

10 Lessons from Others' Mistakes ~ Wisdom from the Files: Why Smart people Make Dumb Money Mistakes



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Charles and Lizzie are some of the smartest people I'll *never* close with. Both were the brightest and hardest working kids in the class.

This true story is not told to impress you; it is to impress upon you that wise expectations and appropriate behavior can bring superior results

Smart people ...

Lizzie and Charles are on the fast track at work. Their income exceeded \$150k years ago. They are justifiably proud of their accomplishments. The other soccer parents think that Charles and Lizzie have it together. Before they travel overseas they read about the culture and history of their destinations. They listen to guides about local customs and aim to minimize faux pas.

They made money on their first rental house in a tertiary market. His parents had also been landlords so they began with more experience than most investors. They were smart and avoided paying taxes early. They did a tax deferred (1031) exchange.

Charles & Lizzie expected buying apartments would be easy. A great lender recommended me, because I had successfully served 100+ apartment buyers.

... dumb outcome

Unfortunately they ultimately bought a mediocre investment after fumbling three better opportunities. Instead of winning easily, as they expected, they felt bruised and insulted; they wasted time and money.

They never read *The Ugly American* about a self-centered blundering oaf who offended people in many nations. Charles and Lizzie's self-absorption and faulty assumptions stopped them short of their potential.

Ten concepts they had not accepted:

1) Income property provides

opportunity; it does not guarantee success. They did not understand the difference between being consumers of depreciating products and investors trying to capture the best of a few income producing opportunities.

2) Sellers owe nothing to potential buyers, until there is a signed contract. Lizzie & Charles wanted confidential financial information from the seller before they even wrote an acceptable offer. Buyers receive due diligence information after, not before, there is a contract.

3) Customer is not always right. The landlord (seller) does not expect to ever do business with the investor (buyer) again. That is different from Nordstrom or the car dealer. The sellers rejected the notion that Charles and Lizzie needed to be catered to. Lizzie and Charles were surprised that multi-millionaire sellers did not make everything easy for them.

4) Smart people gain from coaching. Arrogance blunders and offends. Income property buyers ultimately have access to the same information that house buyers do, but the sequence is different. Charles knew how houses sell. He was "too busy" to learn the reasons behind the customs and of income property purchase. For example when Smith wants to buy Jones' home, the buyer can come in many times before writing an offer. The seller will tolerate the intrusions in hopes of collecting cash at the sale. Charles and Lizzie wanted to be able to see the inside of tenants' homes before submitting an offer. The seller, not the tenant, receives the proceeds, and tenants lose privacy with no benefit. Disturb tenants too much and they leave. In overseas travel Charles & Lizzie were respectful; in the income property arena they were rude and presumptuous.

5) Wise counsel is a bargain, even though learning is inconvenient. These hyperactive buyers wanted services provided to them, when and how it was convenient to them. They did not know what they did not know and were unwilling to talk on the phone or meet to ensure that they were well prepared. They did not trust the expert guide. Only when it was too late did Charles and Lizzie discover that their knowledge had gaps.

6) Win-Win negotiating means that buyers trade extra commitments in order to gain unusual favors from the seller. Charles and Lizzie could have eliminated competition from their best opportunity. If they had been willing to release some cash to the seller, the seller would have seen their commitment to selling their rent house. When they wanted the apartment seller to absorb a risk they controlled, the seller refused their offer. Within weeks seller obtained more money with no extra risk.

7) Real estate contracts require both sides to perform as agreed. These upscale consumers are used to free trials and no risk options. In the next best opportunity, they were stunned to discover that they needed to fulfill their commitment before the seller would consider making a concession. When they breached the agreement, they lost their second best option.

8) Trustworthiness is not related to commission. Charles and Lizzie falsely assumed that all brokers and lenders lie because they receive commission. Some people do lie. Character, not means of payment, determines whether someone is trustworthy.

9) Income property owners to set policy; the buyer is not bound by seller's policies. When Lizzie saw seller's poor management she acted as if it would always be that way. They ignored any benefit they'd receive from better policies. In contrast, savvy investors know solvable problems are easy ways to create more income. That mistake cost them their third best option. Within three days another investor saw property, recognized the opportunity and captured it.

10) Reflection can produce wisdom. Charles and Lizzie committed folly. They were warned of the risks of their choices and blundered anyway. When we last talked it was not obvious whether they realized how much potential income and wealth they had fumbled.

We all make mistakes; many people learn from their errors. Wise folks learn from other people's mistakes. Our current clients benefit from what our team has learned.

May you make avoid folly and make wise choices.

For more than a generation, **Terry Moore, CCIM** has helped investors make important investment choices. You can reach him at **619-889-1031** or **tmooore1031@gmail.com** or **SanDiegoApartmentBroker.com**. He is a principal of ACI Apartments, San Diego County's most active income property brokerage firm. In 2014 he was selected as *San Diego Daily Transcript's* first "Trusted Advisor."