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## What Would You Do in This Defining Moment?

In the following example I will discuss what I call a defining moment for a student. Defining moments in life are usually life-changing events that irrevocably shape your future or betray your past. In this case, the student's decision actually defined for me the psychology of the individual.

For the past year, the student had been occasionally putting in contracts and decided to work with a realtor to get deals more easily. If it were that easy we would have just opened our own brokerage firm. Not sure how long it took but we saw an REO deal come into us from the student. Same old, same old comments from the realtor® – “We have multiple offers so give me your highest and best and final ... blah, blah” and “I have to have a response by 12:00 noon tomorrow.” We have heard that a ton and ironically with properties that have been on the market over 100 days or more – seems like the dead wood is suddenly going to burst into flames if you don't make a fast decision!

This REO offer was priced way too high to make any sense and I am sure the student was crushed when we said to make the offer so much below the “special price” the agent had gotten for him. Looking at it 30 days later, the property was still listed and had another 15% price reduction. Gee, I wonder what happened to the “multiple offers” that were waiting in the wings? It is very strange how these multiple offers disappear instantly – almost like ghosts coming and going. I wonder if that's why they call them Ghost Offers?

The next property he was offered by the realtor® was a short sale on a multifamily property priced at \$12,500 a door. The price was OK but it was priced there because it needed a complete rehab to be livable. It had a flat roof but it had been replaced a few years ago. The interior had been cleaned out by squatters but not gutted of its wiring and fixtures and it was boarded up.

The student called to say that his short sale offer had been accepted. If I had been the loss Mitigation Representative for the lender I would have sent flowers to the realtor® when I made this offer. The Approval Letter didn't come for a couple of days and the inspection period started the day of the approval. Besides that, we didn't have immediate access to the building to show it to prospective buyers.

We started advertising it ASAP when we had all the documentation and pictures. A few calls trickled in but the prospects that went to see the unit felt it needed too much work. The inspection period's end was rapidly approaching so a decision had to be made about getting out of the contract before his deposit went “hard” (became non-refundable) or staying with it to the closing.

As sometimes happens, the next-to-last day before he had to cancel his contract under the inspection clause, we started getting calls for it like crazy. I suspect some investors don't open their emails for days. Remember the 72 unit apartment building we advertised a while back, we are still getting calls to see if it is available! He was calling a couple of times a day to see if

we had sold it but we didn't have a contract on it. Again, suddenly there was plenty of interest but it is meaningless without a contract and deposit from a buyer – I stress “and deposit”.

So here was his defining moment – he called me and said he was canceling the contract. I said we were getting calls and sending people out but no buyers yet. When he got this deal he believed it was a super-insider deal from his realtor® friend. Suddenly, his mind changed when he had a deposit on the line. I suggested one option was he let his deposit go hard and we could better market it right up to the closing date. His only risk would be his five-hundred dollar (\$500) deposit – no other liability according to his contract. He pondered the alternatives and said he would call back.

When he called back the next day, he asked me to explain his risk (\$500) and the potential reward (\$10,000 - \$15,000) and asked what he should do – for the twentieth time. I had since seen the pictures of the property and we could have reduced the price and resented it out and sold it and taken a smaller profit. I explained “risk-reward ratio” and how he had a reasonable chance to make money. But he had already made his mind up to cancel the contract.

I tried one more time to explain that he had a deal in his hand that likely would make him money but if I was wrong, his deposit was at risk and nothing more. I believed we had a 65% chance of selling it and again I asked that he not cancel. Finally, after much back and forth on the telephone, he said he was canceling and he did. Frankly, I was disappointed. I could have taken over the contract and proceeded to closing but I decided not to just because of his actions.

Real estate investing is like any business, it has risks. The beauty of real estate investing is that you can control your risk right up through the closing. After you close, you have somewhat less control because now you own it and outside forces can influence your sale price. This is similar to calling a stock broker and telling him you want to “control” 1,000 shares of a \$60 stock (\$60,000) for \$500. Then you tell him, “If you can't sell the stock to another buyer within your inspection period I'll give it back to you and get my \$500 deposit back.”

First, the broker will tell you that he can get you an option that expires in a few months and you can sell the option back if you don't want the stock. Your response will be that you don't want to pay a commission on the buy and sell of the option and that you don't want the market risk if the price of the stock drops. Next, you can expect him to hang up on you if he is polite. If he is like a few brassy realtors® he will give you a piece of his mind and make himself look foolish because he doesn't understand real estate investing.

This student had spent tens of thousands of dollars on guru courses before entering our mentoring program and had never done a deal. Here was his chance to control a property for another 25 days to see if we could sell it and his decision was solely based on not losing \$500. Was it the right decision?

It doesn't matter what you think about the pros or cons of making that decision, because if you are unwilling to take a chance on making a 10 to 30 times a return on something that you have “practiced” to do for years, maybe you should stop trying altogether. Until this investor

understands that taking decisive action requires risk, his dream of being a real estate investor will forever be only a dream.

While I am thinking of it - Some wholesalers “recycle” other investors’ deals. They understand that the investor (especially a newbie) who gets a deal under contract may not be able to sell it in most cases and doesn’t have the money to close – that’s why we use our buyers list for our students. These wholesalers simply call the seller and ask about the property and go see it. However, most often they just wait for it to fall out before the closing.

Sometimes these wholesalers purposely put properties under contract and then intentionally don’t close. The pro-wholesaler (“C”) buyer doesn’t close because he doesn’t have a large enough deposit at risk, or he believes he can contact the original seller (“A”) to get the deal directly. If the pro-wholesaler cancels just before the closing, he then knows who the seller is and he likely has already found a buyer at a higher price than he was paying. He simply approaches the original seller with a new offer – that is substantially less than the pro-wholesaler was originally going to pay. He buys and sells the property and makes more money than he would have under his contract with the investor (“B”). This methodology is the mainstay of a number of local wholesalers – be careful out there.

You cannot attain greatness if you aren’t willing to take risks. To some readers \$500 is a lot of money; to other readers it may be your monthly coffee tab. The idea is not how much the risk is, it is how much do you need to succeed? When I talk to one of my most successful students, we inevitably get to the point where he says, I only have “\$XXXX” at risk as a deposit, I’ll market it to closing and see what happens. This is one of the reasons he is very successful, he understands risk reward ratios and has confidence in his buyers list.

Before you go a lot further in life, ask yourself “What’s my risk-reward ratio?” This may save you a lot of unnecessary aggravation in the future. Just don’t do anything you aren’t willing to take a risk on because your only reward is then living with your regret, “If I had to do it all over again .....

To your limitless success,

Dave Dinkel