SPI Podcast Session #174–
How to Invest the Passive Income You Earn from Business With Ryan Moran

Show notes: http://www.smartpassiveincome.com/episode174

This is the Smart Passive Income podcast with Pat Flynn, Session #174.

Intro: Welcome to the Smart Passive Income podcast, where it's all about working hard now so you can sit back and reap the benefits later. And now your host, who could beat Super Mario 2 in 14 minutes, Pat Flynn.

Pat: What's up everybody? Thank you so much for joining me today. This is Session 174 of the Smart Passive Income podcast, and this is going to prove to be a really interesting conversation and a conversation starter as well. I suspect that there's going to be a lot of comments coming out of this episode and I look forward to those conversations and those comments.

Just to give you a little bit of background, we're bringing back a guest who was on 30 episodes ago in Episode 144. This is Ryan Moran who back then talked about building a million-dollar business in 12 months. This was 30 episodes ago, and since then that particular podcast session has been one of the most commented podcasts this year.

The reason for that is because, first of all, he just delivered a ton of great content and the way he breaks down step-by-step how to do that is actually very, very good and it's gotten me very interested and very close to kind of following those directions and experimenting with what he talked about, which is building a business off of Amazon and using Amazon as a fulfillment program – getting products manufactured, finding a niche, getting into that realm. I'm not going to talk about that here today, but you can check that out at smartpassiveincome.com/session144.

The reason that was so commented on, like I said, is because he delivered content but also because what he was teaching was a little bit controversial, not that it was illegal or anything, but a lot of people had a lot of questions to ask and things to say about it and different opinions about what he was doing.

Ryan came in and he answered I think all the questions and talked about all the concerns that people had, and that was cool, and I suspect that this is going to happen with this particular episode as well. Sometimes those "controversial" episodes – which this isn't really going to be controversial I would say – but the ones that get talked about the most and have different sides and different opinions from the audience are the ones that actually have helped out the most.

I'm thinking back to Episode 46 with Dane Maxwell. I also did an episode with Noah Kagan from AppSumo which was pretty controversial but also very valuable, and a lot of people got a lot of great content out of that and have said that those two were some of our best episodes in our archives.

Well, Ryan's was a good one in Episode 144, and in this episode we're going to talk about something that we've never talked about before and it's going to be really interesting because I know a lot of you have asked me about this and have wondered what I did with the money that I earn through my online businesses.

We're going to talk about how to take that money that you earn from your online businesses and invest it in other things to diversify yourself, to build wealth for the future, and to create different income streams over time, other different passive income streams actually.

We're going to kind of use this episode, all of us together, as kind of a test to gauge what the conversation is like, if this is something you're interested in, if this is something you're going to want to hear more about in the future, if you're going to want to hear more detail about this as well.

I will say before we get to the content and the interview here that when Ryan shares his particular strategy for building wealth and investing his business income into other things as well, this is Ryan's strategy. I have my own strategy, you probably have your own, hopefully you're doing something, and I will also say that some of you might not be at this point yet in your business and that's okay. You can use this as a motivator or something to strive for.

Again, what we're talking about in this episode is Ryan's strategy, Ryan's way of investing money, and it's going to be different for everybody, what they feel is the right thing to do. Again, this is just a conversation starter. In no way is Ryan a financial planner or an advisor, and in no way am I saying that this is the right thing to do. I'm not a financial advisor or planner either. Please consult with your own financial advisors and tax professionals for the way that you handle your money, but this is just here to start a conversation.

I know there's a lot of you in the audience who are experts in this, and I would love to hear from you and actually everybody who has something to say about this. This is going to be a great conversation that kind of comes off the back of this episode. If you go to smartpassiveincome.com/session174, that's where you'll go to leave comments and we can have that conversation.

I have a certain way that I invest the money that I earn from my businesses. Of course I wanted to make sure that my kids were taken care of first. Their college education funds are all set and taken care of. I also wanted to make sure that the house is good, but beyond that I do a few things. For example, I invest in a few select stocks, based off of stuff that's similar to what Ryan talks about in terms of dividend investing and things like that.

I also have dipped my toes into Wealthfront a little bit. I know a few entrepreneurs who are also using Wealthfront. If you go to smartpassiveincome.com/wealthfront you can check that out and see what that is. It's sort of like a managed portfolio, very hands-off, very passive in the way that it's grown, and that has returned over 35% on my portfolio, which has been really cool.

Now, I don't do real estate at this moment in time, but Ryan does and I asked him a lot of questions from a beginners point of view in terms of how to get into that, because I know that that's one of the best ways to build your portfolio and build wealth over time for a long-term game, and that's definitely something I'm looking forward to doing as well.

So let me know what you think. I'm interested because I'm going to gauge to see if this is something we can continue to talk about. I mean I can imagine in a few years, maybe once I start getting into real estate if I do, a particular sub-section of Smart Passive Income that is about just the real estate part of it. I don't know, we'll see what happens.

Here's the episode with Ryan Moran. Cheers. Thanks for joining us.

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Pat: What's up everybody? I'm so happy to re-introduce Ryan Moran today from Freedom Fast Lane. He was with us in Episode 144 of the SPI podcast back in January, and a lot has happened since then and you'll see why he's back on the show. Ryan, welcome back to the SPI podcast. How have you been?

Ryan: Pat, I can't believe you actually brought me back. Thanks so much for bringing me back to Smart Passive Income. I'm doing great, a little sleep deprived, but I'm doing pretty good.

Pat: And why is that?

Ryan: Well, there's this new person in my house who just screams all the time and never says thank you and poops her pants. I don't know who invited this person in, but about 6 weeks ago a new person joined us in the house.

Pat: Congratulations on the baby!

Ryan: Thank you, I appreciate it. I love her to death, but right now she's basically a house plant that screams really loud.

Pat: A lot of people who may have heard you in Episode 144 might remember how well your business was doing and how good you were at making things happen. The title of that particular episode was "Building a Million Dollar Business in 12 Months."

So how has life changed since 6 weeks ago when you had the baby? Are you still able to get work done? I know you said the sleep was kind of crazy, but how have you managed, if you have, to continue to work with this new person in your life?

Ryan: It was tough for about the first month, but the thing that helped the most was just the fact that I have an office that's a couple miles from the house. Pamela and I discovered that we don't do well when I try to work in the house and the baby is screaming, because I get frustrated and she gets frustrated, so we separated that.

We did that about the 1-month point. I was pretty much on paternity leave for the first couple weeks, but having that separation is immensely helpful. It allows me to just focus on work, get more done, plus I want to get home now so I kind of have a deadline every day of getting everything done. It was definitely an adjustment, but having that separation was a huge help.

Pat: That's great advice, and it's interesting because John Lee Dumas, who a lot of us know who has Entrepreneur on Fire, he has a lot of guests who he interviews and a lot of them talk about this thing that he ended up calling "the baby effect." When you have a baby, as an entrepreneur, although it makes your life harder because it's hard to adjust and adapt to the new situations and your schedule is kind of based off the baby's schedule now, a lot of entrepreneurs who have babies end up being incredibly productive after that, sometimes 5X'ing or 10X'ing their business from there.

It's kind of cool to see you mention that a little bit and how you want to get home now, and how has the baby also inspired you in ways to kind of take your business to the next level?

Ryan: I had my 'baby effect' when I found out we were going to have the baby. I guess I'm still playing in the minor leagues. I only 3X'd my business when I found out that we were going to have a baby, and that happened really, really quickly.

When the baby arrived there definitely was an initial inspiration of, "Wow, I'm having this baby. Now I want to go conquer the world," and that was pretty cool, but I had the biggest impact right when I found out because it was quite the surprise, Pat. That's when I really leveled up.

Pat: How did you level up when you found out? Your wife was pregnant the last time you were on the show, I believe, but what one or two things could you mention really changed for you the moment you found out you had a baby?

Ryan: You know, there was just this sense of focusing on what's working, and all the sudden all the ideas and experiments that you want to run become just completely non-important. All of these things that I want to test, I don't have time to go in a new direction. I've got this thing that's working and there's a baby coming, whether I like it or not or no matter what, so I'm just going to put all my eggs into the basket that's working.

That amount of focus of just cutting everything out, I guess that's true no matter what you're talking about in life. You just completely commit to something and it becomes really easy to 3X, 5X, 10X or whatever that is, whether it's health or relationships or a business. When I did that, there was definitely a leveling up that happened in business.

Pat: That's what they talk about in the book *The One Thing* by Gary Keller and Jay Papasan. They mention how we have a lot of different directions we could go, but when you find out what that first domino is, it's going to help you move forward. That highest priority thing, that thing that most people are already working on, they just need to keep going with it. It can really start this really cool domino effect where you can then really level up your business in ways where you couldn't if you were not focused, like you said.

Thank you again for sharing all that, and again congratulations to you and Pamela. I can't wait to see how this little person grows up with you, because you've got some amazing things going on. You are very inspirational.

The show that you did with us in Episode 144 was highly commented on, a lot of people asking more questions about it. I checked the comments right before we got on and a lot of people were saying, "This was an amazing episode." A lot of people have taken action on what you've done and have created their own businesses as well.

Just as a reminder for those of you who haven't listened to that yet, Ryan was talking about building a business off of Amazon, getting products manufactured, finding a niche that Ryan felt like he could add more to, and then selling products on Amazon and using Amazon as a fulfillment engine. He's done that a few times in different niches. How many businesses do you have now that are running in that way?

Ryan: I had three but I sold one. I think that has happened since we last chatted. I sold the yoga products business. I'm still kind of involved in that as an advisor, but I sold that to an outside firm so we're down to two now.

Pat: That's super cool. The last time we chatted and we finished recording, I just got a great vibe from talking to you, and also you had mentioned, "Man, Pat, I love talking to you. I would love to at some point talk about other ways of generating passive income, other ways of investing your money," and these things that I haven't even ever talked about on the show. That's kind of why I wanted to bring you back on today, because you were so excited about talking about other ways we can invest our money.

I know that a lot of people in the audience might not be at the point yet where they have their passive income businesses and engines running for them, where they could figure out what to do with that extra income. A lot of people don't have that extra income yet, but even then I think it's important to talk about this to see what one could possibly do in the future, at least get people thinking about it.

I know it's also going to be very motivating for people as well who aren't there yet and can't invest and do these other things they could do in the future, but also I want to make sure that when we talk about this stuff, when you talk about how you do it and why you think those are the great ways to do it, that this isn't "how you should do it." This is just Ryan's take on it. I have my own take and everybody has their own opinions and situations, so that kind of disclaimer or disclosure is out there. This isn't professional financial advice.

Ryan: I'm not an investment advisor. It's just my opinion.

Pat: Right, and I just wanted to get that out of the way. But tell me why is this topic so interesting to you and gets you so excited?

Ryan: Pat, to be honest with you, I just think entrepreneurs are so bad at this. They're so bad at being smart with their money, as far as where it's going to go once they have it.

We talk a lot in our little community about how to make a lot of money and all the different ways that we can generate new money, but I know so many entrepreneurs who have made a ton of money and then lost it because they didn't have a good plan for how they were going to grow it.

You and I both talk a lot about passive income, and I have a little bit of a different opinion about what passive income is because I personally don't think that a business is passive income because I had to go build it. To me, passive income is when you take that money and you let that money then go to work for you to make more money.

This is something we're so bad at as a community that I almost feel a sense of purpose behind teaching entrepreneurs what to do, or at least how I came out of the woods on this, because I had to go create my own investment path.

Most investment advice or passive income advice is made for people 50 years ago or people in a traditional job setting. There's very little advice out there for reducing taxes and investing your new cash wisely in a way that builds wealth but also gives you more passive income, and that's what we're all about.

Pat: I think this is really cool, and as you can see this is a different topic, something we've never really talked about before, but obviously very, very important. I've noticed even when we think about celebrities who have made it and then they end up going broke, it's like we all wonder, "How did you do that? How crazy!" But then we look at other people in the entrepreneurial world and they're not being very smart with their income as well.

There's different definitions of smart and different definitions of investing, and I think at least even if you don't agree with the advice that we're going to hear, and Ryan's method for investing into the future and building passive income and wealth, at least this starts the conversation on the blog when this gets posted, and people who are listening to this on the podcast, at least it gets us thinking about it, and that's where really this all starts.

The way to get out of something is to at least acknowledge that there's a problem, and then figure out how to go from there, based on our own situations.

Ryan: Now Pat, remind me if I don't hit this in the meat of this, remind me to come back and talk about how I got a Tesla for free. I actually did this with investing. I set it up so that an investment gave me passive cash flow to go buy a Tesla. That's my little teaser as we go into the meat of this. Sound good?

Pat: I like that because I'm interested in Tesla. I'm very much in love with Elon Musk and what he does, SpaceX, SolarCity, and also Tesla, of course. I'm looking forward to the Tesla X, which is coming out next year. I don't know if you've seen that, Ryan, but it might be worth looking at now that you're building a family. It's going to look sweet, and plus it has gullwings like the Delorean, so I'm a big fan of that.

Ryan: We'll have to go race our Teslas.

Pat: I don't think I'm going to buy it next year. It's just one of those things that when our 2004 CRV craps out, that's one of the top potential cars. I know a lot of people know that I want an Audi RX. It's not smart and profitable for me to get that right now, but it's still down the road.

So let's get into this. First of all let me ask you a question here. I had mentioned before we started recording that I'm going to be tough on you. I'm going to try to poke holes in what you're saying, and I'm also going to ask very honest questions that I feel my audience would want to know as well.

The first question I want to ask you, Ryan, is why do you feel like you're qualified to talk about this?

Ryan: I laugh because the only way to answer this question is because I just had to go figure it out for myself. I felt like the advice out there for most entrepreneurs was just so stuck 50 years ago. I'm fully honest about the fact that this is just the path that worked for me.

I've been reading investment books since I was in my teens and I just got really frustrated with all the traditional paths out there, so I went out and created one that worked for me as an entrepreneur that was very different from what everybody else was doing, but still gave me the structure and the plan moving forward that I felt would build wealth and passive income. And when I've shared it with other people they've found it extremely useful, too.

Pat: So you are building wealth through these things. Now, what is it that most people do? Can we define what that is? What is the traditional thing that people do with their money that's not working and why you wanted to go a different path?

Ryan: If you've got a 401K or an IRA, that's ahead of most people. In my opinion it's one of the worst foundations of an investment plan that you can have, unless it's for tax reduction, but for overall growth it's the way that most people do it. But even if you're getting 6-7% per year on that it just fails in comparison to what you could be doing or how much you could be putting your money to work.

We talked once privately about how the traditional route of just putting your money into the stock market, or even the way that most people do it in real estate, on the surface level just doesn't get you all that excited, whereas you could start an internet business, take a few thousand dollars and turn it into many, many thousands of dollars.

Putting it into traditional investments where it's just parked away and you check it once a month doesn't hold the same allure or the same returns. There's other ways that you can restructure investments as an entrepreneur to where it's a lot more exciting.

I think that's a big key, because it is kind of boring to see those statements come in every month in our traditional investment plans. You see the extra dollars in there and that's it. It's not really that exciting. But also I know that sometimes when people get too excited – for example, when they go into the stock market and they're investing daily – they can get into big trouble.

Pat: I'd love for you to start introducing what it is that you feel is the best path, or at least the path that worked for you at this point.

Ryan: I break it into three phases, and they're sequential in my opinion. I want to give one asterisk, if you will, one important note. I'm assuming that when you go through this process that you have no extraordinary debt. If you're in debt, the best investment you could make is paying off your debts, meaning credit card debt, college debt, really expensive debt. I would never recommend putting your money into any investment if you're in debt. You should pay that off first.

Moving forward from there, the first stage is kind of an obvious one. The first phase is starting a business. Having a business is the best investment you could make from a cash flow perspective. If you listen to Smart Passive Income then you've been given dozens and dozens of business ideas in which you can make money in a way that is disconnected from your time, and that's the important piece.

Another qualifier I like to say is an income stream that you can directly impact, meaning if you do that one thing that moves that next domino it impacts the profitability of your business. I scratched out client work or anything that trades our hours for dollars in here, and say starting a business where you can impact the revenue and the profits is that first phase.

From an investment perspective, just cash-in to cash-out, that's not only the best return but it's the best tax write off because here is where you can write off just about anything and call it a business expense.

The way somebody positioned it to me once is "The government is going to pay for half of that," because if you were to keep that money or earn it personally you're going to end up giving half of it to the government, whereas if it's done in a business and that expenditure goes out through the business, you're going to save half your money because it would have gone to the government anyway.

Most people who are entrepreneurs, when they just structure their business right by having it in a corporation or an LLC and running the finances through there, that's a huge advantage that people who are not entrepreneurs don't have, and that changes the direction of everything else.

So the first phase is having a business and running as many legitimate expenses through there as possible, because a) it's going to give you the best cash flow and b) it enables you to write off more than you could if you were running everything through just your personal name.

Pat: Right. That's not to say you can write off everything, but you have the opportunity to take advantage of these things that businesses have the ability to take advantage of. I think that's the important thing, and I've noticed that too.

You obviously want to make sure you connect with a professional in terms of all your taxes and stuff, but I think it's really good and I think a lot of us are there. We are in the phase or have already started building our businesses, so it's good to see that that's a great first phase because all of us listening to this right now are in that.

I agree with you, it's amazing for cash flow obviously, even if you're just starting out. Maybe you're making an extra $500 a month. That's a lot when you consider what it might take to get $500 a month with other forms of investments – for example, real estate and how much initial income you would need to get $500 a month, or the stock market where it's very volatile. It's going to be more dangerous to do that and you have a lot more control in your own business.

If you use the strategies we mention here, and there's obviously a ton of other podcasts and great businesses to learn from as well, you can really start off in a great way in building wealth by starting a business. I've had personal conversations with other investors and people who are experts in the financial space, and they all agree that building a business is one of the best things you could do.

Ryan: Absolutely. So from there we want to take our profits and we want to do two things with it. We want to build long-term wealth and we want to build extra cash flow, while also sheltering as many taxes as possible.

This comes up a lot when you see your business start to make money. How do you structure it and how do you pass it along to yourself with the ability to increase that cash flow as much as possible and shelter as many taxes as possible?

This moves us into Stage 2, and in Stage 2 once our business is profitable we put ourselves on payroll or pay ourselves the same amount every single month, changing that very slowly, and we'll talk about that in a second.

Pat: I do that, actually.

Ryan: Good. Me too. A lot of people at this point will say, "Okay, I'm making cash in my business and I just want to take that cash out as much as possible," and that's when we can run into some trouble. The fix for this, if you will, is to get into the habit of receiving the same amount every month, so in Stage 2 we pay ourselves a salary and we take 10% or as much as you're comfortable with – more or less – a fixed amount every month to automatically go into an investment that both builds passive income and builds wealth.

What I recommend here is ever-increasing dividend-paying stock. That was a mouthful so I'll explain what that looks like. There are about 100-200 stocks that are publicly traded that have increased their dividend every year for at least 10 years. So during all the ups and all the downs there are a few hundred companies that have increased the dividend that they paid every year, no matter what was going on. They've increased the amount that shareholders are getting in the form of cash flow. Even if a stock is going down they increase their dividend as a way to keep investors happy.

Coca-Cola is one of these. Chevron is one of these. There's hundreds of them out there and a Google search will pull back more than you'll know what to do with. I just like to find companies that have increased their dividend for at least 10 years, so they've gone through some down times and they've still increased their dividend. Then I take 10% of more of that monthly fixed amount that we're paying ourselves out of our business and put it into that ever-increasing dividends.

My mentor, Travis, put it to me this way. He said, "It's like you're buying geese that lay golden eggs. If the price of the goose falls, great. That means that golden eggs are on sale, so we want to buy as many of those as possible." We're doing it for the long-term dividend, not in hopes that the price of the stock will go up.

Now, I've experimented with the stock market in many different ways and maybe I'm just unlucky or stupid, but when I try to buy a stock in hopes that it goes up, usually the opposite happens. I think we've all had that nightmare idea of "What happens if I buy a stock and then the next day it goes down 20%?"

If you're buying for the dividend, if you're buying for the cash flow, then it doesn't matter if it goes up or down, assuming that the company has a strong record of increasing their dividends.

For example, a great one that I like to talk about is Target. Target is one of those companies that has increased their dividend every year for a long time, many years, and about a year and a half ago you might remember, Pat, there was this big thing in the news where there was a VISA leak. All these credit cards got leaked and the Target stock plunged. It fell about 30%.

I saw this happen and I threw a little party because Target has a really strong dividend. They increase it about 20% every year, so I bought a bunch of Target stock because I knew that dividend was only going to go up. I was like, "Dividends are on sale!" so I threw a Target-buying party, if you will. I bought a bunch of Target and not only did that stock recover once the news faded, but the dividend continues to go up so the cash flow goes up.

If you buy a stock and it's producing a 4% dividend, who cares? It's 4% on your money. It's better than putting it under the mattress, but in a year if that goes up 20%

that means now it's 4.8% or 5%, and if that trend continues then it's at 6%, 7.5%, 9%. As that compounds over many years – hopefully this is something you're going to hold onto for a long time – all the sudden the returns get really, really attractive. And that's assuming that the stock price never goes up, which it may or may not, but I don't care about that as much as I care about the long-term dividend.

Pat: So you're pulling money out from your consistent salary every month and putting it into these investments. No matter what the stock price is, you're buying, right? So you're kind of dollar cost averaging over time, and you are building wealth through the dividends that are being paid out. Are you taking those dividends and putting them in your pocket or are you putting them back into reinvesting into that particular company?

Ryan: Great question. I just set in my eTrade account to buy more stock. I never see that cash. It just goes in and it automatically buys more stock, so I'm reinvesting it into the same stock.

Now, there's one more thing I want to mention, and forgive me if I'm getting too technical on you here, but I set a trigger, which means I look for a specific dividend before I buy one of these stocks, and that's 4%. If a stock dips and falls in price, and therefore the dividend yield is 4% or better, that's my indicator that it's something that I want to go into. Anything less than that I just tend not to get excited about.

A really recent example is Chevron. We've all heard that oil prices are dropping. We all celebrate because we pay less at the gas pump, and because Chevron is one of those companies that raises its dividend all the time, there was a great meeting point where the price of Chevron fell, the dividend went up, and now it's over 4%.

The price of that stock is probably going to recover and go back up, so I invested in Chevron while the dividend was high and the price was low, in order to maximize my cash flow and the potential return that I get. I don't buy any dividends if they're less than 4%. If they go over 4%, that's my target to buy.

Pat: I think a lot of this might be a little bit over some people's heads and that's okay. You don't have to understand all this. I think the important thing is that you're taking something and automatically investing it.

I think that's the first important lesson because when you're doing that – and this is something I've learned ever since I started focusing on money, even before I got laid off – you don't even know it's happening. It's kind of happening in the background when it happens automatically and you pay yourself first in this way in terms of putting your money somewhere. I like the way you're doing this because it's kind of maximizing the growth over time.

When I started learning about all this stuff it was, "Take $500 a month or something out of your paycheck and just put it into a savings account." That's like the most basic thing, of course, but the idea being that 2 years from now you kind of forget about that because it automatically happens. Then you go in there and you're like, "Oh my gosh, I have all this extra money that I didn't even know about." That's one of the cool things that can happen.

I think when you combine that with these wealth-building practices it can do a lot for you. But my question is what is the end game? Do you pull out from these accounts every once in a while when you want to buy something, or are they there for the long-term? Are they meant for retirement? What is your goal with these?

Ryan: My goal for that is to hold them until they mature to the point where the dividends are now a substantial piece of cash flow. That's going to take about a decade and a half, maybe two decades, but I don't care because in this piece of the strategy that's like my "will never go away" cash. 30 years from now that cash flow is still going to be there.

Pat: Give us an idea if somebody did this correctly and everything worked out, X years from now it's almost like a paycheck that just comes your way because you've already put in the work up front, right?

Ryan: Right. It obviously depends on what happens to the stock price, and this is where it can get kind of weird and confusing. If you run the numbers, if the stock stays flat or goes down in face value, your cash flow actually can go up. That sounds weird but if you set it so that the dividend is going to buy more stock, then as the price of the stock falls and you're capturing more of that while the dividend is going up, that means that when you say, "Okay, I'm going to live on this cash flow now," it's actually more cash flow.

Now, if it's going up slowly over time, which stocks historically tend to do, then the cash flow's a little less but your wealth – the value of that portfolio – is going up. But I think the only reason you should ever buy an investment is for the cash flow. I never buy it hoping that it's going to go up in value.

If we were to assume that it were to just stay flat, which it probably won't, then over several decades the cash flow on your new money – I think I ran the numbers once and it was like at 30 years the amount that you put in equals the amount of yearly cash flow you're going to end up getting.

Basically that means if you were to take $50,000 and put that up up-front, in 30 years you're now getting $50,000 a year coming in that cash flow, plus you have the underlying wealth.

I know somebody's going to run the numbers on me and say it was 28 or it was 32 years, and I'm sorry I don't remember exactly what it was, but it was something along that realm.

Pat: That's cool. I think already we've talked about a lot of stuff. I know I have a lot of financial bloggers who listen. I know a lot of people who are big-time investors who listen to this as well. They're going to have something to say, and again like I said earlier this is not "This is what you should do." This is what Ryan does and I wanted to use this as a way to kind of start this conversation.

I thought it would be interesting so I'm encouraging everybody out there who's listening who feels like they know other things or might have their own strategies, share those too. I think the more we share with each other the better it is for everybody. We might learn a thing or two from people who commented as well.

Let's keep moving. A quick question that comes to mind is – hopefully everybody has one of these in place already, in terms of an emergency fund – if that's not there yet should that be kind of in-between these two steps, Stage 1 and Stage 2?

Ryan: I would definitely recommend that. I keep about 6-12 months' expenses in the bank just in case anything happens, and that makes me feel secure enough to both make investments without there being fear attached to it, and also take some calculated risks.

I don't kind of bake that into my investment strategy, but in the same way that I wouldn't recommend investing with debt, I probably wouldn't recommend investing without a solid emergency fund either.

Pat: Is that for you in savings accounts so it's liquid, or is it in some type of investment that's a little easier to take out of?

Ryan: I just keep it in the bank so I can get it really quickly.

Let's transition out of this, because honestly this is the boring part. This is like the fundamentals. If you were to just have a business and put a piece of your salary into ever-growing dividend-paying stock you would be doing better than most people, better than like 90% of America. But the fact of the matter is, that was all really, really boring and technical.

Where I start to get excited is in Stage 3, and that is where we take the profits of our business at the end of the quarter or at the end of the year and we put it into what I call high-yield low-risk investments. That sounds impossible and hypey. Forgive me, I get really excited about this.

Pat: It really does, honestly.

Ryan: [laughing] There are a bunch of non-conventional I guess might be the right word – some conventional, some little-known investments where I personally – I won't say everyone should, but I personally….

Pat: These are all legal, right?

Ryan: Oh well, Pat, I was going to open up my bag of tricks and tell you all about illegal investments that I make. [laughing] Stage 3 for me is high-yield low-risk investments. This includes one traditional investment that we're mostly familiar with, which is real estate. I own a large collection of single family homes, and when you run the numbers on single family homes, the returns can be 30-50% when you factor everything in. That sounds hypey so let me break it down a bit.

What most people do is they'll buy a house and they'll take a mortgage out and rent it out in hopes of it either appreciating in value or getting the rent extra. That's the first piece of the investment that is like the least impactful. That doesn't make the most of your bottom line. What makes the most to your bottom line is how much tax you save by having holdings in real estate.

The government incentivizes holdings of real estate, so when you've got a mortgage on a property you don't pay the tax on the interest of that property. And when it goes up in value you pay capital gains on the appreciation. You don't pay normal income tax. You also get to write off I think it's 3% of the value of the house every year in depreciation, so if that house is worth $100,000, you get to write off $3,000 in taxes, plus whatever you paid in interest, plus the rental income, plus the appreciation.

With all those savings factoring in, it becomes very, very impactful to your overall investment return. So that's my preferred place to put my profits at the end of the quarter or the end of the year, is into single family real estate or in some cases multifamily real estate.

Pat: So you're buying houses. Are you paying for them in full out of your own pocket and not getting a mortgage or are you leveraging using a mortgage?

Ryan: I've done both, but the numbers make more sense if you leverage it. You have a mortgage on it, but you have somebody in there renting and paying down the mortgage.

The other piece of the return on this is that since inflation naturally happens because of monetary policy – I know I'm getting technical on you – but because of that, the value of money is going down, which means the amount that you're paying for the mortgage in real terms is going down. You get to lock in a profitable asset at today's monetary value, but that's going to go down over time. Ten years from now if you've got a mortgage on a property, that mortgage in real dollars is going to be substantially cheaper than what it would be if you were to buy a house 10 years from now.

Pat: Right, so the sooner the better.

Ryan: The sooner the better, yeah. I heard it said once, "The best time to invest in real estate was yesterday," and the next best time is today, for all of these reasons that kind of compound together.

If you don't want to invest in real estate or you're not in a good area that would be financially wise for you to invest in real estate there is a work-around for this, and people have different opinions on this strategy, but there are two work-arounds. One is there are publicly-traded real estate investment companies. They're called Real Estate Investment Trusts, and I own a lot of these. Full disclosure, I do buy a lot of these.

Pat: REITs as they're also known.

Ryan: Yes, and REITs, because of the way that they're taxed, they have to pay out 80% of their profits as dividends, so the dividend yield is really high. When I say really high I mean 9%, 10%, sometimes as high as 15%.

Now, people will talk about the paper values of these stocks because they tend to go up and down, but again I'm not buying them for the paper value. I'm buying them for the income. So assuming I'm going to hold that for a long time, just like I'm going to hold a house for a long time, I don't care what happens to the face value of the stock. I care about getting that consistent dividend.

The second work-around is there's a plethora of real estate investors and other investment firms that will take your investment, invest it in real estate, and pay you back a fixed return. Now, I obviously haven't worked with every real estate company out there, but this is something I've done multiple times where I've funded a real estate transaction and I've gotten a 15% fixed return paid to me.

I don't really feel comfortable making recommendations on those types of companies, but they exist where, almost like a bank, they'll hold it and pay you a fixed return, and then they'll turn around and invest it into real estate. They'll make more than 15% but you don't have to do any of the deal finding or the tenant finding or any of the work. You just get a fixed percentage and that's just cash flow. You don't get any of the write-offs that you would get if you were owning the real estate, but you're getting some of the upside as far as cash flow goes.

Those are the two work-arounds to real estate if you don't want to own it yourself.

Pat: Interesting. If they're paying 9-10% dividends, are they doing that over a long period of time and qualify you to do that in combination with Stage 2 that you talked about, or is this completely separate?

Ryan: I consider it different simply because there are only a few Real Estate Investment Trusts that have that ever-increasing trend. Not all of them have that increasing trend. It's fixed based on what the price point of the stock is, so I keep them separate.

Pat: How active are you with managing these types of passive income streams?

Ryan: Apart from the once a month withdrawal that happens automatically into those dividend-paying stocks, I'm not doing this very often unless it's the end of the quarter or the end of the year and I don't have a house to buy, so I put it into a REIT. Apart from that I check it once in a while, but I'm not worried about the fluctuations in the market.

Pat: I was just randomly thinking somebody a long time ago had mentioned, "Pat, building a business isn't the only way to build passive income. You can talk about the stock market, you can talk about real estate." Then here you are coming back on years later and talking about these things, so I think it's pretty interesting.

It's true that passive income isn't just with building businesses, although like we mentioned earlier it's one of the best ways to do it, but maybe 10 years down the road I could see a link at the top of SPI with real estate stuff related to it. I'm just randomly thinking about that, so that's cool.

Now, in terms of getting into real estate, I know that's obviously something a lot of people do. A lot of you who are listening to this are involved with real estate investments and have multiple properties as well, and have different property managers and that whole thing. We can't even start to begin to discuss real estate and all that's involved with that.

If people are interested in that phase, what are some of the big things people have to look out for, or how do they get started with that? I think that's another big thing for people who are like, "Well, I've heard that's a good idea but how do I even get started with that? Should I get my license as a real estate agent?"

Ryan: That's a great question. For me, I'm a big idea person. If you ask me to manage any details I will drop the ball. I'm terrible at details. Figuring out all the nuances of real estate, even for a nerd like me, was really difficult.

I said, "I've got to automate this process as much as possible, so that even if I give up a point or two or I expose myself to a little bit of a risk, I'm at least doing what I know is a good idea in a way that maintains my sanity."

I have an agent who sends me deals in the areas that I like to work in. By the way, the best areas to invest in are the places outside your city that aren't having these crazy fluctuations in value, but they're better for cash flow. Usually outside the major cities in some of the suburbs are the best places for cash flow to invest.

I have an agent there who will send me deals and say, "Hey, this seems to meet your criteria. Give this a lookie," and I'll give it a lookie, and if I like it then I say, "Go look at it." My agent knows me well enough to actually go to the property, pulls out his cell phone, and does a walkthrough of the property, so I never go there. He just shows it to me. I get it in my email and I say, "Okay, this looks good."

Then I ping it over to my property manager who knows what the rental market is like there, and I say, "Give me an estimate on what this is going to cost to fix up." He'll either meet the agent at the property or look at the video and give me a visual estimate of what it will cost to fix up or what it will rent for, and then I say, "Okay, you two coordinate and go make it happen."

I've bought houses without ever seeing them in person or swinging a hammer or taking a call from a tenant – nothing. I just go to the agent, he knows what to look for for me, he goes and he buys them, sends them over the property manager. The property manager knows what I want in rents. He tells me if I'm going to get it or not, and then I let them take care of the rest. I get a few emails about things I need to sign and money I need to transfer over. That is literally the process. That's how I automate it so I'm completely out of the process.

Pat: That's super cool. I think that's very encouraging because a lot of people while listening to this episode are probably like, "Oh my gosh, I don't even understand this." The point is you don't have to understand all of it. There are people out there, like you said, who can help you through this process, people who manage certain parts of it that you don't even need to touch yourself. Thank you for sharing all that.

You had mentioned earlier that you had gotten a Tesla for free, and I'm curious on how you were able to do that. It does sound very hypey and scammy, honestly, but can you enlighten us on that?

Ryan: Sure. I should finish this thought by saying that real estate is not the only place to get high-yield low-risk. There are other places that people don't talk about, like I think you and I have talked about LendingClub.com. I love LendingClub. I'm fascinated by their business model.

It's basically a place where you can buy private notes at certain interest rates, depending on your risk level. If you're a little bit more conservative you can buy a note that's fixed at 8% or 10%. Then if you're a little bit comfortable with risk it can go up to 20-25%, which is just redunculous. Those numbers are absurd in the investment world. So there are other little-known places that I will put my profits at the end of the quarter or end of the year.

When I went to buy a Tesla, I don't know if you've ever had this experience, Pat, where you earn money in your business and you have a toy that you want to buy, but you're like, "You know what? I worked really hard for this money. I don't want to put this into a toy because I worked really hard for this and it feels weird just buying a toy with it." Have you ever had an experience like that?

Pat: Oh yeah.

Ryan: I took a page out of *Rich Dad Poor Dad*, which argues that the best way to get rich is to acquire cash-producing assets, and that when the rich go to buy things they don't buy the asset outright with cash. They use an asset or investment to pay for that toy.

So when I went to buy a Tesla I went and I got it almost free. I had to put a down payment of $2500 on it in order to reserve it, but apart from that I went out and financed the whole thing. A Tesla traditionally is going to cost about $100,000, and I earned that in my business, but rather than go and just buy a Tesla I went out and said, "Okay, what's it going to cost on monthly payments in order to get this toy?"

It was going to be about $1400 a month or so, which is a house payment basically, so I went out and instead of just getting a Tesla, I put it into an investment. I put together a basket of investments that is nicely evenly weighed for both risk and return. There's some dividend-paying stock in there, there's some Real Estate Investment Trusts, and there's some Lending Club. That's the basket of investments, and together they pay for the Tesla payment.

But here's the other cool kicker to it. I bought the Tesla in my business name because the solopreneurship, however you have that defined, can have one company vehicle. So all of those payments are actually half, because the government is paying for the other half because I'm not paying tax on it. It's a tax write-off, plus I have the investments that are paying for all the payments.

So because of the way I structured it, I'm actually making monthly cash flow on the total difference between the payment for the Tesla and the payment coming in from the investments, and it's a write-off.

Pat: That's pretty awesome.

Ryan: That's how you can get all of your toys almost free. Now, caveat here. You have to earn the money in the first place. When you earn the money, rather than just putting it into toys, buy assets that will pay for the toy, plus once the toy is paid off the assets are still there, and they've either appreciated in value or they continue to give you cash flow.

To me that's just a way smarter way of buying the toys that you want. Rather than that money just going down the drain, keep it. Let the asset pay for the toy, and then you have the asset at the end of the day and you have the toy. You get to keep both. When we distill it it's not so hypey and scammy, I hope.

Pat: No, it's not. I think it's very encouraging and very inspirational for people out there, for those of us who don't have quite the income yet to be able to support an investment like that, and to be able to create these buckets that would pay for our toys. It's definitely something to shoot for and I think it's definitely a smart way to think about how to use money for you in the future, so that's really cool.

This has been a really cool conversation, Ryan. Thank you again for sharing all of this. I think it's going to definitely ignite the comment section on the blog, and it could go either way, we'll see. I'm really excited to see where it goes.

I'm always researching this kind of stuff because I have significant income coming in and I'm testing and experimenting with various places, too. I'm learning from as many people as I can. You're not the only person I've spoken to about this kind of stuff, and it's interesting how different people's takes are on it. It varies so much.

A lot of people are very successful in their own way, too, so there's no right or – well, maybe there is a right or wrong answer, or at least there are wrong ways to do it, but there are multiple right ways to do it as well. It was really cool for you to share that, and thank you for being open and honest with us.

Again, I'd love to hear from everybody out there who's listening who's interested in this, maybe who have questions. I know Ryan's come in in the comment section of the previous post as well and has lent his knowledge in there.

The other thing I want to mention before I let you go here is that you gave me the honor of speaking at an event that you are putting on later this year. I'd love for you to talk for a minute about what that is, who's going to be there, what it's about and who it's for.

Ryan: Heck yeah. Thanks for letting me plug that, Pat. We're doing an event at the end of the year called [Freedom Fast Lane Live]. My podcast is called Freedom Fast Lane and it's about entrepreneurship and investing and growing your business. I've found that I just have a hard time in our little community thinking at the level that I've got to think, because my lifelong goal is to own the Cleveland Indians. I know the Indians haven't won anything since the 1940's, but they have my heart forever on that.

Pat: Kind of like Gary V and the Jets, right?

Ryan: Exactly, and that's exactly why Gary V was the first person that I wanted to have at Freedom Fast Lane Live, because we have such a hard time in our little industry thinking beyond kind of the level that we've all been stuck at. I wanted to bring in people that would just completely break that paradigm, people what would inspire me and my audience to think at a completely different level.

We're bringing in really next-level people who can break that paradigm, yourself included, and Gary Vaynerchuk. We're really close, not finalized, but really close on Robert Herjavec from Shark Tank. One speaker owns $350 million in real estate and has multimillion-dollar businesses.

I just wanted to bring people in and say, "What's the difference between me and you? How do you think differently than me, because where I'm at, all my circle of friends think having a million dollar business is a really respectable thing, and it is, but what about this guy over here who's got a $250 million dollar business?" And somebody speaking from the stage does have a $250 million dollar business.

I want to distill down the habits of that person. I want to find out, "What's different between you and me? Is it that you kill yourself and you work 200 times harder than most of us, or is it really that you just have simple habits and that you think differently than me and my audience?" That's what I wanted to find out from the people that were invited to speak at Freedom Fast Lane Live. That is over at freedomfastlanelive.com and that is December 11, 12, 13 in Austin, TX.

Pat: That's awesome. I think it's really cool to hear you say what you just said, because you know where you're at. You know that your circle of influence immediately around you can only provide so much. And like we all know, in order to expand and learn and grow we've got to connect with people who are there already.

I think it's really cool that you're just like, "Hey, what better way to figure out all this stuff than to create my own event and bring all these people in and share that information with other people too?" I'm very excited to speak there, and I'm sure other people who are looking for conferences to go to can definitely explore this one for them as well. Again that's at freedomfastlanelive.com.

Ryan: Pat, I'd love to take a minute and say why I included you on this panel. So many people in our little industry talk about building an audience and talk about providing value, and they do it at such a small level.

You are what I think is the shining example of somebody who has come in and built such a wonderful community and such a big audience in a cool and ethical way, where you still maintain your family life, you still maintain your honesty, your integrity, your transparency, and it has rewarded you very handsomely.

That's different and that's paradigm-shifting for what most people teach and what most people do in our industry. I've made the most money in my career by having loyal audiences, but I don't have a Pat Flynn-sized audience. You've done it faster and better than anybody that I know, and that's why I wanted to have you on stage at Freedom Fast Lane Live.

Pat: Thank you. I'm honored and I'm very thankful and humbled by that. I will definitely deliver, as I always try to do on stage, and we'll see what we can do.

Ryan, I'm really excited and I hope everybody else is too. I'll have your blog link in the show notes. All the best to you, and congratulations again on the baby, and thank you for coming on and sharing your knowledge with us.

Ryan: Thanks for having me on, Pat.

Pat: Take care.

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I hope you enjoyed that interview with Ryan Moran. You can find him at freedomfastlane.com. All the links and resources mentioned can be found at smartpassiveincome.com/session174. Make sure you check out the Freedom Fast Lane podcast and also the event that we talked about at smartpassiveincome.com/freedomfastlane.

If you want to leave a comment and you have something to say about this, which I expect you do and I hope you do, please go ahead and do that. This is a really interesting topic. I know a lot of you are pretty much experts on this sort of thing, and I'm just looking for as much information as I can. I think this will be a great resource for everybody who has passive income coming in to see what their options are.

Also if you aren't there yet, it's something that you can work toward and it will hopefully motivate you to start building out your wealth even more. To leave a comment, go to smartpassiveincome.com/session174.

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Thank you so much for listening to this episode. I look forward to hearing your voice and the comments that you have at smartpassiveincome.com/session174. I appreciate you and I look forward to serving you in the next episode of the Smart Passive Income podcast. Cheers. Thanks.

Outro: Thanks for listening to the Smart Passive Income podcast at www.SmartPassiveIncome.com.

Links and Resources Mentioned in This Episode:

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