The Art of Passive Income Podcast
With Mark Podolsky, AKA The Land Geek

Today's Guest: Mark Willis

Transcript

Mark Podolsky: Hey, it's Mark Podolsky the Land Geek with your favorite niche-y real estate website www.TheLandGeek.com and today's guest I'm really excited about. We haven't had a financial planner in a while. Before we talk to our guest, I just want to let everyone know that Scott Todd is going to take a little vacay today. So, it's just going to be me and hopefully that's going to be okay.

Go on the Facebook group and certainly you can go the official Land Geek Wealth Motivation group and sing his praises or complain whatever, but we'll get Scott back on the next podcast. Speaking of, today's podcast is sponsored by Land Geek Flight School training. Learn more just go to TheLandGeek.com/Training.

Today's guest is Mark Willis, from Lake Growth Financial Planning. Mark Willis, if you're not familiar with him, is the co-host of the Not Your Average Financial podcast. He shares his strategies for investing in real estate, paying for college without going broke and creating an income in retirement you will outlive. He's also a certified financial planner and a two-time number one bestselling author and the owner of Lake Growth Financial Services based in the windy city Chicago Illinois. He specializes in building custom-tailored financial strategies that are unknown to typical stock jockeys, attorneys or other financial gurus. Mark Willis, thanks so much. How are you?

Mark Willis: My goodness, Mark that is an awesome intro. I appreciate it. I don't know who you're talking about but that's amazing. If you could read that every time I get out of bed in the morning, boy every day would be awesome. You have a great way of introducing.

Mark Podolsky: No problem.

Mark Willis: Thank you. It's a pleasure to be on your show.

Mark Podolsky: Yeah. Not a problem. Mark, if you'd like I can just call you every morning. I can do like a robocall.

Mark Willis: Yeah, absolutely. That's right on, man. You'd be my favorite robocall all day.

Mark Podolsky: Yeah. Not a problem. So, let's just kind of start with just why on earth of all the things to be in life, what made you want to be a certified financial planner?

Mark Willis: Yeah. You ask a great question. Only because the context of when I got in. So, timing matters with all things in finances. But your career when you get into a particular career it kind of matters when you get in. So my wife and I, we graduated from our three private school degrees between us in the midst of 2008 the Great Recession, you know? So, we graduated with six figures in student loan debt with no plan and not exactly employable and in the midst of the Great Recession.

So, it was sort of like a crazy time to be getting into financial planning and I worked for a CPA at the time. During that process, I got to listen to a lot of her phone calls with clients who honestly Mark, a lot of the conversations went something like this, "Hey I'm sorry, Mrs. Client or Mr. Client. You know I know you're 62 years old and you're really looking forward to that golf course in your golden years, but I'm sorry I just lost you half your life savings. You have to go back and work another 20 plus years. You know I just lost you half your money. Your 401 K just became a 201K. That's sort of how a lot of the conversations went.

Much to my surprise it was all built on the stuff that we all were taught or at least I was classically taught to believe would save us. The white knight of Wall Street you know would come in and rescue us you know through thick and through thin. Like just hold on, right? Just don't look at your 401K. That was sort of the general mainstream education I got. Then as a CFP, they sort of backed that whole philosophy that you know really just buy term and invest the rest, buy and hold your mutual funds for life and just hope and pray. I guess I sort of felt like I was becoming a financial professional in the midst of a war and I was dropped right into the front lines at the start of the Great Recession.

So, that was a very intriguing, very scary time to be getting into this industry. But I'm glad I did, I guess if only because I wouldn't have wanted to be on my CPA side of the equation where I had to make calls and do what she did. That just would feel terrible to me you know to lose a client's money even a little bit seemed unacceptable. So, anyway that's sort of how I stumbled across this crazy industry and we've had a lot of fun ever since.

Mark Podolsky: Wow. So, what are some of the worst advice you see or hear given in financial planning?

Mark Willis: You know I'd say, the four most dangerous words in your financial vocabulary is, do it for me. Do it for me.

Mark Podolsky: Do it for me.

Mark Willis: Yeah. If you let somebody else completely just run with whatever you've given them and you aren't watching it and invested in following and engaged, it's your money. No one should care more about your money than you do. I don't care if it's hedge funds or raw land or contracts or stocks or bonds, it should be something that you're aware of what's going on. It's your money. No one's going to care more about it than you do. So, that's one of the biggest mistakes I see is you know people are working yeah, toward you know a financial future that they have no control over and no idea what's going on in their portfolio. That's what I guess maybe the biggest risk or the biggest problem.

As far as, like, traditional financial planning and financial advice Mark, I'd say some of the biggest problems are we're really told quite a few just outright lies about what's actually going on in our 401Ks, IRAs, Paper Assets. You know I'll just quote a quick study that I like to watch each year. There's a third-party research firm called Dell Barr. Dell Barr Inc. has this yearly study they put out that actually tracks the real results of investors: mutual fund investors, bond funds, equities index funds, ETFs. They want to see what's the true actual result of people who are participating in the stock market you know generally their overall goal of the study. Over the last 20 years, okay, over the last 20 years, they've experienced a 3.88 percent return is the real return of average investors in equities stocks. If they're all in on stocks 100 percent.

Mark Podolsky: That’s terrible.

Mark Willis: Yeah.

Mark Podolsky: That's horrible.

Mark Willis: I mean, so what is that? That’s maybe a percent or two above inflation maybe over that same period? That's according to Dell, Barr, right? They don't have a dog in the fight and that's during the last 10 years when we've had a massive bull market the longest in human history. So, what's going on there?

Mark Podolsky: That makes no sense to take all that risk and then have that kind of a paltry return. Why is that?

Mark Willis: I think a lot of people are quoted misinformation. You know you could look at your Google this or just search this or just read it in any magazine that the market goes up whatever 10 percent a year, some people will quote you over the last 100 years. So, how is it possible that real investors are getting something closer to three or three and a half or 4 percent? I guess the real problem comes down with the idea of averages. Mark, the truth is you could get an average return and still have no more money in your pocket.

I'll give a quick example. Let's say you started your investing portfolio with 10 grand and you just put it into this brokerage account and the brokerage account went up 100 percent this year. So 10,000 bucks double it to 20,000 by the end of the first year. Now, we're in the start of year two. Let's say that you do a negative return that you're 50 percent. You do 2008 kind of drop, right? From 20 grand you cut that money in half your back down to your original $10,000 after two years.

Would it surprise you, maybe not you, Mark, but maybe some of your listeners might be surprised to find out that you still averaged a return of 25% even though you’re ending up with the exact money you started with. A real return of zero even though you have an average return of 25% rate of return. Well, you know, I think it's wrong to do this but mutual funds are allowed to advertise an average rate of return, which means nothing in terms of purchasing or money in your portfolio.

Mark Podolsky: So, rate of return there's a rate of return but then there’s this other concept called rate of income. What's the difference and which is more important in your eyes?

Mark Willis: Yeah. So, rate of return means nothing. It's really just a change of the value of your stock. You know it's just a change in value up and down and up and down. It's worth nothing until you sell that stock and take that money either at a gain or loss.

So, I believe the best thing you can do in your portfolio is find things that produce the best outcome that you're trying to achieve. For a lot of our clients Mark, it’s income. They're looking for ways to get passive and I know this is what you really specialize in with your work, in raw land is the idea of what's the income that we can generate off of this asset whatever it might be.

So, if I look at the typical rule that most investment advisors will tell their clients, they'll say, "Hey Mr. client, you need to take no more than 4% of your portfolio to make sure that you have a good chance of success and not outliving your money in your golden years. 4% if anyone's ever heard of the 4 Percent rule.

Again, recent studies are coming out including a guy from my alma mater one of the professors PHD Wade Pfau. Wade Pfau from the American College, he actually has done some more recent research and said that now we need to look closer at that 4 Percent rule and give everybody the advice that it should be closer to 2.8% withdraw. So, let's put some numbers around that. Let's say you're a 401K millionaire, right? You've got a million bucks in your 401K. Most good research is telling you that you shouldn't take more than about 28,000 bucks out of that 401 K, 2.8 percent. That's pretty inefficient to put it lightly, right?

Mark Podolsky: Yeah, that's going to not really move the needle in your life.

Mark Willis: Yeah. 28 grand and that only gives you a, you know, nine out of 10 shot of not outliving your money and that's taxable income too. So 28,000 bucks after taxes what do you think? That’s closer to like 19', 20', $21,000? That’s the 401K millionaire?

Mark Podolsky: That’s the poverty line number.

Mark Willis: Yeah that's a millionaire lifestyle, man. So, I'm convinced that paper assets and the Wall Street casino is really one of the most inefficient ways to generate an income. They're truly just not designed to create income. So, you know when I was a kid my parents would tell me not to play with toys unless they were designed to be played in a certain way and I totally don't always agree with that. Sometimes you've got to be creative and throw the spaghetti against the wall and see if it'll stick, right? But when it comes to financial vehicles you want to make sure that you're using it in the way it was designed. So, you know stocks bonds mutual funds are not an income-generating asset; at least not the most efficient way to generate an income. Maybe there's better ways. Maybe you know something about that Mark.

Mark Podolsky: I definitely do and my listeners are all about that. But there are some people unfortunately you know for those people that for whatever reason you know they … Let's just pick on a surgeon, right? They have so little economic dependency but they have very high incomes. For them to start working the land business they don't have time to do it, right? So, they want an even more passive vehicle which would be okay if I'm making you know 800,000 a year I'm going to save 200,000 a year whatever it is. Pay my taxes, save 200,000 and I'm going to put it in this vehicle so that I am going to be able to eventually stop working at some point.

Now, if you were talking to that person they have a plethora of options. We know just based on the beginning of our conversation that they're, the typical conventional option is not going to get them where they want to be. So, what would you say to that high earner?

Mark Willis: Man, you're right. There are over 450, I tried to keep track of it as I went through my studies and I've worked with other clients over the last decade. I've kept up with at least 450 different financial vehicles. Okay so, particular financial places to dump money. Now you can combine those two vehicles together you know like nitro and glycerin or peanut butter and jelly you can combine those things together and make a strategy. So now, we're talking about tens of thousands if not millions of ways to put the money to work and it can be overwhelming.

I mean this poor guy, he's just trying to be the best surgeon he can be you know in your example. We could, you know, say that the same for the school teacher or for anybody else out there. What is it that I want my money to do for me? That's maybe the most important question. Anyone listening to this can ask themselves. What do I want my money to do for me? That's a good question. Most of the time we're doing stuff for our money, right? That's what a job is, right?

Mark Podolsky: Right. Yeah, absolutely. Yeah, exactly.

Mark Willis: So, let's take at least five minutes out of your very busy life and just ask yourself the question. What do I want my money to do for me? And it's a fun kind of creative brainstorming session you can have with yourself. In fact, if you're the type that likes to journal or whatever you can grab a sheet of paper and write down. Not while you're driving if you're listening to this on the road. But ask yourself the question hey if I was Pope of money you know? If I could wave a magic wand and create my own perfect financial vehicle, you know. If I could just decide for the sake of deciding that I want this perfect financial instrument to have all these certain characteristics, attributes, you know qualities. What sort of things characteristics adjectives do I want that money to have? What would I want to be important for me? What do I want my money to do for me?

So, I did this for myself in fact. When we were just getting out of you know the massive amount of student loan debt that we were in and really trying to find the best way to build a financial platform for our future, I started writing myself a little list. You know I wanted things like access to cash. You know young family just getting started, need money for the stuff of life, the down payment on the house, paying off that debt hopefully, buying the cars and so forth and investing and taking care of emergencies. I wanted something also that would give me some sort of predictable return. I wanted an actual real return that beat inflation but that wasn't going to necessarily be a smoke and mirrors game like most of the mutual funds I was reading about. You can keep going. You know like tax advantages. I mean can you think of anything else that you'd add to that list, Mark?

Mark Podolsky: Well, I mean yeah, absolutely. I think that tax advantages is a big one. I think flexibility is the big one. So, often you look like let's just pick on retirement plans, right? I have got a QRP that has tons of flexibility. I can borrow from it. There's almost anything I can do with it. I have check-writing privileges. But before I did that I was stuck. I had you know a third-party administrator. It was almost like this custodian was in charge of my money and you almost felt scared to mess with it and I had almost no flexibility. The fact that I was investing in ETFs I thought oh this is an inefficient strategy but I wasn't getting outsized returns and it was not great.

Mark Willis: It's true. Yeah, you're right. It's funny that there's a third-party administrator for you own money. Doesn't that tell you something about how you know whoever made that retirement vehicle how they perceive you or me in being able to handle and manage our own money if we need a third party? It's like a nanny, right? I've got a three-year-old that could use some help but I think as adults we should be able to do what we want with our own money. You're right flexibility is huge especially for real estate ventures or other investment opportunities. You shouldn't have a prohibited transaction if it's going to be your own cash that you've saved up for right.

Mark Podolsky: Right.

Mark Willis: I should be able to lose my money if it's going to be my right to do that, right? So yeah, flexibility is huge. I want it privately owned. I want to be able to keep it off the radar of creditors. I don't want to get, you know, some predator credit attaching themselves to my estate or my net worth. Guarantees that the money is going to be there when I go to look for it. I mean, I can't really do over this whole retirement saving thing or this financial life that we're building. So, I wanted some sort of predictable guarantee of the principle itself. All those things were kind of baked into my search in pursuit of finding these financial vehicles.

I tried to start with function before putting labels on it, right? I came to the CFP training and all of my work to find clients similar to all of us. You know we're kind of raised to think that certain financial vehicles are a bad investment. Others are you know the white knight in shining armor you know. But coming through I guess you could call me a post-recession planner Mark. Coming through that experience really told me that you really want to find the first principles, what's the first and most important thing that the money is doing when it goes into that QRP or that Roth IRA or that mutual fund or whatever?

Anyway, so when we were really doing our own research my wife and I found something, it was a dividend-paying whole life insurance contract for us that met all of our requirements. That big list I just gave you? That was the particular financial vehicle that gave us kind of the juice that we wanted for our paying off our debts. We actually could talk about this if you want Mark, but we used the whole life policy actually to buy back our debt from Sallie Mae and all the other creditors that we had. We even used it then to invest in some real estate and buy our cars and prepare for our tax-free retirement. I mean the list goes on and on, but it was a modernized form of whole life insurance that really met all of my requirements for what I wanted my money to do for me.

Mark Podolsky: Interesting. So you know, we are hearing a lot about this now. You know I think that the real popular term is infinite banking. But you've got a different term for it; it's Bank on Yourself. Walk us through that and why is self-banking better than traditional banking and what are the advantages of it and who would it not be for?

Mark Willis: Yeah. All smart questions. So, what is it? Again, it's not your father's whole life insurance so I'll just say that upfront. It's a modernized form of 160-year-old asset that's grown guaranteed every single year through market booms and busts. Okay, so it's an insurance contract. Just like when you get a contract for raw land or a piece of real estate you're getting a contract and in fact, the contract itself with the insurance company guarantees you will have more money this year than you had last year, guarantees, okay. And that money is going to guaranteed grow to your death benefit by the time your you know age maturity which these days if you can believe it Mark is 121 years old. If you pass away before that your family gets the full death benefit income tax free.

So, that's what most people hear when they hear life insurance, oh the money I give my family someday. This is different. This is sort of like rather than renting the life insurance like a term insurance policy might be. This is more like owning the contract on your own life which gives you some equity. It gives you some accessible cash called cash value. That's the key really to the rest of the conversation because it's that cash value that you can use and operate like a financial management tool for everything else that's going on in your life.

So, the returns are going to be pretty conservative. Somewhere in the middle single digits, I'd say over the long term. It's usually accessible and the cash is totally tax-free income tax-free if you designed the properly designed policy there. Maybe most importantly for our conversation is when you access the money if it's a Bank on Yourself and specifically Bank on Yourself and we can talk about the distinction there. If it's a Bank on Yourself designed policy the policy will continue to grow even on the capital you borrowed as if you did not take a loan from the policy. So that gives your money the ability to kind of do two things at once. You know you've taken the money out of the policy, you've invested in the raw land or whatever else you might decide to purchase and the policy continues to grow uninterrupted. So, what's that Charlie Munger quote? You know the most important thing about your money is that it never stops compounding.

Mark Podolsky: Right.

Mark Willis: Well, here's one example of how it can do that.

Mark Podolsky: That's brilliant. So who is this not for then?

Mark Willis: Yeah, smart. So it's obviously life insurance. So, I will say that you cannot be the insured just because you want to be. Sometimes health issues can keep you out of the game as the insured but you can still be the owner of a contract on somebody else like a business partner or a spouse or child. But it's specifically not for someone who cannot save. Let's just be honest it's still you putting your own money, your own capital, into a system that you control and that is that old fashioned idea of you know living on less than you make. So, it still does mean saving putting it somewhere living within your means. So, it's not for somebody who does not have two pennies to rub together so to speak.

I'd also caution people to look into this, if they're only interested in the rate of return of the policy itself you're going to be disappointed. Because it will beat other cash equivalents, Mark. You know if you're looking at this compared to say a CD or money market account it'll do great. But if you're looking at this as compared to some of the incredible opportunities you show your clients with some of the returns that you offer it's going totally underwhelm and disappoint. It's not meant to be an alternative investment. It's really not an investment. Whole life insurance is really again it's sort of that nitro to your glycerin right.

Mark Podolsky: Right.

Mark Willis: You know you put the whole life contract in force, you fund the policy max out that thing know just over funding that whole life policy flooding it with massive cash supercharging its growth with how it was designed by the advisor and then you've got all this dry powder, right? To go put it to work when you find an opportunity when you find an incredible opportunity to invest. The point is you use the policy almost like your opportunity fund of contingency cash. You invest in the deal whatever it is and when you're ready to sell that you put it right back in your policy to use all over again.

Mark Podolsky: Makes a lot of sense. So you've got the flexibility and you've also got the guarantee. So you're mitigating your risk. So you're going to get a return. So you've got this risk-return ratio, right? So in exchange for taking very little risk, you're not going to get outsized returns. That being said you're going to get that big piece of it that gives you that flexibility so that you can take that money to buy down debt or invest in something that could get you an outsized return like oh I don't know raw land.

Mark Willis: Yeah. There you go.

Mark Podolsky: Where you're averaging 300% to 1000%.

Mark Willis: Come on.

Mark Podolsky: So, that is really great. I've got a question for you. What does it mean to go upstream financially?

Mark Willis: Yeah. Well, it kind of goes to what you're doing helping your audience do. So, a lot of folks start at the baseline tributaries of the delta where there's a lot of runoff right? Where you're just scratching together what you can to pay off the creditors in your life or just putting together a little bit of an emergency fund let's say.

Let's talk about going upstream so maybe you started at that level and you're just barely eking by paycheck to paycheck and maybe you're renting an apartment or something. Maybe one way upstream might be well maybe you buy a home and then maybe you get to a point where you feel like you can invest in other properties and you flip a property or something or you get some other opportunity. Maybe you get into rental real estate and then heck maybe you're tired of being a landlord so you move upstream again and you just become a mortgage service company, a private money lender or something like that to other investors. So, that's just one pathway upstream.

But the key is you want to continually have a bigger and broader mindset. Again, this all goes back to how you think. You know if you can see yourself moving upstream rather than just living sort of in the shallow pools of where you are today and I think honestly listening to podcasts like yours Mark, is one great way to help expanding people's mindsets to knowing what's really possible in their financial life. I guess one of the key things that I've learned with our clients working with folks all over the country, is that it does come down to who controls the environment where your money lives.

To use that upstream analogy again, you know the fish is usually the last to notice that he's wet. You know so most of us don't even know what environment our money is living in. We don't know that if our money is in a 401K or IRA and we have even a low 1% per year fee on that 401K or IRA over a 30 year period according to the Department of Labor, a third of our life savings will go to the investment advisor who took no risk with your money, right? He gets a guaranteed paycheck while you take on all the risk.

So, that's one example or using a hillock or line of credit as a key part of your portfolio. That's once again the banks are in control of the environment where your money lives if you are using a line of credit as a source of capital for your investments you know a banker is a fellow... This is a Mark Twain quote, “A banker is a fellow who will lend you his umbrella when the sun is shining but wants it back as soon as it starts to rain.” So, that quote sort of points to the control of the banker keeps, right? So, if you could become your own source of financing, if you could roll that whole function of banking in-house rather than outsourcing it to the mega banks down the street, you're going to win against your competing real estate investors every single time. So, that's what it means to move upstream financially. It's step by step asking yourself you know how can I take more control over my financial future and not take unnecessary risk.

Mark Podolsky: All right. Well, Mark, this has been fascinating and I really appreciate the mentorship. But now we're going to ask you for your tip of the week: a website, a resource, a book, something actionable for the Art of Passive Income listeners to improve their businesses improves their lives. What have you got?

Mark Willis: Wow, right on. Well, it's so important again that you build up a ready access to capital. So, here's my tip. Take a look at what you earned last year and take a look at what your net worth changed over the last 12 months. Did it go down or did it go up? If it went up to let's say you made a total of $100,000 pre-tax, okay? So, you write that number down on a sheet of paper.

Next maybe your net worth went up by $10,000. That means your volume of savings was 10%, 10%. I would suggest that it's not about the rate of return in your 401K or whatever investments you have. It's about the volume that you're able to set aside. What kind of volume of savings can you achieve? You know back in the 40s it was 30% of our income. These days it’s averaging about 5%. So, what if you could bump up the volume of your savings by one percent each year for the next 10 years and put it this that you can access control and enjoy and understand. So, that’s what I would recommend as a tip of the week. Increase that volume of savings by just 1% a year.

Mark Podolsky: I love it. My tip of the week is, learn more about this. Find out how you can get total control of your money, start learning how to bank on yourself, get that rate of return, get that rate of income, get the flexibility, get out of debt, diversify your tax strategy, start by investing in real estate with this model and just talk to Mark to learn more. The best way to do that is go to LakeGrowth.com, LakeGrowth.com.

Mark Willis: And if I may, can I point your listeners to a website where they can actually hop on our calendars to meet with us and chat for a 15-minute strategy session?

Mark Podolsky: Absolutely.

Mark Willis: The website to go to is GrowMoreWealth.com. We made it nice and easy, you know, GrowMoreWealth.com.

Mark Podolsky: GrowMoreWealth.com, awesome. Well, Mark Willis, this has been fascinating. Thank you so much. Are we good?

Mark Willis: Rock and roll, man. Keep up the great work.

Mark Podolsky: Thank you. I want to thank the listeners. I just want to remind you the only way, the only way I'm going to get quality guests like a Mark Willis from LakeGrowth.com is if you do us three little favors: you've got to subscribe, you've got to rate, you've got to review the podcast. Send us a screenshot of that review to Support @TheLandGeek.com. We are going to send you for free the $97 *Passive Income Launch Kit* and we are also going to send you for free our *Wholesaling Course* which teaches you how to double your money 30 days or less to get that cash and start building up into the world of passive income. All right, Mark Willis, thanks again and I want to tell the listeners, let freedom ring. Thanks, everybody.

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