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In this issue

The 20 Most Common Investment Mistakes

Published by Visual Capitalist

No one is immune to errors, including the best investors in the world.

Fortunately, investment mistakes can provide valuable lessons over time, providing investors an opportunity to gain insights on investing—and build more resilient portfolios.

For instance, not properly diversifying can expose you to higher risk. Holding one concentrated position can drastically impact the value of your portfolio when prices fluctuate.

In fact, one study shows that the optimal diversification for a large-cap portfolio is holding 15 stocks. In this way, it helps capture the highest possible return relative to risk. When it came to a small-cap portfolio, the number of stocks rose to 26 for optimal risk reduction.

Another common mistake is trading too much.

Since each trade can rake up fees, this can impact your overall portfolio performance. A separate study showed that the most active traders saw the worst returns, underperforming the U.S. stock market by 6.5% on average

Finally, it's important to carefully monitor your investments regularly as market conditions change, factoring in fees and inflation. This will let you know if your investments are on track, or if you need to adjust based on changing personal circumstances or other factors.

To help avoid these mistakes, investors can remember to stay rational and focus on their long-term goals. Building a solid portfolio often involves assessing the following factors:

- Financial goals
- Current income
- Spending habits
- Market environment
- Expected returns

With these factors in mind, investors can avoid focusing on short-term market swings, and control what they can. Making small investments over the long run can have powerful effects.

20 MOST COMMON

Investing Mistakes

Below, we show the top mistakes to avoid as an investor according to the **CFA Institute:**

1 EXPECTING TOO MUCH

Having reasonable return expectations helps investors keep a long-term view without reacting emotionally.

15.6% Investor annual return expectations

7.0% Financial professional annual return expectations

2 NO INVESTMENT GOALS

Often investors focus on short-term returns or the latest investment craze instead of their long-term investment goals.

59.0% Percent of investors that say long-term growth is their top goal.

3 NOT DIVERSIFYING

Diversifying prevents a single stock from drastically impacting the value of your portfolio.

21.4% Percent of U.S. stocks that beat the market over 20 years from 1927-2020.

4 FOCUSING ON THE SHORT TERM

It's easy to focus on the short term, but this can make investors second-guess their original strategy and make careless decisions.

+50% Higher transaction fees were paid by investors with a short-term view.

5 BUYING HIGH AND SELLING LOW

Investor behavior during market swings often hinders overall performance.

2.0% Investors' average annual loss in returns due to buying high and selling low vs buy and hold strategies.

6 TRADING TOO MUCH

One study shows that investors with the highest trading activity saw poor performance.

6.5% Average underperformance by the most active traders vs the U.S. stock market.

7 PAYING TOO MUCH IN FEES

Fees can meaningfully impact your overall investment performance, especially over the long run.

0.4% The average fee for ETFs and mutual funds in 2022.

8 FOCUSING TOO MUCH ON TAXES

While tax-loss harvesting can boost returns, making a decision solely based on its tax consequences may not always be merited.

9 NOT REVIEWING REGULARLY

Review your portfolio quarterly or annually to make sure you're staying on track or if your portfolio is in need of rebalancing.

10 MISUNDERSTANDING RISK

Too much risk can take you out of your comfort zone, but too little risk may result in lower returns that do not reach your financial goals. Recognize the right balance for your personal situation.

11 NOT KNOWING YOUR PERFORMANCE

Often, investors don't actually know the performance of their investments. Review your returns to track if you are meeting your investment goals factoring in fees and inflation.

12 REACTING TO THE MEDIA

Negative news in the short term can trigger fear, but remember to focus on the long run.

73% Percent of years the U.S. stock market has had positive returns since 1920.

13 FORGETTING ABOUT INFLATION

Historically, inflation has averaged 4% annually.

$96 Value of $100 after 1 year of 4% inflation

$44 Value of $100 after 20 years of 4% inflation

14 TRYING TO TIME THE MARKET

Market timing is extremely hard. Staying in the market can generate much higher returns versus trying to time the market perfectly.

15 NOT DOING DUE DILIGENCE

Check the credentials of your advisor through sites like BrokerCheck, which shows their employment history and complaints.

16 WORKING WITH THE WRONG ADVISOR

Taking the time to find the right advisor is worth it. Vet your advisor carefully to ensure your goals are aligned.

17 INVESTING WITH EMOTIONS

Although it can be challenging, remember to stay rational during market fluctuations.

3.0% Investors' annual average loss in returns due to emotionally-driven investment decisions.

18 CHASING YIELD

High-yielding investments often carry the highest risk. Carefully assess your risk profile before investing in these type of assets.

19 NEGLECTING TO START

Consider two people investing $200 monthly assuming a 7% annual rate of return until the age of 65:

$520K End portfolio value if they started at age 25.

$245K End portfolio value if they started at age 35.

20 NOT CONTROLLING WHAT YOU CAN

While no one can predict the market, investors can control small contributions over time, which can have powerful outcomes:

$1.2M End portfolio value from investing $15 a day for 50 years at 7% average annual returns.

VISUAL CAPITALIST

Source: CFA Institute, Natixis, NYU, BCG, Dimensional Fund Advisors, Journal of Banking & Finance, Russell Investments, The Journal of Finance, Morningstar, JP Morgan, Oxford Risk, Segall, Bryant & Hamill, U.S. News.

Obtaining Obscene Yields With Small Money

Pigs Get Fat, Hogs Get *Slaughtered*

By Tom Henderson

When discussing concepts, it is important to know the definition of what we are discussing. Let's start with the word "annuity."

Annuity: a specified income payable at stated intervals for a fixed or a contingent period. Annuities come in two forms: Ordinary Annuity and Annuity Due.

What is the difference between the two annuities? In a nutshell, the payment of an Ordinary Annuity is applied to the pay period, which precedes the payment date. A real estate note is nothing more than a form of an Ordinary Annuity. In other words, the mortgage payment you made on May 1 is for interest you accrued in April. For real estate notes, interest is paid in arrears. When you are setting your calculator for ordinary annuities, make certain your HP-12C calculator is in the END Mode.

Contrast an Ordinary Annuity with an Annuity Due. Again, in a nutshell, a payment for an annuity due is applied to a pay period following the payment. Leases and rents are examples of an Annuity Due. Unlike a note, the payment you made on May 1 for a lease is not for the month of April, but rather for rights to the property for the month of May. In a sense, you are "prepaying." When you are setting your calculator for Annuity Due, make sure your calculator is in the "Begin" mode.

We have now set the scene where you can enjoy astronomical yields by applying the Annuity Due concept. In THE NOTE PROFESSOR NOTEBOOK, I outline different techniques in applying these techniques with very small amounts of money.

For example, one of my students gets her hair done once a month for $100. On one of her visits, she offered her hairdresser, who she has used for years, $270 now if my student prepaid for three months. Did you notice this was only a 10% discount? The hairdresser agreed. Since this is an example of an Annuity Due, put your calculator in BEGIN Mode for a little calculator practice.

N = 3 (Months)
I/YR= 138.65 WOW!!!
PV = -270 (3 Cuts with a 10% Discount) PMT = 100 (Cost of Cut)
FV = 0

In other words, if you paid $270 AT THE BEGINNING of a payment of $100 a month for three months, your yield will be a whopping 138.65%. If you discount the payments by 10% for 3 months in the BEGIN mode, your yield will always be 138.65%. If you can get the discount larger, your yield will increase tremendously. But remember, Pigs Get Fat, Hogs Get Slaughtered.

Scenarios like this can be found everywhere if you are looking. For example, a national hair cutting franchise which cuts hair for $15.00, advertises you can purchase a card to receive the same hair cut for $10.00 per cut if you purchase 5 haircuts in advance. If you got your hair cut once a month, what do you think your yield will be? Remember: BEGIN Mode.

N = 5
I/YR= 308.15
PV = -50.00 PMT = $15.00
FV = 0

Not a bad yield for only $50, is it?

Another one of my students had a tenant who wanted to purchase his daughter a $150 bicycle for her 8th birthday, but he was short of funds. My student was at a police auction that weekend, where he picked up a brand-spanking new girls' bike for $75. He sold it to his tenant for $120 at $10 monthly, with the first payment made immediately. Remember to put your calculator in BEGIN Mode. What did you come up with as the yield? 119.80%? WOW!!! I LOVE AMERICA.

You can apply this concept to rent, yard work, or anything that you pay on a regular basis, including the seller-financed mortgage you are paying on. Can you think of anything else where this technique might apply? Do me a favor, try this technique and let me know how you came out. I love success stories.

THE NOTE PROFESSOR NOTEBOOK is available at hpNOTES.com

Tom's "tell it like it is" approach has earned him the respect of his students and peers alike. He is a much sought-after speaker, author, and instructor for real estate groups and publications nationwide. He has been called "the best kept secret" by instructors in the nation.

Tom is president of H&P Capital Investments, LLC, which buys, sells and trades owner financed notes. He can be contacted at www.hpNOTES.com if you need help with structuring or selling your notes.

Time-Proven, No Nonsense Concepts to Increase Your Wealth with Paper and Real Estate In Any Market

PRESENTED BY **The Note Professor™**

Tom Henderson

New Topics Tom Has Never Covered in Prior Workshops

- **In-Depth Examination of the Partial Contract** Tom Uses Which Details the Different Methods to Determine "Who Gets What" in the Event of Early Payoff or Default (Hint: Are You Buying or Selling a Partial?)
- **Thorough Guide to Negotiations** When Buying or Selling Notes (Note Negotiations Are Different Than Real Estate Negotiations)
- The **8-Word Question You Always** Ask The Note Seller (This Alone Can Save You the Price of the Workshop)
- Achieve Yields from **18%, 254% to Infinity** (Easy)
- How Tom Purchased **Two Houses for the Price of One**

WHEN: Feb. 29 - Mar. 2, 2024 **WHERE:** San Antonio, TX

COST: $495 Advance, $695 at the door

EVENT SCHEDULE

Thursday 2/29	8:30am - 5:30pm
Friday 3/1	8:30am - 5:30pm
Saturday 3/2	8:30am - 3:00pm

Tom will be available for private consultations and will stay after 3:00pm Saturday until ALL questions are answered.

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The 3 Main Sources for Non-Performing Notes

By *The Unknown Investor*

Most banks have bad mortgages they would love to get rid of. They're stuck with bad loans they can't service — and they want them off their books and off the desks of their over-worked "loss mitigation" clerks.

I hear you asking, "So how does this actually work? Do banks really sell these bad loans to private investors?" The answer is yes! As a note investor, that's what I do: I buy bad mortgages (where the borrower has stopped paying) at steep discounts directly from banks. Then, I use one of six profitable exit strategies to cash out of my investment.

"Why would the banks sell to me as a private individual?" It's simple. They're just not in the business of managing property, and despite what you may have heard, they really do hate having to foreclose because of the expense, time, and bad press involved. Since there still aren't enough big hedge funds out there to buy up all of these bad notes — and the Fed no longer seems interested — individual investors are the banks' last, best hope. But how do you tap into that market? There are only a few big sources for NPNs, so let me tell you about the three main ones.

The Broker Channel

First, there are brokers who can bring you potential note deals. Good brokers can be great sources for notes, but you've got to be careful dealing with them because: a) they don't always know what they're peddling and can be great time-wasters; b) they can recycle old product that's already traded; c) they may actually slow a trade down; and d) they may dump both good and not-so-good to terrible notes into a pool from the debtor, i.e., a phone call for a new credit card or found money.

The Retail Channel

The next source is what I call the "retail" channel. There are online exchanges for buying and selling defaulted notes, such as The Paper Source's Real Estate Note Investing. "Caveat emptor" applies here, of course, but it's undeniable that these defaulted note sellers have opened up the market to entry-level investors.

Wholesale Sources

The third source of defaulted bank notes is the "wholesale" channel: the banks themselves. While this is the most obvious source of these notes, it's not the easiest to tap into. However, keep in mind that banks are increasingly motivated to get bad residential mortgages (and increasingly, bad commercial loans) off their books.

Here's the rub: you need to know which of the roughly 8,000 banks to target, you've got to be able to think like a bank when you approach them and understand what their particular motivation for selling is, and you've got to remember that banks are still figuring out how to sell these notes to individuals.

My recommendation for finding deals? If I were getting started in defaulted bank notes, I would go first to my existing bank relationships, then to the retail exchanges.

To give you a feel for how this works, here are some transactions we've done:

Case Study #1: Memphis, TN

(REO exit)
Initial investment: $500 for a $32,833 1st mortgage
Net profit after expenses: $5,600
Total hold time: about 150 days

I bought this note, secured by a house in Memphis, Tennessee, for $500... yes, $500! (I really like buying lower-balance notes, because we don't risk as much money on a single investment, and the payoffs can be excellent — and for beginners, this is a great way to get started without much cash.)

(Continued)

We soon found out that the son of the borrower was living in the house, and we did a $1,000 “cash-for-deed” deal with him that left the house vacant and in our possession. We immediately listed the house for sale, and in less than 60 days the house sold for $9,000, netting us just over $8,200 in proceeds: A $5,600 profit on a $500 note.

Case Study #2: Cave City, KY
(Re-fi exit)
Initial investment: $1,200 for a $12,000 2nd mortgage
Total profit after expenses: $11,200
Total hold time: about 60 days

We purchased this 2nd position note for $1,200 on November 9 on an owner-occupied house in Cave City, KY. The unpaid balance of the note was $12,000, the balance of the 1st mortgage was about $15,000, and the house was worth about $35,000. Since it was right around the holidays, we didn’t do anything with this deal for several weeks other than inform the borrower that we were the new investor on the note. Then on January 6th, our servicer emailed to tell us that the borrower had paid the note in full as part of a re-fi on December 24th: A quick $11,200 profit on a $1,200 note purchase.

Case Study #3: Clovis, NM (another REO exit)
Initial investment: $3,125 for a $62,000 1st mortgage
Net profit after expenses: $9,000
Total hold time: about 75 days

We bought a note secured by a vacant house in Clovis, NM, for $3,125 on an unpaid balance of $62,000. Within 5 days of receiving a letter from our servicer, the borrower called us to say, “I don’t want anything to do with this house; please just take it off my hands.” So, we set up a meeting with him, sent a mobile notary to document that he was signing over the deed to us, and he’s happy because we just helped him get rid of his headache.

Bottom line: the borrower signed over the deed 2 days after he called us.

In cases like this, we sometimes offer a “cash for keys” payment to a borrower to encourage him/her to sign over the deed, but in this case, all he wanted in exchange for the deed was our assurance that we wouldn’t take further action against him. Done.

Oh, and during that meeting with the notary, the borrower mentioned that his neighbor might want to buy the house. We then contacted the neighbor, who offered $13,000 on the spot, and we countered with $15,000, which he accepted. We closed within 30 days. Total hold time: less than 90 days. That’s a $9,000 profit on a $3,125 note purchase.

Case Study #4: Fort Worth, TX (Short Sale exit)
Initial investment: $23,500
Net profit after expenses: $7,500
Total hold time: about 50 days

Here’s one more example of a simple deal: We purchased a note for $23,500 on February 5th that was secured by a house in Fort Worth, TX. The interesting thing about the deal (that we discovered AFTER we bought the note) was that there was a lender-authorized short sale already in progress. We decided to honor the terms of the short sale, and we cashed out of the note in less than 60 days when the property was sold for $31,000.

This wasn’t a huge deal, but the $7,500 profit was quick and easy.

Case Study #5: Oakland, CA (Direct Sale of Note to Foreclosure Auction Buyer)
Initial investment: $7,000 purchase of a $302,000 1st mortgage
Net profit after expenses: $15,000
Total hold time: about 30 days

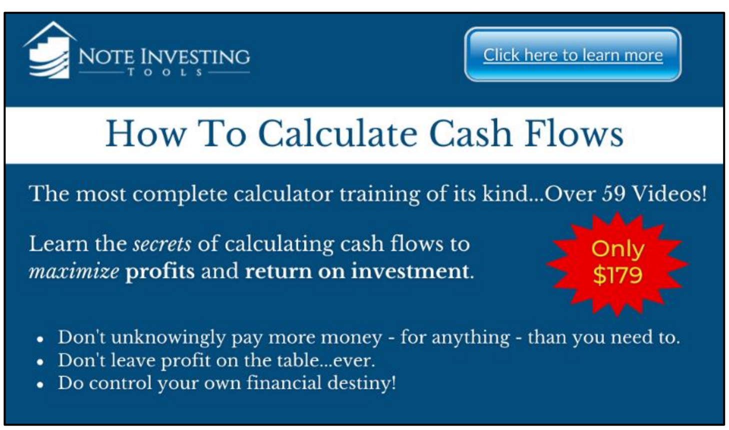
We purchased this note on December 15th, secured by a run-down house in Oakland, CA. We contacted people at the Alameda Co. auctions, asking them if they were

interested in buying a note on a vacant house that was headed to auction. One was, and we closed on Jan. 14, *tripling our money in 30 days*.

Disclaimer: the FTC mandates that all case studies like this be clearly labeled as "atypical" because they rightfully don't want us to suggest that every deal, every time, works out this well. Just remember this: there's no such thing as a typical note deal. Results depend, among other things, on the quality of information received before the note purchase, the actual pricing, the degree of cooperation provided by the borrower, local market conditions, luck, and possible legal factors such as bankruptcy. You may lose money buying notes.

I hope you can see that buying the note is just the beginning. The "fun" part happens when we look at the specific situation of the note and decide which of the exit strategies are best. Sometimes the borrower is able to make payments and we work with them to modify the terms of the loan; sometimes we take back properties (with or without having to foreclose) and sell them as REOs, sometimes we get cashed out in a re-fi, sometimes we exit (profitably) via a short sale, and sometimes we sell the note to another investor.

The Unknown Investor is a partner in a discounted bank note investment fund whose insights into the defaulted bank notes market have been featured in major national media.



How to be a Note Investor: A Step-By-Step Guide Podcast Interview Hosted by Toby Mathis

Published by Anderson Business Advisors

Host Toby Mathis, Esq. speaks with Bill Mencarow, founder of The Paper Source and 30-year veteran of real estate note investing. Bill writes for Think Realty magazine and has authored several guides and seminars on notes. He has been interviewed on numerous radio and TV programs including "Good Morning America," national networks and in major U.S. newspapers and magazines.

You'll hear Bill and Toby discuss the pros and cons of note investing, including how and when you can buy and sell, getting cash out of your note, and what to look for when buying a note – including the three P's – Property, Paper, and Payer.

Toby: Hey, guys. This is Toby Mathis, and I'm joined today by Bill Mencarow, who is the only guy I talk to about notes. He runs an investment group, which is an educational group and a great platform that deals with this area.

Today, all we're going to talk about is building wealth with note investing. It's one area of investing that a lot of people don't know anything about, so we're going to make sure about it. First off, Bill, thank you for being here. Second off, what is note investing and why should somebody consider it?

Bill: Well, it's about the only investment I know of where you can decide what interest rate you would like on your money.

Toby: That's interesting. That's a good way to put it.

Bill: And it's a secured investment, unlike a lot of other investments. What is it? Real estate note. People call them trust deeds, mortgages, contracts for deeds in some states. It's a legal document created when somebody sells a property, and lets the buyer purchase it without involving conventional lenders.

Instead, very briefly, the buyer pays the property seller in installment payments over time, for the amount of the purchase price plus interest, less any down payment that was made.

Just to give you a simple example, let's take a $300,000 single-family house, somebody selling their home. Buyer comes and it's free and clear, or it's got a fairly low balance that can be paid off on the mortgage. $300,000 house, buyer comes along, gives a 20% down payment ($60,000), balance is $240,000.

Now, normally they would go to a bank or some other lender and get that cash. Well, in this case, the seller of the property says no. I will take back a note. It'll be 9% interest, 15 years. The property buyer will then pay the seller, instead of the bank paying the seller every month, in this case about $2400 a month.

The note is held by the property seller, and it's secured by a lien on the property. If there are any defaults or anything, ultimately the seller could get the house back. That's, in a nutshell, what a real estate note is.

Toby: For example, when you're teaching and you're teaching people how to invest in notes, they might go and buy that note from that owner, or that owner may say, I want some more cash. I'd like the cash in my pocket. They'll go sell that note.

Similar to what the banks do. The banks sell all their mortgages, too. They securitize them. This is just a private transaction, is that accurate? Is that what they're doing?

Bill: Yeah. It's a negotiable instrument. The person who takes back the note when they sell their home and get $2400 a month, might someday decide, well, I need more cash for whatever reason, or I'd like to take a trip around the world, or whatever it might be. They'd like a lump sum of cash.

This note is a negotiable instrument. They can sell it to someone else and get cash for it. They sell it at a discount because a lot of the payments have already been made. They might have to sell it at a different interest rate or something, but that's certainly done.

The notes, I should say, somebody said, oh, 9%. That's high for these days. We are getting close to that as for conventional interest rates. But the seller carryback notes, private notes, whatever you want to call them, are usually quite often, almost all the time, carry a higher interest rate than a conventional loan.

The pros for the seller of the property who carries back this note can get full price for their property, or even more, sometimes. There's an old saying in real estate—you can have price, you can have terms, but you can't have both. You'll get a higher return. The property seller gets a higher return compared to other investments. Higher interest rate. There's no waiting or wondering if the buyer is going to qualify for a conventional loan.

You have a quicker closing, getting a substantial monthly income secured by the house. If it's your home, you know that house and how valuable it is, and it's secured by that house that, God forbid, if there's a default, you get it back.

As you alluded to, most people don't know that you can sell that note. Or you can borrow against it from a bank. You can sell part of it. You can sell the next X number of payments. Or you can sell half the note. You can do all sorts of things.

You can trade it. You could trade it for real estate, for a down payment on some real estate. Or a car, or whatever. As they say, to use a legal term it's a negotiable instrument. There's a lot more you can do with notes. It's a tremendously flexible thing. If we have time, we'll go into one or two of those things.

Toby: That's perfect because I think you laid it out. Now, a carryback, like if I'm the owner and I'm selling a property, I'm carrying back and I'm holding a piece of paper that's going to give me an income stream, I'm doing that because it's spreading the tax hit out.

I can elect to treat it as an installment sale under 453 and spread it out over many years, which means I don't have to pay tax on that sale all in one shot, like if I sold it and there was bank financing. Here, I actually have this thing. And I've done this, by the way, actually, on behalf of clients that had carryback notes.

What's the typical discount on that? Let's say that I have a $100,000 note that's getting $2000 a month, let's just say it's 9% interest. I don't know if the numbers actually work, but let's just say you had that note. Would I sell that to somebody? And if so, at what discount is the market usually going to give?

Bill: It depends, of course, on again, the investor wants to determine what interest rate they're going to get on their investment. If it's a, let's say $100,000 note, depending on how many payments have been made. Let's say, only a couple of payments, so it's $12,000 of $100,000. You'll probably get somewhere. It depends, of course, on the interest rate; you said a 9% note.

There wouldn't be a whole lot of discount on that. There are investors out there who are looking to buy a note on the secondary market, if you will. Not a second note, but a reselling of a note. Maybe $85,000, you might end up with. The way it works, as you, Toby, know very well, notes are sold at a discount.

I wrote down some numbers here. This $300,000 house that I mentioned before, $60,000 down, $240,000 balance written at 15 years, about $2400 a month that the payer is paying. The seller wants to sell that note. The interest rate that the investor wants is 12%. You plug that into a financial calculator, that comes to $200,000. The investor pays $200,000 for that note, getting $2400 a month. If you plug that in the calculator, that's a 12% return on your money.

The investor who buys that note has converted a 9% note to a 12% interest rate note, yet the terms, the note payer's interest rate is still 9%. The monthly payment is still the same. The number of payments doesn't change. Nothing changes for the note payer itself. It's just by buying the note at a discount, you increase your return on your money from 9% in this case to 12%.

It's not usury because the payer is not paying anything more. Payer may not even know the note has been sold until he gets a notice, we'll make your payments to Mr. Smith now instead of Mr. Jones. It's kind of a beautiful thing. What I like about it is that there's so much you

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can do when you own a note. And that's just one example.

Toby: Where do you find them? If I'm an investor, that sounds really attractive to me. I'm looking at it going, right now, the money market might get you 5%, some CDs get you 5%. But you're saying, I'm willing to take a little more risk, and I know the market's going nuts right now with the raising of the interest rates. Are there any of these out there? And if so, where do I find them?

Bill: There are a lot of them out there, and there are a lot more being created now. It's common sense. As conventional mortgage interest rates go up, fewer people can qualify to get a loan. Every time we have an uptick in interest rates, there's a smaller and smaller pool of potential property buyers. When a property seller realizes, a year or so ago I could have sold this house like that, but now it's sitting on the market, what do I do?

Well, people can't qualify for a loan, but maybe I'll offer to hold a note and become, in other words, the bank. It won't be a bank involved. It'll just be me selling the property, holding that note, and getting the monthly income.

Once you offer what they call seller financing, again, a word I don't like to use because regulators love the word financing. It's not financing, in my opinion. When you have a seller carryback situation, properties sell a lot faster. And they can sell for a full price because again, you get terms or you get price, but you don't get both. But you're asked where to find them?

Toby: Yeah.

Bill: Well, on our website we have a link to our Facebook group. We have close to 6,000 members. We get pretty much everyday people posting notes for sale. We don't get involved in the transactions. It's just a bulletin board. People put their contact information in, we're not involved. You see a note that might look interesting, you contact the seller directly.

That's papersourceonline.com. You go to the tab 'Other Resources' and click on the Facebook group. Where to find them? Lots of places. If you're a member of a real estate investors club or if there's one in your town, start going to that. Talking to real estate investors. These guys quite often have notes that they want to sell.

Think about who in your life that you can think of would see notes on somewhat of a regular basis? Attorneys, accountants, title company officials, real estate brokers, bank trust officers, financial planners. Cultivate relationships with them. Let them know that you buy notes. You might be interested. Some of them can accept a finder's fee. Others ethically cannot. You'll have to work that out with that.

There are people who do other ways. They send out postcards, they put in ads, and that's one way to do it. It costs money, but I know people are successful doing that as well. It's a lot of work, and there is an expense. I prefer networking and online, like our Paper Source Facebook group.

Toby: Let me do a shameless plug for you. Paper Source Online is a great place to learn about note investing, too, because I know you have the Paper Source University. We also have a bunch of courses that you've created inside of our Infinity Investing portal, which is a great place to learn about what kind of investments.

Since we're going to learn about this, what could you tell people to avoid? Somebody hears this video and they say, I'm really interested in going out and buying some notes. There are probably some notes that you say, don't touch with the 10-foot pole, and then there are notes that you say, these are the ones you consider. What's an easy rule to follow for somebody who's out there thinking about getting involved in note investing?

Bill: I would suggest several things. Particularly if you're new to this, I would get yourself a mentor or somebody who is experienced in notes. Maybe it's a friend of yours. We'll be happy to help you with no charge; send me an email. I can't hold your hand at every moment, but I'm happy to give you some advice.

Specifically, for somebody starting out, I would only stick with first position notes. I wouldn't go to seconds or certainly not anything lower than that. I'd look for the type of property. I would stick with single family houses.

The way I look at it is would I want to own this property if I had to foreclose? What am I going to do with a factory? I don't know anything about factories. I don't buy notes on factories or shopping centers. I buy notes on single family houses, on farmland, some things that I personally know what to do with if I had to take possession.

Think about that. Think about the down payment. What was the down payment that was made? If it's less than 15% or 20%, that's a scary situation because the property value may drop and you might find yourself underwater, you don't want the property back. The higher the down payment, the better. Notes that have property that—you'll see this a lot with mobile homes—there'd be no money down or $1000 down, those usually default. So, I stay away from those

Toby: Unless you want them, right? Unless you're like, yeah, I would love to own that.

Bill: Exactly. That's what I'm saying. Unless you really want to own it. Like non-performing notes, which we're not going to get into right now—I don't particularly think we need to—that's the kind of thing that you got to look at. I'm probably going to end up owning this property, very likely so.

Ultimately, the value of a real estate note depends upon the economic conditions that support the value of the property. I'll say that again. There are a lot of factors, but the value of a note really depends on the economic condition that supports the value of the property.

For example, an owner-occupied single-family house, in a good neighborhood, in an area with a diversified, long-term stable economy, is about the best collateral you can get. That's what I look at.

Amortized note is more valuable than one with a balloon because often the balloons aren't paid, and—

Toby: You're going to end with the product.

Bill: Exactly.

Toby: And Bill, do you have to foreclose? Somebody buys the note and the borrower starts to default. Is it all on you or are there services that you could use to go do the foreclosure or start the process? Or is there anybody that can manage notes, things like that?

Bill: Yeah. You don't have to go to foreclosure. I don't like foreclosure. I've been investing in notes since the 80s. I've never foreclosed.

Toby: You negotiated with them.

Bill: Absolutely. First of all, I don't want to throw somebody out of their house.

Toby: The banks did it in 2007 and 2008. They en masse just started tossing people out. Would it have been better if the government hadn't gotten involved and started paying the banks off? Would it have been better if we let a bunch of note investors go buy those mortgages and negotiate with the folks that were the borrowers?

Bill: I'll go back to how you started that. It's always better if the government isn't involved in anything. Whatever it is. So yeah, absolutely. That was a horrible, horrible time. It put banks back in the business that shouldn't be in the business today.

I'm getting on my high horse here, but the goal is to shut down all smaller banks, so that all we have are the Chase Manhattans of the world, the giant mega corporation banks. That's what they're trying to do, and cut out the small community banks.

Then of course, when we get the Central Bank digital currency and there's no paper money left, the government, like in communist China where the government controls your money, and if they don't like your opinions, they cut off your money, you can't travel, you can't get a loan and things like that, in my humble opinion, that's the direction that this present US government wants to go in.

Toby: But we can combat that by doing business with each other. That's what it seems like. It seems like you're saying, when you sell a house, you don't need to go to the bank. Owner carries it back. Then if he or she has an outlet, they can sell it to another investor if they need the money. Otherwise, they just take the income stream.

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But like you said, I could go negotiate with you. Let's say you had a note. I don't need the whole thing. I might just say, I want a part of the income stream. Maybe I'm doing half. Maybe you say, I need $50,000. You have a $240,000 note. Is it uncommon for someone to say, I just need a little bit and I'll sell you this portion of the income stream?

Bill: Oh, yeah. It's a very good point, Toby. You can sell it all, you can sell part of it, you can sell half the payment. The investor gets half the payment, you get the other half of the payment. You can sell the investor in the next five years of payments for a lump sum of money at a lower interest rate than the face amount that you paid for the note, and that can be profitable to you. There are all sorts of different ways to do it.

Take an example of this note, the $240,000 note on the $300,000 house. Written at 9%, you bought it, you get a 12% return because you bought it at a discount. You can sell that note to another investor for a 7% yield.

I just did the figures before we got on here. If you sold that note that you bought for $200,000 because you bought it at a discount as notes are sold at a discount, and it's a face rate of 9%, you sell it to an investor and say, how do you like 7% on your money? A lot better than getting anywhere else secured by a single-family house. Great, okay.

You sell that to him for a 7% yield. Well, how much is he paying for that $2400 a month for 15 years at a 7% yield? He or she pays $270,000 for that note. What did you pay for the note? $200,000.

Toby: And the IRS would say, that's capital gains. Whatever that face value goes up, it's capital gains, and you just made nice little profit negotiating some notes. Is that what your people do, Bill?

Bill: Oh yeah. People do that all the time. I know we've just got a few minutes left, Toby, but I don't want to skip over what I call the world's greatest retirement plan. It's on the same subject of buying, selling, and reselling notes.

Take this 15-year note that we're dealing with, this $240,000 note face value. Let's say you bought that for $200,000. The stakes of the financial calculator, and I've worked this out before this, if you sell the next years of payments of that note to a private investor at a 6% return on their money, you'd sell it for $200,000. Exactly what you paid for it.

After nine years, the investor bought nine years of payments, after the next nine years, they're done. They're out of it. What happens to the rest of the payments? It's a 15-year note. What happens to those six years of payments? You get them back. You get $2,400 each month for the next six years. If you do those 10 times, you'd have, after the nine years, almost $300,000 a year coming in on each with nothing invested.

Toby: And people are doing this in their retirement plans. I know they're already going to say that. Where do I get the money if I'm not sitting on money? You might be sitting on money. These are unrelated parties. You could do private notes inside of a self-directed IRA or self-trustee 401(k). I'm sure you have folks doing it in their Roths where they're never going to pay tax anyway. They can go ahead and flip a whole bunch of these notes, and they don't have to worry about a tax hit.

Bill: Exactly right.

Toby: That seems ingenious, and it seems pretty obvious. This is something somebody might want to be doing. It's just, I don't think there's a lot of information about it because there are these behemoths that want to be dominating the lending markets. You got a Visa; you got a MasterCard. I always joke, like who's the servant in the MasterCard? They don't even hide it. You become their servant when you're borrowing from these guys.

There are these huge institutions that make their money being the lender, that a lot of people don't realize, I could just go to somebody in my community. Maybe it's somebody that you know that you're not related to. Or it could even be a sibling you could actually do these transactions with in a retirement plan. They say, instead of going to the bank, let me be your lender. Or you just go out and you start investing in notes. A lot of people don't realize it's literally that easy. Is that a fair statement?

Bill: Oh yeah. It's not rocket surgery, it's not brain science. Nobody has to be embarrassed. Nobody's born learning this stuff.

On our website, I took my three-day intro course on notes and boiled it down to seven fairly lengthy digital sessions. It's free. I just made it free. You can sign up for it at Paper Source Online. It's an introduction on notes to give you an idea, is this something I really am interested in? Do I want to do this? It takes some effort, and you have to learn some terms that you may not be familiar with, but the rewards can be tremendous.

I'm not a guy who says, you're going to make a million dollars a year in your pajamas and all that stuff. I don't like a lot of that stuff.

Toby: You and me both.

Bill: Exactly right. I think that's why we get along so well because we both have the same attitude about that kind of stuff.

It can be a tremendous thing. As you pointed out, Toby, not many people know about it. That's something people I think at least take the e-course and look into it. You might say this is not for me. It's not for everybody, but check it out.

Toby: A little bit of education never hurts. You can chew gum and walk at the same time. You can learn about different investments. This is one of those areas that I would recommend people really get to know. The more you get to know about notes, it's going to help you in other ways.

When you're going in and negotiating, if you're ever buying a home or something like that, all of a sudden, you're going to realize, maybe I don't have to jump through all the hoops with the bank, go through their underwriting, do what this person, that person, the amount of paperwork this thick and everything else. Maybe I can go to a private individual and I find a group where there are people that would love to be your lender.

Toby: I know there's still Dodd-Frank and there are still some rules that these guys have to follow, especially if it's a primary residence. But everybody's aware of the rules and everybody's aware of what's necessary, and all of a sudden, it's so much easier.

I've done this myself personally, especially when I was growing my portfolio and levering up. I would look for somebody that I knew and say, I don't want to partner on this deal, but I wouldn't mind having if you want a decent return, then we can negotiate something that you're going to get. It's better than what the bank's going to offer. There are not as many fees and there are not as many of these crazy costs that they lump on to these things.

And like you said, so much faster. We're keeping the bank out of it. The banks are making profit on these things. Why don't we just keep the profit to our private community and help your neighbor out?

Bill, this has been fantastic. I'm going to tell people to go to Paper Source Online. I'll put it in the show notes. I can't recommend highly enough to go to an individual like Bill, who is not selling a course. He's not trying to get you to do this, that, or the other.

I've never figured out how Bill makes his money. Other than that, he's a really good investor, and he's got a really good community. I know you do an event because I get to come speak at it every year in Vegas. You have a really, really good group of professionals that are part of this organization, that are part of The Paper Source. I get to meet him all the time. I got a bunch of his clients, great people.

Bill, thank you for sharing your wisdom today. Is there anything else you want to throw in there?

Bill: We covered a lot, Toby. There's actually a lot more we could say. I've got notes here. I think we covered a good part of them. I just say again, it's something that people should look at.

One thing we could cover are the three Ps very quickly.

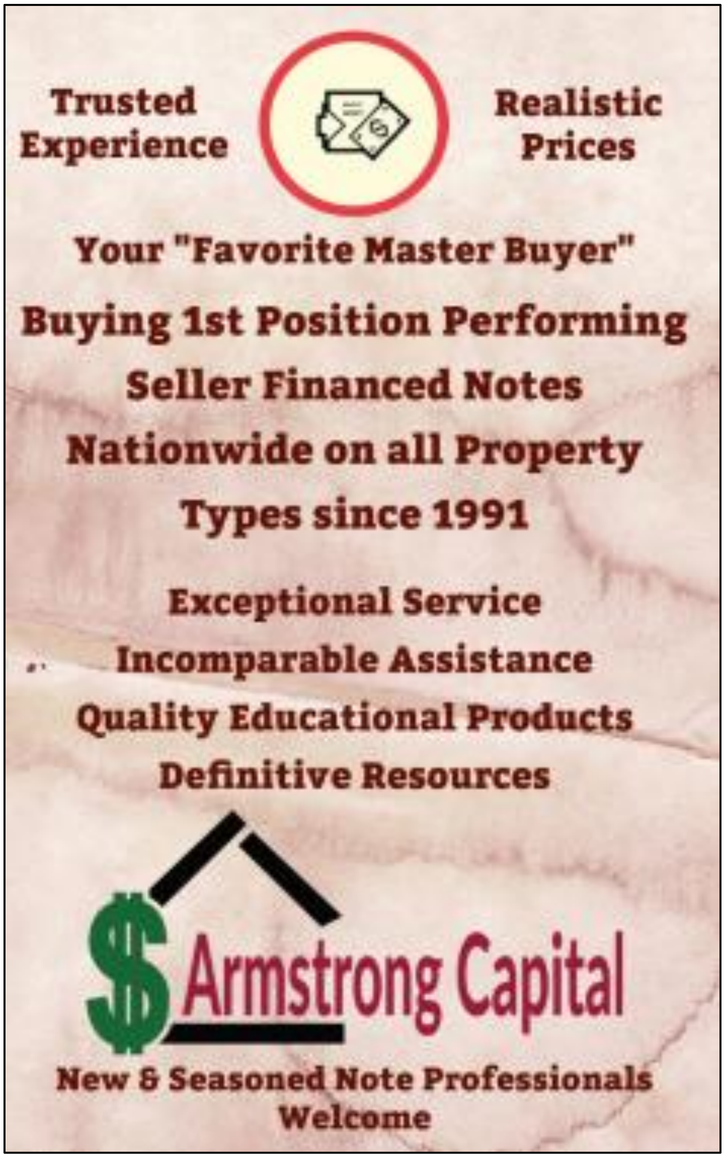
You look at the paper, you look at the property, you look at the payer before you buy a note. The payer's credit history, employment. I heard somebody say once, check their car out. See what the condition of their car is. Is there a bunch of trash inside of it? Also look at the radio to see what stations it's set on. If it's set on something you think is crazy music, don't buy the note. Or don't rent to.

Anyway, you got the paper, the payer, the property. You look at all those things and make sure the paper is in order. Again, would I want to own this property that's secured by the note? That's key.

We've gone all over those things. Thank you again for the opportunity. It's papersourceonline.com. If people want to know what my wife and I do in our spare time, we do a talk radio program on a commercial FM station in the Texas Hill country. You can go to firstcoupleoftexasradio.com and you might find some interesting things.

Toby: Perfect, Bill. I know you have a diverse background. That's awesome. But in the meantime, everybody go to [The Paper Source Online]() and go learn about note investing. See if it's something that will help you build up your wealth.

A lot of people are always willing to help you when you have a big pile of money. We want to help you *get* the big pile of money. Bill, you've been really, really helpful in that over the years, helping so many people. I hear about it from your clients all the time. Thank you for joining us. Guys, go check it out!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Five IRA Tax Forms Every SDIRA Holder Should Know

Around tax time, many have questions on the tax forms associated with their self-directed IRA (SDIRA).

If you've taken distributions this year, you may be wondering how to report those to the IRS. If you've recently received IRA tax forms from your SDIRA custodian, you may question exactly what distinguishes Form 5498 from Form 8606.

Let's dive into the purpose of each IRA tax document so you can have a simple, stress-free tax season.

IRS Form 1099-R

Generally, distributions from retirement plans (IRAs, qualified plans, section 403(b) plans, and section 457(b) plans) and insurance contracts are reported to SDIRA holders on Form 1099-R. Your SDIRA custodian will issue this form to document any distributions from your account during the calendar year. This form shows:

- The taxable amount of the distribution in Box 2a
- The amount of income tax withholding in Box 4
- The IRS code that depicts the type of distribution in Box 7

What's the deadline for IRS Form 1099-R?

SDIRA custodians must provide Form 1099-R to the account holder by January 31 after the year of distribution. For instance, Entrust will provide all SDIRA holders who receive distributions in 2023 their 1099-R by January 31, 2024.

Additional Information

If you received more than $10 in retirement plan distributions, you'll receive a 1099-R. If an IRA holder didn't take any distributions, no 1099-R will be issued.

A taxpayer must file this form with their income tax return only if there has been income tax withheld from the distribution (reported in Box 4).

If you roll over a distribution to another IRA, your SDIRA custodian/trustee will issue IRS Form 5498, showing the amount that was rolled over. The 5498 will offset the 1099-R.

There is no special reporting code for:

- Qualified charitable distributions (QCD)
- IRA distributions made to fund a health savings account (HSA)
- Required minimum distributions (RMDs)

IRS Form 5498

IRS Form 5498 is one of the primary tax documents on our radar. Unlike some of the forms on this list, Form 5498 is filed solely by an SDIRA custodian, not by the SDIRA holder.

You may receive IRS Form 5498, though this copy is only for your records. It's not necessary to file in your tax return.

This document reports all types of contributions made to an IRA (annual contributions, rollovers, conversions, and recharacterizations). It also reflects the fair market value of an IRA as of December 31 of that year.

5498 also informs the IRS which individuals must take an RMD during the year. If the IRA holder is 73 or older, the IRS will know that an RMD is due.

For traditional IRAs, the total value of annual contributions is reported in Box 1 of Form 5498 (A). For Roth IRAs, the amount is reported in Box 10 (B).

Note: if you or your spouse are covered under another tax-advantaged retirement plan at work, you may not be eligible to take the full contribution deduction. See a tax expert or IRS Publication 590-A to determine your eligibility.

For Roth IRAs, you cannot use your contributions as a tax deduction. These contributions are made with posttax dollars, which is why they qualify for deferred growth and eventual tax-free distribution of earnings once you've met the qualified distribution criteria.

For both types of IRAs, If your adjusted gross income is below a certain level, you may be eligible for the saver's tax credit. This may further reduce your tax liability for the year.

What's the deadline for IRS Form 5498?

The form must be sent by the SDIRA custodian to the IRS by May 31 of the following year. For example, if you made $6,500 in contributions for 2023 to your SDIRA, your custodian must send your 5498 to the IRS by May 31, 2024.

Some SDIRA custodians may choose not to send this form if there are no new contributions to the account. Even if the IRA holder does not receive Form 5498, the IRS will still receive a copy confirming your contribution.

Additional Information

While it's not necessary to include it in your annual tax return, Form 5498 is perhaps the most significant Roth IRA tax form.

If you hold a Roth IRA, it is important to keep a copy of this form every year you make a contribution. This provides further documentation of the total contributions that have already been taxed, helping ensure your savings are not taxed more than once.

IRS Form 8606

IRS Form 8606 records that some of the funds in your IRA have already been taxed. This includes non-deductible traditional IRA contributions and Roth conversions. Once you take distributions, the IRS knows not to subject those funds to any further income tax.

Be sure to check your work. If this document isn't filled out correctly, you may end up paying federal income tax twice on the same funds.

In essence, IRS Form 8606 is used to keep track of the basis in your IRA. Basis refers to:

- Non-deductible IRA contributions to traditional IRAs.
- After-tax rollovers made from a previous employer's retirement plan

After-tax contributions in an employer plan are employee contributions made on an after-tax basis. These after-tax contributions are different from designated Roth contributions.

Earnings derived from Roth contributions may be withdrawn totally tax-free once you've met the qualified distribution criteria. Because of this unique tax advantage, only individuals below a certain income level may contribute directly to a Roth.

After-tax contributions in an employer plan, on the other hand, aren't given tax-advantaged status. Therefore, they're not subject to any income eligibility requirements but are subject to contribution limits. Of course, this also means any earnings from investments under this account will be taxed appropriately upon withdrawal.

Contributions to a traditional IRA may be tax deductible. If you (and your spouse) are not participating in an employer retirement plan, the contribution is fully deductible. If you or your spouse are participating in an employer plan, your income level will determine whether you're able to deduct a traditional IRA contribution.

These limits are based on your modified adjusted gross income (MAGI). Any amount you contribute to a traditional IRA that you do not deduct on your tax return is considered a nondeductible contribution and must be tracked using IRS Form 8606.

Remember, even if you aren't able to deduct your contribution, it may still be worth investing in a traditional IRA over a Roth IRA. This is especially true if you do not qualify to contribute to a Roth IRA because of your income level for the year.

Part II of this form tracks Roth IRA conversions. This amount will be the amount converted during the year and will be considered the basis in your Roth IRA. IRS Form 8606 is also used to track whether distributions of converted dollars from a Roth IRA are penalty-free.

You must hold funds in your Roth IRA conversions for at least five years before the funds can be distributed without penalty if you are under the age of 59 ½. Do not confuse this five-year period for tax-free distribution of


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earnings. This is a separate five-year clock for converted amounts to determine whether the funds are penalty-free.

If a Roth IRA holder takes a non-qualified distribution, Form 8606 designates which contributions are distributed first. The distribution ordering rules apply and may help reduce the funds that are subject to tax and the 10% early withdrawal penalty.

First to be distributed are Roth IRA contributions, which are always tax and penalty-free. Next to be distributed are conversion dollars, which are tax-free but could be subject to the 10% early distribution penalty. Finally, earnings are distributed, which are taxed like traditional IRAs if the distribution is not qualified.

What's the deadline for IRS Form 8606?

The IRA holder should file IRS Form 8606 with their tax return by the tax deadline, including extensions. However, if your tax return has already been filed, it can be filed separately.

If you fail to file IRS Form 8606 on time, you may be fined $50.

Additional Information

A separate form should be filed for each tax year that nondeductible contributions are made. Failure to file IRS Form 8606 could result in you owing income tax on amounts that should be tax-free.

IRS Form 990-T

You must file IRS Form 990-T if your IRA collects “unrelated business income (UBIT)” or revenue that is not related to the tax-exempt purpose of the retirement account.

This income is not tax-advantaged, so as not to create an unfair edge in taxation. Otherwise, businesses funded outside of a retirement plan might find it very difficult to compete. So, all unrelated business revenues must be reported to the IRS. If the total exceeds $1,000 in gross receipts, the IRA must file a return to report this income.

Because IRAs are considered trusts, the tax will be based on trust tax rates. Passive income such as interest, dividends, rents, and royalties are not subject to UBIT.

What’s the deadline for IRS Form 990-T?

If your IRA collected unrelated business income in the previous tax year (2022), file IRS Form 990-T by the tax deadline. In 2023, this falls on April 18.

You may file for a six-month extension using IRS Form 8868 if you need more time to prepare and submit Form 990-T.

Additional Information

A schedule M attachment must be included separately for every investment declaring unrelated business taxable income (UBIT).

The IRA holder must acquire an Employer Identification Number (EIN) for an IRA that is required to file IRS Form 990-T.

UBIT must be paid by the IRA, using IRA funds. It cannot be paid out of pocket.

IRS Form 1040

If you’ve paid annual income taxes, Form 1040 should be quite familiar.

The form requires taxpayers to disclose their taxable income for the year. This determines if additional taxes are owed or if the filer is due a tax refund.

Everyone who earns income over a certain threshold must file an income tax return with the IRS. If you’re wondering how income tax relates to your IRA, remember that distributions from a traditional IRA are classified as income.

So, if an IRA holder has taken a distribution in the previous year, they must report the amount on line 4a of Form 1040.

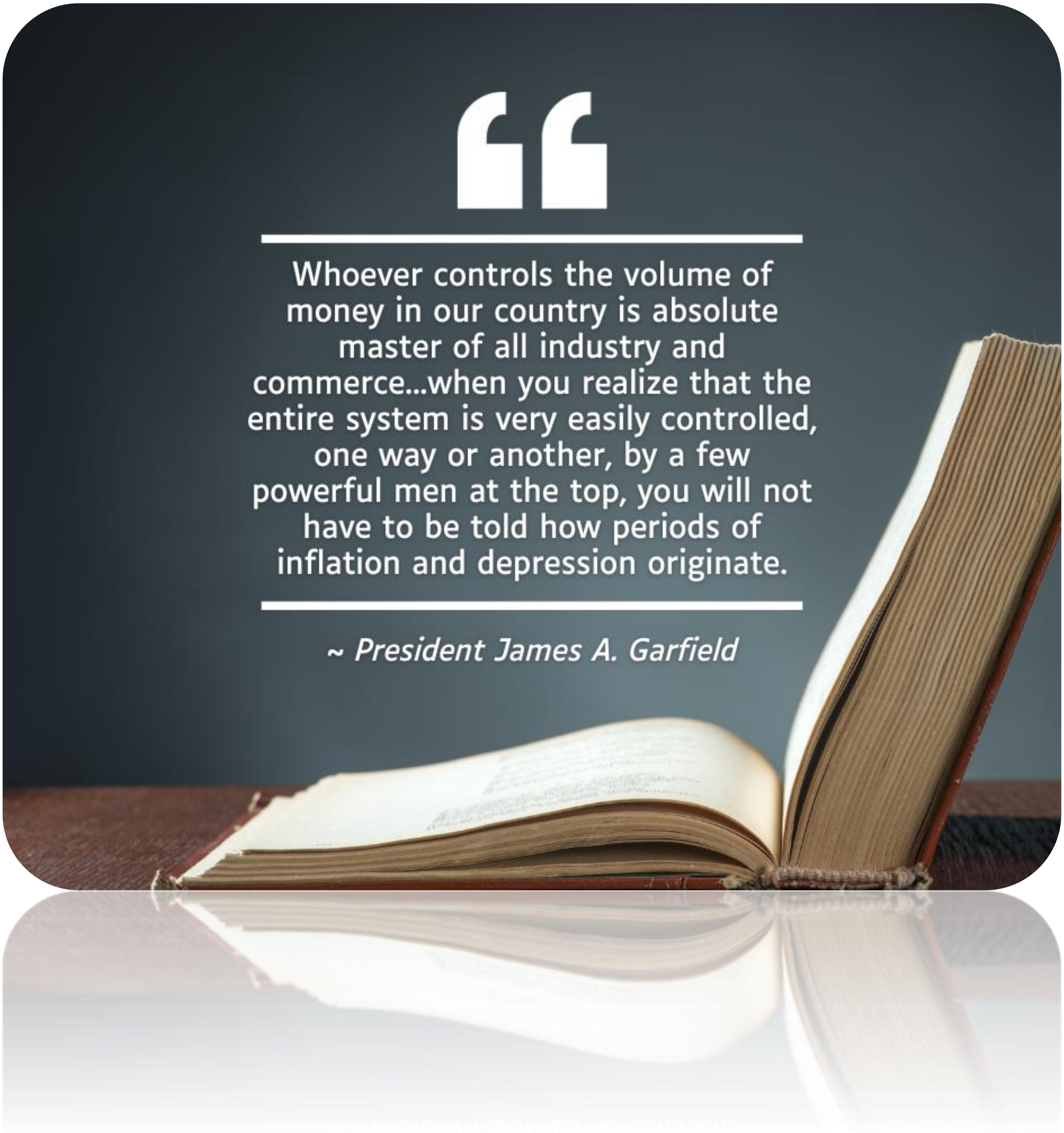
The taxable portion of the distribution is reported on line 4b of the form. If any amount is rolled over, the instructions state to include “rollover” beside line 4b. IRS Form 5498 should offset the 1099-R to eliminate the taxation of any amounts reported as rolling over.

If you've made a deductible IRA contribution, report the amount on line 20 of the Schedule 1 attachment to Form 1040. If you've contributed to a SEP, SIMPLE, or Qualified plan, report the amount on line 16.

Master Your IRA Tax Forms

Admittedly, tax form knowledge might not get your blood pumping as much as the prospect of a new investment opportunity.

However, understanding taxation is an integral component of managing tax-advantaged accounts. An SDIRA holder with a deep understanding of the relevant tax codes can make more informed decisions on their savings strategies.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SC: MidlandsREIA.com, upstatecreia.com
TN: joinknoxreia.com, MemphisInvestorsGroup.com, reintn.org, tnreia.com
TX: 1REClub.com, AlamoREIA.org, austinrenc.com, DallasREIG.com, elpasoinvestorsclub.com, ntarei.com, dfwreiclub.com, sareia.com, txreic.com, contrarianclub.org, TheWealthClub.org, WestDFWREIGroup.com
UT: nureia.org, UtahREIA.org, slreia.com, uvreia.com
VA: trigofva.com, TractionREIA.com
WA: northwestreia.com, reapsweb.com, REIAwa.com
WI: appletonreia.com, MadisonREIA.com, wiscoreia.com

Tools and Resources: 2023

Bankruptcy Records

pacer.psc.uscourts.gov, ndc.org/home

Commercial Real Estate Tax Reduction

sgettler@costsegregationservices.com

Credit Reporting Agencies, Scores & FICO, etc.

Equifax.com, Experian.com, TransUnion.com

Down Payment Assistance for Rehabbers

emdfunding1@gmail.com

Find House Values & Comps

Redfin.com, Zillow.com, Trulia.com, Realtor.com

Foreclosure Properties and Information

realtytrac.com, foreclosurefreesearch.com, foreclosurelistings.com

Joint Venture Funding, nationwide for wholesalers (notes and properties)

emdfunding1@gmail.com

Guide: Real Estate Negotiations & Beginner's Guide to Real Estate Investing

biggerpockets.com/real-estate-investing

Hard Money Lenders

biggerpockets.com/hardmoneylenders

Mortgage Calculator

moneychimp.com/calculator/mortgage_calculator.htm

Mortgage Note Investing Advice

papersourceonline.com/free-e-course-2/

Tools and Resources (Continued)

People Searches

intelius.com, skipease.com, zabasearch.com

Private Lenders

aaplonline.com

Professional Loan Associations

mbaa.org, namb.org

Property Reports (Chicago Title) Become a member (usually for free) and look up properties all over the US

premier.ctic.com

Public Records Search, Property Finders

courthousedirect.com, searchbug.com, propstream.com, propertyradar.com, batchleads.io, onlinesearches.com

Real Estate Abbreviations, Glossary

abbreviations.yourdictionary.com/articles/real-estate-abbreviations.html

Resources for newbies and old hands in the REI biz

connectedinvestors.com, crepig.ning.com, nationalreia.org, realestatefinance.ning.com, smarterlandlording.com, realestateinyourtwenties.com, investfourmore.com, compstak.com, thebrokerlist.com, apartmentvestors.com, creoutsider.com, parkstreetpartners.com, mobilehomeinvesting.net, adventuresinmobilehomes.com, landhub.com, thelandgeek.com, landthink.com, retipster.com, rentpost.com, rehabfinancial.com, rehabberpro.com, houseflippinghq.com, houseflippingschool.com, 123flip.com, flippingjunkie.com, bawldguy.com, themichaelblank.com, rei360.net, justaskbenwhy.com, joecrumpblog.com, joefairless.com, revestor.com, fortunebuilders.com, myrenatus.com, realestateguysradio.com, astudentoftherealestategame.com, realestateinvesting.org, biggerpockets.com, gowercrowd.com

Tax Auction Online Sites

auction.com, bid4assets.com

Tax Records Search

netronline.com/public_records.htm, publicrecords.searchsystems.net

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