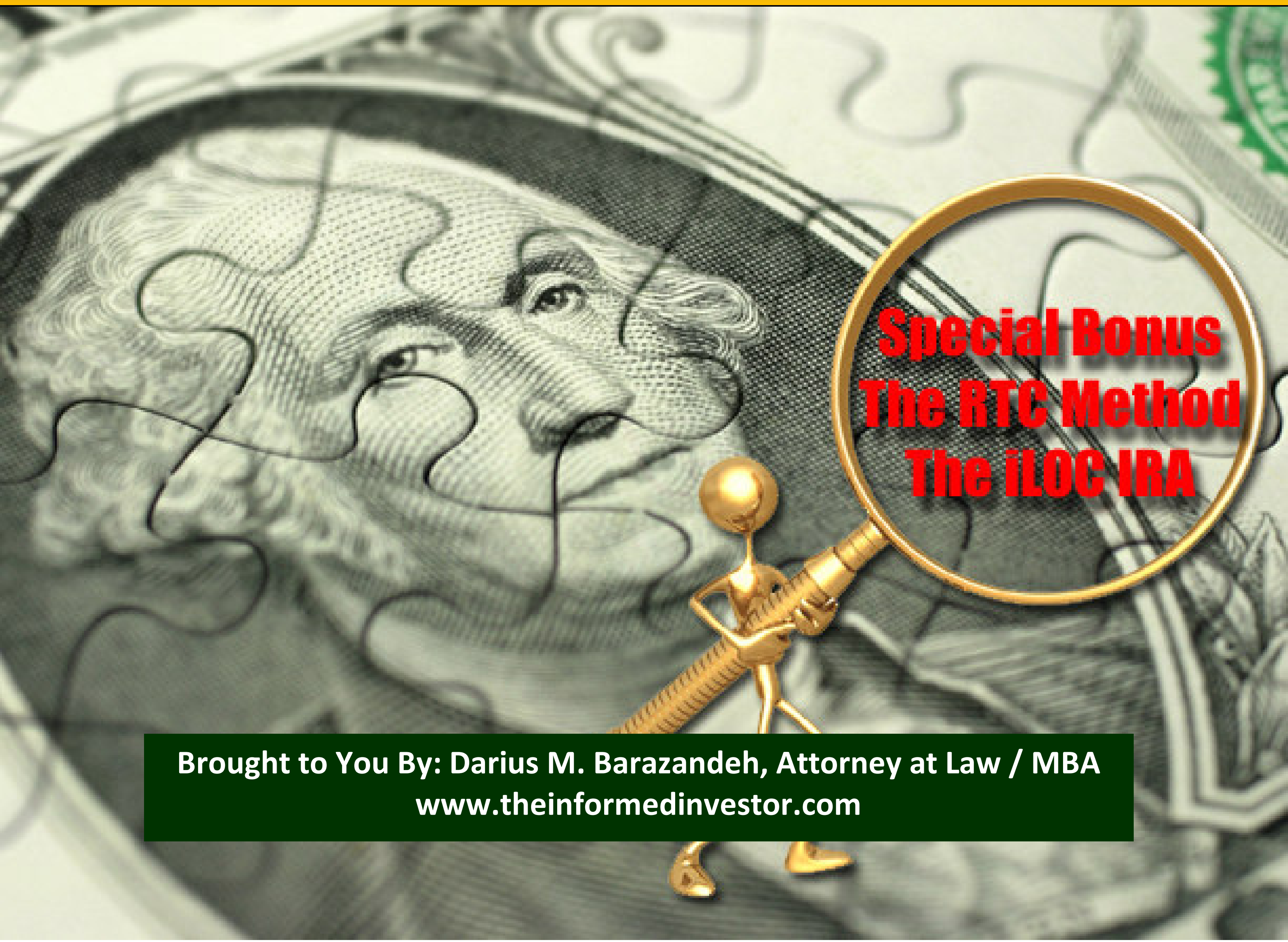
Retire Rich:

Your Liability Protection and Real Estate Wealth Creation Secrets!



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PLEASE NOTE: This is a summary report.

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What You Hold In Your Hands Could Save You Thousands if Not Tens of Thousands of Dollars or More!

Welcome and congratulations! You are about to embark on a journey of understanding that can be leveraged into a lifetime of reliable and predictable wealth building for you and your family! The information that we will disclose in this report is vastly important to your success. It is highly valuable and prized, so please be sure to read all of it.

While most people set out to become successful in real estate, sadly 95% will never be able to make a 'real' living at it. Fear, liability, taxes and a lack of planning typically will destroy their success. Did you know that the 'uninformed' investor can wind up paying as much as 45 to 50% of their earnings in taxes? **It is true! Imagine working from January to June just to pay taxes!** That's exactly what the uninitiated investor will do. Of course, you will soon learn how you can invest in real estate **tax free** and accumulate wealth <u>securely</u> and <u>predictably</u> using proper knowledge and time tested techniques!

Does this Sound Like You?

- I want to get started in real estate but don't know how to structure my business

- I'd like to be able to run my business like a pro with confidence and security

- I wish I had someone who could explain corporations, limited liability companies, limited partnerships, and self directed IRA's to me in 'plain English'

- I am concerned about reducing lawsuit risk in my real estate business

- I know that I need a corporation or limited liability company, but I am confused as to which one I should use

- I think its important to plan correctly from the beginning, I realize that one mistake can cost tens of thousands if not hundreds of thousands of dollars

- I would like to learn how to set up tax free retirement accounts so that my family and I can retire comfortably

- I would love to use a tax free retirement account to provide education benefits for my children. I'd like to afford to give my children the very best future possible!

- I am tired of missed opportunities! I want to feel like I am moving forward and succeeding!

- I have a nagging thought in my mind that I could be paying too much in taxes!

- I know that real estate can provide safe and predictable cash flow and appreciation, but I am concerned about the 80,000,000+ lawsuits filed each year in the United States

- What I don't know frightens me and I think its those concerns which delay my progress

Did you answer 'YES' to one or more of these questions? If so, don't worry because we are going to dispel, illuminate and put to rest your concerns.

I Am Here for One Reason!

My name is Darius M. Barazandeh. My last name is pronounced (*Bar-ah-zon-day*…for those who are wondering!) I believe that I was put on this planet for one reason and one reason only: **To help others!**

I am a licensed attorney and hold an MBA in corporate finance. I have spent my life helping organizations and people just like you revolutionize their businesses. For example, many years ago as a business consultant with the prestigious firm of Deloitte & Touche, LLP, I helped to maximize the cost effectiveness and profitability of over 30 large scale public sector organizations. My efforts helped save these organizations tens of millions of dollars. In fact, since these were all government organizations the cost savings were directly passed on to common citizens just like you and me.

Equally important, for the last 9 years I have been involved in the areas of real estate and small business education. My efforts have brought millions of dollars of increased revenue to my students and immeasurable amounts of tax and liability savings. Perhaps more importantly from Day One, I personally pledged to give each person my absolute best. I was voted the **# 1 'liability protection and tax savings' educator** during the Renegade Real Estate Warrior competition. My education programs have routinely reached best seller status and have been favorably reviewed by countless purchasers. I have also been involved with thousands of real estate transactions, helped tens of thousands of investors throughout the country and solved countless real estate and business entity issues. Many years ago I decided above all that I would be 'EXCELLENT' at providing value and service to all those I come in contact with. **I am committed to this.**

My Absolute Belief Is…

I believe that all people are inherently good and that all people have amazing potential.

Yet, this amazing potential is often quite literally locked away inside of them. It is closed off from their day-to-day awareness by something called *'fear'*. This fear can continue to grow and expand as we get older and older. Lack of information, pessimistic thinking, lost opportunities, media bias towards 'calamity reporting' and inaccurate information all have served to increase our levels of fear. It literally forces greatness further and further away from our conscious awareness and our immediate reach.

Does it Have to Be This Way?

Absolutely not! If you answered 'YES' to any of the questions presented earlier in this report, then you absolutely must continue reading. One-by-one, bit-by-bit we can begin to dramatically TRANSFORM your understanding of WEALTH and your KNOWLEDGE of how it can be preserved. I can almost assure you that after you finish this report you will feel a sense of calm. It is a secure feeling of 'knowing' that comes when you have made a significant leap forward in your understanding (a quantum leap…if you will).

So sit back, relax and enjoy this report. I don't believe in fluff so get ready for down to earth, practical and workable solutions!

“But…I Want to Make More Money”

Every day someone calls my office eager about getting started in real estate. I usually ask what has brought them to the field of real estate investing. The answer: *“Oh, I want to make more money”*. The phone is usually silent for awhile as I sit and contemplate their response. The eagerness in their voice still echoes in my ear and the imperceptible hum of the phone line waits quietly for the next reaction.

I learned a long time ago that the only people who make money are those who work at the U.S. Mint. **None of us make money.** I repeat: none of us make money. Certainly this may sound odd to you (and I told you that this would be an enlightening report)…so hold on! All of us are on this planet to SERVE, therefore the only time we receive compensation is when we serve another human being in some form or capacity.

Getting involved in real estate to increase your income is a worthy goal and an honorable reason. Just remember that you only receive money as an exchange for service. Therefore your focus should never be on making money. **Rather focus on providing service**. The person who focuses on providing better and more beneficial service will find that abundance and income will follow them no matter where they travel. Amazingly they will have a very hard time cutting off the flow of wealth that comes to them. On the other hand, the person who constantly focuses on money will systematically neglect service. Any money earned will generally leave their hands almost as quickly as it came in. Long term income and wealth only come to those who provide service. Lasting wealth and continual earnings will come to you because of how you think and the service you provide, rather than your background, education, or ‘luck’.

What is Service?

Service is best defined as delivering value to another human being. It does not matter if there are 1,000, 10,000, or even 100,000 real estate investors in your area, you can still deliver value and find opportunity. By virtue of the fact that you are a unique person with your own experiences, view points, feelings, and desires…**you can provide unique value!**

If one lacks experience then they should work to build knowledge and familiarity, but don’t ever think that blind technique will make you a success. It is the spirit in which the service is rendered that makes or breaks the successful person long term. It is only extra care, attention to detail, a pleasant attitude and **proper thinking** that can keep opportunities and favorable situations within one’s grasp.

But Wait There are Traps!

A real estate investor can have tremendous drive to serve others and provide value. Such a person can use all of their skill, heart, and desire to build value all around them. Nevertheless, **I have seen WONDERFUL people fall prey** to unscrupulous practices, greedy plaintiffs and their attorneys. Sadly, there are still many ill-thinking people and 'opportunists' who still believe in getting 'something for nothing' or blaming others for their negligence and misfortune.

Let me tell you a story about Clarence. Clarence has owned a certain apartment complex for over 25 years. He worked hard to care for all of his tenants, upgrade the building, and promote harmony in his business. Last year in October a family moved into one of the units. I believe it was unit 109. They were a younger couple with a very infant son. They paid the rent on time and seemed to be very agreeable people.

In early November I received a call from a very distressed real estate investor. With a shaky, frightened tone Clarence revealed a tragic turn of events which took place in unit 109. I shook my head in disbelief when I learned what had unfolded. The younger couple had allowed two of their teenage nephews to stay in unit 109 with them. One day when the nephews were alone with the baby they did something awful. The two boys filled the bathtub with scalding hot water and repeatedly dunked the baby boy in the blistering bath. Apparently, they enjoyed harming the child and although the baby screamed, but it was to no avail. At the end of the day the baby boy had severe burns on over 95% of his body.

So What About Clarence?

So what does this have to do with Clarence? Clarence told me that three weeks later he received a summons indicating that he was being sued. He was being sued by the young couple with the small child! You might be asking yourself right now, *"Well what did Clarence have to do with this?"* The creative lawyer for the plaintiff alleged that the water heater's thermostat was set too high. As a direct result of this the young boys were able to scald the infant more severely than if the water heater's temperature had been set lower.

You might argue, *"Wait a minute…you said they repeatedly dunked the child in and out of the water while the baby screamed. Obviously, this was intentional! Why should Clarence suffer?"* I believe that it was intentional, but here is what you must understand: **The person with the deep pockets usually gets sued.** Perhaps the attorney can't make as much money from the parents of the nephews or perhaps the family does not want to blame them for the sake of harmonious relations.

Nevertheless, Clarence is being sued. Clarence never took the time to set up a business structure (such as a limited liability company). Tragically, Clarence did not have sufficient insurance coverage and unfortunately, Clarence installed the water heater himself. You will learn that this means he is personally liable. I still remember the silence that day on the phone when we spoke. The next year or more of Clarence's life was spent in a draining physical and monetary struggle that may change his perception about business, people and his existence. My heart still aches for him.

A Lawsuit is Filed Once Every 3 Seconds in the United States!

I believe that when people serve others the world unfolds and becomes a better place. That is why I have used my expertise and knowledge as an attorney to help people grow their business. I don't use it to sue people in frivolous claims or to disrupt businesses.

Amazingly, the United States has 70 to 72% of the world's attorneys. Even more alarming is the fact that **U.S. law schools are graduating between 60,000 to 75,000 law students per year**. Where will they find cases? Obviously, everyone has bills to pay. Sadly, some attorneys work hard to find cases which will allow them to make big dollars suing business people like you and me. Some people call this the 'Litigation Lottery' or 'Jackpot Justice'. The idea is that with the right case, the lawyer and the client can strike it rich. I don't want to scare you, but I do want to make you aware of the importance of early planning.

You will need to understand first-rate business practices, lawsuit avoidance, tax advantages, state reporting issues and much more. In fact, at the end of this amazing report you will know more than 99% of the general population when it comes to all of these issues. The information you will learn has been hard fought and took years of research and practical application to assemble. Its all yours **right now! Ignore it and you might as well go swimming with sharks!**

What You Must Know About Business Protection!

I am sure that many of you have heard that a limited liability company, corporation or partnership can protect you from personal liability in your business.

Let's look at an example:

> *Saul Proprietor buys and sells real estate. Saul's business had simple beginnings. One day he bought a dilapidated house at the end of the block and began fixing it up. He signed all of his purchase contracts as himself, 'Saul Proprietor'. While Saul has the proper county permits to operate his business, he has not filed any LLC or corporation formation documents with the Secretary of State.*

In the above example, Saul Proprietor is conducting business in his own name. He is what's called a sole proprietor *(now you know what I was hinting at!)*. He has not established any formal business entity, has not filed any 'formation documents' with the state, and **he is <u>personally</u> liable for all business acts, debts, and contracts.** Saul does not have a separate legal entity shielding him from the activities of his business. If Saul's business is sued and a judgment is entered, then Saul will be personally liable. All of his personal assets (i.e., home, car, personal savings, etc.) are at risk and could easily be lost. When Saul pays his Federal income taxes he lists the income and losses from his business on his personal tax return in Schedule C.

Saul also faces a good deal of risk from the IRS as well. It is estimated that sole proprietors are as much as ***<u>10 times</u>*** **more likely** to be audited than owners of a business entity. [1] According to CNN Money Magazine, to help avoid an IRS audit, ***"rather than operating as a sole proprietor, choose to incorporate."*** [2] Moreover, due to limited accounting options, Saul will likely pay up to 45% or more of his earnings in taxes!

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[1] **AccountingWEB.com,** "Sole Proprietors Likely to Be Focus of IRS Audits", February 22, 2006.
Quote: Sole proprietors are at least 10 times more likely to be audited this year than other business entities, dailybreeze.com says."

[2] **CNN Money Magazine,** "The Audit Man Cometh", March 24, 1997 : 5:38 p.m. ET

Now let's assume that Saul Proprietor decides to create a limited liability company or 'LLC' for his business. Saul and his wife are owners/members of the LLC. If Saul runs his LLC properly, then he would not be personally liable if his business was ever sued. Saul's personal assets (i.e., home, car, personal savings, etc.) will be protected. On the other hand, the LLC's business assets and bank accounts will be subject to any judgment which arises from a lawsuit. Saul also will be able to reduce the amount of taxes he pays and his audit risk.

The main point to remember is that Saul's company, *Real Estate Solutions, LLC.* is now a separate entity from Saul. The LLC will have separate liability, and can incur separate debt. The LLC *if run correctly* can protect his hard earned personal assets from exposure.

These Key Advantages Can Be Yours!

There are many advantages to the proper structuring for your real estate business, but here are the two primary benefits:

1) Reducing the Amount of Taxes You Pay: if you are not properly structured then the active buyer and seller of real estate can pay up to 45% or more of income in taxes! I frequently receive calls from investors who have done several real estate deals, but don't want to set up a business structure at the present time. **What's the cost of this approach?** Many of these investors are giving away almost HALF of their earnings to Uncle Sam. Wouldn't it be much better to save some taxes and put your money to work for you in additional investments?

2) Personal Liability Protection: Some promoters of asset protection courses try to scare real estate investors into setting up entities. It works, but you should take action because it makes sense, not because you are writhing in fear! Nevertheless, we all have to think about liability. According to some estimates the average business owner is 3 times more likely to be sued than injured in a car accident…not a pretty picture! In fact, if you operate your business throughout your lifetime then the question may not be IF you will get sued…but WHEN! A properly set up and run business entity will protect your personal assets.

Lawsuits Are Always the Last Resort…But Be Prepared Anyway!

It's not what you make but what you keep! Realize now that real estate is an investment which requires you to deal with numerous parties: ***tenants, sellers, partners, investors, lenders, management companies, independent contractors, employees, state agencies, the IRS*** and others. **So what do you do?** The first step is to learn how to run your business in a fair and professional manner. A business entity (LLC, corporation or limited partnership) is not an excuse to act in a careless or negligent manner. You need to be fair when dealing with parties; you need to outline your agreements with partners, vendors, contractors, etc. You need to respond to tenants when they have complaints regarding a rental property. In short you need to become a MASTER of good business practices. I spend a considerable about of time in my teachings covering a topic known as 'LAWSUIT AVOIDANCE'. This means that we teach you good business practices to reduce the risk of getting sued. It's simply so important!

Another issue to keep in mind is that you may one day get in the position where you will need to assert your own rights in a lawsuit. In other words, you may have to take another person to court, because your rights have been violated, or a contract has been broken, or money has not been paid to you. Many times you will then be sued by this party. I know that sounds harsh…but it happens. This is called a *cross claim* and it means that the party who is being sued is now also suing. Usually this happens because the other party's attorney believes that they have a claim and/or they will be in a better position using a cross claim. What happens is that for you to assert your rights, you can increase your chances of getting sued.

Since we want any lawsuit to be a last resort, I also spend a good deal of time teaching people about alternative dispute resolution. An alternative dispute resolution clause will require parties to work at settling a claim in using mediation or another non litigious forum, such as an arbitration.

Do you have alternative dispute resolution clauses in your agreements? Obviously, if you can settle matters outside of court through an alternative dispute resolution setting can be a great savings of time and money. Consequently it is one of the first things that I advise my students to consider.

Here’s the Catch:
Setting Up the Structure Won’t Help You if You Don’t Know How to Run It!

Here is another very important rule that you must never forget: To obtain full personal liability protection you must run the business correctly! In my work I have uncovered 25 to 28 key mistakes that real estate business owners make. **NO MATTER HOW MUCH YOU SPEND** to set up your business, if you make some of these mistakes…**YOUR PROTECTION WILL BE LOST!** Here are five of the simplest ones:

1) **Using the business for fraudulent activities or for ‘unfair’ transactions** – For example, John Smith gathers money from investors claiming that he will develop some raw land in a budding area of town. Yet he never had any plans to use the money for land development. He is sued by the investors, but John claims that his personal assets are protected since he was acting as the President of his limited liability company. No court will honor the limited liability company because fraud was involved. His personal assets and business assets will be at risk.

   You may think that this example is clear cut and that ‘fraudulent’ acts need not concern you. **However consider the fact that many deals struck with so-called ‘motivated sellers’ could give rise to a lawsuit under your state’s Deceptive Trade Practices Act (DTPA)** or some similar statute. A rule under a DTPA action may be the equivalent of a fraudulent action. Sometimes the line is not so clear. One bit of wisdom is to make sure that your agreements are fair.

   a. IMPORTANT TIP: You also can’t be wholly unfair or one-sided with your tenants or buyers. A court can always look at a one sided transaction and either decide against you or say that you are using the business to promote unfair dealings. This can allow a court to set aside your business entity protection in order to achieve equity (i.e., justice).

2) **Failure to respect the business as separate from its owners** – Never mix money from business accounts with your personal funds, accounts, etc. Do not use company money to buy personal assets, groceries, etc. Simply put, if you do these things (or perhaps only one of them…once) then your business

structure is not likely to hold up in court. If you think this is another easy one…then WATCH OUT, because there are other more complex issues relating to the use of company and personal assets in the business.

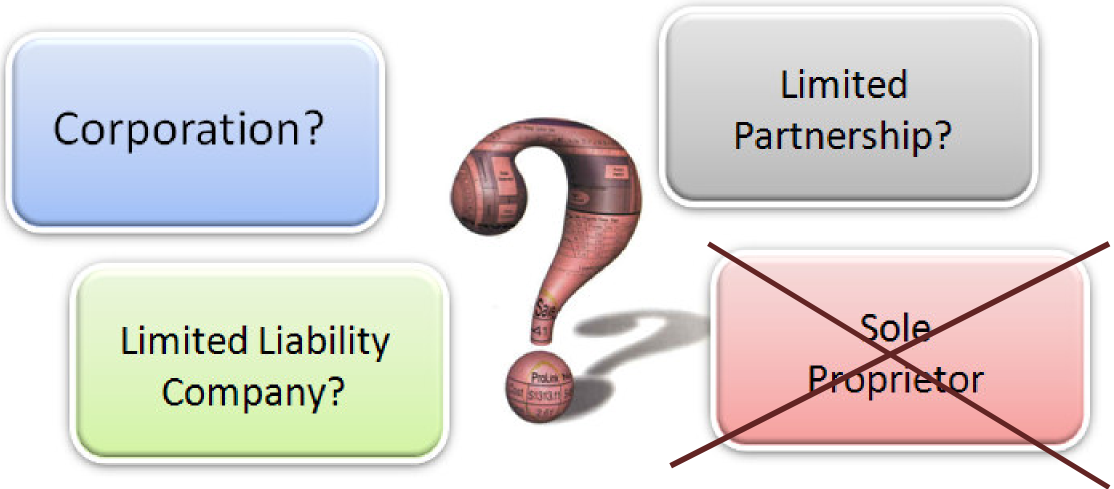
3) **Not Enough Capital in the Business. In other words a lack of savings and/or insurance coverage** – Your business must have enough insurance and/or savings to cover expenses, liabilities, and obligations. The amount of capitalization refers to the total value of assets (equipment, cash, stock, etc.) in the company and insurance coverage that is available. This is another COMPLEX area which needs more discussion…because you may need more or less 'capitalization' based on your business type. The more you deal with the public, the greater your level of recommended capital. If your business does not have enough capital and/or insurance to cover operating expenses and potential liabilities, then a state court could rule to go through the business entity to reach the owner's pockets! Why would a court do such a thing? The reason is to 'find the money'. **This is one of the important reasons I educate my customers on insurance!**

4) **Forgetting to File State reports** – Your state will require you to keep up with reports and state taxes (sometimes called franchise taxes and/or business privilege taxes). If you don't keep up with these reports and/or taxes owed (even if nominal or zero) your business privileges will likely be revoked. Guess what privilege goes first? It will be you corporate or LLC charter. As a result, your liability protection is lost!

5) **Other formalities –** These include meetings, paperwork, required records, proper roles and obligations among the parties, and transfers of ownership interests, and more. **It is very rare that we see full detail on how to create 'iron-clad' records in these areas.** Instruction on these specifics have become a 'lost art' so to speak, among attorneys and accounting professionals. Its one of the reasons that I spent so much time teaching these fundamental rules.

IMPORTANT NOTE: The list does not stop here because there are 25 to 28 often neglected practices that must be performed to 'iron clad' your business. While we have covered 5, many of the others are very easy to miss and they are routinely used by creditor attorneys to 'crack' open a company. Please make sure you get proper instruction on how to run your business entity after it is created! **Nearly anyone can file the entity for you…the 'lost art' is how to maintain the protection of your LLC or corporation.**

Entity Choices for Real Estate Investors!



Choosing the right business structure amidst the sea of choices and information has for many years been far too confusing. Usually the information you find in bookstores or in Internet articles is hard to understand, difficult to apply and may not even pertain to the special needs of real estate investors. You may also discover that each professional you speak to has a different opinion and the more people you talk to the more confusing your options become!

I am going to make this really simple: In most situations your choice of business entity will depend on whether you are a 'flip investor' or a 'buy and hold investor'. That's it!

What's the difference? Well, as you know some investors like to buy a property, fix it up and sell it quickly (in less than a year). Or the investor may want to buy the property and sell it 'as is' to another investor (in less than a year). We will borrow a common phrase and call these folks 'flip investors'.

Other investors like to buy property and hold it long term. We will call these investors the 'buy and hold investors'. They buy a property, hold it and may even rent it out for years and years. These investors are after long term income and appreciation.

No discussion about 'flippers' would be complete without talking about the 'Sub Chapter S' tax choice. You may have heard this called an 'S election'. It is a special tax option allowed by the IRS. It's actually called an 'S election' because if you look in the IRS code you will find the specific rules in 'Sub Chapter S'.

There is also another important tax classification that you need to know about called Subchapter K. Can you guess where the name came from? Similar to the Subchapter S choice it came from its location in the IRS rules.

Do you remember the two investor types we talked about, the 'flip investor' investor and the 'buy and hold' investor? Here is the general rule regarding entity options:

For the short term investor: An LLC taxed according to Subchapter S will generally allow for the most tax benefits for the 'flip investor'.

For the long term 'buy and hold' investor: An LLC taxed according to Subchapter K will generally allow the most tax benefits.

Now many of you may say, *"Wait a second…I thought that you were going to tell me about LLC's, and limited partnerships. Why are you talking about this Subchapter K and Subchapter S stuff? What I want to know is do I need an LLC, corporation or limited partnership"*

Again, here is what we have found: Most investors who 'flip' properties will be best served by an LLC taxed under subchapter S while 'long term' investors will be best served by an LLC taxed under subchapter K.

Let's take a moment and discuss the special needs of **'flip investors' (I will cover corporations and limited partnerships shortly!).** Alright, the biggest tax risk (in my opinion) for the person who 'flips' properties are **self employment taxes**.

You might be thinking, *"Wait…what is this strange new term called self employment taxes*?" Well I'll use an example that most of us can surely relate to. If you work for a company as an employee you probably remember that the hourly wage you were promised never totaled out to be what you thought on your paycheck. Do you remember this?

For example, as a kid, I worked at a grocery store. I was to be paid $3.00 per hour and I had worked a total of 60 hours in two weeks. Well looking at it as a kid…I believed that I had a certain $180 in my pocket. Well, sadly when the 15th of the month came by, my check was only for $167. I thought for sure that a mistake had been made.

It was no mistake. That's because a certain amount of my 'actively earned' income was taken out of my paycheck by my employer for FICA (which are Medicare and

Social Security Taxes). The employer also contributed another 7.65% from his pocket based on my wages earned.

This amounts to a **total of 15.3%** which is collected for wages earned up to $94,200, as of year 2007.

Most of you may now be staring at a wall and thinking, *"Darius, I am not interested in the grocery business or your childhood experiences…at least not this one. I want to learn about entities and real estate!"*

Ok...well hold on and I promise I'll show you why this is important! One thing people don't realize when they start their own real estate business is that income earned from actively buying and selling property, selling merchandise, providing a service, etc. is considered 'ACTIVE INCOME' by the IRS. And this active income will be taxed at an additional 7.65% plus whatever your regular tax rate is: 25%, 28%, 30%.

Some of you might be thinking, *"Well lucky, for you that your mean old boss has to pay the other 7.65%, right?"* Well what if you have your real estate 'flip business' and **you are finally your own boss?**

Then you will also have to contribute the other 7.65%! **This amounts to <u>a total of 15.3%!</u>** If you are in a 28 or 30% tax bracket that can equal to as much as 46% to 50% of your income paid out in taxes! It's basically working from January to June just to pay Uncle Sam!

Before you decide to quit…hold on. Remember I said that the S election is the best way for the 'flip investor' to be taxed!

Using the rules under Subchapter S for our business entity can allow (in most instances) up to 60% of our income to be*'<u>re-classified</u>'* as a passive income distribution. Notice what I said, 'PASSIVE' Income distribution. That means PASSIVE not active! Why is the wording important? Because the S election allows us to *'<u>re-classify</u>'* income and thereby control how much of it will be subject to the 15.3% self employment tax. In most instances you can pay yourself a little less than half of your income as a 'passive income distribution'. The rest of it will be paid as a salary and will be considered ACTIVE INCOME and will be subject to the 15.3% tax.

So what are the tax savings? A real estate investor who 'flips' property but does not understand these rules could pay a great deal in excess taxes.

Let's say the 'flip investor' made $35,000 one year. If you did not understand these rules the investor would likely pay an extra $2,500 to $2,800 in taxes. A 'flip investor' making $75,000 per year would likely pay an extra $6,000 per year. Obviously, understanding how to use and KEEP this S election is important!

<u>Remember:</u> There are special rules which the IRS requires you to abide by in order to use this tax treatment. The rules are fairly straight forward but you must comply with them in order to maximize this tax advantage!

Alright, if you 'flip' property (short term buying and selling) then you will generally be served by an LLC taxed under Subchapter S.

<u>In Summary</u>: With the S election we can split some of the income and call it a 'passive income distribution' and the remainder we can pay out as a salary. **This can cut the self employment tax bite <u>in half or more</u>!**

Wait…I am a Long Term Investor!

One question I get routinely is, 'Well if the S election with the LLC is good enough for the 'flipper investor' why won't the S election benefit the 'buy and hold investor'? There are a couple of reasons for this so lets discuss them.

In most instances the S election is not needed for the 'long term' owner of real estate. In fact, it can reduce some of the benefits that long term owners of real estate would prefer. The first reason is that income which you derive from rental property is not classified as ACTIVE INCOME by the IRS! I know you had to *'actively'* put up 'For rent signs', 'screen tenants', and other hard working tasks…<u>but</u> the rent paid is passive income.

In other words, the rent you are being paid is not paid to you for your time putting up signs, screening tenants, etc. The rent is paid to you because you let the tenant 'use and enjoy' the property. In other words you let them occupy the property. For this reason rental income is considered 'PASSIVE'. Because it is not ACTIVE income you will have avoided the self employment tax trap. Since rental income is considered PASSIVE income by the IRS, the self employment tax issue is negated.

The S election may also cause the long term owner of real estate some disadvantages, for example:

1) Many real estate investors will borrow money in order to purchase 'long term' rental property. The savvy investor will want to ensure that any debt or remaining balance owed on the property can be used to reduce other reportable income earned outside of the business. For the 'long term' investor the S election does not allow this. This is a complex rule and we cover it fully in our education materials. Just remember this is the primary reason why the LLC taxed under Subchapter K works best and passes the most tax benefits to long term owners of rental property.

2) Here is a situation that rules out a corporation using Subchapter S for long term properties. In some instances an S corporation that owns long term real estate will create serious tax troubles for any heirs or beneficiaries. A beneficiary is someone who inherits the business through a will. An heir is someone who inherits the business because of their relation to the person who died (in the event there was no will). In both instances there are some tax benefits which are lost because of the S election. The end result could be a massive tax bill for the person who inherits the business.

   There are a few other reasons which involve 1031 exchanges which are a wonderful tax planning device. The S election won't allow the same flexibility when trying to distribute tax benefits or income. Suffice it to say…for rental property stick to the LLC with Subchapter K taxation.

Alright, at this point I think you can see that generally when you are a 'flip investor' you want an LLC taxed under Subchapter S, and when you are a 'buy and hold' investor you will be well served with an LLC taxed Subchapter K.

So now you must be thinking, *"I understand which taxation type makes sense for me…based upon the type of real estate investing I am doing, but I want to know more about corporations and limited partnerships."* We will cover these topics next!

So, What About the Corporation?

LET'S EXAMINE A COMMON SITUATION: Many attorneys recommend the corporation to their clients. For the most part, corporations will provide good protection from 'traditional liabilities'. In other words, if the business is sued for its business activities, then I consider this a 'traditional liability' situation. You will learn that there are also '<u>non traditional</u>' liabilities that I will discuss soon.

Most attorneys (myself included), who stay up-to-date with court precedents and how creditors (and collection attorneys) actually work, will tell you that a multi-member LLC will usually provide enhanced benefits. Here are a few reasons:

1. **Less Formality Can Mean Less Mistakes:** A corporation requires annual meetings and has a number of rules which create a 'forced' management structure. For example, every corporation is made up of a 'tri-parte' management structure (tri-parte means 3 levels). This means that corporations must 'force' or channel operations through this structure of directors, officers, and shareholders. The trouble with small to mid-sized businesses is that the same person or perhaps a handful of people must occupy all of these positions. This can create confusion, additional 'red tape' and more opportunity for error. The limited liability company (LLC) is simpler to operate because state law does not force this 'tri-parte' structure upon LLC owners and employees.

Also the LLC, unlike the corporation, is not required to have annual meetings. Although we think LLC meetings are a good idea, you probably won't lose your protection if you forget to have a meeting. These simplicities mean <u>less</u> technicalities and <u>less</u> confusion. It also means that there will be <u>less mistakes available for an attorney to use against you</u> when trying to 'pierce' the entity in order to hold its owners personally liable.

2. **Charging Order Protection:** Alright, let's move forward to another VERY IMPORTANT issue. I am going to say that this is perhaps the key reason why an LLC is favored in most situations. The LLC will protect you from business liabilities but it can also protect your business from personal liabilities. DID YOU CATCH THAT? We said the LLC will protect you personally from business liabilities, but it also can protect your business from <u>personal liabilities</u>. This is what we call a 'non traditional' liability.

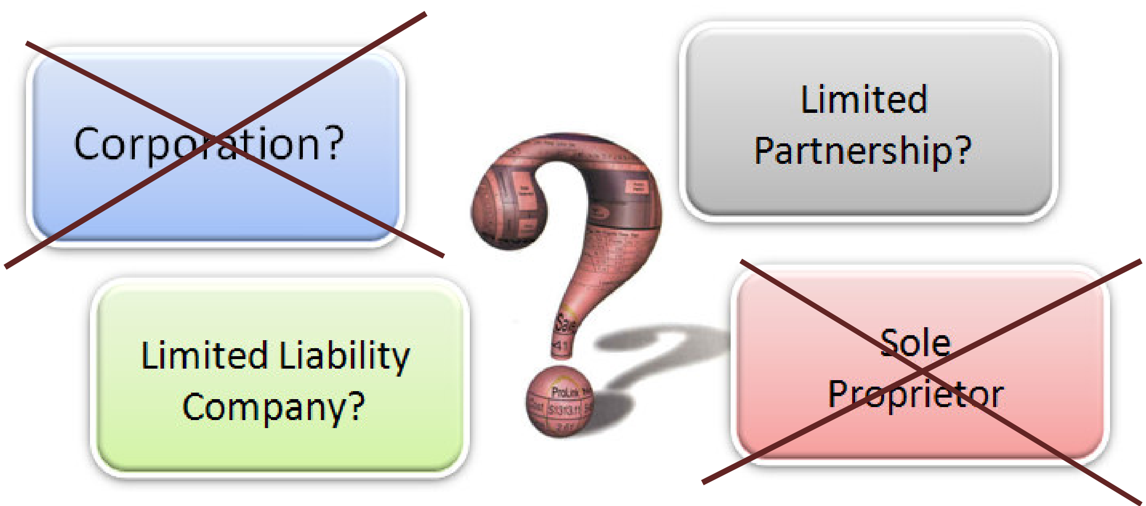
Ok, enough word manipulation…let's look at a concrete example:

EXAMPLE: Let's say that you are driving and taking your family to the park on a Sunday afternoon. Negligently, you tap someone who is crossing the street and they are slightly injured. The injured person finds a sharp and hungry personal injury attorney who 'milks' the case for every penny. They sue you for $1,000,000 and win. Your insurance pays out the $500,000, but there is still $500,000 owed in the form of a judgment against you.

What happens next? The answer will depend on whether you have a corporation or LLC.

Scenario # 1 - Judgment obtained against the owner of a corporation: When a judgment is obtained against you, the attorney will pass the case on to a collections specialist (an aggressive attorney who handles collections)! These attorney's are very knowledgeable and may only focus on collections – in other words, they know the ropes. This attorney would go to the judge and request a Writ of Execution. With this writ they may visit your residence or office (with the local sheriff) and **begin seizing personal assets**! The problem is the corporate stock shares are personal property. As a result, generally they can seize 100% of your stock shares.

Now you may say, *'Wait a minute, my business was not involved in the accident. I was taking my family to the park on a Sunday'*. Understand, the creditor is not trying to enter your corporation through the front door, but through the back door! Have you ever heard the expression, "He who has the gold makes the rules?" I don't always agree with this, but in this situation, let's say, "He who has the stock shares makes the rules". In other words, if the creditor seizes your stock shares they can vote to dissolve or end the corporation. As a result, any assets in the corporation must be 'distributed' to you personally. Again, this is what we call a 'non traditional' liability situation. The risk came not from the business activity, but from a personal activity gone wrong.



Now you may ask, "Why would anyone want to break up my corporation?" **THE REASON:** Once the corporation is dissolved the assets of the corporation will be distributed to you, the owner.

GUESS WHAT? This will give the collection attorney more money to satisfy the rest of the judgment (the $500,000 still owed). Remember we discussed the importance of protecting your business from personal liabilities? The corporation won't do that very well because: Corporation stock shares are personal property and have few protections under state law. They can be seized if you have a personal judgment against you.

The same thing can happen if you are doing business in a corporation made up of 2 or more parties. For example, if one of your co-owners gets into an accident and a creditor seizes her stock shares, then if the creditor obtains enough shares they could vote to dissolve the company. They might also become a 'substituted owner' and control or influence management decisions. Since you can't monitor the actions of all of your co-owners all the time you might want to stay away from the corporation! For these reasons there is undue risk when corporations are used in the context of the small business with multiple owners.

Learn to Avoid These Mistakes Before They Happen!

As a licensed attorney I attend training conferences each year to keep up with my required hours of continuing legal education. I can tell you that while I love to learn about all the updates and nuisances of setting up companies, I know that the real benefit comes from understanding how collection attorneys work. The goal is to learn the tricks they use to tear companies apart.

Believe me, most collection attorney's will foam at the mouth when they learn the business owner is using a corporation. They are not so pleased to learn the business owner is an LLC or other 'partnership-style' entity. Let's look at the same situation but assume that an LLC was properly set up and used:

Scenario # 2 - Judgment obtained against the owner of an LLC: So at this point you may be wondering how the LLC is different. This is a complex issue, but generally we can say that the laws of all states (except Pennsylvania and Nebraska) have included special rules for LLCs which allows them to be protected in this type of situation.

In other words, if we had the same facts in which you hit someone on the way to the park on a Sunday and $500,000 of the judgment was not covered by your insurance, the creditor would generally not be able to gain control of your LLC. The creditor generally could not vote to end the LLC, generally could not force a 'distribution', and generally could not break up the LLC. The creditor would be limited to a court order called a 'charging order'.

So what is a charging order? The charging order is a specific court document that first must be allowed by the judge. It is an order which says that if any money is passed on to the owner who was involved in the accident, this money must first go to the creditor until the debt is paid off.

The creditor <u>does not</u> have the right to force the LLC to make this payment. This means that the creditor could wait a very long time for such payment to be made. If your LLC is run by parties who are 'friendly' to your situation (such as your co-members) they may choose to stop all distributions made to you. State law will generally limit a creditor's collection efforts to this charging order. Second, once the creditor obtains the charging order they may have to pay taxes on money that the LLC made, but which was not distributed to you (we call this 'phantom income').

What does all this mean? Generally it puts you in a much better position if such an event occurs, since it may <u>force the creditor to try to settle the judgment debt or just drop the collection efforts.</u> At the very least it can help keep your business intact. If you were using a corporation the end result would likely be the destruction of the company. If an LLC was used, managed correctly, and its owners properly reserved this charging order limitation, then the result will be quite different.

A Few Other Points to Consider

Here are a few other things to consider: An LLC will need to have more than one member in order to ensure this type of protection. Let's also say that in community property states it may be useful to have someone other than your spouse (family member or close friend) own a small percentage interest in the LLC. The community property states are: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin.

Second, you must make sure that the LLC is run and managed in the correct manner. None of these protections will hold up in court unless you truly become a MASTER of good business practices and learn how to keep up with LLC formalities. There are many other very important points that we advise for LLC's. Many of these are contained within the LLC's internal paperwork so please be sure to learn more about our education programs.

An Important Review!

If there is one thing that I want you to get out of this it's that there are choices. We spent a lot of time explaining each choice but we can say with some particularity that real estate investors will generally get the most mileage from the following entities:

1) **LLC taxed under Sub Chapter S for the 'flip investor':** Short term buyers and sellers of real estate (called 'flipper's') will benefit most from an LLC taxed under Subchapter S. We also said that the LLC can go a bit further for liability protection than the corporation (if structured correctly) it can protect your business from personal liabilities due to the charging order limitations of state law. Remember the example where you are driving to the park with your family and strike a pedestrian who gets a sharp and hungry lawyer? Both the corporation and the LLC will protect you personally from business liabilities, but the LLC can protect your business from your personal liabilities.

2) **LLC taxed under Sub Chapter K for the long term 'buy and hold' investor:** The key issue here is that rental income is considered 'PASSIVE', hence not subject to self employment taxes. Because of this and other reasons the Subchapter S election is not useful. The optimal tax election for the vast majority of 'long term' investors is the Subchapter K LLC.

   Once again, this is because it allows the investor to preserve individual 'capital gains rate' and some other advantages. In order to use subchapter K we can typically choose between an LLC and a Limited Partnership. The LLC is simpler to run, cheaper, and will cost less to set up.

Please keep in mind that this is a brief sample of the issues we cover in my programs. Also be clear that we have not talked much about the day-to-day forms, procedures, and liability traps that are so important to ensure you save taxes and run the business with the fullest liability protection possible.

Creating the entity really is the EASY part. The key is maintaining and running the entity properly. To give you an example of this: When I teach investors about business structures, 10% of our time is used to cover setting up and filing the entity. The remaining 90% of time is spent on what you need to do after you set up the entity. These steps can be simple, straightforward and quite fun if you learn them correctly the first time! Also remember that 'one size' will not always fit every situation. If you have any questions whatsoever, please contact your trainers at RealCoach™ and they will be forward your questions and/or concerns to me. We will get back to you!

I believe that you absolutely can reach any dream that you truly desire. Stay connected to your mentors at RealCoach™ and make sure you get proper instruction on reducing liability and saving taxes! You can build the life of your dreams. If you can believe it…you can create it!

Warmest Regards,

Darius M. Barazandeh, President
Attorney at Law / M.B.A.

For a free 30 minute audio on protecting your businessand more visit:

www.theinformedinvestor.com

What About Limited Partnerships?

Some of you may wonder about the limited partnership. Generally, you should be aware of the following:

> *Limited partnerships are more complex than the other entities we mentioned. It is my belief that for the small to mid-sized real estate investor they don't provide tremendous benefits. Let's talk for a moment about why they are complex and then explain how they can be used.*

<u>Complexity</u>: A limited partnership must be made up of two sets of partners. In other words the limited partnership has a built in structure that must be complied with. Remember we said that with corporations it is the built in structure that can create confusion and result in mistakes. Mistakes can mean both tax traps and personal liability exposure.

Well you are probably saying, '*Darius I can handle it…tell me about this built in structure!'* A limited partnership will automatically require you to have two sets of partners.

Let me explain:

1) **First you will have one class or group of partners that are called 'general partners'.** These general partners have full 100% personal liability for anything that goes wrong in the business. If there is more than one general partner, each general partner can make the other partner liable and 'on the hook' for the acts of the other. We cover this in great detail in our education materials, but generally this is called 'joint and several liability". Since you know that eliminating personal liability for business mishaps, failures or accidents is important, you can see that the general partners are going to create <u>risk and liability exposure</u>. Since we must have a general partner something must be done to control the risk. We will talk about this in a moment.

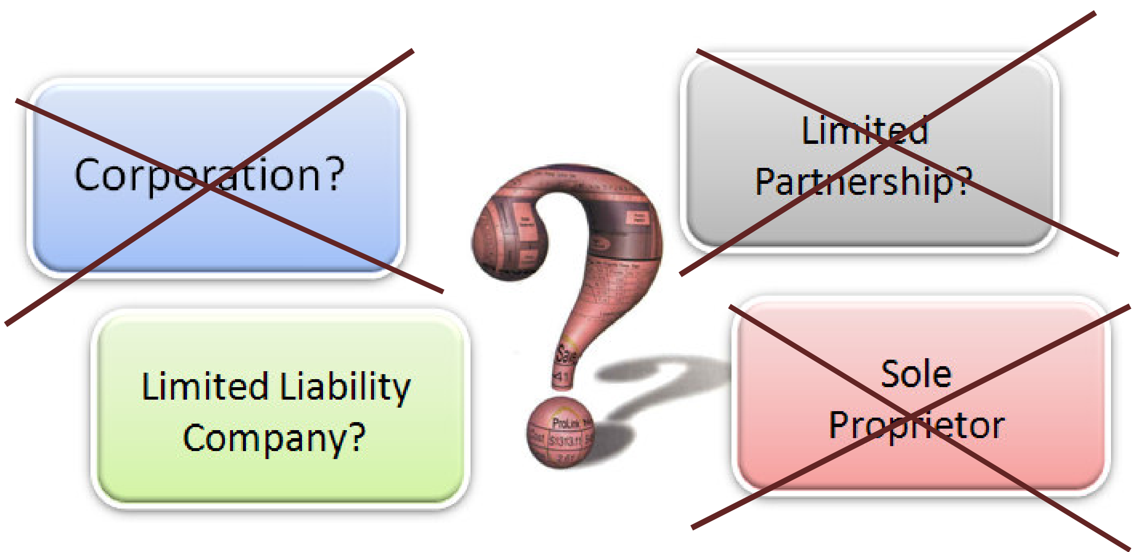
2) **The second group of partners are called 'limited partners'.** The reason they are called 'limited' partners is because they have limited involvement

in the business and consequently limited liability for business debts and judgments. Does that make sense? Limited partners are not personally liable for the situations which arise in the business and they are only liable for the amount of money invested in the company.

a. **There is a Trap:** In many states if a limited partner takes an active role in the management and/or major decisions of the business they will lose this limited partner status. If this occurs they become fully liable similar to the general partners.

At this point you may be thinking to yourself, *"Ok…so if I am a limited partner I don't actively manage the business? I'll let the general partner do this."* Then you might remember that while the general partner sounds like the party who should actively run the business this general partner is personally liable for the actions of the business! Who would want to be a general partner?

If you thought this then you get an A+ today because that is exactly correct. And it's because of this that when a limited partnership is used you actually have to create another business entity JUST TO PROTECT THE GENERAL PARTNERS! If this sounds cumbersome for the small to mid-sized businesses, it is because most of the time IT IS!



This means that in addition to the limited partnership, the business owner will typically have to set up an LLC or a corporation just to hold the general partner interests in it. This allows the general partners to act under an LLC or corporation. The trouble is that now you have double the paperwork, double the tax returns, double the state fees, and additional complexities. You must stay vigilant to ensure that the limited partners do not jeopardize their limited status by becoming too involved in the business.

For these reasons the limited partnership is generally too cumbersome for the small to mid-sized real estate investor. I am not saying that in every case these limited partnerships won't work, but if you are considering this approach have a CPA walk you through the benefits and disadvantages. For most investors the advantages are lost, while costs and complexities are increased.

Most real estate investors want to be out doing deals and making money not pushing paperwork!

SPECIAL BONUS REPORT #2:

Begin Thinking About the POWERFUL SELF DIRECTED IRA to MAXIMIZE YOUR WEALTH!

As you know real estate investing can provide tremendous and stable appreciation, tax benefits, anchored value and stable cash flow benefits. Real estate also can be a low risk investment.

Assume for a moment however if you were able to maximize all the great aspects of real estate investing, but also minimize the tax implications on the income that you earn. What if you could negate the tax effects? **Would you be interested in learning more?**

You Can Use Your Individual Retirement Account to Invest in Real Estate

Investing with a self directed retirement account can allow you to defer or in some cases (with the ROTH IRA attain tax free) appreciation. So let's begin to cover some of the basics.

You will learn while most of the population will limit their choices to stocks, bonds and bank certificates of deposit, the real estate investor can use the areas that we know best in order to increase wealth. If you create a self directed individual retirement account then you can invest in real estate, notes, flips, raw land, shopping centers, tax liens, tax deeds, mortgage foreclosures, etc. And in many cases, you can do this completely tax free.

A Quick Example:

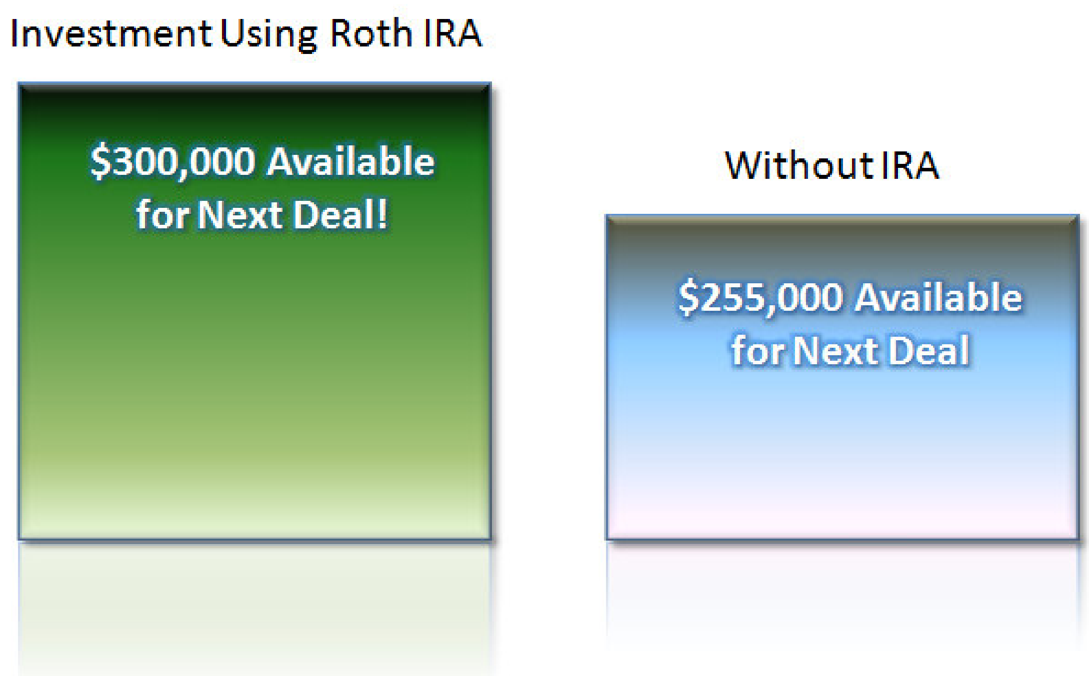
So assume that you purchased a property for $150,000 and sold it for $300,000.

This represents a gain of $150,000. If this investment was done traditionally, without using the self directed IRA then taxes would be computed on this $150,000 gain. Of course, there would be deductions and such, (depending on how long you held the property, etc.)

Let's assume that you sold the property quickly (in less than one year). In such a situation let's assume that you are in a 30% tax bracket. Roughly we could say that 30% of this investment profit would be gone to taxes, approximately $45,000.

(**NOTE:** if you utilize an LLC taxed under Sub Chapter S, this will help to greatly reduce self-employment taxes – see pages 15 to 18 of this report.)

If this same investment were done in the self directed Roth IRA, then there would be **no $45,000 tax to pay!** The full $300,000 would be available for use on another project. As it stands now, since the investment was done outside of the IRA, only $255,000 is available for the next project.



Imagine how this might compound after two or three deals. ***What about after ten deals?*** Yet, honestly this barely scratches the surface of the advantages available using the self directed IRA. Suffice it to say, this is a technique that you can use to massively increase the value of your savings and you can use it for numerous types of investments including:

- Real estate
- Notes
- Flips
- Raw land
- Development of land

- Shopping centers
- Tax liens
- Tax deeds
- Mortgage foreclosures,
- Businesses
- ‘Hard money’ lending
- Time shares
- And more!

Some investors will also purchase receivables, sports tickets, and other unique assets. The list is nearly endless, but there are some limitations (for example collectibles – rugs, jewelry, antiques and a few other prohibitions that the IRS has set forth).

Best of all you can use the self directed IRA with many different forms of retirement accounts including:

- Traditional IRA
- ROTH IRA
- SIMPLE Business Retirement Plans
- SEP Business Retirement Plans
- COVERDELL Education Savings Plans
- Health Savings Accounts
- 401(K) Accounts – (subject to some exceptions)
- Keogh Plans
- Defined Benefit Plans
- Defined Contribution Plans
- ROTH 401(K) Accounts – (subject to some exceptions)

Re-Defining The Code

Optimizing the Role of Value for Real Estate and Business
By Adam King and Darius Barazandeh

Private Money Series

Re-Defining The Code

Optimizing the Role of Value for Real Estate and Business
By Adam King and Darius Barazandeh

Getting on the Right Path to Financial Freedom
We all want financial freedom, but the roadmap is usually pretty unclear especially if we're the ones that have to do all of the work from a "Business in a box" mindset. We have family to provide for, deadlines to meet and people to cater to. On top of all of this, most of us don't get enough support to know what exactly it is that makes true money. Not just money from working hard, but also from the activities that lets us know we made a difference.

So what if there was a way to look at all of the real estate strategies from a different angle. What if this was an angle that you could see practically guaranteed success just by its very nature?

Making money, or more specifically, self-actualization and wealth building are very powerful aspects of creating a better and more fulfilled life. But also a way of making a life the way you originally intended to make it. Not a life that put you on the forefront of sabotage every time you found yourself doing something you didn't like. Would you be interested in knowing about this "secret method" and how you could apply it in order to obtain private money investors not to mention just about anything else you want in life?

After years of knowing what stops students I have come to a conclusion. Within this conclusion (which you're about to read) I have discovered a scenario that over the last few years has been tested thoroughly. This is the same methodology that Donald Trump has uncovered and heavily applied. It is a scenario of simplicity combined with the offering of value to others.

I have discovered that when it comes to real estate investing people simply don't know what they're getting into. And once they do, their expectations are unrealistic and are almost never based on an experiential point of view. I have found the core reason for this, which should mean a lot to you. This core reason as mentioned above, is so simple that most of us continue to miss it. We miss it because of the way we're brought up, more specifically, the way we're brought up to survive.

This "secret", or "method", is value. Plain and simple, it's about what you can do for the other guy/gal. It's simply knowing and fulfilling what it takes to complete a deal, by applying effort into the desired outcome of the other party. But first, you have to know what it takes to feed the relationship. And this is what we're about to uncover.

So grab a cup of coffee, a comfortable couch or chair and enjoy. You will soon understand just how simple your life can truly become when you know "how" to make the right choices and build relationships that literally pay, and pay well.
Sincerely,
Adam King and Darius Barazandeh

Re-Defining the Code Private Money Series

Applying the RTC Method™ in Order to Obtain and Work With Private Money

Starting Out with You

My intention is to let my audience understand that we must make money (*as James Arthur Ray from "The Secret" so elegantly puts it*) from a place of inspiration, not *desperation*. When you're desperate, you are of little to no service to others. It's an undeniable result of cause and effect. Your needs are "always" projected upon those around you, which puts a painful illusion of "me first". You may not think others see this but trust me, *they do.*

It's important that you know you must be inspired and motivated by the proper intention. And that of course, is how you can help others in order to help yourself. You must allow others to see that not only will you allow them into your life for a relationship, *whether monetarily or emotionally,* but also that you are willing to support and nurture that relationship. You must give a comfortable feeling to those around you even if you're nervous or scared. This means that you must allow yourself the ability to be yourself and not put on an artificial front. The secret behind this is the RTC Method itself, which we'll learn about as we go forward.

If you are broke and trying to have someone give you his or her house, and you are projecting a desperate intention of need, what do you think the outcome is going to be? If you're desperate because of your life situation, how is that going to benefit someone else? Think about it…

We could spend hours, if not days or weeks going over what it takes to get past your demons, but instead I want to give you what you truly came for. And that of course, *is some answers.*

Know What You Want, and What You're Willing to Give to Get it!
Simply put, most of the time we don't know what we want. But the worst part is, although we may have some comparison on what "feels" right, most of us have been burnt too many times acting on the wrong instincts. However, if you look closer, this "getting burnt" is sometimes the greatest teacher of comparison. Although it may sting a little (or a lot), it's a great way to learn what you don't want so you can have the eyes to notice the things that you "do" want. And as with being brought up into a world filled with the morals and ideals of others, it can take a long time to realize what's truly inside of you wanting to get out.

In short, we're not living our own lives and not making our own choices because of it. This is where we could go down that "metaphysical rollercoaster", but let me save us some time and just get to the point.

What Can I Do For You?
When you're getting into anything, no, better yet; let me hit this from another approach. If you are trying to "sell" something, what are you looking for? Sure, you need to understand the value of the product, or service you bring, but what is the "other" person really looking for? THIS IS THE KEY SO PAY ATTENTION!!!

For example; I had a guy deliver firewood to my home. When he showed up (a day late) he made excuses that his employees didn't like to work, were always late etc. He then proceeded to tell me that he wasn't making much money off of me because he was the lowest priced guy in the market just so he could compete. Well, that's part of the reason I hired you, I said.

Well, if you know me I had to give him the "how to make your company better" speech. After a few hundred light bulbs went off above his head, I asked him if he knew the real reason I purchased firewood?

His reply was simple. *Yeah, you want to heat your home.*

No, that's not why. *I said.*

What do you mean he said, of course it is?

No, I bought firewood for two reasons. One, I wanted to chop wood. I wanted to take something natural, put effort into it as to cause a positive result from the exercise. That's number one. Two, I wanted to *save money.*

More light bulbs…

I then told him that he wasn't making much money simply because he wasn't giving me enough value.

He then said, but I am. How much value can you give a guy buying firewood?

First, you could have gotten to know me better by asking me questions, even where to place the wood or if I wanted help moving it. (*The number one conversion technique in sales by the way*) Two, you could show me how to split wood by bringing that up since you knew I wanted to chop it. (Which he did, but only after I asked) And three, you could have other products or services that I could purchase from you because it would be convenient for me. Especially if you knew I needed them because my true intention was saving money. In short, you didn't get to know me. That is your fault, <u>not your business model's fault.</u>

He looked puzzled.

What do I need in order to chop wood? An axe right?

Yeah, that's right.

Do you have one for sale?

More light bulbs…

How about a way to make my fireplace more efficient? How about something that will blow the hot air around the house saving me on gas bill?

This is what I'm talking about when it comes to value. But now let's bring it full circle back on "you" so I can prove my point and show you how to raise private money, get partners and much more.

Think about this; if you're going to buy a real estate manual, start a new job, or start doing something to make money, what are you willing to give in order to get what you truly need from the relationship?

In other words, what feels "right"? What part of the system makes sense to you? Is it the part about making money effortlessly by taking advantage of other people? Or the part that says, you can do that by helping and fulfilling the needs of others? If it's only the first, I have some terrible news for you. *You ain't gonna make it.*

Think, no better yet, get information that will allow you to mentally picture the techniques and exercise them. Picture yourself talking with someone, getting a contract signed and closing a deal etc. Does this make sense?

The RTC Method is a system of service, but it's a service like no other. It's a service that shows YOU how to become of service to others. This is THE NUMBER ONE BIGGEST MISTAKE all entrepreneurs make when getting into business for themselves. Sure, you can get a job and see how the boss or company gives service, but then it's you who is avoiding the number one money making technique on the planet. And when people get into business for themselves and simply continue thinking about "themselves", this is why they fail.

I allow people to see what experiences you may or may not have within a system. As I talked about above, the less you have to offer, the harder you must work.

Just like my partner Dan Ho talks about with Zipf's principle, (Doing everything for the other party so the deal actually goes through) now it's your turn. It's your turn to realize that YOU need the offer the most value for other people. Don't be a spiritless "Money Engineer". Become someone who offers a service. But, in order to get something in return, *you need leverage.*

Opening the Doors
What I'm going to do now is show you a scenario to gain leverage (money and personal intention) and build wealth. Not just momentary wealth, but personal wealth. I'm going to show you just what gets me excited about what I do and why I do it. And that of course, is to help you put on pair of glasses that will allow you to see from the other person's perspective so you can identify what it is they truly want.

So for the remainder of this ebook, we're going to get to work and put our hands in the dirt. There is nothing more important than a realistic view on yourself and your intentions. But before we can do that, you need to be able to have something to compare so you can make an educated decision.

Now let's talk about making money.

Introduction to the RTC Method for Raising and Properly Utilizing Private Money

Cash is King
So what if you have the money to invest? How would you feel if "you" were the money guy or gal? What types of worries, concerns and desired results would you have?

Cash gives you leverage with the banks because you can actually close and it takes all of the "go find a motivated seller" criteria right out of the game. Instead, you hire a trained team of professionals to do the work for you. And that brings us right back to Zipf's Principle doesn't it. If you have a team of competent professionals, then how much work are "you" going to be doing? It's not hard to see my point after talking about value. But now it's your chance to see how much value you can offer when "you" have the money. But, let's hit one more angle if you didn't have the money. Let's hit an angle of "how to get" the money, or how to attract and actually obtain other people's money.

Not Enough to Offer
When we start in investing, most of the greatest selling courses and ideas are based on getting other people's money. For instance, if you want to bypass all of the hype of putting bandit signs up, talking with twenty sellers a day etc, then you need cash. What does cash get you? It gets you the ability to offer it to YOUR TEAM.

In other words, it allows you to build a team to do all of the work for you so you don't have to. But here's a little secret. THEY should be the ones doing it anyway! Here's another secret, it takes all of the CREDIBILITY off of you as well!

Do you know how to value a property effectively? Do you know how to appraise one? Do you know how to inspect one? Sure, you may know all of these things but can you do better than someone who is licensed and has been doing it for 20 years? NO YOU CANNOT!

And how do you get a team like this built so you can get these services? CASH!
Here's the most important thing I'm going to show you in this ebook. I'm now going to show you how to attract, and "convert" an investor or private lender so you will have a much better chance of getting their funds. And I'm going to do it in such a simple manner that there will be no way that it will confuse you.

Ready?

Getting Other People's Money
Okay, here's the true meat. How do you get other people's money? Well, let's start by show you how "not" to get their money.

As a private lender, and one that has experience both good and bad, I can tell you without a shadow of a doubt there's only one thing I care about when loaning money. That is, do I want the property if something goes wrong? Better yet, do I want it "badly" if something goes wrong?
Here's what most people do when they set up a luncheon or something similar in order to raise private money. They first start their presentation by telling the potential investors how the stock market is doing worse than real estate. Then they open the doors to how they can earn a 10-15% return on their money. All good stuff, *but completely useless to how "you" obtain the private money or investor.*

If you tried to sell me on you, I would say that everyone wants and needs cash. I can go anywhere and loan to anyone. What makes you so different? Then you would be where you may have been in the past. *Looking at yourself as the result for the investor.* And once again, the problem is that it's not about you, it's about them.

Then you may tell me about how you can go find a property and purchase it properly so my money would be secured if something happened. Again, I would yawn and ask what makes you so different. I know this sounds harsh, but my job it to give you a solid experienced comparison not fluff and fantasy about how the real world works.

With that said, now let's get to the "how to" do it properly by applying the RTC Method.

When looking into the needs of an investor, you simply need to build a relationship with them. This will accomplish a basis on what they want, and what you're willing to give.

Okay, time for light bulbs again.

For example; if you do a presentation where you're the only one talking, you're screwed. Why? Because you didn't take the time to ask the investor what their needs were. Here's a short story.

I once met an investing who had an IRA and wanted to purchase real estate. I followed up with him for over 6 months until we finally had a meeting. All I knew at this point was that he had a million dollars in his IRA and I wanted it. I knew that I could run all over town and purchase property, but I left one incredibly important aspect out of our conversations. And this of course, I only learned after "I" became the money guy.

What did I forget? Simple, I forgot to ask him what he wanted. So I spent 6 months and $20 in gas to go meet this guy, pitch "my" program only to find out all he wanted was free information about purchasing a home to live in with his IRA. (Which you can't even do) And to add insult to injury, (true story) the guy actually fell asleep right in front of me as I gave my pitch. What a moron I was…

Don't be a tool, got to school.

Sill I know, but it's true. As you find out the needs of others and place those needs onto your team, you've just created a home run. You've just taken the pressure off of you and put it back onto the desired result of the investor. It's up to your team now to perform, not you. This is brokering value. This is where you take someone's desires, repeat them for clarity (which results in a yes 100% of the time by the way) and then offer to get them what they want. Again, you don't do it on your own, your team produces the results, the risks, the property, the research, etc. NOT YOU!

Now, here's the most important aspect of getting money. You MUST have a plan to accommodate the investor's needs. In other words, if they say they want "x" return, your exit strategy must complete that need by simply guiding your team in what they do best. It must make them feel comfortable in knowing that you can perform. But here's the golden egg.

If you CANNOT perform, which at times you may not be able to, what is the investor's desires and/or abilities at that point? Wow, let that sink in. I'll say it again. What happens if something goes wrong? What are you willing to do in order to fix it? That's a loaded question because although you want to be accountable, you shouldn't EVER put yourself into a position to have to be. At least, that's not your intention when getting into real estate. Instead, you need to simply know what you're doing when GOING INTO THE DEAL!

This is what I teach with the iLOC IRA™. I talk about how it's about your team that deals with the liability, not you. In other words, if something happens to you it doesn't matter. So going into the deal, you make it about the result and the ones providing the most value. They are the ones that deal with the tenants, the headaches etc. NOT YOU!

For example; if something happens to you, what happens to the investor and his money? Does he have to physically go and deal with the property? **OR HAVE YOU TAKEN CARE OF THAT BEFORE HAND!**

I just gave you the million-dollar answer!!! READ IT AGAIN!

If you came to me and asked for money, AND you showed me what would happen if the deal fell apart, you'd get my money. That is, plain and simple. As a matter of fact, you'd probably get "anyone's" money. Why? Because you're being realistic! You're not making it about you; you're making it about the system and the professionals who can implement that system. You're nothing but the coordinator.

If you're going to get out there and try to get someone's money, this is where the concept of value comes in ten fold. Instead of showing them just a return, you must realize the answer to the following questions.

1. What happens if the deal goes bad?
2. Who is going to deal with it?
3. How much money will I make if that happens? (yes that's worded right)
4. When will my money come back and how?

THIS is HOW you do it! You must know what you're getting into and what your investor is getting into! Do not BORE them with profit figures IMPRESS them with BENEFIT facts! And if you can do both at the same time, you've got it made!

This lesson is incredibly valuable. This shows you just the tip of the iceberg of how you can be massively successful at getting what you want. First, you must understand Zipf's Principle and then you must know what they want, and what you're willing to give to get it. Nothing could be easier. You just now need the education and experience, to know the difference.

Applying the RTC Method to the iLOC IRA

This is very simple; in a few minutes you're about to get incredible information on investing. But, before we go into that let me plant a seed.

Let me give you a scenario that will uncover the secret of applying the RTC Method.

Imagine this; you are sitting in front of an investor who wants to make money in real estate with their IRA or private capital. Here's what you do.

One, you simply locate their desired result. This can include the amount of interest that would be pleasing to them, the amount of risk they are willing to accept and finally, the fact that they want it hands off. (As everyone truly does)

Then instead of you trying to sell them on you and your abilities, now you're putting the focus back onto the result and the execution onto your team, NOT YOU. This could be the best Realtor in the city, the best attorney, the best appraiser etc. *Then you take the final step*. You simply repeat the investor's desired result to make sure you're both clear. And once that's done, you take the promise of their follow through if you produce that desired result with your team. Now you have leverage because their money will pay for the professionals if the professionals provide those results. *Nothing could be simpler.*

Now it's time to learn about the iLOC!

The iLOC IRA

Effectively Obtaining and Utilizing IRAs and Private Money
by Adam King and Darius Barazandeh

Before we begin
Now you will learn what the iLOC IRA is and how it was brought to life. I hold this system close to my heart as it has come through time and time again the worse the economy has gotten. With all of the other deals I have done, if there was one system I had to choose (which I have) it would be this one hands down. The other part of this ebook is for individuals who want to learn how to lend their private money. So if you're looking to obtain private money, this will from a prospective you may have never seen. Again, it's good to know what the "other side" is looking for and how they function.

So once again, this information is for two people, the borrower/coordinator and the lender his or herself.

The iLOC IRA Principle
Part one

How to Become the Bank … ***for yourself***
If you do a google search on private money, you will see that the most of the people (investors) are looking to "borrow" it. Why? Plain and simple; *cash gives you a massive amount of leverage*. And what's in it for you if you take the risk to loan your money to these investors? A rate of return with a hands-off approach…*or, so you'd think.*

What we will discuss here is how you can utilize your own or someone else IRA or private funds in order to realize, in my opinion, its highest and best use. I want you to see the advantages of the ILOC IRA instead of not knowing what to do if the deal goes south. However, if you do decide to loan your money, then this information just may be some of the most important you could have.

I have been ripped off as a lender and know how painful it can be to make the wrong choices. And trust me, lending your money to a stranger is a lot riskier than staying in control of your own acquisitions. This was one, if not the most important reason for the creation of this system. Now you have the chance to be on the borrowing, or transaction coordinating side of the iLOC IRA as well.

The History of the Problem of Lending
Not too long ago private lenders used to loan on more on the property and less on the borrower. That changed as the markets shifted and it became tougher to speculate on the ability to resell the property if the borrower defaulted. The lenders then needed more security so they started to lend more on credit score of the borrower and their ability to repay the debt. And when that didn't work, they finally changed their guidelines to lend on lesser amounts of the property's value as well. Once property values became too difficult to evaluate, most of these lenders quit lending.

Now, as the economy changed and things got even worse, the lenders woke up to an unfortunate and very real nightmare.

For example, most speculators joined the oceanfront boom on the coasts of Florida and surrounding states. There were seminars everywhere put on by wholesalers and national gurus trying to get individuals with good credit to purchase their wholesale condos. There was a lot of money to be made because of the speculation of future equity and a lot of millionaires were created. Unfortunately what goes up must come down.

Banks were loaning based on credit score and money down, as well as the potential equity in the condos themselves. (Speculation) Then, when the bottom fell out and equity dried up, borrowers (investors/speculators) found themselves with a decision to make.

Keep paying on the loan for the investment property, or lose their own primary residence in the process.

Well, it was a simple decision for the investors to make and condo foreclosures started to rise. Banks went bankrupt and everything fell apart. And on top of this, it created another phase in the economy called; *a buyer's phase one*. A buyer's phase one is when there are far more properties for sale versus potential buyers to purchase them. And when this issue hit the residential market, it has created one of the most powerful real estate investing opportunities in the last century. This of course, is where we are now within our current economy.

The Solution: (Become the Bank for a Little, or *Become the Investor For a Lot*?)
I mentioned above what you'll find is that most investors are now seeking private money to finance their deals because of this massive opportunity. And yes, they need private lenders because the banks (*myself included*) are way too cautious about lending their money anymore ... *especially to investors*. They are even turning down people with stellar credit because of the possibility that the property is no longer worth what the borrower may think it is. And I can tell you from first hand experience, this is a smart move by the lenders but also a terrible missed opportunity. But at the same time, this creates a massive opportunity to those private individuals with IRAs. *Please read on*.

The ILOC IRA
The ILOC IRA was created as a simple purchase, hold and/or wholesale investing system for individuals with self directed IRAs or 401Ks. It is a wholesale purchasing program (See "Steps" below) that utilizes an IRA or 401K in order to obtain a property, sell retail, or on seller financing terms (Through Land Contract and Contract for Deed) and then allow the buyer to obtain traditional financing (Such as an FHA loan) and cash the IRA or 401K out. The IRA or 401k Investor than recoups their original capital, plus equity from the final sale to the Land Contract buyer and starts over.

Why the ILOC IRA is So Powerful
First off, there is no mortgage debt with an IRA or 401k, which means the IRA or 401k owns the real estate free and clear with no interest payments. With all real estate comes risk and this is the most important "make what's against you for you" because one of the greatest risks is the service debt, or "mortgage payment".

If you look at a lender such as Countrywide or some other large bank, you can understand how they got into so much trouble. They got into debt because they actually "owed" money on the money they are lending. In other words, they "borrowed" money from such liabilities as lines of credit in order to lend at a higher rate. Borrow low, lend higher. So when someone stops paying, there's someone who is complaining they are not getting their return. But again, with an IRA or 401k there is no debt service such as a mortgage, i.e. there is no payment because the IRA or 401k isn't borrowing from anyone, *it is leveraging itself.*

So if a property goes vacant, then there's simply no income until another buyer/renter is put back in. And as mentioned above, there's no mortgage company breathing down your neck for you to make a payment.

Sure, there are other payments such as water, gas, electricity and attorney fees for evictions etc, but these are minimal compared to the service debt of a mortgage, which is the primary reason people lose their homes when they suffer job loss.

Make no mistake about it, there are risks but the irony is that in most cases these risks will be covered by that tax-rewarded leverage your IRA or 401k has and can be recouped upon the final sale (when the buyer obtains a mortgage) of the property. This is the ultimate in real estate financing!

The iLOC IRA Outline
Part Two

Remember this Formula!

Total Operating Debt Minus Gross Income Divided by Purchase Price = Rate of Return*

The iLOC IRA™ Introduction

There's no question about it, the real estate market is in turmoil. However, everyone knows there is opportunity when all things seem lost. In this case, the opportunity to help families and profit at the same time has never been stronger. With the mortgage industry as bad as it is, (as mentioned above) there are very few places for individuals to obtain financing for their homes. Most people don't have enough money down, or simply cannot obtain financing with their current credit situation. Their problems become our opportunities. And a noble opportunity it is.

What you are about to read is an opportunity based on a very simple principle. And that of course, is how to leverage your IRA, 401k or private money to its highest and best use.

The iLOC IRA Basics:

A. Purchase renovated property at a massive discount (50-70% or more of market value)
B. Offer it to individuals with bruised credit to obtain a good rate of return (10% and higher) on Land Contract or Contract for Deed or simply sell it retail to FHA or VA qualified buyers.
C. Recoup your IRA or 401k investment by seeing those individuals obtain traditional financing
D. Cash in on the equity when you cash out of the property
E. Create a note and become the bank (with any equity left over)
F. Repeat until you double, triple or quadruple (or more) your IRA or Private Money

How it Works

The concept is very simple in nature. However, the "**execution**" of the iLOC IRA was created to be an applicable system based on Zipf's Principle. (as previously mentioned)

Through my years of coaching and training real estate students, I have come to understand completely that if you do the most work in a deal, the deal gets done. We apply the same principle with the ILOC IRA. To put this in simple terms for you, **build a team and have them do what they have been trained to do!**

The iLOC IRA Example

The following is an actual example of a property that was purchased in Detroit MI. Detroit and surrounding areas were chosen because of the massive oportunity to purchase foreclosed property at a huge discount. It was also chosen becase of the desperate need for these properties by local residence and their families. As mentioned above, certain areas were chosen more than others based on their demographic stability. The use of an IRA or 401k allows for flexability on market value and less on the speculation of future equity whether rising or declining. Our theory is simple; if the property is purchased right then the program will work at the very least with a good rate of return based on worse-case-scenario. You will see the steps of how each one of your team will work in order to help you complete an iLOC IRA acquisition. After each step I will put “who” was utilized in order to complete that particular step. This will give you a good idea of how your team needs to be built what their jobs and tasks are.

How We Do Our Math

First off, the math is crucially important. Although the core function of the iLOC IRA is to realize profit from the equity in the property by either selling for higher than purchased, and/or to hold a note, the main goal is to reach a our initial 10% rate of return (or higher) with the most oporating debt. For example; if the investor pays for taxes, insurance and 10% management fee, that number must be subtracted from the full rent potential and divided by the purchase price. Then, we know we have the beginnings of a deal.

This would first be applied to the worst case scenario. And that of course is simply getting that rate of return from the property as if it were solely a rental. Then, we can realize the true potential of the ILOC IRA within the sales of the property to an individual or family on land contract.

Disclaimer: *The “possible” iLOC IRA rates of return is not disclosed because of its fluxuality and socially unrealistic numbers. However, some rates of return within the iLOC IRA can be up to 70% and higher NET rate of return. (Cash-on-cash) Again, the program has been created mathmatically to be conservative with a solid social standard in mind. I.e. if it sounds too good to be true, the SEC will think it is!*

Example:

1. Purchase Price is $30,000.00 (Final purchase price after renovation) (**Realtor or Agent to purchase, Title Company/Attorney to close**)
2. Property is fully rehabbed and rented at $600.00 per month (**Contractor**)

3. Land Contract buyer pays all utlilities, taxes and insurance (**Management Company to Locate Buyer/Renter**)
4. Property Value is $60,000.00 (**Appraiser, Inspector, Agent**)
5. Gross operating debt is $3,066.00 ($1,500.00 in Taxes, $846.00 for insurance and $720.00 management fees. Note: This is with the IRA or 401k paying all taxes and insurance "Staying conservative") (**The iLOC IRA Formula. You and/or your financial advisor)**
6. Cash-on-cash return is 13.78% (use the equation above to come to this same number. Total Operating Debt Minus Gross Income Divided by Purchase Price = Rate of Return. Or: $3066-7200 / 30,000.00 = .1378, or 13.78%)
7. Sale of the property (**Realtor or Agent**)
8. IRA Paperwork (Custodian)
9. IRA Purchase, Rental and Sale paperwork (**Attorney**)

Note: When you apply the payment plus taxes and interest to the Land Contract, the interest rate on the Land Contract will actually be lower than 13.78%. This is how we make the sale of the property attractive to the borrower.

A Very Real Leverage

When we purchase properties ourselves, we create something called an iLOC IRA Prospectus. The prospectus has all of the property information (Pictures, Appraisal, Update List of Renovations and Land Contract Buyer information) and also what is called an FPS (Forecasted Payment Schedule). This is a payment schedule that is mirrored within the Land Contract. What it does is shows the total payment in interest based on the "sale" price of the Land Contract. ($60,000.00 in our example above) To put things in simple perspective, it shows interest based on the entire sale amount as lower, but compared to the "cash-on-cash" rate of return based on your purchase price, it is much higher. Sound complicated? It's not.

Example:

1. Full Payment by Land Contract Borrower = $600.00 per month
2. Taxes ($1,500.00 per year) plus insurance ($500.00 per year. Less for owner occupied) = $2,000.00 per year total, or $166.66 per month.
3. Total payment $600.00 minus $166.00 = $434.00 per month interest.
4. $434.00 minus 10% management fee = $390.60 per month to IRA or 401k Investor
5. The ILOC IRA formula: $390.60 (interest payment times 12 = $4,687.20) divived by gross sale price $60,000.00 = 7.8% interest rate on the Land Contract to the borrower/buyer.
6. Total cash-on-cash? $390.60 (times 12 = $4,687.20) divided by $30,000.00 equals 15.6% cash-on-cash return.

Again, if the property were sold on land contract, then the buyer would cover the taxes and insurance. And to keep things fair, they would be given a lower interest rate based on their purchase price in order to keep the payment at $600.00 per month. (Interest only) However, the debt to the investor would be less equaling out the rate of return. Again, the concept is simple; go in with a good rate of return in mind, but mostly focus on the end result of the acquisition strategy. And that of course, is to build up your IRA or 401k.

Building Your IRA with the iLOC IRA Program

Now we can see the final fruits from the iLOC IRA's labor. In the example above, the investor would realize a $390.60 payment going into their IRA or 401k. This would of course, become smaller over the life of the land contract if principle was applied. (Schedule givin with each Forecasted Payment Schedule) However, that's not the main focus of the example. The main *function* of the iLOC IRA is to capitalize on the equity within the property *while* getting a good rate of return. This is what makes the iLOC IRA stand out from ANY other system out there.

Note: The following example is based on an "interest only" schedule and does not include the obvious risks that come with investing in real estate. Risks such as vacancies, possible tax inflation, investor demanded/required repairs or any other un-foreseen issues that could arise. If principle were applied, the payment would reflect that and interest rates could simply be risen to give the buyer an alternative method to pay down their debt. And finally, this example is based on a 50% purchase price. Simply take the same equation and apply it if the purchase price were 60-70%.

Below is a final example of a fully successful iLOC IRA acquisition:

7. Property purchased at $30,000.00
8. Property sold at $60,000.00 on Land Contract
9. $390.60 x 12 months = $4,687.20
10. Land Contract buyer mortgage amount $48,000.00 or 80% of the property's value.
11. Second note created by investor for $12,000.00 at 10% interest for $100.00 per month
12. Total return on interest for one year including note = $5,887.20
13. Total cash profit from equity up front = $18,000.00
14. Total profit in notes, interest and cash for one year = $23,887.20

Now to keep things realistic, let's say everything goes wrong and you lose $8,934.00 from the potential profit of this investment. That is still a whopping 50% return on investment! It's not hard to see the massive potential of a system put together properly.

Applying Your Knowledge and Value

Now I'm sure you can see you can see the leverage of the iLOC IRA as well as the power of applying the RTC Method in order to obtain private money, or a team in which to utilize it. These steps are just the beginning of a whole new world of perception and the offering of value. Take it upon yourself to learn what the other person wants and then obtain that through the services from others. This is incredible leverage when you apply it correctly!