PT Money
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Retiring in Your 30s with Michael of Financially Alert

(Transcript)

PT: Michael, welcome to the show.

Michael: Thanks, PT. Thanks for having me.

PT: What's the one thing you do that you feel has been the biggest contributor to your financial success so far?

Michael: I think the one thing that really stands out in my mind is that I've really taken the steps to create the financial habits that are empowering. Where it really came from was getting in the right mindset and really building the belief that I could do beyond what the conventional standards are out there in the professional world which basically means getting ahead and leap-frogging the traditional path of just going to school, getting good grades, getting a great job and putting money into a 401k. That was great and that's actually how I kind of started out. But ultimately, I really tried to study people who were wealthy in the financial sense as well as in other aspects but what I found out was there were specific strategies they were using. The financial habits I learned along the way and started to implement is really what allowed me to snowball some of those assets today.

PT: Could you briefly touch on some of those habits? What are they?

Michael: Sure. I think the first and foremost one that comes to mind is I really took the time to pay myself first. What I mean by that is, even when I was starting out with my first job out of college, I wasn't making a ton of money. I was doing okay. But I took $20 a month and allocated it to stocks. I invested in— I think it was called Share Builder at the time but now I think it's called Capital One 360. I think that's —

PT: Yeah, Capital One Investing.

Michael: Yeah. The really cool thing about that was I was able to invest in the stock market and dollar-cost average over time. I knew I wasn't smart enough to go out and pick crazy high-flying stocks and really see it grow and cash out at the right time. I knew I had to build my wealth over time so what I did was put this small $20 in every single month. I think it was every single Tuesday it took one quarter of that. So it took $5 and applied it to five different stocks. I might have chosen Dell, Amazon, eBay and two other ones. I don't remember what they were at the moment. The cool thing about Share Builder was that I was able to invest a fractional amount. It was $5 into Dell—maybe it was $30 at the time but I could pick up a sixth of a share. So the really cool thing about that was I was able to invest at the level I was comfortable with. What was really important to think about that was, even though it was a really small increment, I was starting to get those habits in place and really build structure that ultimately grew over time. As I grew over time and got a raise, I'd increase that $5 amount to $10. The cool thing was, once I got a raise, increasing those levels really didn't impact my lifestyle so to speak. It wasn't like I really felt like I was giving up anything. Again, that's where those financial habits and creating that discipline really makes it so easy later on.

PT: Even if it's just $5 at a time?

Michael: Yeah.

PT: Just having the account open, having the system set up, those are two of the biggest things you can do for yourself?

Michael: Absolutely.

PT: I love that. While we're on Share Builder, what year was it that you started with them?

Michael: That was probably in 2001, I think.

PT: Do they still do fractional investing like that?

Michael: I don't know specifically but I believe they do. The only reason I actually ended up leaving that account—and when I actually left, just to kind of give some people a little perspective, even though I was just putting in $5, it was growing. It was over a decade or more when I actually exited the account. I think there was about $130,000 in there. I hadn't really watched it but it was growing over time. I cashed it out because I had a trust that wasn't applicable to their structure so I converted it into another account. The concept, I think, is still alive and still viable too. At Capital One 360 I think they still incorporate the same idea.

PT: Okay. Are there any other tools or services you'd recommend to start this very entry-level, habitual-building investing approach?

Michael: If I had to go back in time, one of the things I would have done differently is, I don't think I would have necessarily been as aggressive as I was. Not that it was a bad thing, per se, but I wouldn't have picked individual stocks. I would have probably just done dollar-cost averaging into an index fund.

PT: Gotcha.

Michael: It was a good learning experience. But over time, once I compared my performance versus where I actually had an index fund, I was probably performing pretty close to where it was. Essentially, I was spending a lot of time and effort trying to pick and choose my stocks and was getting in the same return. If I had that knowledge now, I would use that time elsewhere in some other capacity, maybe looking for real estate investments or something to that effect.

PT: Are there any other habits or mindset type of things you've done along the way like this?

Michael: Yes. One of the other things of importance along the way was just being flexible in terms of my belief structure. It's funny because it really comes back to what you believe about money in terms of where your capacity is, to where you can grow it. If you believe you can actually become rich, that you can become wealthy, you'll have that much of a greater chance to do that regardless of if it's true or not. But if you believe you can't or you're stuck in a system that is not going to support that, you're not even going to try. One of the habits I think I created along the way was to be flexible enough to basically listen to other people's ideas and be open to the opportunity that I could actually grow wealth along the way. I did that. I listened to other people. I've learned different strategies from other people and I think that's really contributed, whether it's real estate investing or even starting a company when I was young. Those little individual decisions really led up to the ability to create assets along the way.

PT: What do you think prevents people from having that type of mindset? Maybe a better question is how do you know you need to change that? When did you realize you needed to be open to other ideas?

Michael: That's a great question because, to be honest, a lot of people don't even know. They don't realize they don't know what it is they don't know. That's where it's exciting to bring people to a site like yours or mine or other personal finance bloggers out there doing it. It's so enlightening and exciting to realize there's an opportunity to do something beyond what you thought was capable. You're like, "Hey, Michael's just a normal guy. Look what he was able to do over time and it wasn't necessarily that difficult. Sure there is some discipline that had to happen along the way. There was action that needed to occur but he's just a regular guy that basically figured out there's something more beyond what is out there conventionally." I think what it really comes back to is, in our school system they don't really teach anything about financial planning. They don't talk about financial management. They don't even teach you how to balance a check-book. Not that you have to anymore these days. But, to really understand your cash flow is something that's key—something that people really don't get into. I'm still baffled why people still don't teach that in high school because it's a fundamental skill you need in order go forward in this world. We're just constantly inundated with consumerism saying, "Hey, just throw it on your credit card and you'll be fine. You can pay it off later." And that's just a recipe for disaster. Again, some of those beliefs are structured from the media but it also comes from our upbringing. What did your parents ultimately teach you about money? What did you believe about money just based off the friends you hung out with? That's where I think a lot of those beliefs come into play. I was kind of lucky because my dad was a CPA so he knew about cash flow and taught me some of those things along the way— just some of those fundamentals. I don't necessarily know that he was really keen on wealth building, per se, but I think he did pretty well himself. What I really saw among some of my other family members was entrepreneurism that was something out of the norm. I had one uncle who started in a business in small little market and grew this thing into a large company because he realized there was a demand to help people learn about— I think it was a trade school basically—you know, back in the day when people had to scan items in the grocery store. There was no bar codes or whatnot so they had to look at the food item and say, "Okay, this is item 0946," and look up a price. My uncle actually built an entire company around training people how to do this and he was able to continually build that into assets. At the end of the day he bought tons of real estate and probably owned 10 different companies by the time he passed away. The cool thing was that I was able to see that and that allowed me to have the belief that I could actually do something different instead of going down the traditional path. That's why it's so exciting to start blogging. Coming to my site is all about getting in the right mindset and knowing there is something else out there and really kind of building on that. Giving people that opportunity to figure that out is where I kind of want to get back to.

PT: Good, I love it. You mentioned cash flow—like your dad having a good feel for how to handle your cash. Do you literally mean just spending within your means? Making sure you don't go into debt? What do you mean by that, exactly?

Michael: That's exactly what I mean by that, cash flow in terms of how much money you have coming in and how much you have going out. And, do you have net positive or are you at a loss? Most people go through life not ever realizing how much they're spending let alone how much they're losing or giving up or even paying on interest. A lot of people don't want to look at that because they know they're kind of racking up debt. The problem with that is that you'll never know where you're at. And if you never know where you're at, you're going to constantly be treading water never knowing where you're going to go. In order to start swimming, so to speak, you've got to really get that skill, first and foremost, so you can see where you're going.

PT: How did he teach you that?

Michael: He had me working on some of those ledgers back in the day. They were these green spreadsheets. I'd be working on some of the balance sheets for his clients. He worked with a lot of small businesses and if you're a small business, if you're not bringing in money then you probably shouldn't be in business. Although, ironically, there were some people that actually continued to have losses and they stayed in business just to stay in business which is a little insane, but—

PT: Right. How did that trickle down to how you were spending your money or how your dad was spending his money? Do you know what I'm saying? Were there budget sheets he was doing? Was he not spending with credit cards? How was it working on a tangible level?

Michael: Essentially, what he taught us was to spend what you have but always have some reserves. Always keep some aside for a rainy day because it really makes an impact over time. As little kids you just absorb some of these things. When we were kids he set us up with a small bank account. We had little piggy-banks too. But really, it was about making sure we were saving for that rainy day so you had the comfort of knowing you had money if you needed it. I think there is something really inherently powerful about knowing that you have that available.

PT: Absolutely. When you went off to college and even afterward was there a moment where you knew you had your own money that you could spend on whatever you wanted? Did you stick with your dad's philosophy there automatically? Did you wrestle with that at all? Was there a challenge there for you?

Michael: It's funny that you ask. On the flip side of things, my mom loved to spend money. She had tons of things. She'd see the infomercials and say, "Let's buy that!" Things would come in the mail all the time. In some regard it was very interesting because I had the dichotomy of someone who liked to spend a lot and someone that liked to save a lot. To be honest, I did struggle with that a little bit. When I was going through school I once took a job so I could purchase—I was into paintballing at the time so I wanted to buy a paint ball marker so I literally took a job just so I could get that. Then I blew the entire thing. I didn't save any of it. I didn't really necessarily take in those core principals right away but over time it started to seep in. The other thing I kind of didn't mention on some of the financial habits was I continually read. Filling your mind with great ideas with people who have already done where you want to go, I think is super-essential. Once I started reading some of those financial habits and strategies it kind of clicked. Of course, it's one thing with just my dad saying things, but when it someone else says it, it means so much more.

PT: When were you starting to pick up some of those books to read that stuff? And what were those books?

Michael: One of the main ones was, *Rich Dad, Poor Dad* by Robert Kiyosaki, and just really kind of getting into the mindset that the wealthy really operate in a different manner than the regular masses out there. That was super eye-opening in being able to deal with assets instead of going on traditional paths. I also read, *The Millionaire Next Door* and that was really critical because it talked about—actually, it was talking about my dad. The funny thing was I actually thought we were pretty poor growing up because my dad was so frugal. I would go to school with holes in my pants so I thought we were dirt-poor. All the while he was storing up his nuts in a tree so to speak and I never knew. But it really taught me the value of a dollar over time and it ultimately balanced out with my mom to sort of spend on things too.

PT: Was there a moment in your life where you said, "Alright, I can remember back to the time I decided to become a master of my money and take it to the next level—take the red pill and get outside the traditional path." What was that moment like?

Michael: That happened pretty early on. It kind of comes back to what I was just talking about as far as I thought we were poor. I literally thought we were poor and whether we were or not, I had the belief we were. Ironically, the belief we were poor gave me the leverage I needed to break out of that because I saw other family members out there doing these cool things, growing their assets and becoming wealthy and I wanted to do that. When I was probably 14 or 15 I really kind of made that decision—

PT: That early?

Michael: Yeah.

PT: Wow.

Michael: Yeah, it was pretty early on. It's grown over time but I can trace it back to that decision. It was pretty early on.

PT: Awesome. What is one area of your personal finances that you're just not good at?

Michael: I would say the one area I'm not great at is I still buy things like a consumer sometimes. Again, it's back to that dichotomy. We just had Black Friday and I was on Amazon looking for deals. Unlike most financial bloggers who don't even go on those sites, here I am looking for a cyber-deal. I ended up with a $200 Dyson that's sitting in my closet right now. Again, I'm at a place now where those decisions are not going to impact me to the point where it's going to be detrimental. Some of those habits probably aren't the healthiest but a little bit here or there is okay, I think.

PT: Yeah, I think so. I think if you have the one area covered first and you're making progress in that space then the spending can kind of loosen up a bit. I get it. I like it. We're living a life here too, right?

Michael: Yeah.

PT: It's not all about maximizing or optimizing. We're allowed to make mistakes and a few frivolous decisions along the way. I'm the spender in my family. My wife is the frugal one. She keeps us in check all the time and I'm like, "Ah, come on, let's go out to eat," or looking to buy this thing or that. Anyway, you've obviously accomplished a lot in a little time. Maybe you can talk to us about one of the first big financial goals you set for yourself and how you achieved that?

Michael: Going back to talking about when I made the decision when I was 14 or 15 my initial decision was I wanted to be a millionaire by the time I was 30. I really had to structure that in my mind— how to get to that and work backwards. What I realized was that building a business or investing in real estate was probably the most feasible and easiest way to do it. Sure, you can do it other ways. You can get a real high-paying job maybe and sock away a ton of money or you can start a company and try to grow some assets that by real estate. Or basically, save a lot. I pretty much did all three of those things. I saved about 50 percent on my income at a certain point and I also bought real estate along the way as well as growing a business that I started when I was 25.

PT: Okay, you had the business at 25 so I'm assuming after that you were self-employed?

Michael: Yes.

PT: Before that point you worked doing what?

Michael: I worked in IT so I did systems administration support at a company.

PT: So you saved half that income up to that point and you bought your first property when?

Michael: I believe I bought my first one in 2010.

PT: Okay. That was about the same time you started the business?

Michael: Actually, it was the tail-end of the business. In the beginning I started the business in 2002, I think. Then my first rental property was in 2012. So it was about 10 years later.

PT: I interrupted you. You said $1 million by 30 and you've got the three things going on; savings, real estate and the business. Tackle all three of them in the order you think would make the most sense for our listeners so they can follow along.

Michael: My mindset with that was, I wanted to kind of do a slow play. The slow play was basically to pay myself first, put aside assets and just let them grow. I knew that over the long-term that would get me to my goal. I didn't know if it would get me to my goal by the time I was 30 but I knew it would get me to my millionaire goal eventually so I made sure to create those habits first and foremost. Once I sort of had those habits established and on autopilot I decided to invest in real estate. It probably took about five or six years to really understand how to figure out what a good real estate deal looked like. What I took away from that was that you need to buy property that you put a certain amount in and you're able to get a positive cash flow from the beginning. For me, I think the criteria was that I wanted to put 20 percent down or less and be able to get $200 or $300 a month in positive cash flow not counting any tax advantages along the way as well. And if I was able to do that, then I realized I could ride this thing out whether it was a good market or a bad market. To date, I've found a couple of those deals. It's taken awhile to find some of those but they have been pretty great because once you have one of those types of properties or assets, you're getting those small increments of cash and you're also building the asset appreciation as well—if it happens to appreciate. In California or Nevada (where I'm at) it fortunately does. Not that you necessarily want to bank on that per se. Then the third way was to start a business when I was young. I certainly knew upfront that it was risky to start a business but I had a great opportunity because I was working in IT at the tail end of the .com boom. For the millennial's to know what that is, technology went crazy in 1999, 2000. There were all these flying companies like eBay, Amazon, and tons of money was being thrown at these companies. VC's were just pouring money down the drain. At some point after 9/11 these came to a standstill and people just stopped spending. The company I was with wasn't actually an IT company and they started laying people off left and right. I think it was about the sixth round of layoffs, I was wondering whether or not I wanted to stick around for the seventh round because there weren't that many people left to layoff. There were only about one sixth of the people left at that point. So, I brought a couple my friends into my office and asked them if they wanted to leave and we could go do our own thing. And they said, "Yeah, why not?" There was about four of us that left together. And we just started our own IT services company supporting small businesses out there. It was just the right time. There was a demand in the market and we had the balls to go and do it. There were tons of people in the company who talked about it but they didn't go out and do it. I think that's one of the other key components; taking action even if you're not sure it's going to work out or not. Failing forward, I think, is really the key to getting ahead financially.

PT: It sounds like you had been saving about 50 percent of your income up to that point so you were obviously in a position where you could take a little bit of a risk like that, right?

Michael: It was, yeah. And ironically, I had only been working for about a year and a half. But with 50 percent of my income I still had probably $10,000 at the time.

PT: Okay.

Michael: And I think we each put $1,500 into the company. I put in $1,500 so we could pay for the attorney and whatnot then I still had a little reserve in case we didn't have any inbound income. Luckily, we got our first clients pretty quickly so we didn't have to worry about that but I had a little buffer so I could work the business for a few months if I had to.

PT: You were only employed a little over a year of your life, post-college?

Michael: Yeah.

PT: But you had started this Share Builder investing at the start of college or maybe right as you graduated high school?

Michael: Yeah, yeah.

PT: So you had the habit of saving. Did you work through college?

Michael: When I was in college I did some freelance stuff and some web design. It wasn't anything of significance but it was enough to start that Share Builder account.

PT: You were able to save 50 percent. When I left college I thought I hit the jackpot. I got my first job and I went through all that money. How did you stay in the mindset of only spending 50 percent?

Michael: With my first job, I think I got paid $40,000 or so and that was decent at the time. It wasn't a huge amount but it wasn't terrible either. The cool thing was that I was used to living in a college environment. My other friends I was living with still lived in that same sort of "bubble" so being able to have that income was fantastic. I could spend one-third of that and still feel like I was super-rich relative to everyone else. That's why I was able to save a good chunk of that and still feel like I was kind of living life as well.

PT: Let's go back to the start of the business. You guys started an IT company. How long was it before it became a financial success for you? And, talk us through how that's led to helping you reach that million dollar goal.

Michael: With the company, we started out bare-bones. I was crawling under desks plugging in Ethernet cables underneath desks and helping people turn their monitors on and off when they couldn't figure out to do that, and the simplest of things like resetting their computer. But I was in there hands-on. It took a while to really understand the business but that was where my interest was so I took the extra time after hours. Once I was done supporting the clients, I actually volunteered to handle all the invoicing, all the accounting and really get to know the dynamics of the business in that regard. The cool thing about that was, while I was doing that it also set me up personally to get into that mindset. Again, back to that 50 percents savings, I was saving a lot. In the business I had a very similar philosophy. We had to save a certain amount and once we had that amount saved then we would distribute out income to the partners. That really kind of gave me the foundation to build assets from there.

PT: With the business, did you get it to a point where you sold it? What's in the future of it?

Michael: After running the business for about nine years or so, to be honest, I was starting to get a little bored. Some of the guys wanted a 'lifestyle' business which is where they'd go in and collect their six-figure paycheck, leave early and just live the good life. But for me, that's not work. My mindset was that I really wanted to grow beyond that. Because we had that difference of opinion there were a couple different ways we could go about it. I could buy them out. They could buy me out. Or we could look at selling the company. Over the course of the business we actually had a few different offers to sell the business so we had an idea of what we could ultimately get for it. So, in 2011 we took up some people on their offers to see what it was worth as well as going out and finding other suitors. At the end of the day, we had three different people competing for the company. We ultimately went with the company that gave us the most money. But, we actually did a merger with them because what was happening in our industry at the time was everything was moving to cloud computing, so our fundamental support structure and our business model was shifting. That was another reason why we decided to sell the business. We would have had to either infuse a bunch of capital into the company to build out that infrastructure or merge with a company that already had the infrastructure in place. There were multiple reasons why we did that.

PT: Can you share what you sold it for?

Michael: I don't know if I can give you the exact dollar amount but I did write an article on *Financial Samurai* where you can probably figure it out, backwards. It was in the low seven figures anyhow. Being I was a 30 percent shareholder, I got a decent chunk of change and that definitely helped.

PT: Let's talk about that self-employment or being an owner like that because I'm always interested in how owners of an upstart business like that handle their personal finances. You're a natural saver. During that time did you have a retirement account through the company? Were you doing all the investing on the side in the market through a brokerage account? How were you managing saving for your future during those years of trying to grow a company?

Michael: Over time, obviously, the company evolved but in the beginning we were doing some of the SEP IRAs and I was putting money in a ROTH for myself personally. The interesting thing was, since I had four partners, we all made the same amount for quite awhile and we all had different personal finance philosophies, obviously, so it's kind of interesting to see where people are at today. I saved up a decent amount where I'm pretty comfortable now. Some of the other guys probably don't have the pile of assets I would have hoped they would have had even though I gave them ideas at that time. But it just goes to show you (getting back to those financial habits) what it will take hold as far as what you do with your money.

PT: Okay, SEP IRA, ROTH IRA. Were you just maxing those out every year?

Michael: Yeah, I don't think I maxed out some of the SEP IRAs. There were some of those that—I tried to do as much as I could. My dad was great because he really understood that as a CPA so he would tell me, "Hey, you could put more money into here. You can do this and this and that..."

PT: Yeah and save on current year taxes, right?

Michael: Yes, yes, yes. Eventually it evolved and we created a match with the company and my employees got, I think, a three percent match. And we had a match as well. We were able to more in later on. Again, it just kind of evolved over time and stacked onto itself as far as my own personal habits on saving.

PT: Regardless of whatever mood you were in, you still had the same habits of setting aside some. In 2004 the first piece of real estate happened? Was that the first asset buy, real estate wise?

Michael: Well, the first real estate buy was my personal residence. I don't know if that was necessarily an asset but my first rental income property was in 2010.

PT: That's right, you said that. Okay. That was just before the sale of the company?

Michael: Yeah.

PT: A year before?

Michael: It was.

PT: And you were in this mindset of continuing to build assets, continue growing, pushing, building bigger things which ultimately led to the sale. Is that one piece of property all you have today?

Michael: At this point, I have three rental properties and our personal home. And now I invest in a company called, Realty Shares. I own some notes, basically equity or debt in developments or specific loans that people have on their developments.

PT: Yeah, I want to come back to Realty Shares but let's talk about the three properties. When did you buy them? How did you buy them? Give us the dates, years and dollars if you can?

Michael: The first home we ever bought was in 2004 and that was for our own personal residence. It was a townhome that we bought. Back then it was perfect for my wife. It was a three-bedroom, two bath townhome. Once we had a family we had to move to a different type of structure because the townhome was three levels and we wanted to have it more easily accessible for the babies once they came.

PT: It's the same story here, with us.

Michael: But we ended up keeping that townhouse and converting that into a rental property. Ultimately that became one of the rental properties but it didn't initially start out that way.

PT: Gotcha. Then the others came along when?

Michael: The other ones came in 2010. I'll tell you a kind of funny story about that. The very first rental property I ever bought was actually a pretty big disaster. Like I said before, I was studying for probably a good five or six years and I was really eager to get in and get my first rental property. I was really patient. The good thing was I was learning so much, understanding the cash flow that I didn't jump in when the market was going crazy in 2008 even though everyone around me was jumping in. I had enough understanding to realize the numbers weren't working so I waited and waited and waited and in 2010 I bought my first property because the numbers were phenomenal. I was thrilled to have found my first property. I bought this property and within two weeks I found out I could not rent the property. I thought that was interesting.

PT: Was it some guideline or HOA rule?

Michael: There was a restriction that said I could not rent the property for 99 years or something crazy like that.

PT: The seller should have been required to make that obvious in the disclosure.

Michael: Yeah, so I learned a very valuable lesson in that regard. But the cool thing about that is, the numbers and the structure of finding that property were the same. I literally went across the street which was outside the HOA area and bought my second property probably within a year. And all the numbers were the same and that property has been phenomenal. I think I bought that property for maybe $115,000 or $120,000 or so. I put about 10 percent down on that one and cash flow was positive every month. I'd get $200 or $300 in positive cash flow. And that's appreciated the last four or five years to something like $80,000 or $90,000. Of course, that can fluctuate up and down but I'm just holding it for the long-haul. I don't have any reason to sell it.

PT: What did you do with the restricted property? Did you sell it?

Michael: Even though I couldn't rent it out, it ended up becoming my vacation home which we would only visit twice a year. But I sold it once the market went back up and I got my money back out.

PT: Oh, that's great. And that's the one in Las Vegas, right?

Michael: Yes. Then I have one other one in Vegas as well. It's about another 10 miles away from there.

PT: Okay. Being an entrepreneur and having your own business which, typically, affects your ability to get a mortgage on a property, how did you go about getting financing? Because I think you said you put 10 percent down which is notable but you still had to borrow the 90 percent. How did you manage that given you don't have a steady paycheck?

Michael: There were tons of foreclosures at the time so they had special financing for people who were purchasing these homes. I don't remember the exact program it was but I think it was through Fannie Mae's that allowed me to come in with such a low down payment and they would guarantee that loan for the bank. That was one of the aspects but you're correct, they still had to do the full underwriting. The nice thing about being the president and controlling the books (so to speak) was I was able to extend them specific cash flow statements and balance sheets for the company because they want that as well if you're self-employed. I had access to all of that as well. It was a lot of work because I had to give them my personal finance information, taxes and whatnot and I also had to give them the company documents as well.

PT: On a foreclosure you can just put 10 percent down?

Michael: It really depends on the program. In that specific case I was able to. On another one I wasn't, in which case I had to put 25 percent down. It just varied depending on if there was a program in place on that specific property or not.

PT: Yeah, they were probably just trying to get those things sold, right?

Michael: Yeah.

PT: Okay, you've got the properties and you've sold the business so you're set up financially at that point. You don't have any worries in the world, financially. What's that like when you sell the business and you've got your assets, you've got your savings—what's that feeling like?

Michael: It's great. It's interesting because personal finance bloggers have all these different acronyms and designations. For me, that was the feeling of financial freedom. I had become a millionaire on paper. I really felt like I was free to do whatever I wanted. I didn't necessarily have financial independence which means I had enough passive income to cover my expenses. But I had enough to do what I wanted and pursue it however I felt like I wanted to and have that flexibility. It's awesome! It's something that I really want other people to experience. That's really my passion now—to help people kind of get to that place because, aside from the money, living and pursuing your passion usually ends up with you contributing in a manner that helps other people. If you're able to do that, I think the world's just much more a better place. The money is great. Having the assets is fine. But at the end of the day, you can buy a toy. You'll get bored of it, but, if you have that flexibility and financial freedom to pursue a passion where you're able to contribute more to others, that's the feeling. That's where I get excited now—to get people to that point and realize that they can.

PT: You talked a little bit about when you were ultimately deciding to sell the company and having a bit of a disagreement with the other founders about wanting to continue pushing and not get into the "lifestyle" type of thing. What are your next goals? What are you pushing for next? Do you know what I'm saying? Are you still striving for that next thing? And if so, what is that?

Michael: For me specifically, part of it that was because we (me and the other founders) had different ideas. I wanted my efforts to basically benefit me because if I'm putting all this effort into the business then I should be getting the rewards from that effort. So, by being able to exit and take that asset base and apply it wherever I want, then there is nobody to blame except myself if things go haywire. At this point in my life because my kids are young, what I chose to do was take a step back. I could have gotten another high-paying job and continued to build those assets but I decided what was more important to me now was to spend time with my kids. I'm a stay-at-home dad during the day and at night is when I do all my blogging. I'd literally stay up from probably midnight to about 3:30 or 4:00 in the morning. That's when I would do all of my blogging and little pet projects. I've got a little FBA side business. I've got financial coaching I do—all these different things. And the idea with that is to build a base so I can ultimately leverage that once the kids go to primary school, kindergarten, and I'll have more time to myself. That's the idea right now, to focus on my time and energy on the kids, build up a little side project on the side and once they're going to school (and don't want to hang out with dad as much anymore) then I'll have something to hit the ground running with.

PT: Yeah. I love it. It's about the control, the independence. How old are the kids now?

Michael: The kids are four and two.

PT: Awesome. That's a good time to be free to hang out with them and do what you want. What about tools and/or services that you've used along the way? You mentioned Realty Shares. Let's go back to that and talk about Realty Shares. How much of your portfolio is invested in that type of asset versus the real, real estate you have?

Michael: With Realty Shares, I think, to date, I've probably put in about $70,000 or so over probably 10 different investments. The cool thing about Realty Shares is it allows you to invest small increments. Small is relative but before Realty Shares and before they had these types of platforms, if you wanted to invest into a trust deed you would have to put up about $100,000 or something like that which is a pretty big chunk of change. The problem is, if that investment went sour, all of a sudden you're out $100,000. With Realty Shares you can buy it in smaller increments and basically leverage some of that risk across multiple investments. That's what I found really attractive about it. The other reason I went that route was because I was home with the kids at that point. I couldn't really go out and look at properties like I used to. Ultimately, I think the physical properties are actually a better investment but this is a good short-term, interim way to put my money to use while I'm just hanging out at home with the kids.

PT: Can anyone invest with Realty Shares or do you have to be an accredited investor?

Michael: Right now you need to be an accredited investor. I think there have been some rules that have been changed where there's the potential to allow none-accredited investors to invest in there. But at this point I don't believe they've made the shift because I asked them a few months ago and they said, not yet. But I think the momentum is definitely moving towards that. What I usually tell people is that even if they're not necessarily going to invest in Realty Shares, it's good to at least understand what they're doing if you're interested in real estate. Some of those fundamentals are the same whether or not you're actually purchasing a note or investing alongside a developer versus if you're actually going out and purchasing your own. You still want to know some of those fundamental metrics as far as what the cash flow is, if they are buying at a huge discount, and what the appreciation potential is.

PT: Are there any other tools or services you've used along the way? Where do you do your investing? Where do you do your budgeting and things like that?

Michael: As far as budgeting, that's something where a long time ago there was nothing really out there other than Quicken. And those things, back in the day, were terrible. They would try to sync up and you would have to literally download your transactions into this little CSV file or whatever they called it and then import it in and try to figure out if they matched up with what you had already put in there. It was really cumbersome. What I did was create a spreadsheet that tracked my cash flow. To this day I still use that. I don't necessarily use it on a monthly basis, but I at least look at it to budget and forecast into the next year usually two or three times a year. That's something I put on my website for free if people are interested. They can download it for free. In addition to that I use Personal Capital which is an aggregator of all your assets so you can see your net worth. You can see your cash flow any given month and in any given period. I use those tools combined to really get a good snapshot of where I'm at.

PT: Right, right. And your net worth now is—and you share publicly so I can ask. What is it?

Michael: I believe as of yesterday when I checked, it was $1.715 million. Yeah, $1.715 million roughly—give or take.

PT: And you're how old now?

Michael: I am 39 now.

PT: Thirty-nine now. Okay. Can you give us an idea how much net worth was built on the saving aspect versus the real estate and the business sale?

Michael: Yes. I definitely put that on my website so you can go there and see specifically, how my wealth is distributed. But just as a general rule of thumb, I think one-third of my wealth has come from that first and foremost financial habits of saving, paying myself first, putting away 50 percent when I was able to. And, just as a side note, I didn't always save 50 percent. It kind of fluctuated in and out. Sometimes I was saving 60 or 70 percent and other times I was maybe saving 20 percent. So it's over time. It doesn't have to be an exact certain percentage but the concept has to be there and you have to be automating it so you're not really thinking about it. I'd say one-third of that now is attributed to my net worth. Another third is probably from the sale of my company. And then another third is attributed to the real estate. Now that I say that, I think actually a little bit more is attributed to the real estate than the sale of the company. I'd say the sale of the company is maybe only 20 percent and the remainder is probably the real estate. The real estate has probably been the biggest factor in increasing my net worth.

PT: When someone has that big of an asset pile, for lack of a better word, how do you have it distributed? You're still young and you want to protect some of that money but at the same time you still want to participate in the gains we're seeing. You're participating in real estate, obviously, and seeing the appreciation there. You're participating in Realty Shares doing the crowd-sourced real estate options. Talk about the rest of the investment, where it's placed, what you're invested in and maybe some philosophy around that too?

Michael: There's definitely a chunk of change that's still in cold hard cash as it's not necessarily a good investment or wise use of money but there is certain factor of feeling comfortable that you know you have that rainy day savings. And I'll usually keep anywhere between $50,000 and $100,000 in just liquid cash. That's probably a little bit to high but that's kind of what keeps us comfortable.

PT: Is that in a bank account, a savings account? Where is that at?

Michael: Yeah, it's in bank accounts. They don't typically pay that much. I believe we've got some of that in an Ally Bank or something so they're paying less than one point right now. That's just if we really need the cash. The rest of the assets are in the real estate—in my primary residence and those three other rental properties. Then I probably have about $550,000 (roughly) in equities across stocks, index funds and bonds. Then there is a small sprinkling in Realty Shares as well as Lending Club.

PT: For the retirement investing, the portfolio of equities and bonds, who is that with?

Michael: Primarily it's with Merrill Lynch, I believe. And I also have some at E*TRADE and I have some with Amerisave, although I think they've changed their name again. That's another thing, just to mention— over the last decade I was creating different multiple streams of income and putting money here and there which wasn't really a bad thing. But, at a certain point I came back and consolidated some of it because if you get too many things going on all at once it's not really super-efficient. I probably still need to consolidate some of it as well.

PT: You mentioned early on that if you had to go all the way back, you'd just be in index funds. Are you just in index funds for the most part, now?

Michael: Yeah. I pretty much converted a chunk of it to index funds. I do carry a little bit of commodities to offset some of the market fluctuations. I have some sprinklings of gold and silver and whatnot. The portfolio right now has some individual stocks that I don't really manage or monitor. I just leave it in there so I don't have to have a transaction fee. And so far, using Personal Capital you can see how you're performing against the general S&P index. This year I think it's performing at 9.2 percent and the market is somewhere around 8.5. It's beating the market a little bit but I think the structure I have is not as volatile as if it was just all in S&P so I kind of like that low volatility—for myself at least.

PT: Why does your spouse still work?

Michael: The reason my spouse still works is because she actually loves her job. She's a high school biology teacher and she's super passionate about that. That's literally the only reason she works is because she loves it. Ultimately, could we be financially independent. We'd probably have to move out of state because California is too expensive to live in. But she doesn't want that. She's fine and happy working and that supplemental income helps because we don't have to draw from our principal at all.

PT: Yeah, that's nice. That's super nice. That's my plan. My wife is a teacher as well and I'm hoping that when all of our kids get back in school that she—I couldn't do that stay-at-home dad thing. But when she goes back to teach I think it would be fun to downshift a little bit and take on the mindset you have. When the kids do get in school, what's going to be the big plan at that point, for you?

Michael: Like I mentioned before, I've got about five different projects going on all at once. Where things have been taking hold is building Financially Alert, which is my blog. Building that as a place to draw people in so they can come to understand that you can really work on your psychology to increase your potential and build wealth, and understand there are strategies you can employ that are not necessarily that difficult and you can get ahead. I think building that out and bringing people in and maybe some courses to help people along is one route I may take. I think I might continue doing some financial coaching as well as life coaching because I think those go hand-in-hand. One thing I realized over time was that the money is great but if you're not in the right mindset and you're not happy then there is no point to having the money anyways. Really getting in the right frame of mind so you understand your "why" is important to me and to be able to share that with other people. Make sure you understand why you want the wealth and assets because if you get there and you don't have that figured out, it's going to be an empty feeling. You won't know why you're there. You will have thought it would be really cool but it probably won't be.

PT: I love it. And it's going to sustain you because it's a long road and you've got to have that "why" there. Looking back the past several years, maybe since post-college, the ups and downs of taking risks with the jobs and taking positive steps with the real estate and maybe some mistakes along the way, how do you feel about the journey when you look back now?

Michael: I feel very fortunate that I was able to get into the right mindset from the get-go. I always realized that failing forward was a path to take me to the next level so I never really shied away from taking action. I think that's super important because a lot times people get stuck when they're in the mode of fear. Fear is healthy to a certain extent but if it paralyzes you from taking action, that's where people get really stuck and stop thinking about what they really wanted and why they wanted it in the first place. For me, the silly mistakes I've made like purchasing a rental property that I couldn't rent out, building a business that ultimately— there are ups and downs in a business too. There are tons of stories in there as well. But, it wasn't just straight upwards either. You have to deal with a lot of different personalities, different mindsets, different wants and needs from your employees and clients. I wouldn't trade any of that as far as that kind of learning and I think going into those difficult times is what pulls you out and catapults you to the next level. Living in a state of discomfort to a certain extent, if you can really enjoy that, you'll be able to leap-frog the traditional pathways people usually take in the professions they choose.

PT: I love it. Where can people see the results of your leap-frog and be inspired to take their own leaps? Where can they check you out?

Michael: They can come to my website. It's financiallyalert.com. I go there and blog about the psychology of wealth, the belief systems you need to have to create that and just about the possibility of being yourself and build wealth to the ultimate betterment of everyone around you.

PT: Thanks Michael. I appreciate you being on today.

Michael: Absolutely. Thanks for having me, PT.