

Don DeRosa's

Real Estate Investing for The Real World



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Yes, Virginia, it's Time for *That* Discussion

We have committed the Golden Rule to memory; let us now commit it to life.

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We've just come through that busy time of the year, when we've shopped for holiday gifts, and contributed to our favorite charities. And now is the time for looking forward, for resolutions, for becoming better. It's a good time to talk about ethics in investing. People spend precious little time talking about it, but ethical behavior is a critical element for investment success.

How do you know when you're on the right track? And does it even matter? Below, I'll give you a checklist you can follow to see if you're on the right track in any given deal. Note that this is not an article about specific ethical obligations – you can get that elsewhere. It's more of a personal guide.

When I tell people what I do, they're fascinated. But I'm also painfully aware that some think of me as Snidely Whiplash tying desperate homeowners to the railroad tracks, threatening them with certain death unless they sell me their \$200,000 homes for the non-negotiable, amount of \$10.32. "I could never take advantage of people that way," they say.

The thing is that some investors have bought into this idea. They're resigned to falling just shy of "doing the right thing." When they neglect to fix the gas leak properly, or help buyers falsify information to get mortgage loans, or conveniently forget to mention that the house is sitting on a toxic waste dump, they may be thinking, "I'm just doing what everyone does. It's nothing personal."

But you see, behind every transaction is a real, live *person* who will have to live with the deal you close. And that makes it *personal*.

I believe that real estate investors serve an important, ethical purpose. You've already heard the reasons: We improve neighborhoods, we prevent foreclosures, we solve problems for people. And it's all true. If I didn't believe that, I wouldn't be in this business. I'd like to think most of us find ways to do business ethically and compassionately. But sometimes, in a particular situation, it's hard to spot the right course of action.

Now, before I go any further, let me make clear that I am a capitalist. I believe that the knowledge I've gained, and my ability to put deals together, is worth money. Quite a lot of money, in fact. It's how I feed my family and put my children through school and, yes, take vacations. After all, *I'm* a

person, too! So whatever I say from here on out, I'm not advocating that you give away houses or lose money on deals!

It all comes down to the concept of "enough." As consumers, we feel like there is never enough. We want new, better, different! Some of us bring that approach into our business lives and we assume that there can never be enough profit.

So just what is "enough," anyway? Well, that depends on you. In my courses, I teach students to write down specific goals. I tell them to choose their income based on the lifestyle they want. And then I teach them how to work smart to attain it.

"Enough" profit, then, is the profit you need to achieve the specific goals you've set for yourself. Does that mean you have to give away every penny over that amount? Of course not. But it does mean, when you're doing deals, that it's a good idea to keep things in perspective so you don't get greedy and hurt yourself, or someone else, as a result.

Here's an example: Let's say you're working with a homeowner who really has to sell her home. Because she's so desperate she'll hand the house over to you just to get out from under the loan. It looks like you can make a profit of \$35,000 on this house. Your per-deal profit goal is \$20,000, so it's looking good.

As you negotiate with the seller, you discover that she wants to move to Australia to be with her elderly mother, who is very ill. She needs about \$7,000 to make the move. If you paid her that \$7,000, it would lower your profits to \$28,000. What should you do?

You're certainly not required to lower your profits to get this lady to Australia! But that doesn't answer the question of what you should do. And you are the only person who can answer that.

Since you'll exceed your profit goals on this deal, you have some choices. Maybe you give her some of the cash. Maybe you give her the whole \$7,000. Maybe you don't give her a penny. Heck, maybe you throw a garage sale for her! Any of these choices is just fine.

The point is, just because you *can* make higher profits than you expected on a particular deal doesn't mean that you are *required* to every time. If you can meet your profit goals *and* give someone a little extra help, why not do it once in a while? Yes, it's perfectly fine to keep it all, as long as you're meeting her requirements and yours. Just keep the big picture in perspective.

Being ethical and compassionate is good business. It just is. Your most important marketing asset is your reputation. A good reputation leads to referrals. If you do what you say you'll do, and if you treat people fairly, you will reap the rewards.

And here's something that might surprise you: the leading cause of losing money on a deal is greediness. Almost always, when investors lose money on deals, it's because they got greedy with their money or their time. They didn't do their due diligence because they didn't want to spend money on an inspection. They bought too fast because they didn't want to take the time to investigate the comps for fear of losing a great deal. They didn't want to pay a plumber so they tried to do the work themselves and created more damage. They failed to make a disclosure and got sued. It really is true, in a very practical, tangible sense, that "what goes around comes around."

At the beginning of this article, I promised you a checklist. How do you decide whether you're acting ethically, compassionately, and in good faith? There's no easy answer, but here are some questions to think about as you're trying to decide what to do next:

Is it legal? If it's not legal, you're likely to get in trouble. And since many laws are based on ethical principles, if it's not legal there's a pretty good chance it's not very moral either.

Is it safe? If any part of your deal involves the possibility that someone might get hurt because you're taking shortcuts – doing a half-baked job of fixing steps, or refusing to buy your workers the right kind of respirators, for example – it's a no-brainer. Definitely *not* ethical.

Is it truthful? You don't have to disclose everything you know about real estate. But if you state a fact, it should be true. If you make a promise, you should keep it. Even if it means losing money in the end.

Can all parties fulfill their new contract obligations? It's unethical and cruel to put someone into a house that you know they can't pay for. Yes, it happens. Just don't do it on purpose. And don't take on a financial obligation that you're not pretty darned sure you can meet.

Would I offer the same terms to my mother? Obviously this assumes you have a good relationship with your mother! Of course, you might offer your mom some sort of family discount, but above and beyond that, how do you feel about offering the same terms to someone you love very much?

Do I want my investors to know all the financial details? A good deal is an open deal. Your investors deserve accurate information. Give them the real information, not the figures you wish were true!

Would I be comfortable explaining this deal to my children? Would your children be proud of what you're doing if you sat them down and told them about it (if they're old enough to understand)? Would you have to use "puffery" to make it sound all right?

Is everyone sort of happy with the outcome of the transaction? This is a basic principle of ethical negotiating. Each person should have gotten something out of the deal. If you're the only one that gets anything, there's something very wrong.

What does that little voice inside tell you? That voice is usually right. It's almost always a bad idea to ignore it.

Now that it's January, and our business lives are speeding up again, it's easy to forget that "it's not all about me." But the Golden Rule is alive and well all year round: "Do unto others as you would have them do unto you."

Within that simple boundary, you can make all the profit you like. Outside that boundary, though, it's winter *all* the time.

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.

Synopsis: Although some of us have come across unethical real estate investors, most of us do act in good faith. It's good business to act ethically and compassionately. Make sure what you do is legal, safe, truthful, and worthy of pride, and be willing to give a little extra now and then. It will all come back to benefit you in the long run.