Don DeRosa's

Real Estate Investing for The Real World

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Avoiding Business and Investment Killers

If a man empties his purse into his head, no man can take it away from him. An investment in knowledge always pays the best interest.
--Benjamin Franklin

In my last article, I told you what you already know, deep down: You *can* invest successfully in real estate, if you just have the right "recipe." The three ingredients in that recipe are a workable system, diligent action, and faith. In this article, you'll learn about the main reasons businesses and investments fail. Let's start with businesses.

What's Your Poison?

Depending on which statistics you believe, somewhere between 50% and 80% of new businesses ultimately fail. Why the high mortality rate? Is it because the economy just isn't ripe for entrepreneurship? Absolutely not! In nearly all cases, businesses fail for one of three reasons: they are under-funded, under-exposed, or under-managed. Let's look at these one at a time.

Under-funding. You're probably tired of hearing the old adage, "it takes money to make money." Actually, I'm a little tired of it myself. It's not a false statement, exactly; but it is a misleading one.

It's true that some business start-ups require a tremendous amount of money. If you want to open a restaurant or a movie theater, you're going to need a lot of cash (or credit, if you're lucky enough to have it).

But not all businesses require such a large investment of money. In many businesses, what you need on-hand isn't cash – it's knowledge.

When I say that businesses need sufficient funding, then, I mean that they must have sufficient *resources* available – not necessarily money. This implies two things: first, you need to choose a business that you can operate with the resources you've got (or can get). Secondly, you've got to make sure you get those resources in place.

Happily, real estate is one of the fields where it's still possible to make money without money. But don't under-fund your business by choosing the wrong kind of transactions, by failing to get the education you need, or by failing to invest in diligent action.

Under-exposing. The next reason many businesses fail is because nobody knows about them. Companies invest billions each year for advertising to make sure potential customers are overexposed to billboards, magazine ads, television commercials, and spam. With all the "white noise" of corporate America distracting potential buyers and sellers, it takes special effort on your part to make sure your message is heard by the right people.

Fortunately, it doesn't take expensive ad campaigns to get exposure for your business. In fact, there are probably as many different ways to get the word out as there are people in the business. Networking, direct mail, the Internet, and cold-calling are some familiar techniques. But if you're creative, you'll think of others. Let's face it, who would have thought you could sell pink plastic bowls by throwing a party?

<u>Under-managing</u>. The third business-killer is a corollary to the first two. Simply put, a business, like a garden, will die if you don't take care of it. Granted, it's sometimes hard to give your business as much attention as you'd like. As one economics professor said, time is the scarcest resource of all.

If you're finding it too hard to devote enough time, though, maybe you're doing the wrong kind of real estate deals. As with funding, you've got to choose transactions that match the resources you have available.

Luckily, not all real-estate transactions take constant, close oversight. If you can't devote proper attention to being a good landlord, then perhaps you should try short sales, which are over and done with quickly. If you are willing to look at your business creatively, you'll find ways to match your resources.

Deal-Breakers

Like failed businesses, failed investments have recognizable shortcomings. Like business-killers, those shortcomings aren't inevitable. However, to avoid them, you've first got to learn about them.

The two reasons why investments fail are first, failure to market; and second, failure to recognize deals when you see them. Let's begin with marketing.

<u>Failure to market</u>. A real-estate investor with no real estate is a sad sight indeed. But that's just what you'll be if you don't do enough marketing. The key to making money in real estate is to find homes that are owned by *motivated* sellers. You can find some of these homes by scouring the want-ads and driving around town, and sometimes that's just how it's done. However, it's a lot easier if you can get some homeowners to contact you. These folks are prescreening themselves, because if they weren't at least somewhat motivated they wouldn't pick up the phone. Creative marketing strategies can help you get those phone calls. Marketing may seem like a lot of work, but it's smart work.

<u>Failure to recognize deals</u>. Have you ever been to an antique mall? If you visit the same mall several times over a period of a year, you'll notice something curious. Some items move around from one booth to another. And then at some point, the items stop moving and just sit in the same booth. What's going on? Is it sloppy housekeeping?

What's happening is this: an antique dealer finds the object at a low price, and puts it in his booth. Another antique dealer sees the item, believes it's underpriced, and buys it for her booth, with the price marked up. This continues until some dealer pays too much – and it will sit in his booth forever more. The first dealers knew how to recognize a deal. The last one didn't.

In real-estate investing, as with antiquing, knowledge is power. It's your stock-in-trade. Unfortunately, too many real-estate investors limit their knowledge to what they learned in real-estate school or from a single book.   As a result, investors pass up great deals all the time, putting their money, instead, into transactions that don't have the same chance of success.

But the knowledge you need is available, if you're willing to take the time to find it. It's time that will pay off many times over.

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Don DeRosa *was recognized as one of the nation's top 21 real estate investors in the New York Times bestseller* The Millionaire Real Estate Investor. *Don, who is a full-time investor, trainer, and mentor, offers a complete system to build and run a thriving real estate business. For more information on Building Wealth with Real Estate, visit* www.donderosa.com.

Summary: Most businesses fail due to one of three causes: under-funding, under-exposure, or under-management. Likewise, many real-estate investment ventures fail through under-marketing or failure to recognize good deals. But none of these business- and investment-killers is insurmountable. With hard work, know-how, a sensible system, and faith, you can create a successful real-estate venture.

Next time: What are you afraid of?