Don DeRosa's

Real Estate Investing for The Real World

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Getting to the Bottom Line: Choosing Your Income

"This one step -- choosing a goal and sticking to it -- changes everything." - ***Scott Reed***

You've been working hard and you don't feel you're getting very far. You're tired of the rat race and you're ready for a break. It's time for leisure, luxury, and the scarcest resource of all – time. Let's see if there's anything holding you back.

Imagine that you're in school again, and you're asked to complete this sentence about your future income:

I plan to make:

A. *As much as I can.*
B. *Enough, I hope!*
C. *At least $250,000 per year.*

If you answered either A or B, you've just identified the problem. Why? Because until you've chosen your income, you're not ready to start earning it! Answer C is the only acceptable answer here – assuming you want to make that much money. Actually, *which* specific number you choose doesn't matter very much, as long as you're happy with it. What matters is that you choose a number.

Wait a minute. *Choose* income? If it were that easy, everyone would be rich, right? Well, choosing your income isn't enough by itself. You've also got to do the footwork to back it up. But choosing your income is an essential beginning.

Why not just say you want as much as you can get? Why limit yourself to a particular amount? Don't you want to aim high? Sure you do – but how can you aim high if you don't even know where the target is? So the first step in making the sort of income you want is to set that target. Choose a specific dollar amount.

Just how do you go about choosing that magic dollar figure?

Choosing your income is a two-step process. If you're just starting out, your first step is to determine how much money you'll need to keep yourself and your family afloat until you start earning an investment income. Second, you need to decide just how much that investment income is going to be.

Let's start with what you'll need to get this "ship of enterprise" out of the harbor. You've got to cover your household expenses while you're waiting for your business to start producing, and that may take three or four months.

During that period, you've got to keep the heat on in your house. You've got to pay the electric bill, and you must feed your family. You've got to make the car and loan payments. Add up your monthly needs. Don't add in the stuff you want, like a new stereo. This list is about what you really *have* to have to function.

You also need enough money to market yourself. You can do the minimum or you can go all out. At a minimum, you'll need business cards, a phone number, and some way to distribute information, such as fliers or signs.

Now put it together: the total savings you need to begin full-time investing equals at least three or four months of living expenses, plus three or four months of marketing expenses.

How do you get that money? Some people do it by working full-time or part-time while they get the business up and running. Others save up the money and then quit their jobs. It's your decision.

Note that you do not need money to buy houses. By using private lenders, you can buy houses without using your own money. Your money reserve should be for living expenses and marketing purposes only.

Now let's turn to permanent income. This is where it starts to get interesting! Your income goal will drive everything else. What kind of monthly income do you want to make? How about net worth? Retirement income?

Notice that I'm really talking about a number of things here, covering both short-term and long-term income. You need to account for both: cash for today (short-term) and cash flow for tomorrow (long-term).

Let's start with short-term income. How much *do* you want to make? Grab your calculator and have some fun. If you've been barely making it financially for the past few years, this may be difficult for you. What have you been doing without? Make a wish list, and add some of those almost-forgotten things back in. You're ready for a vacation, right?

Once you've chosen how much money you want to make, you can translate that goal into a plan. That part is just a matter of mathematics – but make sure your plan is SMART – specific, measurable, realistic, achievable and time-based.

Here's an example of a cash-today goal with a plan to put it into action: "I want to make $240,000 next year. I will buy and sell 12 single family homes priced between $120,000 and $220,000 in the next twelve months, and I'll make at least $20,000 profit per house to get that income.

How is that for specific? You've got amounts and timelines. This goal gives you something you can measure. Yes, it's pressure, but it's the good kind – the kind that drives you forward!

How about your long-term income? Now you're talking about building wealth. You could invest some of your earnings in the stock market or put money in certificates of deposit, but why not just do what you're already doing? To build long-term wealth, buy additional houses to hold.

885 Woodstock Road, Suite 430-213, Roswell, GA 30075
Phone 800.464.2347 Fax 678.623.5510 www.DonDeRosa.com www.AskDonDeRosa.com

Let's say you want to build $240,000 in equity this year. Here's how you might state that goal: "I will buy and hold 12 single family homes priced between $120,000 and $220,000 in the next 12 months, with $20,000 in equity for each house."

If you've been watching infomercials you may think my numbers are too conservative. True, my profit number of $20,000 per house is on the low side. It's certainly possible to make more than $20,000 – much, much more – on a single transaction. But I'd rather be conservative. If I make more, it's gravy. And if I hit a bump in the road, I don't need to recalculate my entire year's spending!

From here it's a matter of translating your goal, and your overall 12-month plan, into smaller, readily achievable tasks. How many houses do you have to look at each week to buy 2 houses per month? How many offers do you have to make? From here, it's all in the numbers, and it's very, very achievable.

Remember, you won't make an offer every time you look at a house. The ratio depends on a lot of factors, and a good real estate investment course will help you figure out how to crank those numbers. In the beginning you'll look at more houses, because you haven't gotten the hang of it yet. As you gain more experience, you'll be able to tell good deals from bad deals more quickly; and as you gain confidence and knowledge, more of your offers will be accepted.

By writing down specific financial goals and breaking them down into achievable tasks, you can create a plan that will almost certainly increase your income. It's the first step in moving from need-based living to the lifestyle you deserve. You *can* choose your income!

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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.

Synopsis: If you're not making as much money as you'd like, one of the first steps to increasing your income is to choose it. If you're just starting out, calculate what you need to keep your household going until money starts flowing, and add in an adequate marketing budget. Then, choose your permanent income in two parts: short term cash flow, and long-term wealth build-up. Finally, calculate just how much work you'll need to do to make those dreams come true.