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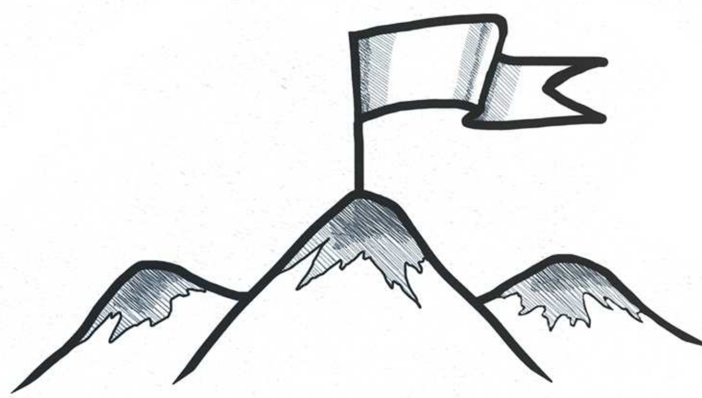

HOW TO BUILD YOUR FINANCIAL TEAM

Even if you're not cut out for a sales team, you still need a team of financial advisors to help you keep what you earn.

By G. M. Filisko

A DIFFERENT KIND OF TEAM:

HOW TO BUILD YOUR FINANCIAL TEAM

The painful truth is that real estate pros are incredibly talented and skilled, but many are notoriously less so when it comes to handling their personal finances.

"I learned very early in my career that it's not about the money you make but the money you keep," states Brent Lancaster, ABR®, AHWD, BPOR, e-PRO®, GRI, MRP, PSA, SRS, broker at Brent Lancaster & Associates and owner of two real estate schools covering several states. "I think many agents focus on things like gross commission income, being number one in their company, and awards, butthere's not a lot of focus on keeping the money they bring in."

Sure, you'll develop a personal financial plan, you think. It's right there on your to-do list.

That's the problem, says Lancaster. Many agents have improving their personal money management on their to-do list. Yet that task keeps getting delayed so they can deal with seemingly more urgent matters.

But what's more important than your long-term financial happiness? More importantly: You don't have to do this alone. In fact, you shouldn't. Just as many agents have built real estate teams, you should build a financial team. Lancaster, who was the presenter on this topic at REBI's February webinar on this topic, and others, explain how.

Tech tools get you going

"The two biggest sticker-shock moments for agents are their first year and their best year," says Lancaster. "If you've never worked in a commission-based industry, the first year comes as a surprise. The same happens with your best year. In both cases, many agents realize, 'Holy smokes, I don't get to keep all this money.'

"For many agents, 2020 and 2021 have been really good years," he adds. "So the time to start thinking about financial planning isn't at the end of the year, but yesterday. Since that's not possible, it's today."

What holds many agents back? "I think agents don't do financial planning for a combination of reasons," says Jordan Curnutt, CFP™, of Quantum Financial Planning in Spokane, Wash., who works with top-producing residential agents. "The first thing that sticks out to me is just how busy they are with their own work. Sometimes they neglect their own well-being, especially their own finances. But the top producers I work with are used to delegating, so it's been a real natural thing for them to delegate their finances to others.

"Also, asking agents to provide us with a personal budget is about as fun as getting a tooth pulled," he states. "We don't ask anymore. We have our own software, but there are others agents can use even if they're not working with an advisor."

Brent Lancaster
ABR®, AHWD, BPOR, e-PRO®, GRI, MRP, PSA, SRS

Broker
Lancaster & Associates

Owner
Two Real Estate Schools

Baton Rouge, Louisiana

With today's tech tools, you link your bank account and credit card to allow your financial data to be downloaded; the tools then show where your spending is. "Data is so important, and if we can automate that for agents, it helps," says Curnutt. "The more we can have technology taking things off their plate, the better."

Jordan Curnutt, CFP™

Certified Financial Planner
Quantum Financial Planning

Spokane, Wash.

His top recommendations are Mint and EveryDollar. "Mint.com is the number-one version, and it's owned by Intuit, which owns TurboTax," explains Curnutt. "The other app I like is EveryDollar. It takes a little different approach, and it costs money, where Mint is free. Those are the tools I've had the best experience with."

If you do nothing else, use one of those, or another tech tool, to begin tracking and reviewing your finances.

The team approach

The more comprehensive tactic is to build a team of advisors, each of whom serves a different and unique purpose. That's the approach Lancaster has taken and suggests others do, too. Here are the players he recommends adding to your team:

CPA

"I started working with a CPA when I got married and we had multiple incomes," says Lancaster. "My wife was a W-2 employee, and I was an independent contractor. I didn't know how to work all that.

"I first chose a CPA at random, which was a mistake, because I didn't know what questions to ask," he recalls. "We got a CPA who wasn't familiar with what I did in real estate and didn't give us sound guidance. That cost us thousands of dollars. For example, mileage can be key if you're traveling as many miles as agents do. There are two ways to handle that, and a CPA should be able to explain the benefits of each. The CPA we first worked with suggested one way, and that turned out not to be the best way for us.

"And if you're looking to invest, there are advantages and disadvantages to various approaches," adds Lancaster. "Having a person on board who knows where you want to go can be very beneficial."

Lawyer

"I consider having a lawyer on my team an insurance policy," says Lancaster. "When you get into the minutiae of an issue, where you think something isn't going to be a problem, it's going to be a problem. For example, we do some commercial leasing, and I'd never do that without having an attorney look at those leases.

"Also, I think many agents start as sole proprietors," notes says. "Then when they begin earning more than $60,000 or so, they should probably switch to a limited liability company. When they surpass $100,000, they should probably structure their business as an S corporation, where you pull a salary. A lawyer can help you figure all that out.

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"You also need a will," states Lancaster. "Many people think you have to be rich to need a will, and I completely disagree. I've seen families torn up and apart when there wasn't a will. We had a deal where all three kids walked away with $1.2 million each, and they don't speak today. It's all because dad didn't have a will, and each child was told something different. Relationships change when people pass away."

Insurance agent

"If you're going to put any clients in your car, you need the proper coverage amounts in your insurance policies," insists Lancaster. "Let's say I'm in the luxury home market driving around doctors to see homes and I run a stop sign. The doctor then can't do surgery due to an injury caused during that accident. Who's paying those losses? Make sure you're insured.

"Some states have mandatory errors and omissions insurance, others don't," he explains. "But whether you're right or wrong in a dispute, you have to defend yourself. That costs money. Also, I think there are two big issues agents need to be specifically insured against today: wire fraud and fair housing.

"Most policies have limits on coverages, so understand what your limits are and ask whether they're enough," says Lancaster. "Think about disability insurance. If you can't do business due to an illness, how is your family going to be taken care of? I'm a big believer in life insurance. If something happened to me, my family would be sad, but they'd be taken care of, so they wouldn't be sad and broke. And umbrella policies that cover losses beyond those in your other policies are huge. I think especially if you're a broker, you need an umbrella policy."

Financial planner

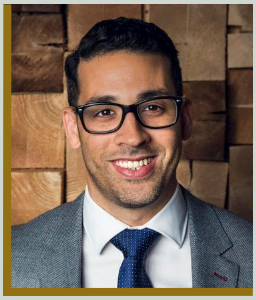
Why would you need both a CPA *and* a financial planner? "CPAs and CFPs think differently," explains Lancaster. "They approach problems differently, and I enjoy having them in the same room. Recently, I had a conversation with my CPA, financial planner, and lawyer over a SEP retirement plan versus a uni-K plan. My CPA asked why that was necessary, and my financial planner was able to explain that in a way that made sense."

Just as there are various ways real estate pros are paid, financial advisors have various pay structures. Some earn commissions on products they sell, such as annuities, or actions they take, such as trades. The complaint some level is that those advisors may recommend an investment that earns them a heftier fee when another might be wiser or perform better for the client. Other advisors charge an annual, hourly, or flat fee. Still others might charge a fee plus commissions.

The key is to ask how financial advisors are paid so that you understand when they might have skin in the game. And if it's important to you, also ask whether they're a fiduciary, as you are to your clients.

Think beyond real estate

Perhaps you're investing in real estate, so you think you don't need financial planning help? That's a common thought process among real estate pros, but it may be risker than many realize.



Daniel Rey

CEO and Wealth Manager
Voyage Retirement Solutions

Orlando, Fla.

"More often than not, clients who are real estate professionals are heavily invested in real estate," says Daniel Rey, CEO and wealth manager at Voyage Retirement Solutions in Orlando, Fla. "I believe real estate should be in everyone's portfolio, but your portfolio needs to be balanced and diversified."

Curnutt offers an example from recent economic busts. "It's similar to folks in the corporate world being awarded a bunch of stock options from their employer," he explains. "We know what happened in 2001 and 2008. When you have almost your entire net worth invested in one asset class, that's risky. The same logic applies to real estate agents. Do you really want your entire net worth in one basket? It comes down to diversification."

Also, real estate isn't typically a ready source of cash in an emergency. "With agents' variable income, there's often the issue of the seasonality of their business, plus there are market cycles in real estate," says Curnutt. "I sometimes have to convince my real estate clients to have the correct amount of cash on hand."

Just as you can have too little cash on hand, you can have too much. "Strangely enough, I've found that some of my real estate clients overallocate to cash," says Curnutt. "I met with an agent earlier this year who was in her 50s who had $8,000 in her retirement account and $160,000 in her checking account."

Curnutt suggests a tiered system for his clients' money. It starts with a checking account. "You need this, but you probably don't need $160,000 in it," he jokes. "Then you need a high-yield savings account as your emergency fund. That's followed by a brokerage account that's liquid but that you're taking some risk with in exchange for a higher expected return in the long run. Then there are retirement accounts, and finally there are illiquid assets, such as real estate.

"The idea is that you shouldn't sacrifice long-term growth potential for too much security," he says. "That's a balance. It comes down to your risk tolerance, and it might change over time."

There will be rainy days

However you manage your finances, there's a basic rule Lancaster learned early on that he believes would serve most real estate pros well. "If you're having your best year, try to keep as much as you can to prepare for when you don't have your best year," he advises. "A good book for high-net-worth individuals had advice I always remember: When you become an attending doctor, still live like you're a resident. In real estate, I think that means you should spend like you're having your worst year.

"That's the big problem I see with real estate professionals," says Lancaster. "Most agents don't pay down debt or save. When you have your best year, do one or the other. The pendulum will swing back, but you'll be safe if you've prepared for it.

"COVID-19 is a good example," he notes. "When the pandemic hit, we were able to tell our employees: 'We've saved up, and nobody's getting laid off or fired.' That took stress off me, my staff, and my team, and it gave us the financial freedom to make better decisions during the pandemic. We were able to maneuver faster as a result."

G.M. Filisko is a lawyer and freelance writer who specializes in real estate, legal, business, and personal finance topics.