

Wholesaler Warning

Before you buy a deal from a wholesaler I want to share a little tribal knowledge with you. As you know Phill and I want to make sure you don't lose any money from buying overpriced deals from wholesalers.

I have to warn you about any and all deals from some of the Big Box Wholesalers. Some of these large wholesalers use scarcity to sell investors deals without giving the investor enough time to do their analysis and due diligence. IE – they'll have a lot of investors meet at a property at the same time and give it to the first person who writes them a check on the spot and usually without doing their due diligence (value/ARV check, objective repair estimates or inspections).

They take non-refundable deposits and if/when you later realize that it's not a "deal", there's no way you'll get that money back. I've often told investors, "You'll lose less money if you let them keep the non-refundable deposit than you'll lose if you finish the project!" What a terrible welcome to real estate investing, right?

The wholesaler rules of thumb is that they commonly 1) overestimate the ARV – by 10-20% and 2) underestimate the repairs by 20-50%.

They give you the highest comps in the area and typically go outside of the area to get "comps" – ie they use comps in other higher priced neighborhoods. They also give you what is commonly seen as "make-ready repair budgets" – ie what you fix if you were going to lease the property as opposed to what you would fix if you were trying to get the highest ARV in the area (like the comps they show you).

The combination of these things result in many investors losing money. They count on you to use their due diligence – their ARV and their repairs to go under contract on the deal. They also count on the fact that even if you do do your due diligence later that you won't exit the contract (terminate the contract) because you don't want to lose your \$5K non-refundable deposit.

It's leveraging a cognitive bias that makes many people throw good money after bad thinking they'll make it up later – either by saving on repairs or allowing the market to "save them" by going up in appreciation. That's what I call gambling (not investing)!

Over my years as an investor I've seen a lot of people get burned by their deals. It's truly sad. We issue several warnings about their deals in the 3 day training. But the excitement and siren sound of a "deal" sometimes outweighs our warnings. Don't let this phenomena happen to you!

From here, I recommend two things and both begin with due diligence: 1) independently verify your ARV with your own trusted Realtor – not theirs and 2) independently verify the repairs with your own trusted Contractor – not theirs

Why do we do this? The wholesaler always has a conflict of interest – ie you only do the deal and make them money if you believe in their (incorrect) numbers....

Normally, you'll hear me and your coaches say "Always get it under contract!". We want to make sure we caveat that with "only with a negligible (\$10-\$100) earnest/option/non-refundable deposit" unless or until you do your due diligence.

If you've proven the numbers work – ARV, Repairs, Investor Maximum Allowable Offer Formula (70% of ARV minus repairs), etc. and you've confirmed your strategy and the availability of funds, then you can put down as much money as you care to risk (because something always comes up).

We always joke "If you want free coaching on your deal, take it to a hard money lender and ask "Will you fund this deal?" If the lender says "No!", what does that tell you about your deal? It should tell you "it's not a deal", at least not one you should do unless you are willing to lose money for the "experience". Experience is the toughest teacher out there, because it gives you the test first and the lesson later. In this case, it's the loss (of money and time) first and the lesson later.

New investors with a lot of money are most susceptible here. Why? Because they don't have someone look over their shoulder because they are not required to. If they were getting a hard money loan, that lender is guaranteed to help you, by helping you OUT of a bad deal!

You want to leverage over people's experiences and lessons without having to find out for yourself. That's why we have this Tribe. To share best practices and tribal knowledge so you don't lose money.

If you don't believe me, just put this simple post on the Investor Facebook page and watch the comments that will inevitably pour in "Hi investors – I'm looking at a wholesale deal. Have you had experience with XYZ Investors? What are your thoughts/recommendations?" The Tribe won't hold back in giving you both their opinion of analyzing 100's of their deals and their personal experiences with them.

I want you to get the expert advice from our community before you pull the trigger. But I'll tell you now that a lot of investors are getting emails from these large wholesalers already.

There is one thing you can take away from these wholesalers and in fact any wholesalers.... The one thing they do well? – they do the MARKETING! That's why we spend so much time talking about and teaching it. While there's no silver bullet for marketing (and that's why we teach 60+ strategies), the one bullet that could hurt you is doing a deal that you haven't fully vetted.

Trust in the Tribe.

Who in the Tribe can you go to to verify ARV?:

Simply put out a post "Hey investors, who is available for a quick ARV calculation on a deal I'm looking at?"

Who in the Tribe can you go to to verify Repairs?:

Simply put out a post "Hey investors, who is available for a quick repair estimate and calculation on a deal I'm looking at?"

While this may not be a motivational message to put out, it's a REAL message and it comes from a space of love and wanting to protect you. Real estate investing is fun and profitable, if you have the right Tribe. Stay engaged on best practices and great ways to safely invest and make money.

Much love, Phill & Shenoah Grove