



# HOW TOP PRODUCING REALTORS CAN TAKE CONTROL OF THEIR VARIABLE INCOME

5 Steps for Managing Your Seasonal Income, Building Wealth, and Taking Advantage of Opportunity



### **Seasonality, and the variable income**

that comes with it, is a fact of life for Top Producing Real Estate Professionals. According to a 2019 NAR member survey,\* 12% of members earned in excess of \$150,000 per year. What this statistic leaves out, however, is **what their income looks like on a monthly basis**. If we examine the number of sales by month in Spokane County, Washington, we can see that in February 2020, there were 461 sales completed. By comparison, July 2020 boasted 986 sales for the month. This means that **July had roughly 113% more transactions than February!**

Since a real estate agent's income is directly linked to transactions, this stark contrast in volume between months can present a problem when it comes to **monthly cash flow** for the agent. Let's translate the above example of sales data into income. A "normal" employee on a salary of \$250,000 would receive gross compensation of \$20,833 per month, every month, for the entire year. In our hypothetical scenario, a Top Producing Real Estate Professional with the same annual gross income could experience a month as

low as \$13,661 and a corresponding high of \$29,220. That is a substantial difference and represents a challenge to **personal finance** that the average highly compensated employee does not have to manage.

Unfortunately, we have seen most Top Producing Real Estate Professionals combat this issue by **overweighting their position to cash** in their checking account. Don't get us wrong—having cash on hand is king and is the first step in our cash management system. But there is also a tipping point at which having a large cash position for an extended period becomes a **drag on your overall financial plan**.

After continuing to see this scenario play out with our clients, we decided to create a cash management solution built **specifically for Top Producing Real Estate Professionals**.

Our cash management system for managing top agents' cash flows allows Realtors to feel **the security of having a complete emergency fund** with optimized cash accounts while **avoiding the limited expected returns** that come with over-weighting such a low-risk asset class.



## STEP 1

### The Checking Account

We start with the basics. Everyone has a checking account for everyday expenses, such as mortgage payments, credit card bills, gas, groceries—you name it. This account allows for the most convenience, no fees at most banks and credit unions, and also **NO RETURN**. This is especially so in the low-interest-rate environment that we find ourselves in through 2021.

That said, **a checking account has its role in your cash management plan**. In this step, we recommend maintaining **two months of living expenses**. This allows you wiggle room and eliminates the need to check your balance consistently, worried you are going to overdraft the account. But it also **limits the amount of dollars** you have sitting in this 0% return account to a mild roar.

Two of the biggest detractors to your checking account are **taxes and inflation**. For every dollar that you have sitting in a checking account, you are losing the battle to both taxes and inflation. That said, this is a cost we will gladly pay in exchange for **convenience and peace of mind**. However, it **should not be over-weighted to the detriment of your long-term goals**.



## STEP 2

### The High-Yield Savings Account

While **we love our trusted banks and local credit unions** for their checking accounts, they do have limitations when it comes to interest payments. If you are anything like our typical client, you opened your first bank account at age 16 and have maintained it ever since. You have likely developed a deep loyalty to your credit union or bank, and **continue to use their savings account even knowing it is subpar**. The problem is the math doesn't lie when it comes to brick-and-mortar savings accounts, so don't leave money on the table!

Online banks offer high-yield savings accounts. In exchange for not having to maintain the costs of a brick-and-mortar location, they **pay you a higher interest rate** on your account along with **providing the security of FDIC insurance**. They do come with some restrictions, however. For example, you may face a five-transactions-per-month rule, which would prohibit you from using the account as your everyday checking account.

When you open an HYSAs, you typically can link your standard checking account via the mobile app or online login. Going forward, moving funds back and forth between the two accounts is only a click away, and the money typically moves in only a couple of business days.

We recommend that Top Producing Real Estate Professionals **keep the balance of their target emergency fund in an HYSAs**. This often amounts to an additional **four months of living expenses** on top of the two months of living expenses that are in your Step #1 checking account, although these targets can vary given your situation.

HYSAs provide the **perfect balance of safety and return** for the majority of your target emergency fund balance.



## STEP 3

### The Brokerage Account

After you complete your first two steps, you should be sitting on a fully funded emergency fund. So what happens with the dollars that you accumulate beyond six months of living expenses? Let us introduce you to the brokerage account.

This account type is an **investment account** that does not have any special benefits surrounding retirement or taxes (don't worry, we will get to those soon). The goal of Step 3 is to provide a **backup to your emergency fund** without sacrificing expected returns on your money. Brokerage accounts allow you to access your investments for needed expenses without incurring the tax consequences or penalties associated with a premature distribution from a retirement account such as your 401(k) or IRA. Brokerage accounts are instead taxed on the dividends and capital gains they generate each year.

The **flexibility** provided by a brokerage account can have a meaningful impact on your approach to money management. Knowing that you have access to a **large bucket of liquid assets** in a time of need can provide peace of mind with your personal finances.

We always recommend that highly successful real estate agents invest their brokerage accounts in assets that are **not associated with real estate**. In many cases, Top Producing Real Estate Professionals are already **overly concentrated to real estate** as an asset class. A brokerage account allows the opportunity to **diversify your net worth** among lesser correlated assets.



## STEP 4

### The Retirement Account

Up to this point, the main emphasis of the cash management system has been security and flexibility. But now, with three steps dedicated to achieving those needs, we turn to retirement accounts for their added **tax benefits**. As a small business owner, you fully understand the **drag of taxes on your income**. Contributions to qualified retirement accounts can play a large role in reducing the impact of taxes on your financial plan, both today and in the future.

There are **many tools available for retirement account implementation**. Whether you have a company-sponsored retirement plan through your broker, your own plan for your small business income, or simply own a traditional or Roth IRA, the message is clear: **You have options** when it comes to utilizing the tax benefits that come with retirement account contributions.

The downside to contributing to retirement accounts is the **loss of flexibility**. Once you make the investment into the plan, you do not want to touch the funds until retirement. If you are **under 59½ years old**, you will likely have **taxes and penalties** for an early withdrawal. This loss of flexibility is the biggest reason we advocate for a **structured and balanced approach** to the account types you select in building your net worth.



## STEP 5

### Illiquid Assets

Illiquid assets are investments that are **not easily converted into cash**. Our previous steps have been filled with liquid assets such as cash, stocks, bonds, mutual funds, and exchange-traded funds (ETFs). But **illiquid assets are different**. The obvious common illiquid asset class that Top Producing Real Estate Professionals utilize in building their net worth is **directly held real estate**. It is not uncommon to accumulate a handful of rental properties over the course of a career as opportunities present themselves.

The significant upside to be had with purchasing direct real estate investments as an agent is **leveraging your expertise**. Real estate markets are not always efficient, meaning every now and then **a good deal comes along**. Your ability to **identify and capitalize** on these events is your greatest advantage when it comes to illiquid assets and one of the biggest reasons we advocate for the **use of a liquid brokerage account** that is accessible if you come across the perfect opportunity in a property.

That said, we must remember to circle back around to our concept of diversification. Remember, **100% of your personal business income is already tied to real estate as an asset class!** For this reason, you will want to continue to verify that you are not overly concentrated to real estate in your **overall net worth calculation** along with your annual income.

## The Full-Service Solution: The Top Producing Real Estate Professional Financial Planning Process

The Top Producing Real Estate Professional Cash Management System allows you to **optimize your expected returns on your net worth, while still providing the stability and flexibility** you need to have full confidence in your finances and focus your attention on what you do best, **growing your business.**

We encourage **all top producers to implement our cash management system**, but if you are struggling to put it all together, consider our full-service **Top Producing Real Estate Professional Financial Planning Process** built specifically with your needs in mind. As one component of our annual service calendar, your financial team will proactively engage with you four times per year to ensure that your cash management system is **properly optimized** for your specific scenario.

**To learn more about our Top Producer Financial Planning Process, we invite you to schedule an insight meeting with the Quantum Team via the link below:**

➔ <https://calendly.com/jordancurnutt/realestatescheduling>

Additionally, if you would like to stay up to date with everything financial planning-related and specifically for the issues that mean the most to Top Producing Real Estate Professionals, be sure to follow us on our social media accounts.



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