



**Seven Steps to
Getting Started With
Cash Flow Real Estate
Investing**

So you want to start investing in Cash
Flow Real Estate?

But you don't know how to begin?

Then before you even start looking at
houses or apartment buildings, make
sure that you tackle these Seven Steps
to Getting Started.

by

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Hi I'm Dennis Fassett. I'm a buy and hold real estate investor in Metro Detroit. At present I own 55 rental units including 12 single family rental houses and a 43 apartment units – all with positive cash flow. And I personally manage most of them myself.

I'm also a Senior Manager at a global consulting firm with a client in the automotive industry. I have four kids and a stay-at-home wife, and due to my significant time constraints, a few years ago I was forced to develop my very successful "Set and Forget" approach to buying and holding cash flow real estate. Since then I have taught it to over 200 real estate investors throughout the US.

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What you will learn in this report

The Seven Steps that will make up the foundation for your Cash Flow Real Estate Business.

These are the first steps that I took when I was just getting started, and they are just as relevant today as when I was getting started nearly eight years ago. The good thing is that none of them are particularly complex. But make no mistake - **all of them are important** and two are absolutely critical to your being successful with Cash Flow Real Estate. In fact, if you skip #7, or if you do it wrong, or if you don't take it seriously, I guarantee that you will fail. Period.

I wrote this report for...

Busy people that want to take more control of their finances and/or retirement accounts by buying and holding rental real estate, who want to do it the right way, and who are smart enough to not want to reinvent the wheel as they're getting started with it.

You should make sure that rental real estate is for you. There's a big difference between doing flips and doing rentals. Doing rentals is a people business. Make sure it's right for you.

Educate yourself. Talk to people and take them to lunch. Read books. Do more research. Talk to people in your area that are doing this in addition to reading everything that you're finding on the internet.

STEP ONE

Educate Yourself

Let me caution you though - because there's no such thing as a cookie cutter approach to real estate. Every area is different, so make sure you talk to people in your own local market as you're gathering information and getting educated.

So start educating yourself now and don't stop. I haven't.

If you want to be a rental property owner, you must have a PO Box. Why? Because you don't want your renters to know your home address.

STEP TWO

Get a PO Box

I rented for a long time before I bought my first home. And I, like every other renter out there, liked to pay my rent on the last possible day that I could. That often meant driving the check over to the landlord on the due date. Your renters will be thinking about doing the same thing.

I didn't have a PO Box when I rented out my first house. So my tenants routinely brought their rent to my house, in cash, at 11:30 pm on the due date. **Every month.** It was technically on time, but having people bring over cash every month when you own more than one property is not a sustainable business model. And I didn't even like it with one property, because they were upset if I wasn't there to accept it at whatever time they decided to drop it off. So

you need to have a place where your tenants can mail their rent payments.

And here's a tip - I do not pick up the rent. Ever. People mail it in, and they need to build mailing time into their schedule.

Your PO Box will also serve as your business address. It's helpful to have all the bills go there, and it also provides a certain level of anonymity, which I don't mind.

Tips on selecting a PO Box

- The smaller the post office, the better.

You want to build relationships with the people that work there. Each month my wife takes some cookies or donuts over to them. Their relationship has gotten so good that on the day my tenants overnight their check, I get a call telling me that it arrived. The post office actually calls

me every month!

You're not going to get that kind of treatment in a big post office, so stick to the smaller ones if you can.

A couple of other things to keep in mind when selecting a PO Box:

- Hours of box and lobby availability.
- Location.

You don't want to go clear across the town or to pick up your mail. Make sure it's convenient.

This seems like a no-brainer, but I know people that have been in this business forever who are still holding all of their properties in their own name.

STEP THREE

Incorporate Your Business

How do you incorporate your business correctly? You need to form a Michigan corporation. What kind is appropriate? I'll tell you from my experience. I'm not an attorney, but for owning rental properties I hold all my properties in the LLC form of the corporation. Everything I've heard, everything I've read, everything my lawyer tells me – is that it's the best structure for rental property.

If you're going to do flips, my understanding is that one of the other types is better because of the tax consequences. But, again, talk to your tax professional or talk to your attorney to figure out what's best.

Keep in mind that all the Limited Liability Corporation does,

as the name indicates, is limit your liability. It has zero impact on taxes. All the income from the LLC (if it's a single member LLC) flows right into your tax return, there's no double-taxation like there is with other forms of corporations.

Why do this? Obviously, to limit your liability. You need to be rigorous with this because LLCs are being thrown out in court as being invalid if the business isn't treated like a business. So be careful with this. Get some good legal advice and follow it.

You will also need to be incorporated if you ever want to apply for business credit. One of the things that I did a couple of years ago that really helped me in this business was get several lines of unsecured business credit to help with my working capital needs. Be advised that none of the lenders that I talked to would give unsecured lines of credit

to a business that wasn't incorporated.

How do you incorporate? In Michigan it's cheap, easy, and you should do it yourself. Go to Michigan.gov/Corporations. There's a one page PDF form that you print, fill out, and mail with a check. It's that easy. Or you can hire somebody else, like your lawyer, CPA, or me to do it for you for a really high fee!

Be aware that we're not yet talking about the LLC that you'll use for your first property, because you don't know what that is yet. We're talking about your overall business LLC.

When I first started in this business I didn't have any properties, so I started a company called Michigan Property Solutions Group, LLC. That's now what I call my property management company.

Before I bought a property, though, I was doing a lot of driving, I was doing inspections, and I had some expenses but I didn't have a property that I owned to associate them with. So I needed to have a business to run all those expenses through, and I used my first LLC for that purpose.

There are two documents that you need if you want to incorporate in Michigan. One is the one-page form that I mentioned, and it's called the Articles of Organization. You fill out a couple of lines on the page then send it and your check to the state and you have your LLC.

If you have a multi-member LLC (let's say, you and your husband, wife, partner, or sister want to get into business together), you will need an Operating Agreement as well, and you should have a lawyer create that for you. Otherwise, you just need the Articles of Organization.

If you're going to claim the business income and expenses on your taxes, you need to have a Federal Tax ID number, or EIN.

You can find the online Federal Tax ID request page by Googling "EIN". The first entry should be the IRS site. You can do it online right then and there. And it's free. Wait until your LLC name has been approved however.

STEP FOUR

Get a Federal Tax ID Number

The system will give you a choice of having a letter mailed out to you with the number, or you can choose to download the letter in PDF format. I always take the immediate PDF download option.

You should start a file for both your Federal Tax ID letters and your LLC documents. That will make it easier when you go to the bank to open your business bank accounts.

Here's another reason why you need an EIN. You can't open a business checking account without a business name and a tax ID number. They will also use your Social Security number, but that kind of defeats the purpose of having a business.

So open a business checking account, and I recommend finding one that's free. Go to the bank that you are using right now as a start.

STEP FIVE

Open a Business Checking Account

That's what we did, and just like the Post Office, my wife has built tremendous relationships with the people at our bank, to the extent that they call us when something goes wrong. It's unbelievable the way they bend over backwards to help us, and they gave us an increase on our business line of credit just because they knew my wife so well. Do not underestimate the value of having a great relationship with your banker.

What we're trying to do is create a wall of separation between our business and personal lives. It's very, very important that you do this.

I can't tell you how many people that I know that use their work email address for their business. First, you can get fired for doing that. Second, what happens if you *do* get fired or leave? All your email will be lost.

STEP SIX

Get a Business Email Address, a Business Fax Number, and Business Cards

Also - I highly recommend that you have a separate fax number as well. The real estate industry is still largely in the stone age in terms of technology, and there are still a lot of people that still use faxes exclusively. All these folks - realtors, inspectors, insurance agents, title companies - still have fax machines and still fax stuff all over the place even though they could email it.

Tips for email and fax numbers:

- The gold standard for email is Gmail. Visit gmail.com to set one up. Don't use Yahoo, Comcast, Hotmail or any other free service. I've read that because of the problems with spam, only 30% of Hotmail email ever gets delivered. So if you've got one, keep it for your personal stuff, but set up a separate Gmail account for your business today.
- For your fax, use eFax to start out with. It's free, but they limit the number of pages you can receive each month. The line quality is terrible too, so it's best to switch to a dedicated fax line at the point where your cash flow will pay for it. I have mine through Vonage. It's \$11 a month and it works reasonably well.
- And regarding business cards, you want to build a professional image especially when you're just starting out and meeting other investors and service providers like realtors, mortgage people, inspectors and contractors. Having business cards helps facilitate the

creation of those relationships.

I know some investors who like to put their target cities on the back of their business cards. For example, "I buy houses in Livonia. Give me a call." That way if somebody has your card somewhere, they see that and they will call you. I don't know if that is effective or not, but I know that some people have said that they get a good response from doing that.

I buy mine online at VistaPrint.com. They offer "free" cards that cost \$8.95 for shipping, and they're fine when you're just starting out. It doesn't matter what they look like or where you get them, as long as they're professionally done and not the laser printed kind. The point is just to get them!

This is vitally important to starting your Cash Flow Real Estate investing career.

You're going to need some cash to be in this business. It can be cash in a bank. It can be cash in credit lines. It can be cash in an IRA. It can be cash anywhere, but you MUST have some cash. All the crap you're hearing about no money down houses and apartment buildings is just that – it's crap. You need cash for a down payment, you need cash for your due diligence, you need cash for closing costs, and you need cash for working capital.

STEP SEVEN

Assess Your Resources

Most businesses in the U.S. that fail do so because of lack of working capital. That means just money in the bank that you can spend on things when bills come in before your rents come in, or if you have vacancies. You need to have some cushion and it should be in cash.

I think this is the most important step out of all of them in terms of being a launching pad for your business. It's going to define your business more than any of the other steps, and it's going to define your first cash flow property purchase because it will dictate what you can afford. Then you can look for the best property that meets your cash constraints. This is really an important step, so I recommend that you spend a lot of time on it.

If you have business lines of credit or if you can get business lines of credit, you can include them. I have used them heavily in my business – in fact I didn't put a single dime of my own money on some of my houses and one of my apartment buildings. My down payment came from one of my lines of credit. This is one way to get started, so if you have lines or can get them, use them!

I have one line of credit that I don't even touch. It's set

aside exclusively for working capital and for emergencies. Who knows what's going to happen with the weather or the economy? I don't, and I don't like to take chances either, so I keep it off to the side in case something catastrophic happens.

The second resource that you should evaluate is your time. I'll tell you that I have done everything in my power to develop a "set and forget" apartment business, and I'm still trying without success. You are going to put time in each and every week when you own an apartment building, so it's vitally important that you understand that, and also that you know where the time in your schedule is going to come from. Because of my day job I do everything after work and on weekends, and rarely has there been an issue with getting things done using that schedule.

So when it comes down to it, the combination of your cash

available and your time available is going to dictate both the size and the location of the apartment property that you should buy.

The worst thing that you can do when you start this process is to underestimate your cash and overestimate your time. Don't be tempted to fudge on either, because it will lead to disaster for you. Buying an apartment building is not a decision that you can easily undo if you find out later that you have made a mistake.

The third resource that you need to assess is your spouse's support. This is actually the most critical of all the resources, because I have never seen anyone succeed when their spouse wasn't on board.

While the end goal is to own "Set and Forget" properties, make no mistake – as you're getting started it will take

time away from your family. So it's important to have your spouse on board from the beginning and properly set their expectations as to what's involved in real estate investing. This is even more important if you plan to have your spouse help in your business.

So don't cheat on this assessment. It can mean the difference between success and failure for you.

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Meet Dennis Fassett

Dennis P. Fassett began investing in real estate in 2004. He got started as a way to create a safety net for his family when the automotive industry started its downturn.

Dennis is a published author of a book on single family real estate investing. He also teaches seminars on the location, acquisition, and management of rental houses and apartment buildings, and he coaches and consults on an individual basis as well.

He earned an MBA with a concentration in finance from the University of Southern California in 1992 and has over twenty years of broad-based experience in Investment Banking, Corporate Finance, Business Operations, and Information Technology.

He is also active in the community. He just completed an eight year term on the Financial Council at St Regis Catholic Church, and he recently completed a three year term as Vice Chairman of the Financial Advisory Board for the Village of Beverly Hills, Michigan.

On a personal note, he has been married for 20 years to his wife Marily, who he met at grad school at USC. Together they have four children.