chapters 7 and 8)**: Making more money through better alternatives is only part of the equation. The other side of my method is paying little to no taxes—legally. Financial independence means understanding real estate taxes in order to gain more efficiency with your income. Every floor of the Wealth Elevator has different tax strategies.
- **Accredited Investor Banking (chapter 9):** Use whole life insurance, configured in a unique way, to start your investing journey and help your money grow in multiple places at the same time. Every floor of the Wealth Elevator has appropriate dosage levels of AIB implementation.

- **Socializing your family office (chapter 10)**: You're only as rich as who you know. The higher your floor, the more this concept becomes important. Surrounding yourself with the right peer group is critical to your investing and staying on top of changing tax strategies. When you ascend to the higher floors, you will realize that relationships are the currency of the wealthy. It's more fun when you climb the Wealth Elevator with others who are aligned on your trajectory.
- **The Penthouse: $10 million and beyond (chapter 11)**: Being a multimillionaire means thinking like one. When you reach *the* Penthouse, your strategy begins to change. Continue to grow your family's legacy or enjoy life at the top and relax—most of your peers will never dream of getting to this level in their lifetime.
- **The Penthouse and Rooftop: tax strategies (chapter 12)**: When you move beyond $10 million, you're investing at the institutional level—the Rooftop. Yes, it is possible to reach this level, even as a first-gen millionaire. At this stage, your investment and tax strategies go on the defensive, so you continue to pay $0 in taxes and can leave a legacy for future generations.

GIFT RESOURCES

To give you a jump start, I offer you a free consultation to apply the strategies in this book to your personal situation. Join our community via the form at https://TheWealthElevator.com/club/.

As you move through each level of the Wealth Elevator, I offer free gift resources to support your journey. When you read each chapter, you will see specific tools, charts, and online courses you can download to empower your growth.

You can find a full list of these free resources on the Wealth Elevator resources page at the end of the book.

Every person or story mentioned in the book is real (and the starting situations for those hardworking professionals are very typical), but some names have been changed for confidentiality. And remember: everything in this book is based on my individual experience and knowledge. Please consult your tax professional and legal professional for your particular situation. I'm certainly not a CPA myself . . . but I, for one, don't have a day job like they do!

After working with us, 95 percent of our clients end up changing their existing CPA and financial professionals. That can be a personal struggle, because our clients typically have good personal relationships with these vendors who are always "nice" guys. But why would you want financial advice from people who are not financially free and are just salespeople? You're following the advice of somebody who's still working their day job and trading time for money.

Stop it!

Instead, find what others do that you want to aspire to—that is the same methodology I used to get myself here, and what I continue to do to formulate the best practices for higher Wealth Elevator floors in the future.

If you need help along the way, book a free intro-strategy call with me. We'll chat about your specific personal situation, and you can bounce ideas off me in this free onboarding consult. If that's interesting to you, sign up on our club form.

CONSULTATION FOR YOU

You can meet me personally through a free consultation to apply the strategies in this book to your personal situation. Join our community via the form at https://TheWealthElevator.com/club/.

As you read the book, be sure to keep an open mind. You're here to learn how to define your goal, hit it, and chill. There is no reason to aggressively grow your net worth to the point where you cannot spend it all, especially when it's in exchange for life energy and time.

The first step is learning what floor you're on now, and how to begin your investment journey. Stop taking the crowded stairs and follow me on the Wealth Elevator!

Chapter 2

The Investment Floors

"The elevator can take you up to greater heights only if you take positive action by pressing the button. Greatness in life is all about the right choices you make." – Olawale Daniel

The Wealth-Building Journey

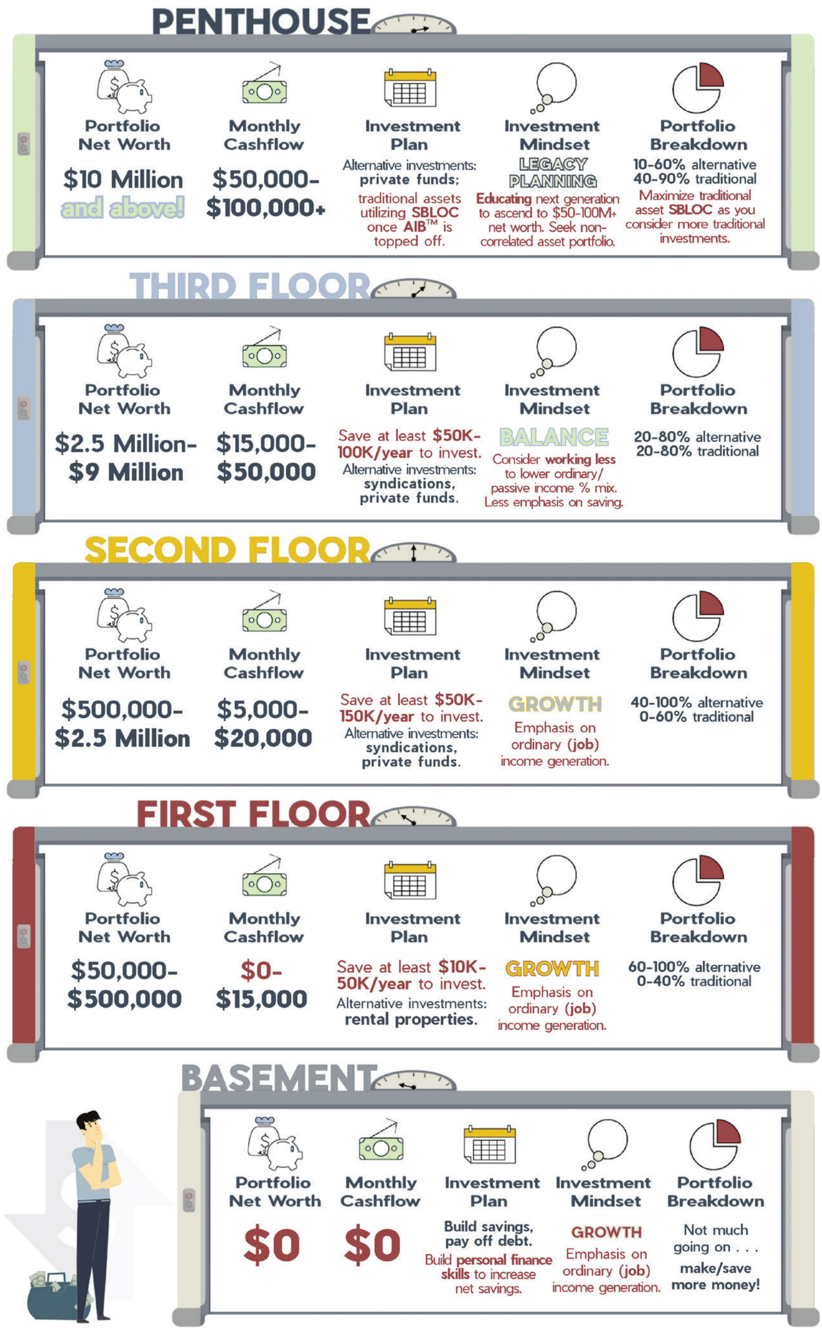
In the realm of personal finance, a one-size-fits-all approach does not exist. It all comes back to that key word: *personal*. What works for one person might not be the right fit for you. This is especially hard for those who are past the basic financial literacy phase and are already on the path to affluence.

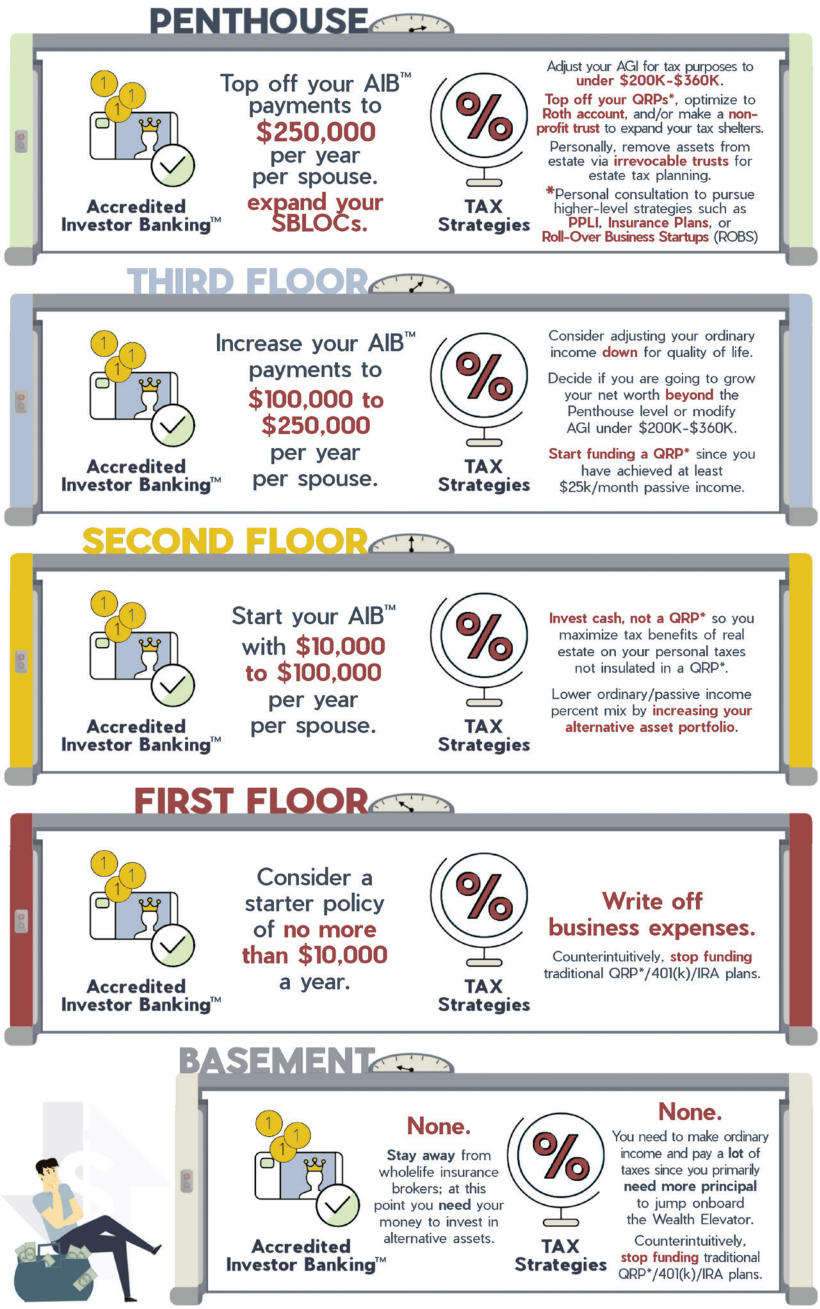
We are not going to beat around the bush. You need self-awareness of where you are at—meaning, how much is your income and current net worth? Then, you can use strategies aimed at your stage of the wealth-building journey. Depending on which floor of the Wealth Elevator you're on—and which one you ultimately plan to reach—you want to engage in different tools and behaviors.

In this chapter, we look at all five floors of the Wealth Elevator, your deployment plan to move up them, and what you're actually trying to achieve as your end goal.

The Five Floors of the Wealth Elevator

The Wealth Elevator is both a metaphor and a blueprint for financial success. It has five floors, from the Basement up to the Penthouse. Each floor is defined by the portfolio net worth (assets minus liabilities and debts) you've attained. Each floor also has its own monthly cash-flow target, alternative investment plan, investment mindset, portfolio breakdown, Accredited Investment Banking strategy, and tax strategy.


PENTHOUSE
Portfolio Net Worth
$10 Million and above!
Monthly Cashflow
$50,000- $100,000+
Investment Plan
Alternative investments: private funds; traditional assets utilizing SBLOC once AIB™ is topped off.
Investment Mindset
LEGACY PLANNING
Educating next generation to ascend to $50-100M+ net worth. Seek non-correlated asset portfolio.
Portfolio Breakdown
10-60% alternative 40-90% traditional
Maximize traditional asset SBLOC as you consider more traditional investments.
THIRD FLOOR
Portfolio Net Worth
$2.5 Million- $9 Million
Monthly Cashflow
$15,000- $50,000
Investment Plan
Save at least $50K-100K/year to invest.
Alternative investments: syndications, private funds.
Investment Mindset
BALANCE
Consider working less to lower ordinary/passive income % mix. Less emphasis on saving.
Portfolio Breakdown
20-80% alternative 20-80% traditional
SECOND FLOOR
Portfolio Net Worth
$500,000- $2.5 Million
Monthly Cashflow
$5,000- $20,000
Investment Plan
Save at least $50K-150K/year to invest.
Alternative investments: syndications, private funds.
Investment Mindset
GROWTH
Emphasis on ordinary (job) income generation.
Portfolio Breakdown
40-100% alternative 0-60% traditional
FIRST FLOOR
Portfolio Net Worth
$50,000- $500,000
Monthly Cashflow
$0- $15,000
Investment Plan
Save at least $10K-50K/year to invest.
Alternative investments: rental properties.
Investment Mindset
GROWTH
Emphasis on ordinary (job) income generation.
Portfolio Breakdown
60-100% alternative 0-40% traditional
BASEMENT
Portfolio Net Worth
$0
Monthly Cashflow
$0
Investment Plan
Build savings, pay off debt.
Build personal finance skills to increase net savings.
Investment Mindset
GROWTH
Emphasis on ordinary (job) income generation.
Portfolio Breakdown
Not much going on . . .
make/save more money!



***QRP "Qualified Retirement Plan"** = IRAs, Roth IRAs, 401Ks, TSPs, 403Bs, etc... or any type of "retirement plan."

You can use the Wealth Elevator to determine where you are in your investing journey. Looking at the numbers on the Wealth Elevator chart, you may feel overwhelmed. Most of our clients are saving at least $50,000 to $100,000 per year. Not everyone is aiming for the Penthouse—some investors in my ecosystem are aiming for Floor Three.

The Basement – Basic Living (Get Your Life in Order)

If you're in the Basement, I'm going to be blunt: you are likely a younger person and/or need to increase your income to over $100,000 per year. The Wealth Elevator ecosystem is geared toward those who make a substantial income of more than $100,000 per year. More importantly, the system is more appropriate for those who can save at least $10,000 to $25,000 per year (income minus expenses). For that reason, some of the information in this book won't apply to you yet—but it will inspire you to the next level of wealth.

To those of you in the Basement: your key focus right now is to budget and to get your life in order. I'm not a huge fan of college in general, but that was how I got a well-paying job, and that allowed me to get the starting principal to acquire properties to invest in. Whatever you do, your goal is to increase your income. A lot of books out there say you can invest with "no or low money," but that path requires your sweat equity and puts you a few years away from ascending the Wealth Elevator.

In 2022, I hired a health coach. Before that, I had never practiced "counting calories." I had no idea how much I ate. When I was hungry, I put food in my mouth until the food was gone or it didn't taste good anymore. Counting calories brought me an awareness of what I was eating. After a few months, I stopped counting calories. I no longer needed to do something that was so tedious just to know my calorie intake.

A lot of people think of their money and finances the same way I thought about calories. They have no idea how much they spend or save. They're missing that foundational level of awareness. They need to start by counting their financial calories.

To get a handle on your personal finances, you have to spend less than you make, build your income to outweigh your expenses, and understand good versus bad debt. On this floor, you're broke, and although you may have a six-figure salary, you need a little more time to accumulate wealth. But you don't need to stay in the Basement for long.

PERSONAL FINANCE GIFT

Want to count the calories of your personal finances? Here's a gift for you. I offer a free fundamental e-course to learn basic financial skills. Go to https://TheWealthElevator.com/noob/. I'll be honest, personally when it came to saving money, I was anorexic. I grew up in a family that preached frugality, so it was ingrained in me. In the later chapters of this book, we will discuss reversing this mindset, but for now, if you are broke, start with this e-course.

By the time you've mastered the Basement, you should be able to save $5,000–$25,000 a year to invest. This, of course, assumes you have a healthy income (over $100,000 a year). If you don't, you will need to increase your income or supplement your knowledge with the plethora of "frugality blogs" out there that tell you not to spend six dollars a day on your daily latte.

You may think, *Oh damn, $25,000 a year . . . that's a lot of money to save*. Well, most of the beginner investors in our ecosystem save $50,000 to $100,000 a year before starting the Wealth Elevator program (they start on Floor One or Two). Believe it or not, by the time you move up a few floors, you'll be able to save $25,000 a *month!*

Floor One – Small Investor (Saving and Buying)

Floor One is all about acquiring alternative assets and building your monthly cash flow. Your net worth may range between $50,000 to $500,000. Your monthly cash flow might be $0 to $5,000.

In 2007, I graduated college and started working as an engineer, and I saved aggressively. In fact, from 2010 to 2013, I mostly lived on company expenses as a traveling employee, with no personal residence. I was able to save almost $100,000 a year! Those savings went into down payments for rental properties. I had debt, but it was good debt—I was buying assets, not liabilities like cars or a primary residence (which isn't the best investment from a total return-on-investment perspective).

You want to be a bit scrappy with both your income and cutting expenses. You emphasize saving some money for the future to buy rentals to create cash flow, which will go back into those properties for ongoing maintenance or the consequences of a difficult tenant here and there, but you manage to net $5,000 to $10,000 a year on your starter portfolio.

These are basic skills that most of our kids will not have to learn, because as future multimillionaires, we will likely give our children the Wealth Elevator advantage to skip over the "adolescence" stage of investing in little rental properties on Floor One.

Floor Two – Accredited Investor (High-Income Earner)

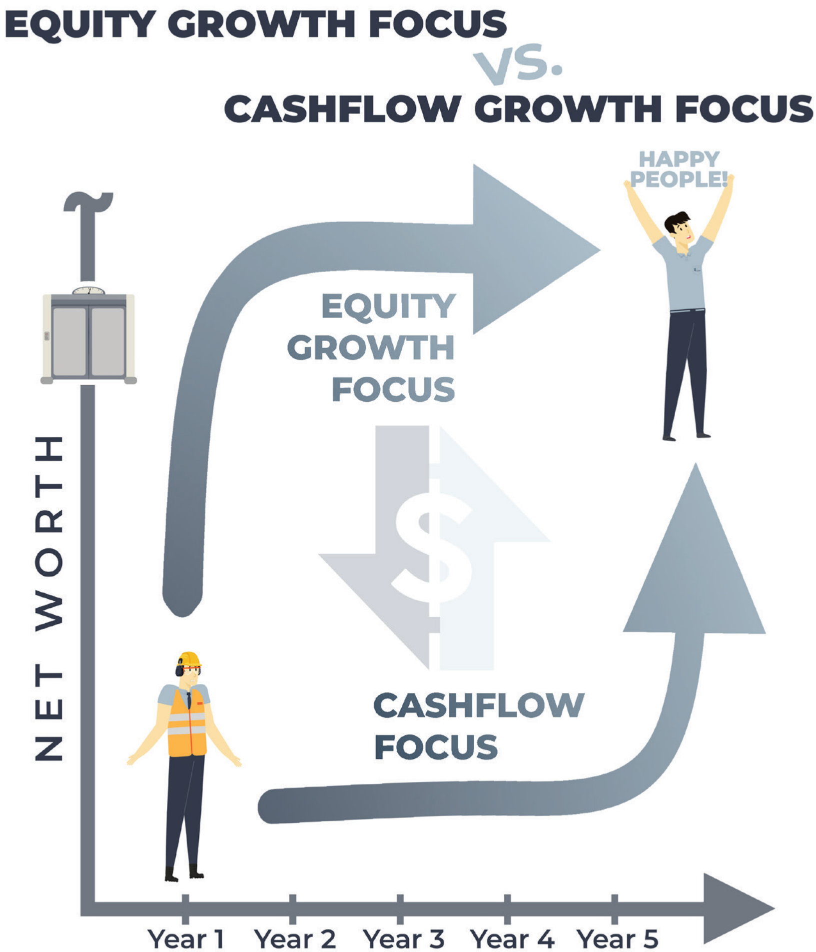
By Floor Two, you're adding to your net worth (net savings) in a year as much as some people are making before expenses: at least $50,000 to $150,000. You have a net worth of over $1 million, but you're still a floor below, thinking about living off your passive income forever. Your investment cash flow could be $5,000 to $20,000 per month.

You are likely already an accredited investor (based on the Securities and Exchange Commission [SEC] definition), or you may be a high multiple-six-figure income earner. Most of my clients start on Floor Two, and we work with them to bring them up to Floor Three and beyond. If you're not at this floor yet, that's okay. This book shares a lot of strategies to minimize the transition from "hustle mode" in the lower floors to the upper floors.

When you reach Floor Two, your asset-allocation mix changes. You have less of a cash flow need in this phase, because you still have an emphasis on ordinary (job) income. Although the allure of cash flow as an end goal can't be argued with, on Floor Two you should think about delaying the gratification of immediate cash flow for larger equity growth that might need two to five years to develop—specifically, waiting for deals to go full cycle.

That's not a hard and fast rule, of course, because based on your own personal situation, your intermediate goal might be to quit your day job. If that's the case, you likely put more emphasis on cash flow today. Even though that isn't entirely aligned with increasing your net worth, you might value savoring some good years with your young family rather than having $10 million net worth by your golden years. Additionally, you might choose to stay on Floor Two and do a lot of cash flow deals instead of growing your net worth to reach Floor Three. The Equity Growth Focus versus Cash Flow Focus Chart shows what this looks like.

The Equity Growth Focus vs. Cash Flow Focus Chart



It all depends on your priorities for both your current lifestyle and your future needs. This is why we like to build relationships with our investors, listen to their personal needs, and provide a holistic approach to the wealth-building journey. For some, quality of life today is more valuable than accelerating their net worth.

Floor Three – Financial Independence (Zero Gravity)

On Floor Three, your net worth ranges from $2.5 million to $9 million. You've hit your monthly cash-flow number—$15,000 to $50,000. You could leave your day job entirely and still live in the style to which you've become accustomed. You've done it! You have achieved financial independence, where your passive income more than outpaces your ability to spend it all . . . even with inflation.

Floor Three is often the quickest phase to go through because once investors reach $2.5 million net worth, they are primed to blast through $5 million and above. That said, many of our clients are in this stage right now. Some say that it can feel like the "victory lap" on their financial journey—but it can be very scary to venture *through* this stage.

If you do not have peers who have passed through this threshold and are going through it with you, it is hard to dial back the ordinary income (job)-generating activities of you, your spouse, or both of you. After all, we are all good worker bees who were trained to trade time for money. It's hard to remember that you don't need money—and your money is working harder than you ever could.

On this floor, your portfolio is starting to skew based on your long-term vision in terms of cash flow today versus long-term equity growth for your family legacy. You are also starting to have a sizable portfolio with more than a dozen or two alternative assets. You no longer fixate on what any one deal/project is doing, as you see all your holdings as a diversified portfolio.

You make the same types of investments as you used to, but your portfolio is unlikely to be focused on cash flow. It's more about equity growth. Your viewpoint regarding investment horizons also starts to lengthen. In the lower floors, you look at your portfolio performance and distributions on a month-to-month, then quarter-to-quarter, basis. On the Third Floor, you see your investments on multiyear horizons, or even five- to ten-year horizons. Because you hang out with other multimillionaires, you think more about the abstract issues of keeping the financial legacy that you built going for many generations to come.

At this stage, you also fine-tune your finances with some tax optimization plays, but overall, you could kick back at this point and be perfectly happy. In other words, if you did not do so on Floor Two, now's the time to focus on enjoying life, as time and the creation of experience memories is more valuable to you than money.

But of course, the Wealth Elevator doesn't stop here. The fact that you are reading this book says that you want to progress further—or are at least curious about what comes next.

Penthouse – Ultra-High Net Worth

By the time the Wealth Elevator brings you to the Penthouse, you're living the high life. You have a net worth of $10 million or higher. Your passive income might be $50,000 to $100,000 a month. You have well surpassed the critical-mass point. I find that most people are content to consciously stay at $4 million or $5 million net worth. However, you may want to expand past the $10 million stage by making it to the Penthouse. Still, you should understand that you can proclaim "enough is enough" at any point.

At this level, every small tweak to your strategy and focus is magnified. You can access better deals and relationship circles, and are able to go after more asymmetric plays if you want to.

To safeguard some of your assets, you can consider currency hedges like gold or other precious metals. You might opt to begin paying down debt that doesn't yield more than 5 to 8 percent (note that you don't pay down your good debt until you've passed Floor Three!).

In the Penthouse, you're not just amassing wealth for yourself—you're building a multigenerational "family office" legacy (more on that in chapter 10). Historically, 90 percent of wealth leaves a family by the third generation. The odds are stacked against you. At this stage, you need to focus on education and strategically passing down the right relationships to later generations. This helps ensure the longevity of your estate after your passing, more so than just squeezing out a few extra million dollars through a few investments.

Tax and Banking Strategies

The floor you choose to stop at is entirely up to you. You can also opt to ascend at a slower pace—so you can smell the roses along the way—based on your quality-of-life goals and risk tolerances.

The higher the floor you ascend to, the more you need to safeguard your assets. That means having the right tax, insurance, and financial protections, as well as banking strategies to complement your goals. I unveil specific tax and financial strategies in chapter 7, and tax mitigation strategies in chapter 8.

Your Deployment Plan

When implementing the Wealth Elevator system, we find that most clients have to reallocate their portfolio away from traditional investments to alternative investments. But the biggest gains are achieved simply by identifying nonyielding or low-yielding money in their portfolio or home. We call this lazy money.

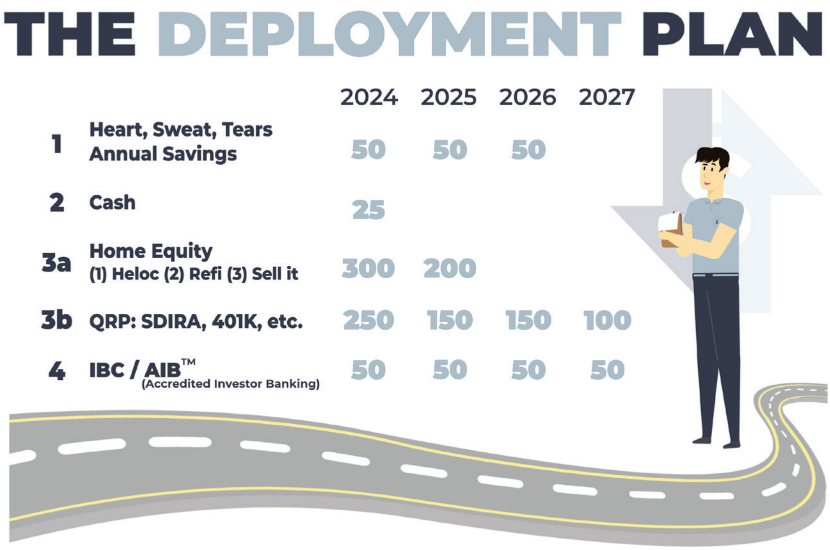
Let's get started with your deployment plan!

Think of your money like an army. Most people have a half million to a couple of million in extra lazy equity doing nothing, like soldiers resting at the barracks drinking beers, and not doing much to help the war effort.

So let's say you have about two million of those soldiers, representing your equity in rental properties, home equity, or low-return investments. If you had all two million soldiers working for you and making a modest 10 percent return, you could be earning $240,000 per year, which is $20,000 every month . . . or $666 dollars a day! That's some serious passive income.

A lot of your soldiers, or assets, aren't doing anything to contribute to your wealth. This creates a disconnect between what you could be earning and what you're actually earning. For those investors below Floor Two, it is more imperative to ruthlessly get all your soldiers on the battlefield and working for you!

The Deployment Plan



To simplify the process, I have created a deployment-plan chart as an example. It outlines the upcoming years on one side and potential sources of investable capital on the other. I recommend that you customize this to your situation and create your own chart. Prioritize investments or cash holdings with the lowest return on equity, a strategy often referred to as the "low-return-on-equity witch-hunt game." The order is as follows:

1. **Net savings from your income minus expenses**: The initial focus should be on deploying the net savings accumulated each year. Many of our investors save anywhere from $50,000 to over $100,000 annually, which is commendable and can help achieve financial goals within a decade. These savings are ideal for investing in

real estate deals, preferably running through our AIB (Accredited Investor Banking) system, as the money in savings accounts or money market accounts tends to lose value due to inflation.

2. **Cash on hand**: It's advisable to maintain some cash savings as an emergency fund, especially for individuals with their own businesses who may require higher cash reserves. Typically, nonbusiness-owner professionals can run with as little as $20,000 to $30,000 in their bank accounts. Our AIB system provides an ideal place to store this cash while earning a stable tax-free return.

3. **Lazy equity in your home**: Most investors focus on utilizing the home equity in their primary residence. This equity can be accessed through three main options: a home equity line of credit (HELOC), a cash-out refinance, or a sale of the property and potential transition to renting.

    a. New investors lack a lot of deal flow and don't deploy funds as quickly as more experienced investors, so a **HELOC** can get you going deploying funds for your first six to twelve months. It's an attractive option, as it incurs minimal fees and only charges interest on the drawn amount via simple interest. However, it may not grant access to the entire equity of the house. Nonetheless, it serves as a convenient starting point for most investors, allowing them to begin investing within a few weeks.

Make sure you shop around for the best rates, but focus on not getting bogged down with this. There needs to be a sense of urgency and awareness that for every $100,000 of lazy equity, you could be turning it into $10,000 to $20,000 per year.

b. If you've exhausted your HELOC, a **cash-out refinance** provides access to a greater portion of the home equity. It's worth noting that cash-out refinances involve associated fees. Beware that mortgage lenders may increase interest rates to compensate for a seemingly "no-fee loan"—all they are doing is bumping up the rate a bit and removing the fees from the transaction.

c. As a last resort, **selling the house** and transitioning to renting can be considered, but this is generally a drastic measure. I might recommend it after hearing your personal situation if you are Floor Two or below, but it doesn't happen often, as I am sensitive to the emotional connection people have with their primary residence.

4. **QRPs**: Once investors deploy most of their equity from their home or rentals, they will look to deploy their retirement plan funds such as 401(k)s, 403(b)s, TSPs (thrift savings accounts), IRAs, Roth IRAs, and other investments. While traditional investments like the stock market may not be ideal for those under Floor Three, they still generate some returns. That's why

QRP money is last on the list. There are consequences associated with withdrawing funds from these accounts based on where your current AGI is. Each individual's situation varies, and it's essential to assess the personal implications before proceeding. Check out past coaching calls in our education portals for plenty of examples.

Your Freedom Number

Now that you understand the floors of the elevator, which floor are you aiming for?

The first step in making that decision is settling on what your monthly passive cash-flow number is. How much money feels like freedom to you? Your passive cash-flow number is impacted by your family values, your risk tolerance, and even your investment philosophy.

Finding that number is a deeply personal process. People often start out thinking they need, say, $85,000 of passive cash flow a month. After a few years, especially once they have $5,000 to $10,000 of passive cash flow a month, they realize they only need $20,000 to be perfectly comfortable. In fact, one year at our annual retreat in Hawaii, we lined everyone up based on their annual expenses. Out of the entire room, no one was over $25,000 per month. That said, no one in that room had opted to buy or lease that Ferrari yet.

A MENTOR MAKES A DIFFERENCE

You may want to look for a mentor, somebody who's walked this path half a step before you, to help guide your decision. They should have a net worth of $7 to $10 million and understand your situation so that they can give you feedback. That said, when I first started investing in syndications, I did not know anyone who was even accredited, so don't let that stop you. This is why we have created the only ecosystem with not only informal mentors but also peers walking this journey with you. I've also dedicated myself to helping you get there!

If you don't have a blueprint for your portfolio, you end up making nonstrategic investments, based on whatever pops into your inbox or gets shoved in front of your face.

A great guideline to help you find the upper limit of your net worth goal is the "4 percent" rule. This is used by a lot of high-net-worth organizations. It's a rudimentary way of calculating how much a portfolio would cash-flow *if* you were in traditional investments. For example, if your portfolio is $1 million, it's earning 4 percent, which is $40,000 a year. That means that if you take out $40,000 a year, your principal will remain untouched.

Working backward from there, you can ask, *Well, how much do I need to live on?* That becomes your savings goal: to increase your portfolio to that point. In this type of real estate strategy, your return is likely to be much higher than 4 percent—plus, you are sheltering a lot of taxes too.

Of course, nothing replaces ascending to that monthly cash-flow number, living it and feeling what that number is like month after month, talking with other peers and mentors along the way, and tweaking that goal on the way there.

I encourage you to read through this entire book before you try to settle on your passive cash-flow number. You may find some surprises that change your understanding of your passive-income goal.

Your cash-flow empire starts in the next chapter, as I show you different kinds of rentals, and how you can best get out of traditional investments and into alternative investments not accessible to the general public for better returns and better tax advantages.

Chapter 3

Rentals

"Real estate is the best investment for small savings. More money is made from the rise in real estate values than from all other causes combined." – William Jennings Bryan

A Matter of Perspective

As you move up the Wealth Elevator, you gain a larger perspective. Many of us were brought up in families with frugal habits and no concept of financial freedom.

In 2008, I was just halfway through saving up for the down payment on my first house. One day, a bunch of guys I supervised on my construction crew admired a picture of a Ford F-150 Raptor truck, referring to it as "one bad-ass SOB." I immediately wanted one.

Then I checked the price tag. Oof.

Who buys a truck that costs one and a half times an entire year's salary . . . after income taxes? I asked myself. *That's crazy.*

Of course, we all know people who use consumer debt to do just that. In 2007, when I was in my first few months of corporate management training, another management trainee spent his signing bonus on a top-tier BMW 3 Series with a $55,000 price tag.

Meanwhile, I drove a 2003 Volkswagen Jetta that cost less than $12,000.

After I got into rental properties and hit Floor One, my entire outlook changed. That down payment I had scraped and saved for to buy my first rental seemed like peanuts. By the time I owned eleven rental properties, a $100,000 car was no longer out of reach—but I didn't buy it yet.

Instead, I chose to take that money and buy more real estate.

The Investor's Journey

Rentals are the most conventional entry point for investors, making them the primary investment vehicle on Floor One of the Wealth Elevator. Although few people keep rentals in their portfolios as they progress up to Floor Two, direct ownership in residential houses is a great way to get your foot in the door and start building equity.

I had my "aha" moment about rentals very soon after buying my first one. *Wow,* I thought. *I'm making really good returns, and I'm making money four ways.*

The four key ways to make money on rental properties follow:

1. **Equity build-up:** My tenants were paying down my mortgage as the equity grew.
2. **Property appreciation:** The property was gaining in value every year.
3. **Tax benefits:** I could write off property expenses and depreciation from taxable income.
4. **Cash flow:** I obtained monthly cash flow, after expenses.

Seeing that, I thought, *If I can stack these things on top of each other, I'll be able to quit my day job in no time.* That was my naive end goal at the time, and rental investments were getting me there much quicker than the traditional investments my peers were doing.

To make rentals work for you, it's important to assess whether you're ready for the rental game, learn the upsides and downsides of rentals, and figure out what style of rental investment is right for you. That starts with understanding just what you're diving into.

Rentals Are a Real Commitment

As I saw the benefits of rental investing, I shared my success story with everyone: friends I went to college with, family members, even coworkers. I was shocked at how few of them were willing to take even one step down the fast lane toward their financial freedom.

Rentals are a hands-on process. Even if you are buying a so-called "turnkey rental" from one of the many vendors out there, you have to get off your butt and do a minimal amount of work. Most passive investors who own less than ten units are able to manage that portfolio with a few hours a week in the evenings, or during some of their breaks at work.

With rentals, you'll want to

- vet a property manager and build a relationship over the phone;
- assess an area you might never have lived in to know if it's a good investment, while being selective about your broker's opinion (because they just want you to buy property);

- be willing to absorb setbacks, which can be costly—between $5,000 and $20,000 if you pick the wrong tenant—then readjust if you can on the next acquisition;
- build the rest of your vendor team with a broker, contractors, lawyer, accountant, and title company.

It's a lot of moving pieces, and when it's new to you (and the vendors know it), it's ten times as hard.

The fact is, not everybody is the right fit for rentals. It takes a certain character and a good deal of business aptitude that not all college graduates have. It's not hard work, but it can be a *lot* of work. If this feels overwhelming, or you already make multiple six figures at your day job, don't worry. You can bypass this floor and move to syndicated deals on Floor Two via the Wealth Elevator.

STACK INVESTMENTS

If you're on Floor One, visit https://TheWealthElevator.com/returns/ and watch the whiteboard exercise I did there to learn more about stacking investments.

Or take our free remote-investing e-course for people wanting to buy their first rental property. Access https://TheWealthElevator.com/turnkey/.

Upsides and Downsides of Rental Properties

Let's start with upsides. The advantages of rentals are the reason why we invest in real estate as our primary investment asset class. Rental investments have a tax-advantaged component, and they're a great way to get your hands wet in real estate property while getting familiar with the market.

If you purchase in geographic markets with the right rent-to-value ratios, you'll have passive cash flow. The real estate market can go up and down, but if you are positively cash-flowing, you can wait out the lows and keep making profits. If you're an investor who wants to play the rehab game (fixing up houses and then reselling them), you can inject value into your own assets and sell or refinance for big paydays. And you can build relationships with your tenants, seeing the value you're adding to a community firsthand.

You also enjoy a bit of an ego boost seeing your name on the title of that asset. It belongs to you and no one else. That can bring a lot of pride.

That said, if you don't want your tenants to know who you are, and you could not care less who owns the property—as long as it's a good investment—perhaps you are more wired to be a passive limited partner in syndications, which I explain in the next two chapters.

HOW TO CALCULATE THE VALUE OF RENTALS

How do you determine the value of your rentals? By checking a simple number called the rent-to-value ratio.

If the number is 1 percent or more, it's a healthy rental investment. If the number is lower than 1 percent, you are more likely to have negative cash flow, when all expenses are counted. It's not always the case, but this gives you an easy way to evaluate a property before you buy.

How do you calculate the rent-to-value ratio? You simply divide the monthly rent by the purchase price.

Let's say you buy a place for $400,000, and it rents at $2,000 a month. You plug in the numbers to find that $2,000 divided by $400,000 is 0.5 percent. That's way less than 1 percent, and the deal is not going to work!

But suppose you buy a place for $400,000 and it rents at $4,000 a month. The rent-to-value ratio is $4,000 divided by $400,000, or 1 percent. You're in!

You can download a gift resource calculator at https://thewealthelevator.com/turnkey/.

The downsides of rentals can be significant. First, you have to spend money to make money in rental investing. You have to hire a property management company, or spend your time operating the rental. Tenants are also a large variable that impacts how much you have to spend. Some of them cause a lot of damage to your property. That amount often is uncollectable due to their credit profile—unless you want to throw good money at bad money and sue someone with nothing to collect.

After I maxed out my rental properties, I experienced the downsides of being on this floor for the long term. As mentioned, federally insured loans max out at ten properties per spouse. With eleven rental properties, I had an eviction or two every year. I missed out on a ton of back rent, and these tenants often trashed the property. Once, my tenants even filled a toilet with concrete and the living room floor with about fifty dog poops.

Sometimes, when you're looking at a $20,000 repair bill, you lose all faith in humanity—not to mention go crazy when you do the calculations in your head and realize the profits for six properties were just blown by one bad tenant moving out.

Even with good tenants, catastrophes happen: a tree falls on the house, a storm floods the basement, you name it. That can eat your entire cash flow for the year. But again, it's those five-figure damages that makes you wonder if it was all worth it.

The major downside, especially for affluent investors, is that the debt you take on for these properties (the mortgage) is in your personal name. Remember that pride of ownership with your name on the title? Well, it also helps the plaintiff's lawyer, who wants to sue you because you have direct personal liability. Even if you set up an LLC for asset protection, you are the direct owner and managing member.

THE TRUTH BEHIND RENTAL PROPERTIES

Rental properties are easy to get into, but you still need to jump over this bar: the down payment. You can't start investing in real estate until you're out of the Basement and you have some money in your pocket. You need $25,000 to $40,000 to buy a decent $100,000 to $150,000 property and have cash reserves, in case a mishap happens.

The Best Rental Properties

The majority of the American population lives in rentals that rent from $700 to $1,300 a month. Those lower-middle-class "workforce" properties make for great investments. A general trend for bifurcation between the wealthy and poor exists, with the shrinking middle class being brought downward. Even in bad times such as recessions, these properties perform well, as more people look for value housing options.

When a lot of people get into real estate, they think of buying a rental that they would want to live in, or higher-end property. That is the exact opposite of what you should be doing. You are not your target renter!

WHY SINGLE-FAMILY HOMES?

Three- and four-bedroom houses that have two baths and generally run 1,400 to 2,000 square feet are your sweet spot. The exit plan is great, too, since a retail buyer looking for a home to live in makes for an easier sale, as opposed to a multiunit, which will typically go to an unemotional investor. In order words, stick to single-family homes rather than chasing better rent-to-value ratios with two- or four-unit properties.

I made the transition from Floor One rentals to Floor Two syndications as soon as I learned how more affluent investors tended to dump their starter-investment rentals. By then, I had already amassed eleven rental properties, which were difficult to sell, since I had so many.

You also need to consider your market. Markets are divided into three categories: primary, secondary, and tertiary. Primary markets are generally found in popular states such as California, New York, and Hawaii—basically, the sexy and cool places to live. Secondary markets are generally found in blue-collar areas like Georgia, Indiana, Texas, and Florida, while tertiary markets are in more out-of-the-way locales with smaller populations (still over two hundred thousand people) like Huntsville, Alabama.

Markets are usually citywide but can sometimes be generalized to the state, as you saw above. Dallas and Houston are both secondary markets, for instance, while Waco, Texas, is a tertiary market. Generally, I like to invest in red states. Political affiliations aside, I want to have good landlord laws on my side. Also, red states are typically pro-economy, which is key to increasing blue-collar populations.

NEIGHBORHOOD CLASSES

Neighborhoods have grades: Class A, B, C, D, and F. Sorry for the rather coarse analogy, but imagine if your adult daughter went out for a leisurely run in these neighborhoods.

- In Class A, you (she) wouldn't think twice about her safety, even at night.
- In Class B, she'd happily go for a run during the day, but won't venture out at night.

- In Class C, she isn't jogging—people in those neighborhoods often don't have leisure time to go for a run, but even if they did, it isn't safe—day or night.
- In Class F, she'd be *driving* through the red lights (as long as no cops are around) just to get the hell out of there!

I left Class D for last, because it's a bit of a trick. When realtors are marketing an awful place, they don't want to call it Class F. They call it Class D or Class C instead. Be careful taking the advice of brokers, real estate agents, realtors, mortgage brokers, and lenders. They all get paid when you transact. They're not partners. They have no skin in the game.

After the deal, they're typically nowhere to be found . . . unless they think you'll buy another property from them. Your landlord's days with them are numbered, too, because you're moving on to Floor Two as quickly as possible where you can benefit from better alignment structures within a syndication.

What Kind of Investor Are You?

The funny thing is that real estate is such a great investment vehicle that you can have a really bad strategy, and even if the numbers don't make sense, in thirty years you'll have it paid off. Doing that, you'll be a lot further ahead than many of your affluent friends.

But you can do better—which is why you're reading this book! You want to meet your financial goals in a fraction of the time other retirees accomplish it. You want to blow past them!

After thousands of investor consults, I started to see a pattern in how investors mature on this First Floor. I break down investors on the First Floor into four levels:

1. Mom-and-pop landlord
2. Aware-of-the-numbers investor
3. Aware-of-the-goal remote investor
4. Sophisticated-and-scaling investor

If you own rentals, this might help you see where you stand on the scale, or where you might strive to go. If not, you can gain an overview.

Mom-and-pop landlord: At this stage, you're a very unsophisticated landlord. The vast majority of investors are at this level. These investors buy a property and think they're cash-flowing because the tenant is paying down their mortgage. The truth is, they fail to account for expenses, including the property management company (or their own time), maintenance, repairs, and even monthly PITI (principal, interest, taxes, and insurance) costs. Sure, they make money, but nowhere near as much as they could.

We also see a lot of this with our investors' parents. The older generation owns property within driving distance of where they live (typically California), and they don't employ a professional property manager—after all, this is the only way to make the numbers work in a poor rent-to-value location. My landlord in college did this, and I can remember him driving to our place on a Saturday night to unclog our toilet while his poor wife waited in the Mercedes.

Aware-of-the-numbers investor: As you get a little more sophisticated, you include all your expenses into your return-on-investment calculation. To be conservative, you want to assume that 50 percent of your income goes to these miscellaneous expenses, and then you have to pay for your debt service (mortgage). To calculate it yourself, download our free property analyzer at https://TheWealthElevator.com/analyzer/.

At this stage, you still might do a lot of the managing yourself. Your cash flow may be covering your expenses, but it doesn't take into account your time and sweat. You're probably trapped in your own home location, which might not be a good market (i.e., a blue state with poor rent-to-value ratios), and you might be taking your profits to pay down your mortgage. (Hint: Paying down your debt will lower your return on equity and is not what sophisticated investors do. We'll discuss this in more detail later.)

At this stage, know that it is common to see Floor One investors with loan-to-values of less than 50 to 60 percent. The return on equity is good in the first five to ten years of ownership, but the long ownership time is a cardinal sin for investors who are mindful of optimizing returns.

Aware-of-the-goal remote investor: At this stage, you are able to underwrite your income and cash-flow statement and understand optimizing for return on equity. See the graph at https://TheWealthElevator.com/roe/.

The major mindset shift here is a realization that you need to invest outside of your geographic area to position your holdings in the best emerging markets and to diversify over multiple markets. Despite the comfort zone in your home area or primary market, other emerging (secondary and tertiary) markets have less competition, which makes for better pricing and cash-flow margins.

By going outside your local area, you have also learned how to manage your property manager without having to be geographically close. You're consciously walking the razor's edge of good debt, equity growth, and cash flow to safely optimize for equity growth.

Sophisticated-and-scaling investor: One way to achieve scalability and diversify into multiple nonlocal remote locations is to invest in turnkey rentals. These properties are fixed up with tenant-grade finishes, and sometimes you can even buy them with the tenant already on the lease. The downside of these properties is that the flipper who provides the product needs to make money, so you pay a premium for the property. I've seen a lot of the top turnkey companies charge $10,000 to $25,000 over comparables, all for the advantage of convenience.

If you're in the turnkey property game for more than a couple of years, you start to realize why these flippers don't manage the property themselves: because it's a pain in the butt. The truth is, there's nothing turnkey about turnkey, and it's why we call it "semipassive." It's just not scalable past ten to twenty properties.

Eventually, you want to grow in your skills of using other people's talents. This transitions into leaving the do-it-yourself landlord world and stepping into the truly passive investor world—a realm of different vendor and investor circles. In other words, a lot of the effort you make dealing with insurance companies, turnkey providers, property managers, and even nonaccredited and some accredited investors will not carry over when you go into syndications on Floor Two.

Given these downsides, why did I buy rentals, and why doesn't everyone just skip owning rentals? To skip this step, you need to be qualified through net worth or income to ride the Wealth Elevator from Floor One to Floor Two.

GET EDUCATED ON RENTALS

In the past, my platform provided education to students on the acquisition of remote rental properties, guiding them through a step-by-step process. You can still access this valuable e-course for free by signing up at https://TheWealthElevator.com/turnkey/.

In the real estate industry, I always disliked the abundance of expensive educational programs that charge anywhere from $20,000 to $50,000. To address this issue, I created the free e-course as an alternative, making it accessible to investors who are in the early stages (Basement or First Floor) and who should not be spending that money on education, but instead using it on a down payment on the properties they buy.

Build Your Investment Plan

If your net worth is less than $1 million, quite frankly you need more alternative investments and fewer traditional investments. Why? Because alternative investments (1) give you better returns than the retail traditional investments out there, and (2) typically give you passive income and deductions to allow you to pay less taxes in the long run. Simple!

Here's where you start:

Floor One: You are not yet an accredited investor (at least $200,000 a year in income, or $1 million net worth). You need to increase your alternative assets or increase your income at your day job to get to Floor Two as soon as possible. Since you don't have the income or net worth "firepower" of those skipping right to Floor Two and above, you might have to invest more aggressively and go heavier into a more alternative investment portfolio. This is what I personally did. From 2009 to 2015, I was buying rentals up to 90 percent of my net worth. You should have more than 60 percent of your holdings in alternative investments.

Passive Investor Plan One: At this stage, you have few or no deals. Start by slowly moving up from 0 percent of your net worth in alternative investments to at least 20 percent for starters. Once you invest in deals, start implementing basic tax strategies as captured in the tax chapters (chapters 7 and 8).

Legal: You have insurance covering your car and home as well as umbrella insurance for investing. If you are under

$1 million net worth, you are probably not a target of lawsuits (of course, lawyers will likely disagree with this mindset!). Legal entities have costs but give you peace of mind, so you may choose to invest in an LLC. Note that when you are investing in direct ownership of rentals, the level of liability potential is much higher than being a passive LP. More on that on Floor Two.

Retirement: To get tax savings today, don't invest cash in a qualified retirement plan. Depending on where your net worth is, you will likely opt to prematurely draw out your retirement money—or at the very least, stop contributing any more to those plans except to capture any company match.

Home equity: Do not buy your own home. Use that equity to invest. One rough rule of thumb I have is not to buy a home until your net worth is two to three times that of your home. Homes are an okay investment, but will not grow your wealth as much as alternative investments.

With that plan in place, you're ready to start moving on your investment journey. Over the course of this chapter, you've probably noticed a theme: always try to steer away from the pack.

Not a lot of people buy rental properties, but those that do will typically buy in their geographical backyard. So how do we get away from those guys? One solution is to go out of state with a turnkey rental. But you've seen the downsides of that.

If you really want to separate from the pack, the answer is simple: syndicated deals. And that's the topic of the next two chapters.

Chapter 4

Syndications: Roles and Responsibilities

"The wise wage earner of today invests his money in real estate."
– Andrew Carnegie

Lazy Equity

Let me introduce you to Greg. When I met him, Greg had $800,000 in home equity.

Greg knew it was lazy equity—but he didn't understand just how *lazy* it was—that is, until I sat down with him on a quick Zoom call and ran him through the numbers.

"You have $800,000 not doing jack," I told him. "It could be making you at least *twelve percent*—that's $96,000 *a year*."

I explained more. "That money is like you and your wife having a third spouse who works for you, tax-free, contributing to your household!"

"Well, sure," said Greg, "but I don't have the time to manage any more rentals. And I'm tapped out at work," he admitted. "I could get this equity working, but I wouldn't know where to start, and the on-ramp would take a lot of time investment. I just can't scale up with what I'm doing."

I told him about our syndication deal. He could be a limited partner (LP) in a more stable commercial asset, with no management duties, no personal liability, and no more loans in his personal name. He would get all the tax benefits, be able to utilize great commercial debt options, and partake in the equity upside of being a partner on the deal.

Greg was floored. He was a numbers guy, and he could not argue with those numbers. Greg signed up for our very next syndication deal and began building a diversified portfolio of these passive holdings.

What Exactly Is a Syndication?

Syndications are the primary investment method for growth at Floor Two of the Wealth Elevator. When you invest in syndications, you stop needing personal oversight of every project. That means you can scale up your investments in a major way. On this floor, you are looking at a monthly cash flow of $5,000 to $20,000 and a net worth of $500,000 to $2.5 million. If you, like most of those who get referred by past clients, have never owned rentals, and you are able to jump ahead of the Basement or Floor One's painstaking landlord activities, welcome!

At its heart, syndication is just a word for pooling your money together with other people to buy *something*, typically something out of the price-point reach of just one person. I mentioned that in Hawaii, we call this group a hui. Others call it a simple joint venture, or JV.

On the Wealth Elevator, syndications take up a big floor, which is why they span two chapters of this book. In this chapter, we're looking at the basics of syndications: asset classes, roles, and responsibilities of people in a syndication, how to safeguard your investment, and what a sample investment portfolio looks like once you include syndications.

The Asset Classes of a Solid Syndication

Here are typical asset classes for real estate syndications:

- apartment buildings
- hotels
- self-storage units
- office buildings
- strip malls
- small shopping centers

You'll notice all of these asset classes make a lot of sense for one simple reason: the strong demand and limited supply.

One common mistake I see new investors make is that they go out and start investing in all sorts of asset classes because of the newfound novelty of alternative investments that finally make a lot of sense. Technically, you can raise money to syndicate anything: a pizza franchise, a restaurant, multifamily real estate, a mobile home park, even a cryptocurrency fund. I suggest starting with one asset class and going deep on it—ideally, apartments. Most of us have rented a home or apartment, or rented out our own home, and that provides some real-world perspective in that business.

With our syndications, we focus on residential workforce housing. Our projects include constructing ground-up developments (such as apartments built from scratch) or finding stabilized assets (such as apartment buildings that are 90 percent occupied but have some inefficiencies that need to be improved to create more returns). As mentioned earlier, large, lazy institutions offering real estate investment trusts (REITs) are not willing to put in the work for these value-add properties.

With syndications, partner investors have a huge opportunity to improve the communities . . . and make a boatload of money.

ROLES IN A SYNDICATION

As you research syndications and whether to join as an LP, it's important to be aware of the roles involved.

General partner: The general partner, or GP (aka syndicator, operator, sponsor), manages the project. An inexperienced new operator will typically put in 10 to 20 percent or more of capital raised, while an experienced operator puts in even less (and sometimes none). A collective within the GPs (or even one GP) signs on for the debt in their personal names—those individuals are called the key principals or loan guarantors. Some regard putting their personal balance sheets as collateral as the ultimate "skin in the game," along with putting their reputations on the line.

Limited partner: This is your role—also known as the passive investor, or LP for short. Collectively, passive investors are generally putting in the equity requirement (down payment, capital expenditure plan, closing costs, and reserves) or 25 to

40 percent of the asset value plus construction—if normal loans or leverage are being used.

In a syndication, each partner is putting in a fraction of that, and shares and tax benefits are separated pro rata. LPs play a hands-off role; they don't have to worry about litigation personally, are nonrecourse on the debt, and have no management responsibilities. Essentially, the game is to sign the paperwork, wire off the funds, and entrust your GP (with their skin in the game) to be good stewards of your money.

The lender: Often a bank, the lender underwrites the deal and lends money via a rate-and-term agreement. In most projects, they put in 60 to 80 percent of the capital. The bank also adds safeguards to ensure the business plan is followed. They generally write provisions into the loan documents that govern the general partner activities to ensure the business plan is implemented and the asset is well managed. Their caution makes sense since they are the largest partner in the deal, which means they have the most money to lose. Because of this, they also conduct the most professional due diligence.

Property manager: The property manager is the boots on the ground who directly interacts with tenants. They are managed by the GP. The property management team can be either a professional third party or an in-house team member of the GP.

The legal team: The legal team ensures the deal is SEC compliant. Other legal work includes overseeing the purchase and sale contract, transaction closing, contractor agreements, and other miscellaneous legal needs that might come up, such as tenant lawsuits. The legal team is typically a third-party firm or an in-house counsel of the GP.

When Syndications Are Right for You

When is it time to make the move from Floor One to Floor Two? As soon as you can afford the buy-in! This is why we have a Wealth Elevator.

When you're on Floor One, you're focusing on rental properties under \$5 to \$10 million and competing with a rash of amateurs: real estate club goers and unsophisticated wealthy families that don't know how to run the numbers and are buying real estate because they hear it is a good investment. This inflates prices for those assets in this sub-\$5 to -\$10 million range.

Meanwhile, big players like REITs and institutional funds invest in huge apartment complexes and multiproperty portfolios. They're in the \$40 to \$100+ million acquisition size. They also aren't compensated by getting better returns for their clients' money: they can make a relatively small yield and still take a big cut. All of that means they aren't competing for the same properties you want to invest in. Side note: These are the traditional investors that are investing the average Joe's retirement money.

Syndications have less competition, which means better pricing for you. That is just one reason syndications at this level are disruptive to the current dynamic in real estate. We are basically democratizing investments. Without the method of syndication, we would not have access to these larger assets that are otherwise only privy to large institutional firms. We are disrupting the real estate and investment industry. We are bringing "the people" directly to the deal—without Wall Street taking a cut!

My Syndication Safeguards

When money is pooled together by passive investors, it triggers US Securities and Exchange Commission (SEC) rules and governance, and we have to follow a lot of mandated processes to stay in compliance. As an LP, this is no sweat off your back. It actually offers an extra layer of protection, because you know that the syndication sponsor (GP) is dotting their i's and crossing their t's. Any screw-up can bring on the full force of US federal enforcement of SEC law.

From an LP's point of view, SEC regulations keep you safer. They help keep foul play out of the equation. Of course, if you are investing with ethical people, you shouldn't have a problem to begin with.

As part of those SEC processes, we, as GPs, create a "Private Placement Memorandum" document for every deal. This long document discloses the rules of engagement for the participants of the deal. Once the GP sponsor team goes about laying the legal groundwork, it allows the team to raise money legally per SEC rules. My fund employs an experienced legal team to close the real estate transaction and help us comply with SEC laws. This can be costly, but it also gives you, the LP, peace of mind. It means the project has strong oversight and regulation—it's not a back-alley understanding or a handshake joint venture at the local real estate club. If something goes wrong, the feds get involved.

In my deals, we raise $10 to $20 million to purchase one or multiple assets in the $10 to $50 million range. We aim to cap our investors at a couple hundred people to keep down administrative costs, so we can share more with the LPs. This way, minimum investment sizes range from $50,000 to $100,000.

DIVERSIFY SMARTLY

As we say, "Live where you want, but invest where the numbers make sense." Syndications allow you to cherry-pick the best deals that achieve geographic diversity, while systematically diversifying your portfolio so that your assets are not weighted in one asset class.

Another guideline I have for new investors is that you should never invest more than 10 percent of your net worth in any one syndication (typical deal minimums are $50,00 to $100,000). This is also why I don't think it's wise for any investor to have a property owned outright with more than 10 percent of their net worth in it. This contrasts with how a lot of unsophisticated high-net-worth investors roll with a handful of rentals in one geographic area.

I would be uncomfortable with that lack of diversification in terms of assets. Markets change, and diversifying your syndication portfolio in terms of asset classes and geographic locations allows you to weather market changes.

HOW TO EVALUATE SYNDICATION DEALS

As with any real estate investment opportunity, you want to do due diligence before putting your money into a syndication. I offer a free eight-to-ten-hour e-course on how to evaluate syndication deals. You can sign up at https://TheWealthElevator.com/syndication/.

Sample Investment Portfolio

We will discuss tax implications in a later chapter, but for now I want to provide the big picture of what a real-life portfolio might look like. To date, I have not read one book discussing this topic. Truthfully, a book cannot go into the complexities of building your mature portfolio—that can only come from meeting other purely passive accredited investors investing in dozens of these types of syndications.

What I can do here is give you some broad strokes as to what an ideal syndication portfolio might look like. Let's assume you are investing in syndications (value-add buildings and development projects) that span around five years. If an individual invests in one deal per quarter, that amounts to four deals per year. Assuming each deal takes five years to complete its business plan and be sold, that would total twenty deals in a five-year period.

While this number may seem arbitrary, it actually provides a reasonable portfolio size for allocating one's net worth (or alternative asset allocation) into these segments. A portfolio of twenty deals gives you diversification, yet is still manageable and leaves room to expand. Consider this example: investing $100,000 each in twenty deals would amount to $2 million of investable assets. This could position you within the range of Floor Two of the Wealth Elevator.

The next logical step would be to expand your portfolio. At this point, most investors typically increase their investment size, perhaps moving towards $200,000 or a quarter million per deal. By increasing the investment size, you can better keep track of numerous investments.

Somewhere under fifty to sixty investments is a good top-line number that still allows ample diversification. On some occasions, investors decrease the number of deals they are in but have more money working in the deals. As of today, I have nearly one hundred live investments. That isn't an issue for me because the K-1 tax forms I get are pretty simple, but I admit it can be a significant commitment for a regular passive investor.

When deals reach their full cycle—that is, they return investments to the LP investors—the deals generate capital gains and depreciation recapture. At this point, it might make sense to reinvest that capital into another deal to offset the tax on the difference. This is one reason spacing out investments is beneficial, not only for taxes but also for dollar-cost averaging, to account for economic uncertainties.

Your Investment Plan

Let's look at another aspect of Floor Two: your investment plan.

> **Passive Investor Plan Two**: It's time to press the pedal—growth. Your plan is all about expansion. Work to grow your

alternative investment portfolio from 40 to 100 percent of your net worth. As you invest more, you have more ability to adjust your gross income lower, saving more on taxes. You should also start saving into your Accredited Investor Bank (AIB)—more on that in chapter 6. Your policy should be $10,000 to $100,000 per year in contributions.

Legal: If you are investing as an LP, you don't really have to worry about liability coming from the investments like you would with direct ownership in rentals. However, if your net worth has surpassed $1 million, and you don't already have an LLC holding company for some separation of your asset and yourself, now is the stage where a legal entity becomes cost effective. Invest all new deals there, and don't comingle high-liability rentals or your active business with your low-liability LP holdings.

Retirement: Continue the same strategies from Floor One. You might have to start tapping your QRP funds to continue to deploy more funds into alternative assets.

Home equity: If you own a home, use your existing home equity to invest. You can downsize, sell the house and invest the profits, or cash-out refinance. Consider transferring your home equity first into your AIB.

Of course, not every deal is created equal, and not every syndication is going to be the right fit for your investment philosophy. In the next chapter, I talk about the upsides and downsides of syndications, and how some investors are building their portfolios.

Chapter 5

Syndications: Building Partnerships

> *"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."* – Robert G. Allen

My Epic $40,000 Failure

I've benefited immensely from moving into syndications—that's why they are such an important part of Floor Two of the Wealth Elevator—but I've seen the dark side too.

Back in 2012, when I decided to invest my self-directed IRA funds, I asked a self-directed IRA custodian, whom I met at one of those real estate vendor expos, if they could recommend a general partner (GP) to invest my money with. They gave me the name of a syndication operator, and I invested about $40,000 with this GP.

I got a harsh wake-up call . . . when that GP lost every cent of my money.

I learned an important lesson: work with people who have a solid track record in such deals. As much as I beat myself up for the loss, I was ill-equipped to vet out this bad actor. Back then, I didn't know anyone who was a millionaire, let alone anyone investing in syndication deals.

I got a referral from a fake investor, a young sales guy working for that IRA custodian. The sales guy was not an investor himself. He'd probably had a few beers with that GP the night before the event. He wanted to look cool, so he named-dropped anyone he could think of—or worse, he had some sort of referral or affiliate relationship where he was compensated by making the referral.

My story is not unique. Many new LP investors have experienced being deceived in their initial real estate deals. They often fall prey to the allure of shiny pitch books and manufactured real estate celebrities. Unfortunately, I did not have the oversight of the US Securities and Exchange Commission in that deal that went bad. I was too green as an investor at the time, and I didn't have much recourse because what I had signed was a JV agreement. I did not sign as a limited partner with SEC protection. Many seasoned and sophisticated investors have encountered embarrassing losses like this early in their careers when they did not know better.

However, we move forward and learn from our experiences. I have made it a point to help others navigate this challenging phase, to acknowledge the risks and take proactive steps to prevent our community members from suffering such losses. All our syndications are structured with general partners and limited partners, so our investors are protected with SEC oversight.

Building a syndication portfolio is all about partnerships. In this chapter, I discuss the upsides and downsides of syndications, how to find the right operator, and how to protect yourself from bad actors.

The Upsides and Downsides of Syndication

Syndications allow for pass-through of tax benefits and better returns than traditional investments because the project offers some sort of value-add business plan. Unlike traditional Wall Street investments and REITs, the deals have fewer middlemen taking a cut.

Syndications also possess these upside characteristics:

- **Truly passive**: As long as you pick a good operator, you don't have to do *any* managing yourself, which allows you to focus on portfolio management in your comfortable office rather than boots-on-the-ground project/asset management. Plus, you get to take advantage of the lender relationships that the GP has. You get regular updates on the deal if you want to keep up with the status of the project, and are therefore free to leverage your time for better uses. That might be your high-paid day job, relaxation with friends and family, or your favorite hobbies.
- **Scalable**: You can invest in as many syndications as you want and increase your investment size accordingly. For accounting and tax purposes, it does not get any easier. You are given a simple K-1 or Form 1099 for each deal that you are in, which you hand to your CPA.
- **Tax advantaged**: Since the asset is larger, the GP is likely to do a cost segregation to increase the amount of losses you claim as well as take advantage of new bonus depreciation laws. Therefore, you, the LP, get better tax benefits from syndications than you do with rental properties. More on that in chapter 7.

- **Diversified**: Syndications can invest in any asset class, in any geographic location. That makes it easier to get into the right markets and morph your portfolio as trends change. It's crazy to think of mom-and-pop investors with the majority of their net worth tied up in one to two buildings located in one geographic area. That is not safe diversification! As I mentioned, I am in over a hundred deals personally, but most investors tend to consolidate their investments to twenty to forty deals as their alternative asset portfolio.
- **Debt- and liability-protected**: By riding on the track record and borrowing experience of the GP, you can benefit by leveraging better commercial loans. But as an LP, you are not the one signing on to the debt. The GP is, and therefore the debt is not under your name and does not show up on credit reports. Similarly, in terms of liability from litigation, being an LP means you are not the target of lawsuits that stem from the company or asset. You're under the radar as a passive partner!

We pride ourselves as a syndication company that is transparent with our investors. I would be in misalignment if I didn't discuss candidly the cons of investing in syndications. I've already mentioned the biggest risk, of course: shady operators!

Downsides include counterparty risk and control:

- **Counterparty risk**: The horror story I mentioned earlier is formally called the counterparty risk coming to fruition.

You're putting a lot of trust in your operator, and that trust can be misplaced. This is why we are a lot more transparent than most operators—we want investors to understand what they are getting into because we want long-term relationships. If you can eliminate the risk of working with dishonest GPs, it's really hard to lose your money or principal investment when you're investing in cash-flowing assets backed by a hard asset like real estate.

Although I don't possess concrete data other than my own insider experience to support this claim, I strongly believe that the majority of investor capital losses are attributable to counterparty risks posed by dishonest operators, rather than nonperforming investments.

The SEC serves as a backstop, but as an investor, you may not want to spend your time and money to litigate. I hope this book and our e-courses support you to educate yourself as a precautionary measure.

- **Control**: As a passive investor you are not in a position to get sued because you are not a managing member. But you are giving up control to the general partner over decisions such as when exactly an asset is sold or the continuation of the business plan. In such cases, LPs heavily rely on the expertise, insights, and knowledge of the operators involved to make the best decisions for all stakeholders.

> While such instances are not very common, I have witnessed situations where an operator has chosen to prematurely exit a deal with 80 percent return in just three years. It would have been better for investors to continue with the original business plan, aiming for a potential 3x within the next year or two. The GP opted to take the early lower-return exit in order to solidify their impressive track record and use it as a marketing tool to attract new investors. In this scenario, a conflict is evident between the interests of investors and the operator.
>
> Of course, LPs have the option of rejoining the GP in a future venture. This will depend on whether they closed the last deal with a sour taste in their mouths . . . or a sweet taste from nearly doubling their money in three years.

Long story short, find an operator you can trust. If you are investing in properly structured deals, where the splits incentivize the GP to perform, then you are putting yourself in a position to win.

SYNDICATION E-COURSE

I offer a syndication e-course. If you really want to geek out more on vetting operators, sign up. We even have a mock scorecard to help new investors complete due diligence on deals and GPs. At the very least, it will help you start to ask the right questions. Go to https://TheWealthElevator.com/syndication/.

Find the Right Operator

I'd love to provide a surefire way to vet potential partners. Unfortunately, you can't truly know someone until you've worked closely with them.

But you *can* do your homework.

You need to seek out referrals, but not all referrals are the same. Try to get referrals from purely passive investors who are not getting any kickbacks and have invested *their own money* with a particular GP.

Find purely passive investors *who have actually worked with that GP.* When you find these rare LPs, take the time to create real organic relationships with peers rather than getting transactional referral checks. From there, you will be able to help each other vet deals and operators and grow together beyond money and investments.

You are going to need a strong peer LP network. A lot of inexperienced GPs come from "fake-it-till-you-make-it" syndicator and guru-led education groups that turn out hundreds of so-called entrepreneurs every year. The crazy thing is, a lot of these newly minted GPs are still working their W-2 day jobs. You don't want your money to become their training ground, with little or no returns to you, so they can get lucky and quit their day jobs.

To hear the full saga of the scammer operator who tricked me out of $40,000, go to https://TheWealthElevator.com/fail/.

RED FLAGS IN A GENERAL PARTNER

When you are considering a syndication, choose a general partner with a strong track record. Here's a checklist:

- What is the reputation of the individual and their company? Have you done research on the partner and the company to verify their expertise? A simple Google search on the leadership team members is a good start. Lack of digital footprint? Run! It's too easy to get a logo and LLC done for Just-Another-Capital-Group company—and then when things go bad, scrap it and get a new one.
- What is their asset level? I would look for at least $1 billion in assets owned. As of this writing, our assets under ownership is at $2.1 billion.
- Did the person or company who referred you to this operator get paid to send you?
- Did the person who referred you invest their own money in the operator they referred you to? My IRA custodian was not a passive investor. A lot of poser LP and GP investors will have people who refer to them, but those people don't have anything invested themselves. Similarly, a lot of websites are littered with fake reviews.
- Did you hear this person speak on a podcast, but didn't do any research on them? Podcasts have become a circus of people going around and guesting or paying to speak

on other people's platforms. On my podcast, we have a policy of no "guru" or "fake-it-till-you-make-it" speakers!

- Did you find this person on LinkedIn, but didn't check out their track record? We all know how we make ourselves look better on social media.
- Did you meet them at an investor conference, and now they want you to invest in a big-ticket program as an upsell? Beware of investor training programs that promote students in a circuitous charade as a way to market for new students—i.e., "Pay us $50,000 and we will put you on stage to pitch the audience . . . or at least take some high-resolution pictures of you with a mic in your hand so you can look authoritative!"
- Is the individual a syndicator who is only raising capital for a deal and not serving as the operator, as is the most recent trend? These daisy-chain deals grab a bunch of smaller GPs to raise equity just so the main GPs can make money by bringing in investors. This is typically illegal per the SEC, unless the syndicators have a broker-dealer license. Unfortunately, it's very common in the new GP space and can manifest in problems down the road, especially if the deal does not perform.

It is crucial to understand the distinction between operators and syndicators. We are the operators who take an active role in the projects we undertake—and also serve as the financial backers of the project and the loan guarantors with the bank. This means that if any issues arise along the way, we are the ones who step in and take action to resolve them. Our commitment to being actively involved sets us apart from others in the field.

Abort That Deal!

People often send me deals that I am not an operator (GP) on and ask me if they should invest. My first question is always, "Who do you know who's actually invested with this syndicator?"

If they say, "Oh, no one, I just saw him on LinkedIn," or, "Well he was a guest on a podcast I really respect," I put up the red flag and wave it hard. "Abort! Abort!"

The great news is that you will find lots of green flags, too, that will help you know an operator is legitimate. Then, it's full steam ahead!

GREEN FLAGS IN A GENERAL PARTNER

- An organic passive investor connection has referred you to the operator, and has actually done business with them.
- The operator has testimonials from investors who have achieved returns from their deals. Video and written testimonials can be fake in this day and age, but it's a start. See our examples at https://www.TheWealthElevator.com/testimonials/ to know what to look for in a real testimonial.

- The GP or operator has a clean public record. We have interviewed law enforcement officials and private investigators on the Wealth Elevator podcast, and they have recommended doing a simple Google search as a base-level background check on potential partners. Remember, having a podcast doesn't count as proof someone is legit. Post 2018, it seems everyone has a podcast and understands that it's a relatively cheap but effective form of marketing.
- The operator/GP puts their own money into their deals and signs on to the debt. That means they have aligned interests and skin in the game. This contrasts with traditional Wall Street investments, where financial planners and brokers are effectively commission-compensated salespeople with no tie to the end result of your investment.
- The operator does not have any other side gigs or a day job. Their sole focus is to lead their team to optimize your investment funds.

Build Real Relationships

At the end of the day, the only way to be sure is to build real relationships. That takes time and effort. It can be the hardest part of this process.

As you start to seek out new relationships, beware of real estate scams. As I grew my investor base and started interacting with more high-net-worth accredited investors, I saw what a sham the local real estate club and real estate conference world is. Most of these local events and national conferences are put on by the organizers to make themselves look good. Their students often pay exorbitant tuition for a manufactured stage to speak on.

Comedically, in these circles it seems people are spending more time taking photos in suits and using them for their digital marketing or social media than learning about underwriting or the many aspects of operation. Not the people you want to be entrusting your hard-earned money to!

The other purpose for these conferences is to sell more services. A lot of these programs are designed to convince young, lower-net-worth people to jump into a $50,000 coaching program. After all, if they make Joe Syndicator look good and give them a thirty-minute speaking slot to pitch to unsophisticated passive investors . . . maybe that tuition is worth it!

The truth is that everyone in the room is trying to fake it till they make it—and I would not invest with anyone until they have gone a full cycle with at least a handful of deals. I personally would like to see some failure/grit in operators, which will happen after a few dozen deals (over $1 billion of assets owned).

This is what sets our tribe apart from those who are trying to attract lower-net-worth wannabe GP operators. We fill our events with higher-net-worth accredited investors who are not looking to go backward in life and trade time/sweat/risk for money and be GPs, but are looking to invest passively in alternative asset syndications.

In addition, we focus on bringing in people with high-quality mindsets and personalities. Our events are invite only. I will go into more detail on building your passive investor network in chapter 10. For now, understand that you will need to be selective on who you interact with, and oftentimes very discriminatory by taking inventory of others' education, profession, and net-worth metrics.

My Transition from Rentals to Syndications

In 2016, four years after my $40,000 loss in 2012, I decided to go down the GP path and lead my own syndications. I had a huge advantage, because a lot of investors trusted me and wanted to join me in projects.

Additionally, that loss in 2012 had made it hard to trust others. I wanted to take my fate into my own hands.

In one of my first deals as a GP, I learned the importance of working with partners who had integrity. A few quarters into the project, some of the numbers started to seem fishy. When I investigated with a forensic accountant, I found that the other GP had listed sinks and toilets under expenses, even though those items were not being installed in our units. I eventually realized the partner was stealing materials and labor hours from the partnership and throwing it into his own personal assets.

Luckily, as a general partner overseeing the deal, I was able to rally my limited partners. We held a proxy vote and removed the rogue GP. It was a nightmare deal . . . but at the end of it? Even without recovering the missing funds, we all made money!

Wow, I thought. *This real estate stuff really works, even when everything goes wrong.*

From that point on, I focused my energy on syndications. In just one year, I went from 0 to 30 percent of my net worth in syndications. (For some people, that same transition might take as little as six months—for others, it could take three or four years.) Soon after, I sold all my rentals and put the majority of my net worth into syndication equity. I quit my engineering job to dedicate all my bandwidth to protecting and growing my investors' capital.

Once our investor group got to $1 billion in assets in 2020, I focused on growing the team with professionals in their own verticals who were better than us in their roles. Many of these people had been in the industry longer than we'd been real estate investors ourselves. This is what sets new operators who are still mom-and-pop operators, with a cool company logo and website, apart from a more institutionally sophisticated company.

The Evolution of Investor Allocations

Unlike me, many of our investors have never owned a rental on their own. They haven't seen the phenomenon of a tenant paying rent and the excess after expenses pile up month after month. Our investors are normally cautious, and they typically begin by allocating 10 to 20 percent of their net worth into alternative assets. These prudent investors don't bet the farm on something they don't have any personal proof of concept with.

I don't blame them! I remember that it took me a decade to finally withdraw my money from the 401(k)/retirement plan . . . I wish I had done it sooner. The world of alternatives and the methods of wealth was so distant from the "everyone else is doing it" mentality.

When you enter this initial "test" phase, which spans two to five years, you may find yourself anxiously awaiting your first full-cycle deal. That anticipation is exhilarating, but it can also be nerve-racking. It is crucial to strike a balance between staying informed and not becoming consumed by the waiting game. You may be tempted to overanalyze market trends and investment performance.

Don't do it! It just leads to unnecessary stress. More importantly, it takes your focus away from your primary goal, which is to make more money at your job or business so you can invest more in the future. You have to wait to allow the multiyear business plan powered by the sweat equity of the GP to take place. Trust the process and people, and refocus on personal fulfillment. Engage in other aspects of life. The waiting game is an inherent part of the investment journey, and the outcome will ultimately reveal whether the investments and people you entrusted were wisely chosen or not.

During this phase, I have seen many investors fall victim to overdosage by unofficial media or influences in the form of hundreds of hours of podcasts and YouTube videos trying to use scare tactics and fear-porn to keep you engaged. That fills your head with a crippling amount of conflicting information.

After 2020, a lot of the scammers who ran those in-person high-pressure sales conferences had to pivot in a socially distant post-COVID-19 world and move online. As a result, the quality of podcasts and YouTube content drastically decreased. This type of media is now known by insiders as free marketing channels for those looking to solicit the masses, especially in the financial services industry.

Investing in knowledge and paying for expert advice can provide the confidence you need to surpass the 10 to 20 percent test threshold and expedite your path to the Third Floor on the Wealth Elevator faster. However, it should be done through networking opportunities with other high-caliber investors. The emphasis should be on meaningful conversations and building long-term connections with other quality passive accredited investors.

As your alternative investments begin to show promising returns by going full cycle—finally!—you will feel more confident transitioning from the 10 to 20 percent range to higher allocations of 30 to 50 percent (for those already over $3 to $4 million net worth) or 60 to 80 percent (for those under $2 to $3 million net worth). You have proof of concept—now you have to press the gas.

One of my clients had a net worth of $1.5 million, but his alternative investment portfolio was only $400,000—just 26 percent of his total portfolio. He has been investing with me for several years and, more importantly, has successfully gone full cycle with some of those deals. I told him, "All right, this is the hard part for you. You've got proof of concept—it's been working. Now is the time to turn that puppy up and get that alternative investment up 50 to 70 percent." With other slightly lower-net-worth clients, I tell them to get those investments as high as 90 percent. That isn't right for everyone, but for tax benefits and better returns, you need to pass that 50 percent margin.

The evolution of investor allocations in the world of alternative investments is a dynamic process. Starting with 10 to 20 percent of their net worth, investors gradually expand their allocations based on experience and confidence, but mostly based on the peer ecosystem they create around themselves.

Chapter 6

Private Funds

"Diversification of risk matters not just defensively, but because it maximizes returns as well, because we expose ourselves to all of the opportunities that there may be out there." – Peter Bernstein

Take the Reins

By 2020, with over $1 billion of real estate assets, my company had encountered our fair share of unexpected problems—pandemics, government-mandated eviction moratoriums, increasing interest rates, and sky-high inflation that increased expenses. I understand that each project has variability, but our investors trusted us as operators to navigate the changing market conditions for maximum returns. At the end of the day, my investors' sentiment weighed heavily on me (and still does).

I started to wonder, *Can I eliminate the risk of one asset by diversifying my deals in a fund model? Or will investors want to invest in individual deals where they know exactly what asset they are buying into?*

To do a temperature check, I talked with my mid-tier investors, most of whom were in fewer than ten deals with less than $1 million of LP capital exposure. They had a small number of deals, and a small percentage of their investment portfolio was alternative. They were exposed to real risk from their lack of diversification.

When I pushed those investors about why they didn't invest in more projects (more than a couple dozen) and mitigate the risk as the Wealth Elevator guides us to do, I was told, time after time, "I don't feel confident picking the right deal. How do I know if a deal is good?"

A fund model, I saw, would change all that.

I created my first real estate fund in late 2022, and it's been a huge success. Investors know they're investing with me—an additional element of accountability that I accept—and that my own money is also on the line. That gives everyone peace of mind.

And since the fund is diversified, we don't risk losing everything on one bad deal.

What Is a Private Fund?

A private fund takes the guesswork out of real estate investing. The same operator picks all of the deals, which means you only need to find one person that you know is safe to invest with. From there, you're set for as many deals as you can comfortably take on. It's infinitely scalable while achieving asset diversification.

Incorporating private funds starts on Floor Three of the Wealth Elevator. A private fund offers anywhere from 8 to 25 percent annual returns. Depending on the investment prospectus, a fund can also achieve consistent monthly cash flow.

To get into private funds, you need to understand what they are, when the right time to shift into them is, and their upsides and downsides.

So how exactly does a fund work? In the traditional investment world, a lot of people don't feel comfortable picking certain stock, like Apple or Google or Microsoft. They see too much volatility in any individual company. The CEO or marketing team makes one bad move in a "cancel culture" world, and suddenly your stock is in the toilet. Nervous investors choose mutual funds because they're more diversified and stable; the yield is lower, but it's considered a safer investment.

Funds act the same way for real estate. You can also think of private funds the same way you think of ETFs that are targeting a specific sector. Each fund has a specific investment prospectus. Instead of investing in an individual stock (or a single syndication), you invest in a large fund that spreads your investment over multiple projects.

As of this writing, our Income Fund is focused on preservation of income more than growth.

With future funds, we may target value-add (growth) projects or development projects. Another prospectus a fund might have is only doing projects in certain states, such as Texas, or investing in assets that are skewed toward tax benefits. (In the next chapter, I explain how the tax ninjas will use these to suit their personal situations.)

PRIVATE FUND VERSUS REIT

A private fund may sound similar to a REIT—but they couldn't be more different.

As mentioned in chapter 4, REITS are another Wall Street product that charges high fees, but offers limited returns. The average REIT charges much higher fees than syndications, yet only offers about 4.3 percent in dividends—about a third of the returns we offer in our Income fund.

In addition, because REITs are typically publicly traded, their prices are just as volatile as any other stock or mutual fund. Their share prices rise and fall along with the broader stock market and interest rates.

Unlike a REIT, we structured our Income Fund so that investors are paid their preferred rate of return first, with no other fees. In contrast to the masses investing in institutional Wall Street firms or interacting with their salespeople (i.e., financial planners), we want to build a relationship with our investors. We are truly partners in these ventures—and have our own money at stake too.

A lot of REITs brag that 90 percent of the returns go to investors. That seems good on the surface, but it might not be the best thing for the health of the asset. A private fund can do what's in the best interests of the asset. That means less money in the short term, but a stable investment that continues to cash-flow long into the future.

For example, we replaced the chiller system on one of our apartments with an upgraded piping system that would drastically increase the exit price and be best for our tenants (the real customers); to pay for it, we held back some investor distributions for a quarter. Such a maneuver in a REIT might not have been approved, and the best decision for the life of the asset would not have been made.

When to Move Up the Elevator

When I was in the Basement level of the Wealth Elevator, I saw my bank account sporadically move up $2,000 to $4,000 every month. After three years, I had saved up a $68,000 down payment for my first property. I walked that money over to the bank feeling like there was a hand grenade in my pocket. I was nervous, excited, scared, proud, and happy—all at once.

By Floor Three, the numbers and mindset completely change. Now, you might ask yourself, "Do I want to put $150,000 or $250,000 into this fund?"—and the decision is a flip of the wrist.

Ten years after making that first down payment, I was at the bank again. This time I told the teller, "I want to cash out $500,000, because I need to move some things around."

They looked at me like I was crazy. "What the hell are you doing? Selling drugs or something?" the teller asked.

I laughed. "Real estate, actually. I guess you'll have to get your manager so that I can wire the funds because it's got too many zeros on it, yah?" I did not tell them that we wired off close to

$8 million just a couple of weeks prior—most of which was LP capital—to close a recent acquisition.

In just ten years, my perspective had completely changed. I want you to have that same epiphany—and to do that, you need to get to Floor Three on the Wealth Elevator. Adding private funds to your single-asset syndications is a great way to invest more heavily into alternative investments.

Upsides and Downsides of Private Funds

What are the upsides and downsides of funds?

The upside of funds are as follows:

- **Flexibility**: Funds allow the general partner to make the best use of capital and to remove some administrative costs related to raising the capital for so many individual deals. The operator can also act more quickly and close faster if they have the capital available and can gain access to better deals that are time sensitive.
- **Diversification**: Just as blended whiskey creates a more consistent product, funds offer more stability. Stronger properties help prop up weaker properties and provide more predictable rates of return. You don't have the ups and downs that come with syndication and rental properties.
- **Bragging rights**: There's a lot of pride in being able to point at the Bank of America Jacksonville Tower, or the JFK Holiday Inn in New York (which are some of our holdings) and say, "I'm a partial owner of that." I love

to show off to our friends when we pass a building that the fund owns . . . They don't need to know I own only 0.67 percent of that asset.

- **Investors first**: In my TAX PAL Fund, my investors get paid first; if they don't make any money, I don't make any money. It also pays consistent monthly distributions, allowing those nearing endgame (Floor Three or Penthouse) to pay their monthly expenses with cash flow. For a new investor, they can quickly see the cash flow hit their bank account. That eases the mental hurdle of taking a HELOC, and helps them instantly cover the debt service—and then some. This can also help a skeptical spouse who needs to see distributions drop into the bank as soon as possible—a larger topic we often discuss during our live events. Most syndications pay out quarterly, and only after a project is stabilized once our team has taken possession.

Of course, everything in life has a drawback, and funds have their downsides too:

- **Loose prospectus**: Your general partner has a lot of discretion on how funds are spent, which is why, as an LP, you want to understand and align with that fund's investment prospectus.
- **Time-sensitive investments:** The GP needs to pay attention to cash management, as inefficient use of funds will dilute everyone's investment returns. Lazy equity makes poor returns. This is why we micromanage

the timing when investments are brought into the fund. Basically, once money lands on our side, the clock is ticking to grow it for you.

- **Blind-pool funds**: In most funds, investors don't know what exactly they're investing in. That means a shady operator can make bad deals without investors knowing. I see this a lot in the ranks of house flippers who create funds: one of these bad operators sold garbage assets to their own fund (investors) at two times the value, but eventually their scheme caught up with them. However, not every fund is run as a blind-pool fund, where dozens of transactions are happening.

I had a deal in 2022 where I identified a few assets that I wanted to close on. I included that in the investor memorandum, so investors could check out the addresses of these assets and the strategy behind each of them. I also made a targeted prospectus identifying what our buying criteria were. On several occasions we have also purchased two or three apartments and pooled them together because they complemented each other well.

These downsides are mitigated by the same thing: trust in your operator. That's why it's so important to do your due diligence.

Pick the Right Operator

I self-identify as a middle-market operator.

As of 2023, our investor group has done over sixty deals with over $2.1 billion of assets. We're not the new guy anymore, and people like to work with us because we're very transparent.

We get to know our investors, and make sure our investors get to know us, because we know that it is not always smooth sailing. We throw closed events for new investors to test-drive our organization and create accessibility for prospective clients to do their due diligence.

If an operator isn't providing that opportunity to open up or admitting that there have been times of struggle, you should see that as a giant red flag. Other than that, the rules are the same as when you pick an operator for a syndication. Referrals, referrals, referrals.

Larger, more institutional operators manage billions of dollars of assets, but they only work with investors with $50 million to $100 million or more net worth. Their minimum investments range from $250,000 to $1 million+. Most importantly, due to their high operational overhead, you pay hefty acquisition fees, and you won't find a favorable investor split. Your returns as an investor will be lower. Roughly put, think of doubling your investments in ten years instead of five years with a smaller operator.

For some of the investors in our mastermind group, I might recommend diversifying with these types of institutional operators for the sake of diversification, but as a general rule, I avoid them.

On the other hand, working with complete newbies in the industry is also risky. It's hard to trust your money to someone without a proven track record,.

That's why I prefer middle-market operators. We're not newbies, and we have a track record of successful deals. We don't charge exorbitant fees like the institutional guys, and we strive to maintain a good balance between risk and reward for our investors. We don't have a huge staff like institutional operators do, but I believe this allows us to operate more nimbly, with less overhead.

I think back to the days when I was a city engineer. I had the long and painstaking task of bidding out and awarding simple contractor and consultant projects. When I was in the private sector, the process was not much better. Of course, the point was to minimize government corruption in awarding to the best low bidder—but it rarely led to the best-value bidder. At the very least, it wasted a lot of time.

Now that we are running our company, we have the freedom to make streamlined decisions to give the best value to the project—and our investors.

At the end of the day, the hardest part is *finding* a middle-market operator. Differentiating between new operator groups with a polished website and legit middle-market operators can be hard without a network of other purely passive accredited investors.

HOW MUCH TO INVEST IN A FUND?

We established in chapter 4 that you should never invest more than 10 percent of your net worth in one investment. Funds are different—because each fund is actually multiple investments. If you get in on a fund with five properties, the chances of two or more of those properties going bad in that fund are very low.

My more experienced investors start off by investing with a lot of different general partner operators. After a few years, they squeeze that down to three or four they like working with most. That means they might have as much as 20 to 30 percent of their net worth invested with a single fund or operator—but it's one they've vetted and trust.

Some of our investors join our Family Office Ohana Mastermind group to expedite growing their purely passive investor colleague group and cut down on the time needed to know where to put their money. Instead of the "starter pack" of 10 to 20 percent of their net worth in alternative investments in the first two to five years, those in our mastermind group quickly build relationships as part of the group culture. This sometimes gives members the confidence to invest twice the average in their first few years in alternative investments. Some invest individually over $1 million in the first year.

Look through the Ceiling

Funds and syndications are reliable forms of investing, and one can get complacent on Floor Three of the Wealth Elevator. After all, you can generate $15,000 to $50,000 in monthly passive income.

But you might not want to stop with a mere five figures of monthly cash flow. You might want to move to the Penthouse—and you can do it!

But do you want to?

As you get older, you have to ask yourself if it makes sense to continue playing the game. When do you get out of "hustle-culture" mode? We aren't on Earth forever, and we don't get to take our money with us. What exactly is the point of carrying on?

The answer: your legacy.

Do you have kids to whom you want to leave a seven-figure advantage on their peers? What about the grandkids, or the great-grandkids? Most of us are the first in our family to surpass $1 million net worth before reaching our golden years. Our children (generation two) often become high scholars: doctors, lawyers, engineers. But by the third generation, things start to fall off the shelf for three reasons:

1. We, the first generation, are probably not around to directly influence them like we did for the second generation.
2. The second generation typically does not know financial education the way it is covered in this book, and therefore cannot teach the next generation.
3. The third generation had it easy, and didn't have to fight for their wealth.

Statistically, you can't pass down your money and expect it to last into the third generation. What you *can* pass on is your values, network, and knowledge.

Creating a legacy is all about defining what you should be putting your time and focus into, and sharing that with the next generation. Sure, you can create an irrevocable trust, try to define exactly how and when your money is passed down. Maybe they don't get a dime until they turn twenty-five, or they have to do random drug tests for them to access the money. But the fact is, trusts are easy to break. When you're gone, you're gone, and you have lost control.

That's why your job is to be a good parent and financial mentor.

I laugh with a lot of my long-time investors whom I knew back when they were broke on Floor One (what we call under $1 million net worth). I have seen their lifestyle and, more drastically, their mindsets change. But one thing I can say is that money is a magnifier! Money makes stingy people even stingier, and it makes people with a generous-abundance mindset more giving and positive.

That's why teaching your values and creating a legacy is so important. When you do that, it all comes full circle. You have true wealth—and the money to go with it.

Net Savings

Net savings is a crucial statistic because it reflects the amount of money an individual or investor is able to save after deducting all expenses and financial obligations, such as living costs, taxes, debt service, and other financial responsibilities. It signifies the financial progress—increase to net worth—you make by increasing your savings or reducing your expenses. I sometimes refer to this as your "velocity."

More traditional wealth-building advice emphasizes frugality or managing expenses, whereas the Wealth Elevator focuses more on income. It gets lazy equity working and making more money for you and unlocking tax savings. Additionally, many of our clients earn substantial annual incomes, ranging from a few hundred thousand dollars to over $1 million per year.

Many investors live in expensive states like California and have many children, so their elevated expenses can offset high income levels. This is where net savings comes into play as a loose indicator for comparing yourself with others within the Wealth Elevator ecosystem.

Now I get it. We have been told not to compare ourselves with others, as most people are not on the same wealth-building journey as those on the Wealth Elevator. However, when we examine our current clients who align with our mindset, investors in Floor Two and above save between $50,000 to $100,000 or more a year, while those in Floor 3 and above save $150,000 or more a year, indicating that these individuals have managed to accumulate substantial savings.

However, after a certain threshold of, say, $100,000 of savings per year, we see clients gradually ease off the net savings, opting to enjoy their wealth rather than saving those extra funds to expedite the ascent up the Wealth Elevator. This gradual mindset and spending shift is exactly what we want to see after the Third Floor of the Wealth Elevator.

Additionally, if you are making a lower household income of under $250,000 per year, and are able to save only $75,000 to $100,000 a year . . . don't sweat it. You are doing fine.

I coach many families who are in that situation or who are bigger spenders, which drops them under $100,000 to $150,000 in annual savings, but I understand that quality of life is a consideration too. For example, if your kids are getting older and you want to spend that extra $20,000 to $50,000 a year on exceptional vacations and memories, then that sounds like a great trade-off. After Floor Two, you will make more and more of these experiences-for-money trade-offs.

A lot of clients on Floor Three or higher need to back off from extreme frugality once they reach that $2.5 million to $3 million net worth level, because they are beating their timeline to financial freedom.

Planning your net savings strategy can be overwhelming. I'm happy to jump on a call to explore how you can plan your net savings for your Wealth Elevator–investing journey. Join me via the form at https://www.TheWealthElevator.com/club/.

Alternative Investments in Your Portfolio

By this stage, what does your portfolio look like?

Floor Three: You are a high-net-worth individual, with more than $2.5 million in net worth.

Passive Investor Plan Three: This is where the mind shift from scarcity to abundance happens. You make enough passive income to live on, or if you don't, you just need to reallocate to the right assets. The future looks bright! You have more ability to adjust your gross income to under $200,000. In chapter 8, I share even more advanced tax strategies for this floor. Continue investing more in alternative real estate. Increase your Accredited Investor Banking (AIB) payments to $100,000 to $250,000 per year.

Legal: Your entity structure is in place. Continue to use an LLC as a holding company for your investments, especially if you are on Floor Three or above. Research more advanced legal protection strategies by networking with other legal industry experts and other passive investor colleagues.

Retirement: Now is the time to actually fund your QRP, if it fits with your long-range plan. How much income do you need to have in the future? When do you expect to retire or work in some lower capacity for the long term? A great way to think about it is this: "What would you do if you *had* to do it forever?"

Home equity: Consider improving your life with a bigger house—or downsizing, depending on your life design. You can sell the house and invest the equity, or cash-out refinance. If you keep your house, consider transferring your home equity into your Accredited Investor Banking (AIB) account (discussed in chapter 9).

You now understand most of the floors of the Wealth Elevator. The Basement, the rise through rental properties into syndications and private funds. Now you need to understand how to protect your money for the future. That starts with understanding taxes and asset protection, which is covered in the next chapter.

Chapter 7

Taxes, PALs, and QRPs

"What is the difference between a taxidermist and a tax collector? The taxidermist takes only your skin." – Mark Twain

Perfectly Legal Tax Evasion

They say, "Only two things in life are inevitable—death and taxes."

Well, I know I can't avoid death. But I have managed to avoid taxes.

As a W-2 engineer, I paid 25 to 30 percent of my paycheck to taxes. Now, as a real estate investor in syndications and funds, I pay zero, legally.

From 2009 to 2016, when I was just a landlord owning little rentals, I had paper losses (depreciation) from my rental properties that I could use to offset my investment income and lower my AGI every year by $25,000, which lowered my taxes to 10 to 15 percent.

This is a quick illustration of our two-trick system of the Wealth Elevator: (1) better investment returns, and (2) fewer taxes. This system leads to a much faster path up from the Basement and the first few floors of the Wealth Elevator, simply because you avoid the heavy drag of taxes.

When I moved into syndications as a passive investor, I paid

4 percent in taxes. The next year, I made some adjustments to my strategy based on great advice from other accredited passive- investor connections. They told me how to manage and direct my CPA, instead of finding a "good" CPA and having them drive the ship. From that point on, I consistently got my tax rate to zero.

Even with big capital gains from selling off the majority of rental properties for more scalable syndications, I legally avoided paying a single dime in taxes that year.

Get Smart about Taxes

Every situation is different, but many of our clients who have large ordinary (salary or business) incomes can decrease their taxes by more than half their current tax amount. For most people who book a quick onboarding call, I can find $25,000 to $200,000 in tax savings their first year alone. This might be where investors see the most impact in the early stages of the Wealth Elevator implementation.

However, without alternative investments (especially the accelerated depreciation in larger syndications), you don't collect massive amounts of passive activity losses (PALs), a form of depreciation, which is the linchpin for implementing many of the strategies I share here.

Other more popular tax strategies like 401(k) retirement plans and creatively utilizing business expenses—such as paying your kids as employees—don't move the needle as much as the methods I outline in this chapter: accessing PALs to lower your tax rate, moving beyond 401(k)s and Roths, and building your own mini-pensions.

No matter where you are on the Wealth Elevator, you need to stop thinking of taxes as inevitable. You do have the power to control your tax rate. As we have outlined in previous chapters, your investment strategies change from floor to floor—and so do your tax strategies.

PALs and Passive Income

One of the key transitions that investors make is the percentage increase in alternative investments as you transition away from traditional investments. The big reason you want alternative investments in real estate is because of the PALs, or depreciation, that comes along with it. So how do PALs work?

Stay with me here: the following is simple but not straightforward. Not many people understand this concept, and frankly it took me a long time to finally digest it myself.

Generally, you can also get one twenty-seventh of a building's improvement costs deducted over twenty-seven years. When I had a $350,000 house in Seattle, the land cost $150,000, leaving the property improvement value at $200,000. I was able to deduct about $6,000 a year off of that property—which happened to also be the amount I was profiting from that building.

That meant my income on that deal was completely tax-free. The passive loss (depreciation) amount canceled out my passive income profit.

That's a prime example of canceling out passive income. Sounds amazing, doesn't it? It gets even better when you start to invest in syndications and funds. Due to even more aggressive depreciation and bonus depreciation, which front-loads those first-year losses, your depreciation in the beginning of an investment often improves by as much as ten times.

As you can imagine, if you're implementing bonus depreciation (or even more aggressive depreciation schedules, which is a pretty common practice by any CPA), you're able to create a huge surplus of passive losses. Then, you can apply those PALs to other income in order to negate it and drive your passive income down to zero.

Also, if you don't use PALs to negate passive income in that year, you can apply them where and when you need them. Saving them for a future year means you can store them until you can use them at their optimal benefit. When these PALs are stored, they are called "suspended passive losses." To check how much you have saved up in suspended passive losses, look up your Form 8582 or consult your tax preparer.

Of course, PALs can only help you offset/negate passive income. It's up to you to make sure that your ordinary income is becoming less and less over the years, so you become more tax efficient. Most of our high-paid professionals and business owners start with the majority of their money coming in as ordinary income via a W-2 day job or a Form 1099. Getting paid a lot creates what we call the high-friction taxpayer. A large part of your income goes directly to the government. Ordinary income. Booooo!

As you move up the Wealth Elevator, you move into alternative (real estate) investments, and those produce passive income. Any income categorized as passive income can be negated via accumulated PALs coming from your real estate portfolio. Therefore, you can eliminate taxes with the paper losses (PALs) from the investments. Yay!

Additionally, one of the reasons we don't really like traditional investments is because they are categorized as portfolio income. That's treated like ordinary income and does not produce PALs. Booooo!

When you're on Floor One and Floor Two and have under $2.5 million net worth, you're going to need ordinary income to increase your investable assets. Once they surpass $2 million, a lot of people decide that one of the two working spouses can quit their job, because they have enough investments to vault into Floor Three or the Penthouse level. Think about it . . . $2 million working at only 10 percent a year is $200,000 a year of passive income. That's superior to a working spouse's $200,000 of ordinary income.

DON'T QUIT YOUR DAY JOB

Here's more to salivate over. At the Penthouse, when you quit your full-time job, not only does your quality of life improve, but you have less ordinary income pushing your taxes up. That's why in the higher floors we want you to stop working! In the Basement or on Floor One, under $2.5 million net worth? You need to keep working and temporarily be in "make a lot and pay a lot in taxes" mode because you need to establish that investment base.

Practically speaking, as you start to implement the Wealth Elevator system, you'll probably start off with as little as 10 percent of your income coming from 10 to 20 percent of your portfolio in alternative investments. Don't feel bad—it's where we all start . . . unless you were lucky enough to have wealthy parents. It's not efficient, but it's part of the game.

Clean Tax Energy

I came up with a car analogy that I found particularly useful for many of my investors. In the Basement of the Wealth Elevator, you need to focus on building up your investment capital. This often requires relying on your ordinary income, which I like to compare to a gas-guzzling truck. You make a lot of ordinary income . . . and pay a lot of taxes. It's not really tax efficient, but you need to increase your net worth.

As your alternative investment portfolio begins to outweigh your traditional investment portfolio (20 percent, then 50 percent, or even as high as 90 percent of your net worth), your income changes from the majority being ordinary to more being passive income. During this transition stage, the analogy I use is a Toyota Prius with its two engines: the electric and the gas motors. This stage can feel a bit awkward and not pretty . . . just like a Prius!

That's okay, because the end goal is to reach the third stage, the fully electric Tesla. At this point, you have a substantial number of alternative investments generating passive income (and PALs). Additionally, when you or your spouse can leave your day job, your ordinary income decreases significantly. Consequently, your percentage of passive income skyrockets within your total portfolio.

Similar to how a Tesla runs cleanly on electric energy, from a tax standpoint, the majority of your income becomes passive income. You can then offset a substantial portion of your tax liability. This is when you begin to experience the benefits of running "clean" from a tax perspective. You're negating the majority of your AGI and paying minimal tax. At this point, you are likely on the Third Floor of the Wealth Elevator, or even in the Penthouse.

In summary, if you're a first-generation millionaire, you're going to burn a lot of dirty fossil fuels to get going. It's not efficient, but it's part of the game. As you rise on the Wealth Elevator, and your passive income outweighs your ordinary income, your tax rate naturally starts to go down.

Those are the basics of the Wealth Elevator tax strategy. I have some other tricks to cover, but let's go through some so-called tax strategies that aren't nearly as beneficial as you might think.

The Commoner's Tax Strategies: Beyond 401(k)s and Roths

Save on taxes now, pay later in a government-labeled "retirement" plan. Smart? Think again.

Many different retirement vehicles with supposed special tax treatment exist: 401(k)s, self-directed IRAs, Roths, DB (defined benefit) plans, HSAs (health savings accounts), and 529 plans. These are all different kinds of qualified retirement plans (QRP), which I refer to as a whole.

The challenge with QRPs is that they don't eliminate tax—they just defer it. The government has created a trap where they maximize their revenue (you paying taxes to them!). When you invest through a QRP (even a self-directed one), all the benefits of PALs that we've just discussed don't help your tax situation. Instead, the PALs are trapped in your QRP and do not flow down to you personally. In that case, they can't help you with lowering your AGI (and therefore your taxes) today.

Why do smart investors take money out of their QRPs to invest in alternatives and invest personally? Because we see through the myth of the QRP.

Too many people waste their time with inferior tax mitigation strategies because we are all misled to think QRPs are the best path forward. It's no surprise. The large Wall Street companies unofficially lobbied the government to create these QRPs, most notably the 401(k), as a path for the average American to funnel money into "their" traditional investments. That leads to large corporate profits by Wall Street brokerages, but a dent in your returns.

I don't like QRPs (at least not until you're on the Third Floor or higher) for four reasons:

1. **Rising tax brackets.** You aren't actually eliminating your tax burden with these QRPs. All you're doing is deferring the taxes to the future. Conventional thinking is that in your older age, you're not going to be working anymore. You're going to shrivel up and live a meager existence—and be in a lower tax bracket, with little to no income—until you die.

   That might be true for most people, but for those of us on the Wealth Elevator, it's just not the case. I see so many clients trapped in this situation: they have a huge amount (over $500,000) in their QRP. When they reach retirement age, they're forced to take it out. But because of their cash-flowing investments, their AGI is still very high. In fact, it might have even grown since their peak career earning years! They're in the absolute highest tax bracket when they take that money out . . . so they're getting hit with a higher tax rate than they would have if they took it out today.

AGI chart on the onboarding deck 2023. See page 12.

2. **Taxes always rising**. It's no secret that taxes are always going up. How else do you pay for all these government entitlement programs, billions of stimulus dollars, and other government bailouts? Some people even think that the US will turn into a socialist state. I don't believe that will happen in our lifetime, but I do believe that taxes are on the rise, and will keep going up. That means you want to pay your taxes now, not at some future date when the government needs to harvest revenue. In a way, the 401(k)/retirement plans are a blank check to the government . . . don't let them have it!
3. **Middlemen fees**. When you use QRPs, you're stuck with the cafeteria of options. Remember in high school, when you weren't allowed off the school premises during lunch? You were stuck with the cafeteria, which was expensive (not to mention usually gross). But as you became an upperclassman, you got an off-campus pass. You could get the hell out of there and go to McDonald's or KFC or Pizza Hut, which tasted better and cost a fraction of cafeteria food.

Your 401(k) is just like that high school cafeteria. You're working with traditional retail investments—the Wall Street stuff for the retail investor. Commissions and hidden fees are both very high, and that ultimately comes out of your ROI (return on investment). In the alternative investment world, your returns are higher, options are wider, and your fees are lower, since you are cutting out the middlemen.

4. **No passive losses**. This final point trumps the other three combined, due to the tax strategies we covered earlier. QRPs trap your PALs in a vacuum. You can't use them on your tax return and get the benefit today—and today is where you need the most tax relief! You want to net more money and invest it to realize compounding gains. I have a client who makes $600,000 a year. She brings those passive losses from her investment and drives her income down to $200,000 a year. That saves her $150,000 to $200,000!

Let's think outside the box of QRPs. Stop playing checkers when sophisticated investors on the Wealth Elevator are playing chess. The Wealth Elevator strategies contrast with what we've all been taught—and that's a good thing. It's essential to approach these ideas with an open mind, and analyze them based on the foundation of what we've discussed.

Ultimately, you should make your own decisions, informed by this new knowledge. But whatever you do, don't take the financial advice of the masses. It's either benefiting a corporate or government interest, or catering to individuals in the Basement of the Wealth Elevator.

By the time you reach the Penthouse, it may be time to start thinking about funding your QRP because you have satisfied your cash flow today. Until then, think twice about contributing to any QRP.

Create Mini-Pensions

I know, the concept we're exploring here challenges conventional wisdom.

We are taught that you should save money for retirement by amassing a large pile of cash and living off its remains in your golden years. In retirement, you need to convert your pile of cash into consistent cash flow. Ideally, you do that not just by eating that pile, but by eating the cash flow that pile creates. When you do that, the pile can keep growing indefinitely to pass on to future generations—or to simply counteract inflation.

This is what we are all taught, but the "one" pile is flawed logic. You never want to rely on one source of income, even the so-called diversified pool of traditional investments.

TAILOR YOUR MINI-PENSION

I'm happy to support you in creating your mini-pension strategy. Join our hui for a complimentary coaching session. Join me via the form at https://www.TheWealthElevator.com/club/.

On the Wealth Elevator, the key realization is to begin with the end in mind, by

- creating cash-flow streams, not at the end but now; and
- establishing multiple sources of income, almost like having several mini-pensions.

What's intriguing with this approach is that it can and should be initiated while you're still young and actively earning income. By not relying on or spending these cash-flow streams to "put food on the table" today, you allow the growth to accumulate and create more mini-pension babies.

Contrary to the traditional approach of prioritizing QRPs, especially via 401(k)s and IRAs, the Wealth Elevator methodology advocates filling up your "today cash-flow bucket" as your primary focus. This means generating sufficient passive cash flow, typically ranging from $10,000 to $25,000 per month, to cover your present needs.

Once this goal is achieved, it then becomes logical to allocate funds toward QRPs (then nonprofit entities, which will be discussed later in the Penthouse chapter), considering that these resources may not be required during your lifetime and can be passed on to future generations.

The Golden Hamster Wheel

Using these strategies, you can create a golden hamster wheel of never having to pay taxes.

To stay on this hamster wheel, your goal is for your losses to exceed the passive income you pull out every month. Especially when you're focused on growing your equity, you want to make sure that the monthly cash flow you pull out is less than the amount of passive losses you rack up. For example, our average client pulls out $25,000 in monthly cash flow, or $300,000 per year. They typically have $4 million invested, with $3 million in losses. The $3 million in losses, offset against $300,000 in annual cash flow, gives them ten years of offsets—meaning, no taxes.

The trick is to grow your equity to a critical mass that's high enough to offset the amount of cash flow you need each month.

If you're starting out, you might think $4 million is a lot to invest. But you grow that amount over time. If you have $1 million invested, you might double that in five or six years to $2 million, then double again five years later to $4 million.

Of course, most people do not invest $1 million to start, so you may need some time to reach $1 million. If you're just starting out, you want to increase your portfolio percentage of alternative investments as quickly as possible.

I see a lot of people start conservatively with just 10 to 20 percent of their net worth in alternative investments, then slowly increase to 40 to 60 percent. But the only way to get your net worth to $2 million quickly is by putting 50 percent or more of your investments in alternative assets or by having a salary or business income of $500,000 or more.

Obviously, each person's situation is unique. That's why I like to chat with each person we work with to offer a high-level game plan for their Wealth Elevator journey. Hit me up at https://TheWealthElevator.com/club/.

Once you get out of the QRP fallacy and get PALs working for you, you are able to drive down your taxes so you have more money to invest. In the next chapter, we look at tax mitigation strategies for every floor of the Wealth Elevator.

Chapter 8

Tax Mitigation and Asset Protection Strategies

"The avoidance of taxes is the only intellectual pursuit that carries any reward." – John Maynard Keynes

Wealth Whispers

Some of the concepts I share with you next can feel like esoteric theory. But I've seen them in practice.

In 2020, I was at an event with other high-net-worth investors. I asked one informal mentor for a private word. "I've offset my income with the deductions from real estate and haven't paid taxes for the past few years. Is this what you're doing too?" I quietly asked.

"Well," he laughed. "I haven't really paid taxes in the last decade."

He continued, "You know that 8582 form you always talk about getting from your CPA on your podcast? I looked mine up. I have just over a million dollars of suspended passive activity losses (PALs). So I don't see taxes happening any time soon . . . I'll probably take those PALs to my grave."

This is when I learned that "wealth whispers"—the strategies that we discuss in this chapter—are not openly discussed. Not even in the noise of the frugal FIRE (financial independence, retire early) movement, where influencers preach about retirement accounts or back-door Roth accounts. If you aren't well-connected with other purely passive accredited investors, you are outside these conversations.

Tax Strategies for Your Portfolio

It's true what they say—the rich just get richer. Few people talk about how little tax they pay. No one is prancing around the town square yelling, "I have three million of suspended passive losses! Screw you, government! Come and get me!"

You never have to do anything shady or underhanded to lower your tax rate. All you have to do is understand the incentives buried within the IRS (Internal Revenue Service) tax code. In this chapter, we look at how to gain real estate professional status (REPS), protect your assets, and talk with your CPA. We'll also look into specific strategies for high earners, and how not to get overwhelmed by the information I'm presenting here.

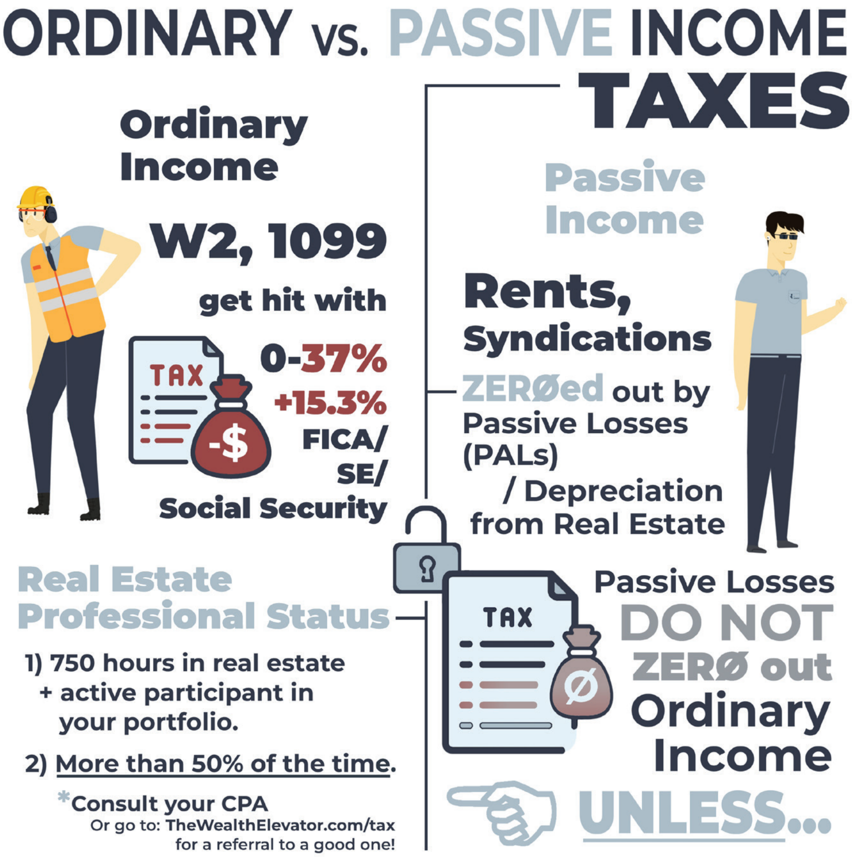
I can't tell you exactly which tax strategy to use, because every investor is different. What I can do is share stories of what many of our top investors do. When you have access to our free members' portal, you'll find past coaching calls where I go over "tax bracketology" and break down where people's AGIs are, and what number they should try to drive their AGIs to for optimal taxes, while balancing—not running dry on—passive activity losses (PALs).

The coaching call videos are arranged by net worth, but you might have to watch a few videos to find enough data points around your income (AGI) range to get a clear picture. Additionally, each strategy might apply only to certain floors on the Wealth Elevator, so be sure to refer to our chart in the appendixes.

All of the strategies in this chapter are designed around one thing: lowering your ordinary income.

You probably already know what ordinary income is: it derives from W-2 or 1099 income. It's typically the primary source of earnings for new investors. However, this type of income is not ideal. It's subject to high taxes and is difficult to offset. Our goal is to generate passive income, particularly from rental property investments or passive investment vehicles like syndications or private funds in real estate.

Ordinary vs. Passive Income Taxes



In this chapter, I show you ninja tax strategies that allow you to pass on generational wealth. The ideas may seem complex at first, but as you scale the Wealth Elevator, each strategy combines with the next to create exponential growth. Together, these ninja tax strategies significantly outperform traditional investing methods.

At the lower levels of the Wealth Elevator, you may not have significant income to offset taxes. As you rise up the elevator, you can transition to a tax status of real estate professional (REP), which offers significant tax benefits. You can also earn better returns from alternative investments and reduced tax burdens, as well as Accredited Investor Banking, to be discussed in the next chapter.

It's essential to understand that this book provides a high-level overview, and the details may change slightly as IRS tax codes change. It's crucial to consult with a modern CPA to execute this strategy properly.

Now, let's dive in. First up, what the heck is REPS?

Real Estate Professional Status (REPS)

As we mentioned in chapter 7, PALs offset passive income from rentals and syndications. But you can't use PALs from your real estate to knock out your ordinary income from your W-2 day job or your 1099s. You also can't use PALs for your portfolio income if you buy or sell mutual funds or stocks.

That's kind of a bummer . . . unless you invoke real estate professional status (REPS) on your taxes. When you do that, you can use your PALs to effectively lower your AGI to whatever you want (assuming you have PALs) by lowering your passive income or ordinary income.

You or your spouse can qualify your family as REPS with two general conditions:

1. Not having a full-time day job.
2. Putting about seven hundred fifty hours per year of active participation in your portfolio.

Note that being an LP passive investor doesn't count for those hours, nor does being a real estate agent. It needs to be some active tasks over property that you own. The second requirement is the really tricky part.

Here's an example of how I helped one client, a doctor named Paul, go from annual taxes of about $200,000 to zero. As a doctor, Paul was making $700,000 a year in total income.

Of that, $600,000 came from his day job, and the rest was passive income from real estate. This gentleman had been investing for some time, and he had $500,000 of suspended passive losses. The $100,000 passive income from real estate was easy to negate on his AGI/taxes with PALs.

But what about the rest, the $600,000 ordinary income?

Paul's wife had worked as a teacher, but after they had children, she no longer had a full-time job. That allowed her to transition into becoming a full-time real estate professional. More importantly, it allowed the couple to tick that checkbox for REPS on their taxes.

As I explained before, you cannot offset ordinary income with passive activity losses (PALs). But as a real estate professional declaring REPS tax status, you can. As a real estate professional, everything you earn is ordinary income, and passive income losses are considered ordinary losses.

After doing a little bit of cost analysis, Paul and his wife decided it was worthwhile to buy a couple of little rentals nearby in order to become real estate professionals (REPs). Even with the legal liability they took on (and the minor headache of actually managing those properties), it was worth the tax benefits.

Specifically, I recommended that Paul work with his CPA to use a few hundred thousand dollars as suspended PALs (PALs that were carried forward from previous years) to bring his income down to at least $350,000. That's based on tax brackets: $360,000 (in 2023) was the break between the 24 percent and 32 percent tax bracket, and they wanted to duck below that break line.

As a result, they brought their AGI down from $600,000 to $360,000 by using up $240,000 of suspended (unused) PALs. That dropped them from a 32 percent tax bracket to a 24 percent tax bracket, creating substantial savings. They could then take those six figures in savings to invest in a few new deals. By using these combined strategies, Paul and his wife greatly reduced their taxes that year.

Because of this, Paul realized he could retire early if he converted his lazy retirement and home equity to cash flow. With this plan, he charted the course to retire in two years, leaving him with just two years in a high-income bracket, which he would offset with his PALs. Once he's not working in his high-income job anymore, he will be in a much lower tax bracket. By then, they may not need the REPS to offset their income.

Of course, what worked for Paul might not work for you. You need a consultation to figure out if this is right for you. How low can you drive your AGI, based on how many PALs you have banked up, and how can you qualify for REPS? This is why a lot of this is individual. You need to learn these strategies to drive the ship and chart the course for your (hopefully) educated CPA.

Other than obvious tax savings and expediting the path to financial freedom, a big win for Paul was justifying the choice for his wife to stay at home with the kids before they grew up, while earning REPs status. That is what this is all about!

DON'T MAKE SHADY MOVES

One person in our free Facebook group posted terrible tax advice. He said, "Hey, go buy a $100,000 car with your business, and then sell it or transfer it to you personally as a gift."

I was furious. "No way. That's illegal. You're taking this expense in as a write-off, and then if you're selling it, you need to take it as personal income." I ended up banning him from the group, because I didn't want him spreading bad advice—advice we have all grown accustomed to hearing from randos on other free networking platforms.

Paul had a lot of PALs to tap into. How do you build up your own PAL backlog?

PAL Nirvana

One general tip I have that applies to every investor is to try to get up to a few hundred thousand dollars of suspended PALs into your proverbial back pocket. I call this the "PAL nirvana threshold."

Here's how it works. Any time you have a deal that cashes out early (a good thing), you can shake out those losses and apply them to cancel out that particular capital gain and depreciation recapture on that asset, and save big. Then, of course, you invest that money again—and likely accrue even more passive losses. In practice, investors in dozens of deals or funds tend to accumulate more and more suspended PALs, all the while paying less and less tax. A few hundred thousand dollars of passive losses will likely be a starting point, and you can stockpile from there.

Some people call this phenomenon the “golden hamster wheel”: you continue rolling it forward, perpetually deferring taxes—maybe forever. And even if at some point it catches up with you (because you stop investing or start investing back into traditional investments and generate more portfolio income than passive income), you delay taxes and therefore pay with future dollars.

By putting off paying taxes for as long as possible, you can take that tax-sheltered money and grow it. In other words, it’s the theory that more money today is better than tomorrow, because the value of money increases over time. I have also heard this called “the slow 1031 exchange,” because you are getting the outcome of deferring taxes without the cumbersome issues that come about in a 1031 exchange.

No one in our world uses 1031 exchanges—they are effectively obsolete if you’re riding the “golden hamster wheel” of building your PALs in real estate deals by going into new ones. As I mentioned in earlier chapters, you can also pull out monthly cash flow from your profits, but this can slow your portfolio growth rate and diminish your tax offsets. You want to find the right mix between pulling cash flow and reinvesting for PALs to reach your financial and lifestyle goals.

If you are savvy, you might have noticed that this works a lot like traditional QRPs. The difference is that you are doing this outside QRP accounts. You get the same benefits without all the fees and restrictions, and you have the flexibility to use PALs from one year to another as you optimize your taxes. This is called income smoothing, which generally means keeping your AGI lower to avoid higher tax rates and large tax years.

When you self-direct your QRP money, the PALs stay insulated in your QRP, never rolling down to your personal tax returns, where you need it. Don't worry if you're confused. I just want you to be aware of this pitfall. I talk more about this in the QRP section.

When you're ready to stop investing—or get off the "golden hamster wheel" and move out of real estate investments that don't give you PALs—you can defer the taxes from your capital with ease by continuing to invest in real estate. Or you can completely avoid a lot of taxes by passing away and transferring the assets with the new stepped-up basis. And you can do what I see most of our high-end clients doing: you can keep investing in real estate and keep deferring taxes.

All completely legal and aboveboard.

EVEN MORE TAX STRATEGIES

We also coach our investors on other fun, but effective, tax strategies.

One is the Augusta Rule. It involves using your home to host board meetings for your investment company. By charging yourself for the facility usage, you can claim significant tax deductions in the form of business expenses.

Another strategy is paying your kids to do work in your investment company (yes, you own an investment company). This strategy falls under "income shifting," where you move income to other places where the tax burden is less—in this case, your kids. To qualify, your kids have to be between seven and twenty-two, and your company can pay them up to $12,000.

Other tax-savings strategies are low-hanging fruit. For instance, you can find legitimate expenses incurred by your real estate business. What do you currently spend your money on? Could you instead run those things through your business as a necessary expense? To name a few: business mileage, meeting expenses, educational/networking fees, office/computer supplies, and travel expenses for due-diligence trips.

Asset Protection and Legal Entities

The more money you make, the more you need to protect yourself. As your net worth increases, you will want to overlay asset protection strategies. That means basic insurance, umbrella insurance, LLCs, and irrevocable trust schemes. Which ones you need depends on what floor you are at in the Wealth Elevator.

If you are more risk averse or have a higher degree of liability in your working profession, you may move up to an augmented asset protection before you've moved up to the next floor.

Basement and Floor One — Asset Protection Phase One: Basic insurance, umbrella insurance

At this stage, you might find it sufficient to invest in your personal name (or living trust name, which offers no legal protection); that's what most of our investors do. As long as you are investing as a passive investor, and are not the general partner for the deal, you have limited liability.

However, if you are investing in direct ownership of rentals, which is more of a legal liability, you might want to create an LLC (Floor Two), because the amount of litigation potential is exponentially higher than being a passive investor. This is a big reason higher-net-worth investors tend to sell off their rentals: for the scalability, but more importantly, to decrease the litigation potential. At the very least, you need basic insurance for your home and auto, and $1 million in umbrella insurance.

Floor Two and Three — Asset Protection Phase Two: Entities like an LLC

As of this writing, an LLC costs around $1,000 to set up, plus a few hundred dollars annually. It provides an additional level of protection against being sued personally for things like slips, trips, and falls if you are a direct owner. (Remember, as an LP passive investor, you are not a managing member, so this doesn't apply.) Some argue that an LLC is a redundant measure. An LLC isn't bulletproof, but in most cases it's an adequate amount of protection if you are under Penthouse status ($5 million net worth).

A lot of investors get confused about whether they need a legal entity such as an LLC to write off business expenses. Remember that legal entities are for asset protection. They do not stop you from getting the tax benefits, as those benefits flow through to you personally (the exception would be some irrevocable trusts).

Penthouse — Asset Protection Phase Three: Irrevocable trust

When you ascend to the higher floors, you no longer hope to get rich, but are mainly concerned about not losing money. You can grant yourself an extra level of protection by removing yourself completely from the ownership chain through an irrevocable trust. This is a best practice of many, many multimillionaires. Simply put, your assets are pulled out of your estate. If someone wants to sue you, you don't own the assets, but you still control the assets to some extent.

Ease of use decreases, but for many, irrevocable trusts are worth the extra legal protection. As of this writing, irrevocable trusts range greatly in cost, from $10,000 to $100,000 and more. If you get sticker shock over the price tag, you probably aren't ready to set up an irrevocable trust. Note that unlike irrevocable trusts, standard revocable trusts (also called living trusts) do not offer asset protection. Attorneys can charge $1,000 to $10,000 to set up revocable trusts.

Beware! A lot of legal promotors sell cool-sounding trust names that do it all in terms of asset protection and taxes. Not all are created equal. We suggest educating yourself and interacting with other people who have gone through the asset protection process to see what structure works best for you. Then find a legal team to put it together.

Specific Strategies for High-Income Earners

When it comes to tax benefits, high-income earners often employ various additional tax strategies to their advantage.

One strategy is investing in oil and gas deals. Given the incentives in the tax code aimed at reducing reliance on foreign oil, these investments offer significant tax benefits. Not only can individuals deduct their passive income, but they can use the losses from the investment to also offset their ordinary income. This proves beneficial for high-income earners seeking to lower their overall income without relying on real estate professional tax status or a high-passive-income portfolio.

Another strategy involves participating in conservation easements for land preservation. While these have faced scrutiny in recent years, many individuals still use them as a primary means to decrease their adjusted gross income (even ordinary income) by as much as 30 percent. When pursuing this option, individuals rely heavily on the expertise of venture operators to ensure the project meets all requirements. Nevertheless, it presents an effective method for reducing taxes without relying on real estate professional tax status or a high-passive-income portfolio.

Lastly, some investments allow you to obtain heavy tax write-offs through Section 179 equipment deductions that typically avoid intense scrutiny from the IRS. This method is effective in generating significant PALs that you can use to offset passive income or capital gains from other real estate assets. Another tool for the sophisticated investor! But it's your job to find GPs and operators who provide such offerings and tax benefits.

Your CPA vs. Tax Strategist

Most of our clients start with run-of-the-mill CPAs who take the path of least resistance. Perhaps it's the reason why those CPAs still have a day job.

Think about it . . . it's unfair to expect the average CPA to be a tax strategist for you:

1. They don't know the deal risk profiles, nor the operators.
2. They don't know your future deployment plans to account for your estimated adjusted gross income (effective tax rate) for the next few years.
3. They don't know how much depreciation you will be getting from the plethora of investments you look to enter.

It is your job to understand what you can and cannot do—and lead your professionals. It is *their* job to complete the technical paperwork.

CPAs and lawyers are contractors, but you need to be your own architect. You have to be in control. Don't let the consultant dictate the scope of work. It's up to you to raise your financial IQ so that you can advise your tax professional.

One item that you need is the Form 8582 from your current accountant. That has your suspended PALs. Be aware: they don't normally give it to you, or show you the back-end calculations. That's their way of preventing you from leaving. You will have to stay strong and insist on it.

Here's a recent quote from a new Family Office Ohana Mastermind (FOOM) member:

"I felt confident directing my new CPA in our meeting today. My wife's observation was, 'If you didn't know to tell him half these things, they would have no way of accounting for it.' I don't want to ring the victory bell just yet, but it looks like I'll be saving thirty to thirty-five percent in paid taxes compared to last year. And we are looking to squeeze under that magical AGI line next year once we get into more alternative assets."

He continued: "There was a combination of a few new things we did for 2022 filing: I took ownership of tax planning, got a new CPA, implemented REPS with wife, did 2x cost (the pseudo/modeling type) segregation (https://TheWealthElevator.com/diycostseg/ for more info) for 2x new construction single-family homes—the last SFRs I'll buy. Also, depreciating wife's SUV—have S-Corp, use it for work. This is par-for-the-course stuff for you pros, but I wanted to share some gratitude. I'm looking forward to adding the tax savings to our dry powder to jump into the syndication game in 2023. Additionally, I am excited to learn from the FOOM."

All that said, if you would like a referral to CPA teams that have the capacity for these tax strategies, join our club at https://TheWealthElevator.com/club/ and send us an email.

Deal with Overwhelm

Before we move on, I want to discuss the concept of focusing on what really moves you forward on your wealth-building journey. This falls in line with Pareto's 80/20 rule: 80 percent of outcomes result from 20 percent of all causes.

When your net worth is lower, in the Basement or Floor One, it's crucial to prioritize saving money and potentially cutting expenses. There aren't many tax strategies to employ. However, as you progress to Floor Two or Three, you should think about where you earn the highest hourly rate or the best return on your time.

For most people, that's their day job. If your net worth exceeds $1 million before you reach age fifty, you likely have a great professional wage or run your own business. You can work harder or put in more hours to secure a promotion. That's why we emphasize investing as an LP with a reputable sponsor group that has a good track record, instead of being a traditional landlord or doing property rehab yourself. It's all about where your hours are best spent.

As you progress beyond the Penthouse, your focus shifts away from income and toward business development activities. You should be growing your investment or business empire, essentially focusing more on the top-line revenue than expenses (tax savings methods should already be on autopilot at this point). It's important to note that not many people reach the Penthouse level, or even aspire to do so. Most of our clients aim to retire with a net worth of $4 to $6 million and live off passive income.

It's up to you to be aware of the wealth floor you aspire to, corresponding strategies, and the various paradigms that guide how you allocate your precious time. Ultimately, time is your most valuable resource, and we need to be mindful of how we use it.

Once you've lowered your tax burden (which is low-hanging fruit), you want to think about other ways to grow your money, like the Accredited Investor Banking strategy. Let's find out about that in the next chapter.

Chapter 9

Accredited Investor Banking

> *"Stop thinking about what your money can buy and start thinking about what your money can earn. And then think what the money it earns can earn."* – J. L. Collins

Passive Doesn't Mean Complacent

None of us like to make loan repayments. What if you could make those payments *to yourself*? Sounds like something only the super-rich can do, but it's well within reach for those who have made it to or past Floor Two.

Repaying yourself is possible when you own your own bank, where you have control over your money—where you can store your capital in stable institutions and decrease the possibility of bank failures impacting you.

That's the power of what we call Accredited Investor Banking, or AIB for short. As you grow into a sophisticated accredited investor, your deal-flow greatly increases, and the amount of your money sitting idle decreases. But you will still have natural pauses between deals. Where do you store your funds as you accumulate capital for the next $50,000 to $100,000 check for the next deal?

With AIB, you use a special configuration of a whole life insurance policy that builds up cash value with uninterrupted compounding, and then you take out a loan based on the value of that policy to invest. It's a cornerstone of the Wealth Elevator: capital efficiency that gives you a leg up on other investors. When you act as your own bank, you are in control and able to recapture your opportunity cost losses and seamlessly feed into your next investment.

As a first-generation millionaire, you may think owning your own bank seems crazy—something only the Rockefellers and J. P. Morgans of the world do. But if you follow the system that I have optimized from the Infinite Banking Concept (IBC) predecessor, you'll see how easy it is for you to form your own bank.

An Accredited Investor Banking System

In this chapter, we explain exactly what AIB is and how to maximize its use, depending on which floor of the Wealth Elevator you're on. This can be a complex chapter with a ton of dry language, so bear with me. If you get a strong handle on what AIB can do for you, you will set yourself up for long-term success.

What is AIB, and how does it work?

In essence, your "bank" allows you to make money twice: once on the uninterrupted growth of cash value in the insurance policy, and again on an investment you acquire using the policy as collateral. Said another way, you make money in two places: the policy itself, and the alternative investments you acquired using the borrowed funds. When your funds are undeployed (maybe when you are saving up), your policy still grows.

You do this in three basic steps:

1. You make a deposit into your policy.
2. You take out a loan using the value of your policy as collateral.
3. You invest the money you've just earned.

When real estate deals exit, investors find themselves in a windfall situation. Instead of placing these funds in a low-yield bank account, you can pay off the loan on your policy and additionally fund your policy for the optimum place to store your capital between deals. And then repeat the cycle.

Think of it like having a primary residence with a HELOC on it: you pay down your mortgage along with appreciation and your equity goes up. Then you take out a home equity loan based on the value of your house. You can use that loan to buy anything you want—a Jet Ski, a vacation, or, for us, a share in a real estate fund or other private equity deal.

Are AIBs more secure than banks? Life insurance policies are backed by a life insurance contract with a huge fortune behind it. These companies are triple-A rated—they've been around for over one and a half centuries, paying dividends since the Civil War, through depressions and many recessions. They are considered more secure than banks. Just make sure you work with a licensed broker who can steer you clear of the less reputable companies. Essentially, stick with the biggest institutions for your policy backer.

Here are some additional upsides of this system employed by the wealthy:

- **More security**: In tough times, banks can and do literally pull a loan or HELOC out from under you. We saw it happen in the mortgage crisis in 2008 and again in 2023 as credit tightened. They can also limit your loan, even when the value of your house hasn't changed. They just conjure up a sandbagged appraisal on your property, giving you fewer loan proceeds to work with. With AIB, it's your money, your bank. And it's backed by the insurance companies, who are much more solvent than banks.
- **Asset protection**: When O. J. Simpson was accused of murdering someone, the courts couldn't freeze his 401(k) retirement money. The money was untouchable, by law. This same protection is true of life insurance policies in many states. No one can touch it. At the Penthouse level of the Wealth Elevator, you want to get as many assets as possible out of your estate for asset protection, so others can't get to it. Some common ways to keep assets outside your estate are through your business or an irrevocable trust.

  But you also want to be able to access your funds for convenience, such as with a bank account—which is too convenient. The life insurance stays within your estate, so you can access the funds, but not so convenient as a bank account or home equity line of credit.

Storing a portion of your funds in your life insurance gives you a healthy balance between convenience and arm's-length asset protection.

- **Growth**: When you are on Floor One to Three, taking your money out as a loan and putting it into higher-yielding investments (real estate with tax benefits) makes sense. But even if you play the complacent saver and just leave the money in your policy, it grows at a dividend rate of 4 to 5 percent. Since it's life insurance, that return is tax-free (a nice tax loophole for you as long as you configure the policy the right way with an AIB specialist). At some point in the future, when you have reached your endgame, you can use this as a great storage of liquidity as you save up. Or, just live off the dividends.
- **Tax benefits**: You're making the dividend at a tax-free rate, and then you're borrowing those dividends. You should classify that borrowing as a business expense, because you're using the money to invest in real estate or creation of income.

I generally say that every strategy has downsides, but in the case of AIB, the downside is greatly mitigated by the way the policy is configured. Life insurance policies often have very high fees, and they're inflexible when it comes to how you want to spend the policy and even how you load funds into it. Honestly? Normal whole life policies are basically a scam. Fees are the biggest concern for users.

But the devil is in the dosage. You can configure your life insurance policy to drastically minimize these fees, which directly increases the immediate cash value. Most people have policies where *50 or 100 percent* of their initial contributions go to fees, leaving them with very few funds to borrow against and invest with. That's where the insurance companies and salesmen make their commissions, so the fees are often high by default.

Our team is instructed to configure the best deal for the client (which is also the low fee commission way) because we feel that this is the right business move for us. It allows clients to grow their net worth the fastest, and as a result, everyone gets larger policies in the long run.

The policies I personally use have 10 percent, or even as low as 5 percent, going into fees. That makes the policy work for real estate investors, as they are able to quickly access a larger portion of their contribution and have those funds also working outside of the policy.

Flexibility of funds is the second major concern for users. Sophisticated investors used to seek policies that support being able to contribute larger amounts such as $100,000 to $250,000 a year for multiple years. The problem was that a lot of investors didn't know their liquidity situation the next year, let alone five to ten years in the future. AIB takes the guesswork out of creating a plan. It has just one lump-sum payment of $100,000 to $1 million, which eliminates the need to plan future payments into coming years. Additionally, AIB allows you to flash-fund quickly, so you can turn around and invest it right away.

Overall, the way we design the AIB policy is truly cutting edge, as it is optimized for fees by getting the minimal amount of insurance (where the commissions come from) while staying within the insurance company's and IRS's limits, to maintain the tax-favorable benefits.

SOUNDS LIKE INFINITE BANKING?

The Infinite Banking Concept financial system has been around since the 1980s, and a lot of people use it for different purposes. When we started working with it, we found it was not optimized for investors going in and out of private placements. The issue with contribution flexibility using the Infinite Banking Concept system is that you have to create a contribution plan that spans a time period of payments, anywhere from five to fifteen years.

For example, with a traditional IBC policy, you might contribute $100,000 a year for thirty-plus years. But what happens if life changes, and you don't have the money for the second or third year? The fees stay high, and you end up spending more in fees than you make in returns.

Fund Your Accredited Investor Banking Strategy

Remember that AIB is not an investment method: it's an intermediary that can still make single-digit tax-free returns.

In the Basement and on Floor One, you don't have a lot to invest. We recommend not doing an AIB policy at that point, because your mental bandwidth should be focused on generating income to grow your investment capital base or sourcing investments. Once your net worth exceeds $1 million on Floor Two, you should start to plan. Most of our clients try to flow as many investment funds through their AIB as possible, and then go to investments via a loan from their AIB. This extra step creates a double-dip effect. As your policy grows, your investments grow too.

If you're a business owner who has an extensive need for cash reserves of maybe $50,000 to $100,000 or more, you can use your AIB policy as a holding place for those funds. If you are an employee and you want a savings fund for emergencies or short term savings for your kid's college tuition, you may also want to store $50,000 or more in your AIB policy. But if you're not in any of those situations, you'd be comfortable with an AIB of less than $50,000.

How much of your AIB policy can you use to invest? I generally recommend that clients under Floor Three take as close to a 100 percent loan on their policy as possible because they are in their growth years. That way, they can take those loan proceeds and invest in higher-yielding real estate syndications or funds.

As your net worth grows over $5 million and you reach the Penthouse, you might want to pull back on growing your net worth and start to keep large sums of liquidity in your AIB (to pay back the loans on your policy). This is why you have to plan ahead and start your policy as soon as possible. You need time to create that capacity to store capital in your AIB.

You're working toward your ideal endgame. Once you reach the Fourth Floor or Penthouse, you'll be able to put $1.5 million into the account in case of an emergency—or an amazing deal—all the while making a small yield on that idle cash, tax-free and without a bank.

HOW MUCH SHOULD YOU CONTRIBUTE?

Refer to the chart in chapter 2 for a reminder of how much you should contribute per floor. If your net worth is already over $1 million, I recommend a consultation with our team so that we can help you access the best rates and providers.

We created a short AIB e-course for you to learn more about these accounts and their many use cases. If you already have a policy, feel free to price us out. We are confident that with our design, we will beat anyone on pricing.

The Quick-Launch Plan

Many of our Wealth Elevator clients have amassed a solid net worth. They may come in with $200,000 or more, or have lazy home equity they haven't touched. They can jumpstart their AIB without the restrictions of a traditional, multiyear Infinite Banking Concept plan. This is particularly true if they have a large sum of cash but don't know what the next few years will look like. The AIB does not require a plan, just a one-year commitment that allows you to continue to contribute in the future if capital becomes available, but doesn't obligate you to do so.

With a traditional Infinite Banking Concept plan, you create a contract for funding. If an investor has a large glut of lazy investment capital that they need to get working right away, doing a multiyear Infinite Banking Concept plan would not be optimal. If you have $1 million, flash-fund it into the AIB so we can invest it into real estate deals sooner than later (and get this double-dipping effect sooner).

My personal theory is that this multiyear requirement was the typical industry sales tactic to get you signed up with a long-term plan, just as cell phone and cable companies used to hook you with long, multiyear contracts. In the same way as that industry was disrupted, we are stepping away from the old system. That said, we can price out this option for you as well if it makes sense.

AIB is a great step on your path to the Penthouse. It allows you to double-dip and have your money grow in two places. And once you arrive? You can start using strategies that optimize—not for growth, but for liquidity and stability.

Pro Tips for Your AIB

Here are some frequently asked questions about how to make your AIB work for you.

Where is the tax deduction coming from? People often ask me, "Does the tax deduction come from a securities-backed (SBLOC) or insurance-backed line of credit (IBLOC)"?

You're working toward your ideal endgame. Once you reach the Penthouse, you'll be able to put $1.5 million into the account in case of an emergency—or an amazing deal—all the while making a small yield on that idle cash, tax-free, without a bank, and off the table from litigators in terms of asset protection.

What do I do for my home purchase loan once I hit "endgame"? For homes under a loan size of $500,000 to $800,000, a regular government-subsidized Fannie Mae/Freddie Mac loan has good terms. The trouble is in places like California or Hawaii, or when your net worth is higher, you will want a home that is over $1.5 million. At that point, you exceed the limits on that government-subsidized loan. Third-party options are terrible because they have worse rates, fees, and loan-to-values.

If you are still looking to invest in alternative assets and will be borrowing money to invest, should you borrow money from your AIB or SBLOC to invest and grow wealth? Depends on if you're looking to grow your net worth quickly or slowly. If you want to grow it quickly, take a loan from your AIB to invest in value-add commercial real estate syndications. If you want to grow it slowly, take a loan from your AIB to buy your primary residence with an interest that beats the mortgage you would have gotten. The worst option is paying outright cash for this primary residence.

If you are still looking to methodically increase your net worth, you will be using debt as a tool, and therefore you want to leverage either your AIB or your SBLOC. In my mind, AIB is the way to go in most cases. As of this writing, it has lower borrowing costs, and you don't have to worry about margin calls (volatility is more subtle, and your AIB is a set-and-forget asset like your primary residence). Keep in mind that this can change with economic shifts, and some of our advanced clients switch between their AIB or SBLOC based on the lower rate.

What do most investors get hung up on? Most investors are a little uneasy about taking a loan from their AIB. They are stuck living off the old-school mindset of "You pay off your debt or your loans." That is the wrong mindset to have here. The loan is just borrowing from your own money, and you can do whatever you want with it. This is no different than taking a home equity line of credit (HELOC) from your lazy equity in your primary residence. You invest that money elsewhere to make a higher yield and arbitrage your debt service from your HELOC into investments that are stable and/or backed by real estate collateral. In this case, you are borrowing money from your AIB, instead of a HELOC.

How do I double-dip with my AIB? To harness the full power of AIB, you need to double- or even triple-dip. Below is one working example of what is possible when you combine multiple strategies with AIB.

Say you fill up the $1.5 million cash value in your Accredited Investment Bank (with a $10 million policy), and you take a loan (at 5%) and put it into a brokerage to buy T-bills. The T-bills give you a 90% to 95% loan-to-value ratio at the standard secured overnight financing rate (SOFR) +2%, or 6.2%. You throw that into a syndication or fund, where you make 13% back.

Let's assume you have a 0.50% spread between the 5% loan charged on the AIB and the 4.5% policy dividend on cash value. The compounding of the cash value over time will exceed the simple interest on the policy loan. For T-bills, we can assume an average 4.6% yield. You borrow at 6.2% to buy syndications or funds that yield 13%.

That math doesn't work out: -0.50% + 4.6% - 6.2% + 13% = 10.9%

When you cut through the back-to-back loans, $1.35 million of your $1.5 million earns that 10.9% yield. If you had invested directly in the fund, you would have $1.5 million earning 13%.

You have hit the snag: the AIB and the T-bills are causing a drag on your returns. You're not double-dipping or triple-dipping—in fact, you're doing less than a single dip.

For this strategy to make sense, you have to earn a positive yield spread, on an after-tax basis, before funds are invested in your fund or syndication. How do you do that? You allocate a portion of the assets in the brokerage account to a higher-yielding asset. For the math to work, you have to get the yield above 6.2%.

You could do that by going 70% T-bills and 30% JEPI (JPMorgan Equity Premium Income ETF), or some other combination. Anything works, as long as at the end of the day, your $1.5 million in the AIB is earning better than it would if you invested the full $1.5 million directly.

Of course, the borrowing rates and rates of investment returns can vary, and some economic phenomena happen where SBLOC and AIB rates might flip-flop, so you will need to check your math. But this is an example to illustrate what is possible. More discussion on SBLOCs is coming in chapter 11.

A Common Mistake

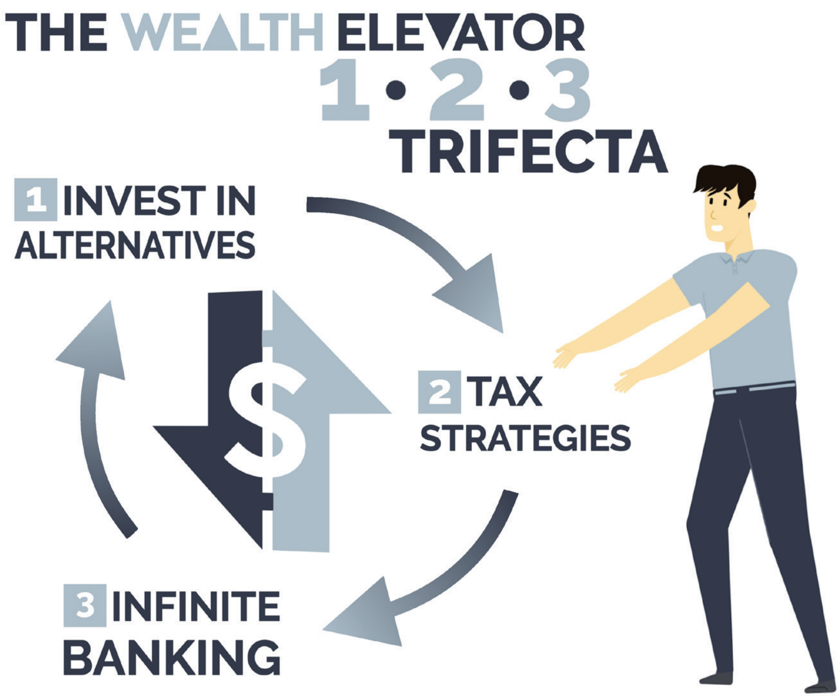
At one investor event that we hosted, I asked for a volunteer to do a hot seat in front of the others. This particular guy was playing it too safe. He had a decent net worth of $2.5 million, but he hadn't engaged in any alternative investment strategies. When I asked him why, he told me he already had the previous generation of AIB set up: he was using his life insurance policy to fund loans.

"So I'm pretty set on investing," he told me.

I held up both hands. "Woah, woah," I said. "AIB or infinite banking is *not* investing. It's a great add-on strategy to *then* go ahead and invest. But let's make no mistake—putting money into an account and making five percent returns is great, but even if it's tax-free, it's not investing."

Instead, you want to hit the Wealth Elevator 1-2-3 Trifecta:

1. invest in alternative cash-flowing assets that
2. unlock tax advantage maneuvers, and
3. use Accredited Investor Banking (last and least).



A BLUEPRINT FOR AIB

Here is the blueprint:

1. Contact our team at Bank@TheWealthElevator.com and start contributing money to your AIB.
2. As early as five business days after making a contribution, take a loan from your AIB (your bank!), and fund real estate syndications or funds.
3. As your syndications and funds distribute or cash out, pay back the loans in your AIB in the same fashion as when you made contributions.
4. Repeat step 2.

In the next chapter, I talk about other ways to think about your legacy. What will you leave for the next generation?

Chapter 10

Socializing Your Family Office

"Carve your name on hearts, not tombstones. A legacy is etched into the minds of others and the stories they share about you."
– Shannon L. Alder

Build a Hui

Investing can feel like a solitary game. But the truth is, a good investor is only as strong as their team—and investment community.

My journey began as a college graduate in 2007. I became an accredited investor by 2015. I attribute my delay in achieving this milestone to my lack of interaction with others. In my defense, I didn't know anyone who was an accredited investor. After all, my parents didn't have millions, and at the time, none of my friends or family did either.

It's almost impossible to find other people investing in these "country club deals." It was hard enough to find others who owned multiple rental properties (remotely) and viewed finances, debt, and investing through the same lens that I did.

However, a shift occurred when I started engaging with fellow accredited investors. This interaction opened my eyes. Up until then, I had been purchasing single-family homes, yet I had never encountered individuals who had acquired such properties remotely without physically visiting them, let alone amass more than just a few. Of course, I later found another level of investors, who ditched their rentals for more passive limited partner (LP) holdings.

Countless hours of daydreaming during my day job, and diligent saving to acquire the next rental property, were externally validated. This realization marked my “aha” moment and ignited my drive even more. This is the rationale behind our live events—to create opportunities for new investors to meet others riding the Wealth Elevator.

Without these experiences with others, I believe many investors fail to comprehensively grasp the Wealth Elevator concepts. You might intellectually understand all that you’re reading in this book, but the true synthesis occurs when you connect with other first-gen investors engaged in these innovative wealth-building activities.

As the saying goes, we are profoundly influenced by the company we keep.

In this chapter, I share how you can grow with a community—a hui—of investors. I explain how our mastermind group evolved, how to “socialize” a family office, the limits of networking, and how to plan an endgame.

Our Hui of Investors

In 2016, I created a podcast to talk about my investment journey. By 2023, the podcast, “The Wealth Elevator,” was rated five stars, with more than one million downloads.

When I started the podcast, I was transitioning into an accredited investor. I was getting rid of my little rental properties and going into larger syndications. I didn't talk about that process on the podcast until a couple of years later, in 2018, when I was confident I had made the right decision to go into syndications.

The first few years of my transition were slow. I visited the local real estate clubs in Seattle and went to a bunch of national conferences, but I never found them useful. Most of the people I met at those events were nonaccredited people flipping houses, or low-net-worth nonprofessionals looking for a way to get rich in the plethora of guru educational groups. I was on my own. Completely isolated.

But a strange thing happened . . . the podcast that I started gained a lot of traction. People emailed me to connect. Without realizing it, we were building a hui!

People closest to me know I'm one of the biggest introverts out there. I prefer to build strong relationships with the people I work with. Perhaps this was influenced by the Hawaiian culture of community and working together. As I said before, it's where the term *hui* comes from. That's pretty much what it's like living in Hawaii. You are part of the community, with the aloha spirit.

In this spirit, I created our investment mastermind, called the Family Office Ohana Mastermind (FOOM). As of early 2023, the FOOM group had more than one hundred ten members. This sense of community also shapes our Hui Deal Pipeline Club, for investors who want to invest alongside us. By 2023 we had well over eight hundred individuals who had invested $50,000 to $100,000 or more in a deal with us. The crazy thing is that our group has collectively raised over $200 million, which rivals the largest venture-capital-backed crowdfunding websites out there.

When we throw events like our annual Hawaii retreat or a pop-up mixer, all the attendees are screened—so I know every single person there. We do not have any shady random people we can't verify coming off the street attending our events. It is the complete opposite experience of a traditional conference or seminar, where they let in any Joe Blow who will pay to attend (to eventually upsell to a high-dollar program).

At the bare minimum, we want to create a safe environment. More importantly, we want to get to know you, so we can work with people we can trust—people who will join us on the Wealth Elevator, and strive together toward our common financial goals.

As you rise up the Wealth Elevator, the other investors who ascend the floors become a part of your hui and investment journey. The higher you go, the more critical these relationships become. Creating synergies with others gives you new investment strategies and opportunities, which can greatly multiply your net worth.

Think of it this way: net worth distribution looks like a pyramid, with the majority of investors at the bottom and fewer wealthy individuals as you move up. Therefore, from a mathematical perspective, it becomes increasingly challenging to meet individuals with higher net worth as you ascend.

Based on our observations of numerous clients, we see our members increase their camaraderie and connection when progressing through stages of the Wealth Elevator.

How to Socialize Your Family Office

The title of this chapter is "Socializing Your Family Office." What does that even mean?

This isn't just about networking. It isn't just about giving back. It's about creating a sustainable investing strategy that doesn't happen in a vacuum. It's about building social connections that strengthen you over the long term, as economic conditions change, tax codes are rewritten, and GP operator groups come and go. When you take the Wealth Elevator, it doesn't stop at money. It guides you in the entire scope of the investing journey, from wealth to legacy and beyond.

A lot of people book that first intro onboarding call with me or take part in one of our retreats with very straightforward objectives. I like to call them "firecrackers," because as soon as they step foot inside the Wealth Elevator, they fire off a thousand questions. That is totally understandable, because the curriculum is a real disrupter to conventional wealth building.

New investors want to do due diligence on me and my team: Are these investments as good as he says? Do the tax strategies work? Is everything they're talking about legit? Who's your CPA? Are they going to run off to Mexico with my money?

I get it. We were all there at one time. But I love to watch how these people's interactions change once they're acclimated with our ecosystem. Inevitably, after they have interacted with a handful of more experienced investors, and successfully implemented an alternative investment portfolio, they reach an inflection point.

They learn where they're aligned, and they find people who are on the same trajectory. They move through the space as participants, instead of as sponges soaking up energy. It stops being about what the other investors can do for them, and becomes about what they can do for each other.

That's why I love the term *socializing*. Networking, to me, is about objectives. It's what those "firecrackers" are trying to do for themselves. Socializing, on the other hand, is a bit more light-hearted, more of a two-way conversation. It has a long-term focus on relationships. You start to understand people's values and what they're trying to accomplish, so you can add value to them and their goals.

Eventually, these individuals become the ones you confide in to answer your questions about self-actualization and, specifically, "When is enough, enough?"

WHY FAMILY OFFICE?

Why do I call each individual investor a family office? Your end goal is to have so much wealth that you need to employ a set of professionals to manage your wealth: a bookkeeper, an investment manager, even someone to track down deals. A lot of investors compare themselves "down"—contrasting themselves with the average person who has less than a few million dollars in net worth. That makes them complacent.

By comparing "up" to your eventual goal of being the $100 -million-net-worth family office (or getting to the Penthouse), you level up your game. I tell most people in our mastermind who give it enough time that their net worth will grow to the eight-figure level and above.

To properly socialize your family office, you want to think about both the short term and the long term.

Short term: If you socialize your family office, you avoid shysters who will steal your money or use your money to power their "fake it till they make it" start. If you play the modern social media roulette game, and just go on iTunes/YouTube/Instagram/fake review sites and find some people to invest with, you're probably going to lose money on one of every five of those deals.

By interacting with people who are purely passive accredited investors, you hear real unsolicited feedback and referrals and get away from the unsophisticated groupthink. If you think good deals are hard to find out there, or you're just going to crowdfunding websites, trust me, the problem is your lack of socialization. Most of us accredited investors have *too many* deals, with one or two dropping into our inboxes every week.

> If you are not yet interacting with others at your level, reach out to team@theWealthElevator.com for a free syndication LP e-course. It will empower you with the prerequisite information to interact with other purely passive accredited investors.

Long term: You probably noticed that a lot of the tax strategies in this book involve having a CPA you trust, one who is willing to get creative with you to save money. That means having a team you trust to help you over the long term. You want to build relationships that will be with you for your entire investing journey.

That can mean your team, but it can also mean the other investors you work with. I have clients whom I met just three years ago, but it feels like I've known them forever. We are aligned in the same trajectory, and we share the same values. One common example is how many of us used to be frugal savers but have transitioned to using our money to buy experiences.

We want to build a family legacy to pass on to the future generations. We are big on spouses and/or our adult children becoming involved, coming to events, and building relationships within the group.

By surrounding ourselves with other accredited, wealth-conscious investors, we absorb best practices and mindsets. This flows through to how our families are raised, how we interact with each other, and how we do business.

ELEVATORS GO BOTH WAYS

One of the things I love about the Wealth Elevator metaphor is that elevators go both ways—you can send the elevator back down for others. You can help others at no cost to yourself. When you do, everyone benefits. It makes life richer. When you have all the passive income you need, you discover why relationships are the currency of the wealthy.

In my multiday retreats, we have a valuable exercise to set the tone: we pair new members with senior members who answer questions and offer mini-mentoring during the session. We believe in sending the elevator back, and we know the senior investors will remember when, not so long ago, they were in that person's shoes. Senior investors can anticipate questions new investors have about taxes, syndications, and the alternative mindset of Wealth Elevator investors.

I also like to explain things using my different zany metaphors, because I believe the biggest block to success is unlearning the bad habits and old myths we were all taught about how finances worked.

When you're doing well in the Penthouse, it's your turn to send the Wealth Elevator down to someone else. This can be your way to leave this world a little better than you found it. As you listen to others ask questions in their own words, you start to better understand the investment path you have chosen for yourself.

Networking Debunked

Have you heard the expression "Your network is your net worth"? That's only as true as the quality of your network.

If you go to a newbie event, everyone else there is also a newbie. How does it help you to make connections with a bunch of people who don't know any more than you do? Plus, those people in the Basement or Floor One are trying to get themselves established. They want to put their own oxygen mask on first. You're better off working on your investing strategy, or getting to accredited status first. This is why we have a minimum requirement for people to be accredited or near accredited at our in-person events.

What I'm about to say may come across as elitist, but your time and life energy is very important. The brutal truth is that if you are already on Floor Two or above, connecting with those who are on lower floors is a waste of time. One exception is if they are moving on a high trajectory and they would be good connections for your kids.

A lot of people get overwhelmed with the amount of advice out there, but they're not talking to accredited investors. Those experts filling their heads with conflicting information haven't succeeded using any of those strategies. Worse, some of those people are living the FIRE goals or *The Millionaire Next Door* mentality, based on the best-selling book by Thomas J. Stanley. They think they're doing well, but they're comparing themselves to the wrong people. That makes them mistakenly think they've found success, whereas you are looking for abundance and a higher-quality lifestyle.

To find the right events, look for ones where *nobody is selling anything*. At our accredited investor events, people are looking to build relationships with people who provide value to them. We don't have speakers or sponsors trying to sell stuff. Also, except for selling their single-family rentals to move up to syndications, none of the attendees are selling anything to anybody. If they are, we remove them to create the safe environment we want.

That's one-half of the networking puzzle. The other half is making *yourself* someone of value. Socializing is a two-way street. If you're clueless about what a syndication is or what a preferred rate of return is, you're not going to be able to hang intellectually with the kinds of investors who are looking to vet deals or swap tax strategies.

WHAT IS AN ACCREDITED INVESTOR?

An accredited investor makes more than $200,000 in annual income or owns more than $1 million in assets (excluding the home they live in). If you are still moving toward that goal, go to https://theWealthElevator.com/turnkey for a free remote rental e-course on where to get started.

That said, accredited investor status is much less of an important factor than passive investors think. The truth is that the majority of deals, around 90 to 97 percent, accept nonaccredited investors. These are called 506B offerings, and all you need to take part is to be connected to the right network of sponsors or operators.

There's no shame in starting at the bottom. Most of our investors are building first-generation wealth. But there is shame in trying to climb out of the Basement using an escape ladder instead of waiting for the Wealth Elevator. That's what you're doing when you follow the normal financial advice out there.

BUILD YOUR ECOSYSTEM

Up to this point, we've talked a lot about your colleagues. It's important to remember that your ecosystem also includes a whole lot of other people you will need.

A lot of books and podcasts (targeting lower-net-worth individuals) tell you, "Go out and find your CPA, your attorney, and the people you're going to invest with, before you ever start investing." The problem with that is you don't know who is just doing it the way everyone else out there does, versus who is doing things the way the wealthy do things. You have no working concept. And people are so proficient with marketing these days that it's extremely hard for a new person to separate the sophisticated service providers from the good marketers.

Although this is a bit of a "chicken-and-egg" paradigm, I urge you to get educated first, so you are empowered to build your team. That said, if you want to cheat and copy answers (what some of us did to get by in school), we can connect you with referrals we have worked with in the past too.

Define Your Endgame

When you're on the Third Floor and considering moving up to the Penthouse, it helps to have people to talk to who have gone through similar experiences. At our in-person and virtual events, members in our Family Office Ohana Mastermind (FOOM) meet to discuss strategy and the balance of goals and lifestyles that define their endgame.

When it comes to passing on wealth for those nearing their endgame, our group consensus is that liquidity and traditional investments are the best approach—not the alternative investments that got us to Floor Three or the Penthouse. It ensures simplicity and ease in transferring wealth to future generations, who may not possess the same level of sophistication or the same kind of network. Knowledge transfer (financial education) rather than monetary/asset wealth transfer makes this transition as smooth as possible.

Think about it. Sure, you could split up your $8 million estate to your two kids, with $4 million dollars each. But I would argue that $1 million to $2 million per kid is plenty. Without the knowledge and network to grow it, any more money might even be detrimental. It causes the onset of entitlement and other common forms of degeneration of family wealth.

Aspirational Assets

Our FOOM members candidly share their legacy issues. One question that often comes up is vacation homes that you want to pass down to the next generation. Owning an asset like this can be a significant headache. For instance, your heirs need to maintain cash reserves to cover taxes, repairs, maintenance, and other associated expenses. If the estate doesn't have a sophisticated governance system in place to handle these operations, and especially if the estate has multiple beneficiaries, disputes and complications can arise.

In cases like that, managing a traditional or curated alternative investment portfolio is more advantageous than holding on to these aspirational investments . . . and the brain damage they create! It can be more beneficial to invest your money and generate substantial cash flow and net worth growth.

Then you can shift your mindset to enjoying your wealth. This next example may stretch your thinking a bit, but stay with me. Let's say you have $3 million in assets. When you go on vacation, you might consider treating yourself to upscale hotels like the Four Seasons or high-end boutique hotels. That can actually be cheaper in the long run. If a high-end hotel costs $1,000 per day, and you stayed there literally every day, that would amount to $30,000 per month. If you have $3 million invested, earning a 12 percent annual return, you could live in a hotel every day without touching your capital.

Of course, this may not align with how you wish to allocate your funds, but, hey, you get a sense of how you have choices.

Investor-First Mindset

If you've got a ton of money, you can afford to make mistakes. You can just try out deals and operators until you find the ones you like. Most of us don't have that luxury. We need an investor-first mindset. The hardest part of socializing your family office is getting out of your comfort zone. But it's worth it.

I joke a lot with investors who have been with me a long time that I was friends with them when they were broke (under $1 million). But it's true that a lot of satisfaction happens when you go through the journey of venturing up the floors together. One day, you will be there with your cohort in the Penthouse and on the Rooftop, looking down, encouraging everyone who's rising behind you.

I took the hard knocks and worked with the wrong people when I first started. Today, as a GP and sponsor of deals, I vow to always treat my investors with honesty and loyalty. We always put passive investors first, because if not for the many investors (collectively as a hui) we have, we would not have the reputation in the investor community to access great opportunities that are otherwise accessible only to institutional players.

What happens when you achieve institutional wealth—at the Rooftop level? That's the subject of the next chapter.

Chapter 11

The Penthouse: A $10 Million Portfolio and Beyond

"I don't care what anyone says. Being rich is a good thing." – Mark Cuban

Time vs. Money

Moving to the Penthouse is about more than just smart investing. It also requires a mindset shift.

When I was in the Basement of the Wealth Elevator, I was obsessed with saving. I was beyond frugal—I relied on cash-back credit cards and hacked travel plans, and I drove the same old car for years. I was determined to find any way I could to save for down payments for rentals.

One big way I created money was to stack rewards checking accounts from about a dozen credit card offers with zero-interest balance transfer. It was free money—I just had to meticulously pay off the minimum balances on the credit cards. Of course, for me to get the higher interest rate on my funds in the bank, I had to do at least twelve transactions with the account every month.

I found myself running around doing the silliest things. At one bank, I paid myself one cent from PayPal twelve times, but they flagged the account for "suspicious activity" and shut it down. As a work-around, I put the tiniest amount of gas possible into my tank—thirty-five cents!—until they flagged the card. Then I moved on to the next gas station a few miles down the road and did it again . . . as I froze in thirty-degree Seattle weather.

Those were my Saturday afternoons in my twenties. In the evenings, I stared at my elaborate net-worth tracker sheets and counted every dime. I'm mentioning this because I know that a lot of you have these homemade spreadsheets, too, that no one knows how to make sense of but you! Many of us are like that!

RESOURCE GIFTS FOR SAVING

Whether you're at the Basement level or just looking for something entertaining, you might want some radical ideas on how to save money for investing. Visit https://theWealthElevator.com/cheapo/ and see what worked for me.

When I made it to Floor One, I realized those strategies weren't serving me anymore. I was trading time for money, instead of letting my passive investments make money *for* me.

As my investments matured and I rose to Floor Two, I saw that I needed to protect my time. I'm still frugal, but I'm not cheap. Instead of looking at cost, I look at value. I spend based on the lifestyle I want, rather than saving based on the lifestyle I dream of having someday.

I haven't forgotten my roots. I still take pleasure in saving money in the smallest of ways. But when you reach the Penthouse, you should be conscious of your time and not trade it for money. You've hit the endgame. You can finally prioritize the things that are really important—like being there for your family with your time, instead of just with your money.

Beyond the $10 Million Threshold

By the time you reach the Penthouse, you're primarily investing in syndications and private real estate funds, but there is a slight reversal to traditional investments—yes, the public markets. This is a defensive and ease-of-use move in case you unexpectedly pass away. Your focus is on legacy planning and educating the next generation.

Most importantly, the Penthouse Floor is about adjusting your mindset and redefining what wealth means to you. Are you content with having "enough"? Or do you have a vision of what you would like to fund in the world? Have you dreamed of a vision and need to utilize money to realize it?

Maybe you want a family, maybe you don't. Maybe you want to live in Hawaii, maybe you want to live in Arizona. Maybe you want to quit your day job. Maybe you want to keep working. Until now, those goals have been hampered by your ability to accomplish them financially.

When you move up the Wealth Elevator, you can make those dreams become reality. Remember the freedom number you calculated in chapter 2? I've seen everything from $15,000 a month for single people or those with small families, all the way up to

$100,000 a month for those who want to live a more extravagant lifestyle.

Most people who come to our live events aspire to build passive cash flow of about $25,000 a month.

Maybe you're thinking, "I'm nowhere near the Penthouse Floor—$10 million in assets! I'm fine stopping on Floor Two or Floor Three."

I want to show you the view from the Penthouse—so you can see what other wealth-conscious people spend money on, and how they make those numbers work. Don't get too bogged down in the exact ranges, because everyone has different lifestyles. Instead, connect with the feeling associated with living on the Rooftop. Learn about how to keep alternative investments in your portfolio—special plays to increase your assets—and what exactly your net worth means at this level.

Personally, I've taken great interest observing those who are one or two rungs above me. Not only does it give me good ideas to embrace lifestyle growth, but it has made me more aware of the problems that plague people on the next level.

It also allows me to have gratitude for where I am.

Alternative Investments in Your Portfolio

You've done it. You've reached the Penthouse. What does your alternative investment strategy look like now?

> **The Penthouse**: Your monthly cash flow is $50,000 to $100,000+ a month. You have **$10+ million** net worth. You have hit your freedom number for financial independence.

Passive-Investor Plan Penthouse: Your money grows faster than you can spend. Your focus is now on your legacy. Continue investing in alternative real estate deals, and max out your AIB at $250,000 a year.

Legal: Put your more advanced structure in place with the combination of a qualified retirement plan and AIB, both for asset protection, and an irrevocable trust to also navigate federal and state estate taxes.

Retirement (QRP): You can continue to fund your QRP, based on your long-range plan. You can also consider a nonprofit organization, which I talk about later in this chapter.

Home equity: Decide where you want to hold your debt—in your AIB, home equity loan (if your home is less than $1 million), or security-backed loans for multimillion-dollar estates. Or, pay off debt entirely and live mortgage-free. At this point, you have enough net worth and cash flow to do suboptimized wealth-building activities, meaning you can do things that don't necessarily bring maximum returns, and you can do more conservative activities. You don't necessarily have to optimize the use of every equity dollar, as someone would with only a $1 million to $2 million net worth.

Special Plays for $10 Million Net Worth and More

As you transition to the Penthouse, your priorities change. Nine-figure millionaires don't care about loan-to-value ratios and paying off debt—they care about liquidity and cash flow for debt service. It's a whole different frame of mind, and it needs special plays to keep in the game.

Sorry, I'm not going to tell you what the best exotic cars are, or what bottle of wine will look best in your cellar. But in this chapter, I go into ways the wealthy access loans and capital. (In the next chapter, I show you even more advanced ways to mitigate taxes at the Rooftop level.) These strategies come from my experience brainstorming and interacting with high-net-worth individuals and family offices. What first-generation wealth makers do with their money is very different than the way unsophisticated second- and third-generation trust-fund kids spend their fortunes.

THE ADULTS ARE TALKING

Hey! The adults in the Penthouse are talking here. If your net worth is under $5 million, feel free to read this section, but make no mistake: in order to grow your net worth at your stage, you need to go into alternative investments, not traditional investments.

Only after you've reached the Penthouse—with net worth of $5 million or more—do you consider reverting to traditional investments.

Security-backed lines of credit: As far as I'm concerned, unless they make massive amounts of money (over $500,000 a year), the majority of people with multimillions in net worth own alternative assets and leverage their debt.

The security-backed line of credit (SBLOC) is the traditional investment world's equivalent to a good real estate mortgage. Some traditional assets are incredibly liquid. You can store your equities with a top-tier brokerage like JP Morgan, Vanguard, Schwab, or Merrill Lynch, or even a newcomer like M1 Finance, and then take out a loan against a certain percentage of the value of your stocks. This loan is called an SBLOC.

How much loan proceeds you can get from your stocks depends on how volatile those stocks are. For example, if you have all Tesla stock, which is incredibly volatile, the brokerage might be willing to loan you only fifty cents on the dollar, with 2 to 4 percent interest. If your stock is in a stable company like AT&T, you'll get a much higher loan-to-rate value.

Your borrowing rates are determined by how strong your banking relationship is and how high your net worth is, really. That is why this strategy really opens up once you get to the Penthouse. You are basically creating another double-dip effect. You make money with your stock position, plus you redeploy the loan proceeds into whatever you want (including more stocks, syndications, and real estate funds).

You are on the Penthouse level, so this is a time where you might choose not to take those loan proceeds and put them back into prudent alternative investments. You might simply buy that multimillion-dollar home with all cash instead.

Personally, I'm saddened that many heirs who inherit our wealth may not learn the importance of leverage and the associated risks in various ventures. Leveraging and proper use of debt is crucial for progressing to higher floors on the Wealth Elevator. It's unfortunate that most in the next generation won't be compelled to use these tools, as they can learn valuable life lessons and develop strategic mindsets through such experiences—which cannot be learned academically through spreadsheets, written words, or discussions.

It's only when someone is actively managing an asset/portfolio, with skin in the game and an element of potential danger (which will not be evident for our beneficiaries), that this valuable lesson truly takes root. Controversially, we should all become accustomed to using good debt and leverage, even when we are "rich."

Treasury bills: I have a friend who has $20 million in stocks. With just his stock portfolio alone, he's at the higher end of the Penthouse. How does he protect all that income when he invests? He has a private-client banking relationship account. He can buy low-risk Treasury bills (short-term government-backed loans) and create a nice little income stream to further increase his net worth.

Additionally, T-bills are so secure that he can finance (via a security-backed line of credit or SBLOC) 90 percent of a loan on that money at a rate of just 3 percent. He then uses that to buy more stocks, T-bills, or even real estate syndications or funds. Because his net worth is on that Penthouse level, he qualifies for a private-client banking relationship account. That entitles him to perks like better SBLOC rates. The rich get richer!

That means he can buy an $18 million property in cash by taking out an $18 million loan on his stocks. By doing that, he doesn't have to even touch his stocks—if they go up, he still makes money. Also, since he never liquidates his stocks (only borrowing from his position, which is similar in real estate to a HELOC or cash-out refinance), he does not trigger a capital gains tax. He is essentially arbitraging his stocks and buying other assets with his SBLOC.

You can also use this strategy with your Accredited Investor Banking and essentially avoid costly mortgages while paying back the debt service expenses to yourself, not the bank.

On the downside: if the stock that you back your credit line with goes down, you may have to cough up the difference. That is called a margin call. As a high-net-worth individual, however, the bank considers you a safe bet to pay back the loan even if the stock tanks.

Noncorrelated assets: The economy typically goes up over the long term, but it goes up in a sine curve: up and down, up and down, up and down. Most people look for investments that are on the rise, and then sell quickly when they dip down. They measure investments on a monthly or quarterly basis. “Am I getting my one percent every month?” is the main question.

As you move into the multimillion-dollar net worth portfolio, you need to start thinking in longer time horizons. Your investments should have a five- or even ten-year lifespan. Remember, on this level you don’t have short-term cash constraints. You can play the very long game as you steer your net worth higher.

You might also prefer reliable returns of 5 to 9 percent because you no longer need anything in the 10 to 15 percent range. That means you start to look for noncorrelated assets (assets that don’t correlate to how the economy is doing): raw land, life settlement investments, and similar. These assets don’t have much of a cyclical sine wave—they move up over time, but slowly, not at the pace of most growth investments.

Precious metals: At this stage, putting money into gold and precious metals makes sense. You want a small portion of your investment portfolio to be highly stable. Gold accomplishes that, even though the returns are terrible unless you happen to get lucky as a speculator. Be warned that many investors have a significant amount of confusion when it comes to precious metals dealers and vendors who specifically target those at the lower levels of the Wealth Elevator. These dealers often resort to fear-based tactics, instilling concerns about the imminent collapse of the dollar and similar scenarios.

If you are in the Penthouse, you have the economic freedom to hedge your portfolio with precious metals and still have $25,000 to $50,000 coming in every month in passive cash flow. That said, many people who go down this road have a degree of fear regarding governments and nations, often seeking multiple passports. I personally don't do any precious metals. Even if World War III erupts, I plan to stay put in the United States and ride this ship out. But I respect people's concerns.

The multimillion-dollar chateau: Buying a multimillion-dollar home is a great strategy for investing your wealth while enjoying it. There is a time and place for it, and when you are at the Penthouse stage, you've earned it! Funding methods include tapping into your SBLOC, Accredited Investor Banking, or a standard home loan.

One challenge for a standard home loan when buying a multimillion-dollar home is that the traditional mortgages from Fannie Mae, Freddie Mac, and other lenders have pretty low loan limits. They were not created to buy multimillion-dollar mansions! You can get portfolio loans from banks, but the interest rates and origination fees are higher than your AIB and SBLOC borrowing rates.

Once you own a mansion as your principal residence, you can take advantage of the Section 121 tax exclusion. You can sell the home without paying on the first capital gains (of $250,000 if you're single, or $500,00 for a married couple). One of the biggest mistakes I see people make is that they fail to sell their house after it has increased in value over those numbers.

When you use this strategy, you can hop from one house to another, as these assets have natural appreciation that eliminate capital gains along the way—if you want to mitigate taxes. But if you have found your dream home and don't want to be physically burdened by moving just to save six figures in taxes, then more power to you!

Real estate developments: Property developments are a type of syndication, or they can be put into private funds. They are value-added real estate projects, but in a much greater way. They have higher returns than most rehab value-add real estate ventures (and a quicker timeline, which allows for investors to have a higher velocity of capital). After 2020, we started to focus more on developments in our operations because ground-up developments are insulated from market undulations (stagflation, government-mandated eviction freezes, miscellaneous headwinds) and have larger profits and lower margins for error.

Additionally, we don't have to contend with less-experienced operators with under $1 billion in deals under their belts who are purchasing apartments and, ultimately, bidding up the prices on future acquisitions.

Nonprofit organizations: Nonprofits give you tax benefits while letting you give back to your community. They shelter you from asset protection and litigation, and allow you to save taxes on your personal income by running expenses through that nonprofit.

Note that very few people who successfully create a nonprofit do it purely for the tax benefits: it's just too much work. If you're going to go this route, your heart needs to be in it. That said, if it's not in the cards for you, don't worry. Few of my clients who have reached the Penthouse have formally created a nonprofit. Most have focused on contributing to the betterment of mankind in their own unique ways.

Net Savings

Net savings is a crucial statistic because it reflects the amount of money an investor is able to save after deducting all expenses and financial obligations, such as living costs, taxes, debt service, and other financial responsibilities. It signifies the financial progress a person makes by increasing their savings or reducing their expenses. I sometimes refer to this as your "velocity."

The amount you are able to save to deploy for investing will increase as you go up the Wealth Elevator. But when you reach the Penthouse, the amount will plateau as you shift your mindset to learning to spend the money you generate.

As you know, when you're on Floor One or Two, you may have net savings of anywhere from $25,000 to $100,000. At Floor Three, your annual net savings might reach $150,000. By the time you reach the Rooftop, you could have an even greater net savings.

But I tend to coach our clients to start shifting their mindsets from saving to spending as soon as they reach the threshold of $100,000 per year in net savings. That's when it's time to start spending their money and enjoying their lives. It's a good time to experience what life has to offer with their loved ones.

This has tax advantages too. The higher expenses for lifestyle enrichment can be used to offset their income. For our investors who live in expensive states like California or Hawaii and make substantial annual incomes, ranging from a few hundred thousand dollars to over $1 million per year, these expenses can help mitigate taxes.

Traditional wealth-building advisors focus mostly on tightening budgets and managing expenses. In the Wealth Elevator model, I coach our clients to focus on generating income quickly using the strategies I've shown you. This income serves as rocket fuel for speeding your ascent. You want to harness lazy equity to make money for you and unlock tax savings, so you can move up the floors as quickly as possible.

But once you reach $2.5 million to $3 million in assets, generating more than $100,000 in net savings at Floor Three and the Penthouse, you can slow down the rate of generating income. You don't need as much rocket-fuel capital to generate more passive income. You can start spending money to mitigate taxes and enjoy your life. How exactly you choose to enjoy your life is based on your values. But you want to back off from extreme frugality.

I had a client in his sixties whose investments were in the multimillions. Those investments kicked off a lot of cash flow—more than he needed to live. He was invested in rentals, syndications, and funds, and he spent a lot of time managing his investments.

But his adult children and grandkids rarely visited him. He was just Grandpa. His few friends did not have the kind of income or lifestyle he did. And he had few hobbies.

Once you reach a certain income level, you want to make the mindset shift to spending. I encourage our clients: enjoy your life, your family, your interests while you still have the energy and time to do that. Frugality can help take you to your goals, but then it's time to start spending. Once you reach the Penthouse, enjoy the view!

FIND THE BEST STRATEGIES FOR YOU

I love to throw events for our clients and prospective clients. Our events offer an excellent opportunity to learn more about our wealth strategies and meet other investors in our community. Visit https://theWealthElevator.com/events/ to see a list of upcoming events in your area.

The final aspect of protecting yourself in the Penthouse is taxes. We've talked about tax strategies, but when you get to this level, you open up entirely new plays. In the next chapter, we look at tax strategies that help you maximize the benefits on this floor.

Chapter 12

The Penthouse and Rooftop: Tax Strategies

"Poor people work hard for their money. Rich people have their money work hard for them." – T. Harv Eker

Tax Strategies for the Penthouse

At the Penthouse level, making more money does not always make you richer. Paul, the doctor who made $700,000 a year as a doctor and investor, reached a point where making more money made him poorer. Beyond $350,000 in adjusted gross income, the tax rate is 50 percent. By getting real estate professional status (REPS), he was able to increase his passive income, while drastically lowering his taxes.

When you reach the Penthouse level of the Wealth Elevator, your tax conversation turns even more defensive. Many of my clients who are first-generation millionaires do reach the Penthouse, at $10 million in assets, and even Rooftop level, at $50 million and beyond. At this stage, your actions are less about acquiring more cash flow and more about mitigating taxes.

Even if you are at Floor One, Two, or Three, it's important to discover what's possible in your lifetime. Start absorbing these concepts now, so you get a sense of how to think as you move toward the Penthouse and even the Rooftop.

The strategies in this chapter make it possible for you to pay zero dollars in taxes for life, while leaving a legacy for future generations. When you use these strategies, you protect the wealth you've built and relax into your financial goals. You attain passive cash flow that isn't siphoned off into wasted taxes. You learn to buy dream houses, cars, and other assets in ways that completely eliminate taxes. You learn to defer taxes for decades—ideally until you die. And you have wealth to give to what's important to you in the world.

Remember that the strategies you use in the Penthouse and on the Rooftop will apply only at those stages. Don't jump the gun and hit these strategies early. Wait until you're ready to move to these levels of the Wealth Elevator.

With that in mind, let's dive in. I have seen my clients implement some of the following smart tax strategies for Penthouse and Rooftop multimillionaires:

Forever homes: If you're ready to settle down into one forever home, you can pull out the depreciation of your home via cost segregation. This requires you to work closely with your tax professional. In order to take the depreciation out, your house has to be considered a commercial asset (i.e., not your primary residence). This is another clever tax hack that has emerged from informal interactions among investors at my events.

One of my clients has a lake house. He rented it out on Airbnb for a year. The same year, he did a cost segregation on the asset and extracted $2 million of losses, put it on his Form 8582 as suspended passive losses, and then used it in the coming years to defer taxes to his death.

Exotic cars: I can picture your face reading this header: "What?! A financial book telling me to go buy a stupid sports car?" There's a reason this advice doesn't come until you've reached the Penthouse. You've arrived! You've earned the right to splurge on yourself. Plus, cars have some of the best loan rates out there, and you can often work with the car dealer to get your financing with little to no equity as down payment. Keep that cash to invest in other areas!

Feel free to ignore your knee-jerk reaction that a car is a depreciating asset. Unlike normal sports cars or the luxury cars many of us already drive, exotics are made in limited quantities. Therefore, they often appreciate in value. If you are looking for a money-making hobby, you could take up deal hunting in this asset class. Upkeep on exotics is not bad either. In recent decades, many exotics brands have been absorbed by regular car manufacturers, and part availability has improved.

It's true that fancy exotic cars provide no utility other than getting from point A to B, but that's not the point. The point is buying something really fun, because you're no longer that frugal millionaire next door driving a crappy Toyota (turned Lexus in the golden years) until the wheels fall off. See, we are breaking paradigms on the Rooftop!

Most of the content in this book is based on my personal experiences progressing to the Penthouse. I prefer to share my experiences rather than give advice. When it comes to exotic cars, though, I have not purchased one personally. I just don't see it as particularly enjoyable, despite being at a certain stage in my wealth-building journey. Instead, I prefer my upgraded Ford F-150 Raptor, which is one of the safest cars and can save my time by not having to slow down going over speed bumps or by simply going over curbs in the parking lot.

I included the topic of exotic cars in this book to illustrate how the wealthy approach financing debt and purchasing aspirational items differently. However, the decision to purchase an exotic car ultimately depends on personal preferences and circumstances.

Super LPs, side letters, loan guarantors: For most LP passive investors, the average investment in deals tends to be around $50,000 to $200,000. This falls right in line with my guideline to not invest more than 5 to 10 percent of your net worth into any single project to maintain diversification. However, higher-net-worth investors have additional opportunities available to them.

One option is what can be referred to as a "super LP," which isn't an official term in the space but sounds really cool. These investors contribute larger amounts than typical limited partners, ranging from a quarter million to over a million dollars. This benefits the GP by enabling faster capital raising, reducing administrative fees, and minimizing the number of tax returns to be completed.

The general partnership is thus incentivized to work with these super LPs, as it's a mutually beneficial arrangement.

As a higher-net-worth investor in the Penthouse, if you find a deal you like and are comfortable with the sponsor, consider making a larger investment than usual. Initiate the inquiry with a phone call or email to the GP, asking if incentives for larger investments over *X* amount are available. This may result in better treatment, such as a preferred rate of return or an equity boost. These arrangements are often documented through side letters or email confirmations between the involved parties.

Some investors seek out new and less experienced operators and write large checks, aiming to negotiate better splits and arrangements. While this practice occurs, I personally don't recommend it. It involves investing with newer operators who have less experience, and that always brings risk.

Key principals (KPs) or loan guarantors: Another tactic employed by larger-net-worth investors in syndications is to become a key principal (KP) or loan guarantor on a project. In real estate ventures involving bank loans, there are qualifications to meet in order to obtain the loan. One of those is that the combined net worth of the individuals must be equal to or greater than the loan amount. Typically, a principal group within the general partnership signs their names as recourse or nonrecourse guarantors.

If you trust the individuals involved, it may not be a bad idea to sign your name as a key principal and receive a share of the general partnership in the process. However, it is not recommended to engage in this strategy with newer operators, especially if their combined net worth is below the $30 million threshold. Think about it. If the GP's track record and success is legitimate, why is their personal net worth so low?

Earnest money for syndications: High-net-worth investors have another option to participate in real estate syndications by providing earnest money. Similar to home purchases, earnest money is a deposit made when submitting an offer. This concept applies to commercial real estate as well. However, there can be more risk involved in retrieving the money if certain conditions in the purchase and sale contract are not met.

In competitive markets, the GP may need to put in significant amounts, such as half a million or a few million dollars, to make their offer stand out and have a higher chance of acceptance. Typically, they need to waive contingencies like financing and inspections. If the project does not proceed and close, the earnest money becomes at risk.

For newer GPs who lack substantial net worth and liquidity to provide earnest money, high-net-worth investors may see an opportunity to offer short-term funding in exchange for a small percentage of the general partnership. The specific percentage can range even higher than for a KP, because it is widely contingent on the GP's need.

Initially, this strategy may seem riskier compared to being a KP or loan guarantor. However, one can mitigate risks by understanding how the general partners plan to close the deal on time and where they would source additional funds to fulfill the earnest money commitment if needed.

It's important to note that when putting up earnest money, the risk is limited to the amount deposited and the one-to-three-month period where things are up in the air. In contrast, being a KP or loan guarantor exposes one's entire net worth to potential deficiency judgments in case of project failure for the life of the project (one to ten years).

Roths and nonRoths: Qualified retirement plans come in two types, Roths and nonRoths. Most people prefer the Roths. The general consensus is that taxes will go up in the future, so it's better to pay taxes now to avoid that higher rate in the future.

One strategy, called the backdoor Roth IRA, is to take nonRoth QRP money and push it into the Roth side in the years your AGI is particularly low. In other words, have your assets in your nonRoth accounts converted to your Roth accounts in those years, pay the taxes (in years when your AGI is lower), and, to add an even more advanced tactic, have those assets reevaluated at a lower amount while making the conversion.

Say you buy a piece of land for $250,000 in a nonRoth QRP (for example a solo 401(k)). You then develop that land; while it's tied up in the development process, it's worth less—in theory. You get an appraisal done in that window by a licensed third party to validate a lower value. They value the land and in-progress project at, say, $100,000. Now you convert the nonRoth QRP that holds that $100,000 asset into a Roth and pay taxes on $100,000 (instead of on $250,000). Once the development is done, the land and Roth is worth $1 million. You've just squeezed $1 million dollars in the Roth, and only paid taxes on $100,000.

The question of whether or not to use a QRP is one of the most personal and technical items I have advised individuals on. It is a dynamic situation. It takes many years to fund a respectably large QRP, especially since you can only fund it with less than five figures yearly. Sorry if you were the person duped into funding a QRP, but it's never too late to unravel what you already put in there and get the tax benefits today.

At the same time, if you are a handful of years away from the government-mandated so-called "retirement" age, it might make sense to hold out and avoid the small 10 percent early-withdrawal penalty by staying the course.

YOUR TAX STRATEGIES

I'm happy to offer a gift conversation about which tax strategies will best support your financial goals. Join me via the form at https://theWealthElevator.com/club/.

$50 to 100 Million+ and Beyond

We haven't yet talked about one level of the elevator. When you reach a certain level of institutional wealth, you climb to the roof and get into the waiting helicopter. It can take you anywhere: a private island, private planes, a mansion in the sky, a compound in the desert. That's because at this stage, you have a net worth of $50 million to $100 million or more.

This might seem enticing, but I'm going to be very honest with you: it comes with different forms of complications that might not be worth that next level or two of opulence.

To get from the Penthouse to this stage, you need an unfair advantage based on personnel, personal knowledge, or industry contacts. Sure, you could passively invest to get there, but it would take some time, potentially a generation or two who were aligned with sound investing principles and connections. You also have to be comfortable with asymmetrical investing. You take more risks, keeping one portion of your portfolio secure while making big bets with a minority portion.

Not everyone will choose to aim for the Penthouse. If you do, I advise you to make the choice before you leave Floor Three, and prep the next generation to carry on the journey. To make it to the Penthouse you may have a huge portfolio, but chances are that most of those businesses and holdings are completely random. Getting to the Rooftop, on the other hand, requires you to become less of a passive investor and more of a business operator as you create synergies within your holdings and strategic networks. You might be an intelligent individual and sophisticated investor, but unless you have operated a seven- or eight-figure business, you might not have the business acumen to get to the Rooftop in your lifetime.

Here are some strategies specifically for the ultra-high-net-worth folks:

Investments with institutional operators: For full transparency, our firm has done over $2.1 billion in sales of assets, and ten thousand-plus rental units in over sixty-five individual projects . . . and we are still considered a noninstitutional firm. That is the way I prefer to keep things. I like to keep a cohesive private investor group, get to know our clients personally, and share in those milestone wins along the way. But as my team grows, so does our overhead.

I tell investors that at some point, our group will grow large enough that we won't be offering the GP/LP splits they're used to now. Why? All businesses get to a point where the principals or owners capitalize on the reputation they have created and turn into an institution, or, on rare occasions, close up shop. When that happens, investors may have to seek out a younger, hungrier, smaller-track-record operator.

My seasoned investors know that every time you have to hunt for a new operator, you risk finding a bad apple and introduce the element of counterparty risk, like some unethical operator running off with your money. If you have relationships with other passive investors, you don't necessarily have to start from scratch to rekindle deal flow.

Those on the Rooftop don't care about doubling their money in five years—they don't need to take risks. That's when larger institutional investments start to make sense. Sure, you lose money on the middleman or paying for the expansive overhead that a company might have, but you get better reliability when you are not working with an inexperienced operator. That said, investors who have yet to make the Penthouse stage need to find "middle market" operators like us.

Other government-backed investments: The government will sometimes give tax benefits to encourage investors to put money into a specific area. In the early 2000s, there were all kinds of tax breaks for oil and gas drilling. In recent years, the government is pushing for solar power projects. The IRS website even has opportunity zone maps for real estate deals.

Oil and gas deals are typically run by shysters and cowboys whom I don't trust. Also, being in an oil and gas deal and getting the tax benefits requires you to be put in as a passive GP, which exposes you legally. Another option is opportunity zone deals, which are good for taxes yet are unfortunately in locations that are very rough, making them more risky projects. One of my personal investment philosophies is to invest in good or close-to- transitioning areas, where opportunity zones might be a decade or two away from gentrification.

I'm not one to be against investing for the long term, but it does mean holding on to an asset in the meantime and operating it. On the one hand, opportunity zone projects normally deal with more intricacies and lower tenant base; however, if you are an LP, then that's the GP's problem.

Personally, I tend to use caution over these investment options. But it is a very personal decision. Your role is doing due diligence on the investment to determine if the risk-adjusted return and tax benefits make sense to you, based on your ability to source other investments. For all you know, they could yield the intended tax benefits but not make any money as an investment.

The Rooftop isn't right for everyone. But regardless of what floor of the Wealth Elevator you aim for, you now know exactly what it will take to get there. Welcome! Enjoy the ride!

Chapter 13

Close

"Money is not everything . . . but it sure does make life a lot easier! And with more choices and freedom." – Lane Kawaoka

Your Freedom Plan

As the Wealth Elevator ascends, you stop trading time for money and let your money do the work for you. Why?

Freedom.

What that looks like is as individual as you are. Will you quit your job to explore your passion? Will you keep working, knowing that you do it for yourself, and for the love of the job? Will you travel the world, or start a new hobby—find ways to give back, or reboot yourself professionally to get to the Penthouse? Or will you simply live life without frantically doing things to stay productive and chill for once and enjoy.

Now that you know how to ride up and down the elevator, you are on your path to whatever floor you choose. Instead of wondering how you can save for retirement, finance your kids' college fund, and take care of your elderly parents, you can change your thoughts:

Wow, this stuff really works. I'm on my way to financial freedom.

I have a way to easily pay for my kids' college tuition.

I can take care of my parents as they age. I can create financial freedom for my life and my family.

My spouse and I have the freedom to quit our jobs and never work again.

We have strategies to never pay taxes again—legally.

We can leave wealth for our kids and future generations (if they learn the methods we pass to them!).

We can focus on what we care about in the world.

We can leave a legacy for the future.

As you move up the Wealth Elevator, your mindset completely changes. You start to take an alternative path to investing. You see how you can move along a fast track to wealth. You find others who can become part of your new hui, your investment community.

You are ready to set your goals and find your joy.

My Joy in Huntsville

I found my joy in October of 2022.

I was walking through our first development, the Chase Creek apartments in Huntsville, Alabama. Construction had just finished, and we were doing a tour for all of the investors. Everyone was admiring the flooring, the furniture, the free latte machine. I took a deep breath of that new-building smell, amazed by what we had created together.

It had taken the team two years to build that asset, and on the bottom rungs of that team were construction engineers . . . a role I myself had done professionally. I had come full circle, and now I was the owner/investor of other people's sweat equity.

As I stood there taking it in, my wife came through the front door, holding our then-fifteen-month-old daughter. When my baby saw me, her chubby face lit up with the biggest grin. And in that moment, looking around, I saw more than just a building—more than just a great return on my cash. I saw the entire four-year college tuition for my beautiful baby girl. Done!

Heck, that deal made enough return for each of our one hundred fifty investors to pay for one year of tuition at the most expensive private college in the United States!

Keep Your Momentum

I've shown you the secret passageway to wealth—the Wealth Elevator system. You know what each floor looks like and how to get there. If you want to reach and stay on the Third Floor, you can. If you want to scale up to the Penthouse or even Rooftop, you can.

We have the plan. Now, what's going to stop you?

One of the underlying themes throughout the book, and what I see my clients get hung up on, is trying to get enough momentum to get off the beaten path and break away from societal norms. You know, the whole path of buying a house, going to college, working for forty years, and investing in traditional investments.

We're talking about the idea of self-directing, both in investing and in life.

We need to take control and self-direct our lives. It's like driving a car—sometimes we just turn on the radio and unconsciously listen to whatever's playing. Instead, we can choose what we want to listen to and what we want to fill our minds with. We need to be aware of the societal conventions we're supposed to follow and consciously choose to self-direct our lives.

It's about getting out of your comfort zones and taking control of your journey, which not many people do. If you come to our events and interact with our community, you'll see that there are alternative thinkers out there who are self-directing their way to a different financial path.

When you join our community—our hui—you'll notice a big mindset difference from other investment communities.

Within our group, we have two main personality types. The first is the questioning type, always asking why and seeking alternative paths. I fall into this category myself. For example, when I started as a new investor, I questioned why I should put my money in traditional investments and settle for 6 to 8 percent returns (that also go up and down like a roller coaster) when I could make much more with rental properties (and later syndications)—which also offered more consistency and tax advantages.

The other personality type we have are the rule followers, who make great employees and are important for society. However, sticking to the beaten path and following societal norms won't necessarily lead to financial success. If your parents were frugal with their money, chances are you'll end up in a similarly comfortable situation—but man, will it take forever. And you'll never move past the Third Floor to complete financial freedom.

The truth is that starting can be the hardest part.

Whatever you do, don't let your momentum fall. Get in the Wealth Elevator and start working your way up.

> I'm happy to offer a gift conversation about how to apply the Wealth Elevator concepts to your investing journey. Join me via the form at https://TheWealthElevator.com/club/.

All it takes is that first investment, that first leap of faith. In no time, you'll be free from the grind. You'll stop working for your money, and start investing in experiences. You'll be able to pursue your passion and build a legacy for yourself and your family.

It's not easy, but it *is* simple. And it starts now.

WEALTH ELEVATOR GIFT RESOURCES

As you move up the Wealth Elevator, I offer free gift resources to support your journey. With each chapter, you can download these specific tools, charts, and online courses to empower your growth.

Introduction

Strategy consultation: I offer you a strategy consultation with me as a gift for reading this book. Sign up via our club form at https://TheWealthElevator.com/club/.

Chapter 1

Wealth Elevator overview: For an overview of the floors and approximate net-worth income levels, check out the downloadable resources at https://TheWealthElevator.com/book/.

Our community: Join our community via the form at https://TheWealthElevator.com/club/.

Chapter 2

Basic financial skills: I offer a free e-course to learn basic financial skills. Go to https://TheWealthElevator.com/noob/.

Chapter 3

Stacking investments: If you're on Floor One, watch the whiteboard exercise I did on stacking investments at https://TheWeathElevator.com/returns/.

Turnkey rental properties: For investors interested in remote rental properties, access a valuable e-course at https://TheWealthElevator.com/turnkey/.

Property analyzer: To determine whether a rental property will cash-flow profitably, download our free property analyzer at https://TheWealthElevator.com/analyzer/.

Return-on-equity chart: Understand how to optimize your return on equity by checking the graph at https://TheWealthElevator.com/roe/.

Chapter 4

Syndications e-course: I offer a free eight-to-ten-hour e-course on how to evaluate syndication deals. Sign up at https://TheWealthElevator.com/syndication/.

Chapter 5

Syndications e-course: For a guide to doing due diligence on deals and general partners, go to https://TheWealthElevator.com/syndication/.

Operator testimonials: Questionable operators can easily create fake testimonials. See our examples of real testimonials at https://TheWealthElevator.com/testimonials/.

Chapter 6

Net savings strategy consultation: I'm happy to jump on a call to explore how you can plan your net savings. Join me via the form at https://TheWealthElevator.com/club/.

Chapter 7

Your mini-pension strategy: Join our hui for a complimentary coaching session on your pension at https://TheWealthElevator.com/club/.

Chapter 8

Cost segregation chart: We can show you how to calculate your income and costs for greatest tax savings. See our free tool at https://TheWealthElevator.com/diycostseg/.

Referrals to CPA teams for tax strategies: Join our club at https://TheWealthElevator.com/club/ and send us an email.

Chapter 9

Blueprint for Accredited Investment Bank (AIB): Contact our team at bank@theWealthElevator.com.

Chapter 10

My fail story: You can read the detailed saga of how I lost money with a bad syndication operator at https://TheWealthElevator.com/fail/.

Meet other investors on your floor: If you are not yet interacting with others at your level, reach out to team@theWealthElevator.com for a free syndication LP e-course. It will empower you with the prerequisite information to interact with other purely passive accredited investors.

Turnkey rentals: For a free e-course on remote rental properties, go to https://theWealthElevator.com/turnkey/.

Chapter 11

Resource gifts for saving: For radical ideas on how to save money for investing, visit https://TheWealthElevator.com/cheapo/.

Best strategies for you: Our events offer an excellent opportunity to learn more about our wealth strategies and meet other investors in our community. Visit https://TheWealthElevator.com/events/.

Chapter 12

Tax strategies: I offer a gift conversation about which tax strategies will best support your financial goals. Join me via the form at https://TheWealthElevator.com/club/.

Chapter 13

Gift consultation: I'm happy to offer a gift conversation about how to apply the Wealth Elevator concepts to your investing journey. Join me via the form at https://TheWealthElevator.com/club/.

ABOUT THE AUTHOR

Lane Kawaoka is a professional real estate investor with a portfolio worth more than $2.1 billion. His Hui Deal Pipeline Club has syndicated over $186 million of private equity since 2016.

Lane is responsible for finding investment opportunities and doing analysis and marketing for his various funds. He has spearheaded and invested in rental properties, syndications, private funds, and entire real estate portfolios. As owner of CrowdfundAloha.com, theWealthElevator.com, and ReiAloha.com, he is committed to serving working professionals who want a better path to financial freedom. His team has pioneered Accredited Investor Banking™ and tax minimization strategies, creating a holistic system for accelerating wealth.

An engineer by profession, Lane became a real estate millionaire by age thirty-one and left his engineering day job by age thirty-five. He has coached more than 15,000 investors in The Wealth Elevator system, partnering with investors who are too busy to mess with "tenants, toilets, and termites." His coaching clients add anywhere from $10,000 to $25,000 to their monthly cash flow, some hitting passive incomes as high as $600,000 a year. Eighty percent of his coaching clients become repeat investors, growing their net worth to the millions, decillions, and beyond. Using his blueprint, members reach financial freedom in four to seven years.

Lane also seeks to serve average investors through his passion project, the free podcast and online learning resource theWealthElevator.com, which reaches an audience of well over one million. His mission is to help hardworking professionals get out of the rat race, one free strategy call at a time. He has also spread his message through his best-selling first book, *The Journey to Simple Passive Cashflow: Real Estate Investing for the Working Professional.*

Lane has a BS in industrial engineering and an MS in civil engineering and construction management from the University of Washington. He lives in Hawaii with his wife and daughter.