PASSIVO
REAL ESTATE INVESTMENTS

4 INVESTING RULES FOR THE NEW AMERICAN DREAM

PASSIVE INVESTING FOR FINANCIAL AND TIME FREEDOM

BY LENNON LEE & STONY STONEBRAKER

Introduction

Want financial freedom?

Good, you've come to the right place.

Want freedom of TIME?

Now we're talking. In America, you can always make more money. Somehow. Somewhere. Just apply effort. But what is limited is time. Time with your family. Time with your spouse. Time to relax.

What you're about to read is our complete investment philosophy for how to achieve more free time by making the correct investment choices.

You just have to have the conviction to follow the four rules...

These are rules we learned over many years. Across different cultures. We made some good decisions, and some, we could have done better. We tried new things and hit a wall. Sometimes we played it safe, and sometimes we gambled.

Eventually, we learned.

But it's not just us. It's also hundreds of investors just like you who've worked with us. They've also learned to leverage these rules. To be guided by them. And how straying, even on one rule, takes them away from their goals.

And one more time: the goals are both financial and TIME freedom, through investing.

So let's jump in.

Why Listen To Lennon & Stony?

We're two business partners from very different backgrounds.

But in many ways, we shared a lot of mistakes. And finally, we figured out the right path together. And we know it will help you.

Lennon's Story

We moved from Venezuela to America. My Father was a retired politician, and my Mother ran a few family businesses. Mainly we had some printer/computer shops, and we ran an agro-tourism ranch. It was a full time grind running these businesses, but we made good money.

My parents bought three condos in Miami just after the market crash. Once we arrived in Florida, we also got a single family home to rent out. I was a young adult, and so one of my jobs was helping them clean the rental units, collect the rents, deal with the tenants, and all that.

Well, by 2015 the rents were not going up anymore. And it was a lot of work to maintain, for all of us. We wanted to upgrade to more units, better units... but honestly there were no more hours in the day to manage them all. And we were running out of ideas to scale our capital.

Fast-forward to today...

I am an investor in over 2,600 units in 9 projects worth over $200 million.

These investments pay an average of 8% per year (distributed monthly or quarterly), and I basically save it all on my tax bill based on the deductions from those holdings. Best of all, I never deal with clogged toilets or rent collection, and I can use the time to spend with friends and family, including my parents who invested alongside me and finally feel secure in their financial future.

Stony's Story

By all accounts I have lived the "successful" career life.

I worked on the landmark Apollo space program at NASA. Later, I managed the Telecommunications division at a large electric utility. After that I helped form a leading fiber optic transmission company and built a radio tower leasing business.

Truth be told, I worked much more than 40 hours a week. I saved for my retirement, and I invested in stocks, bonds, and mutual funds. I followed the traditional career path, and I was focused on career instead of financial freedom. Trading time for money.

Early in my career, I knew I wanted to leverage it all. So I got into real estate by buying a vacation rental condo. It was a good, but slow growth investment, without much cash flow. And it took too much time to save for the next investment. Without much time to learn real estate investing principles because of my career, I didn't know how to seriously build my real estate portfolio.

Today

Stock market volatility recessions, and housing crises are less of a concern.

I am truly diversified in my investments, and I make money while I sleep. Money that -- *like Lennon said -- I keep, because it is tax efficient. My portfolio grows while putting in less cash*.

* * *

What we wrote above isn't magic. It isn't special. And it doesn't necessarily require "life changing, transformative, next level" actions. No, that sounds way too weird and extreme.

We got to where we are now by learning a certain set of investment rules, and then working with a select network of the right people to act on those rules.

The whole purpose of this book is to show you the rules. Rather than the years it took us to figure it out, you can read it in one sitting. And then we'll show you some ways you can access the right professionals to put the rules into action.

So one last time, before we jump in...

As you read more you will learn the four absolutely essential investing rules so that you can enjoy the new version of the American Dream. Which means both financial freedom and freedom of time (to relax, to spend with your family, to create, to truly live).

Rule 1 Invest In Assets That Protect Your Capital

All investments have an element of risk.

Some are riskier than others. Typically the riskier ones have higher rewards. At a certain risk point we usually stop calling it investing and just call it gambling. And in gambling, you can lose it all based on just one bad move.

So before we even think about rewards, we need to plan to not lose our original capital.

Consider this: if you lose 50% of your original investment, you now need to gain 100% in returns just to break even. If you can confidently and consistently pick investments that produce 100% returns, well then you should be the one writing the book!

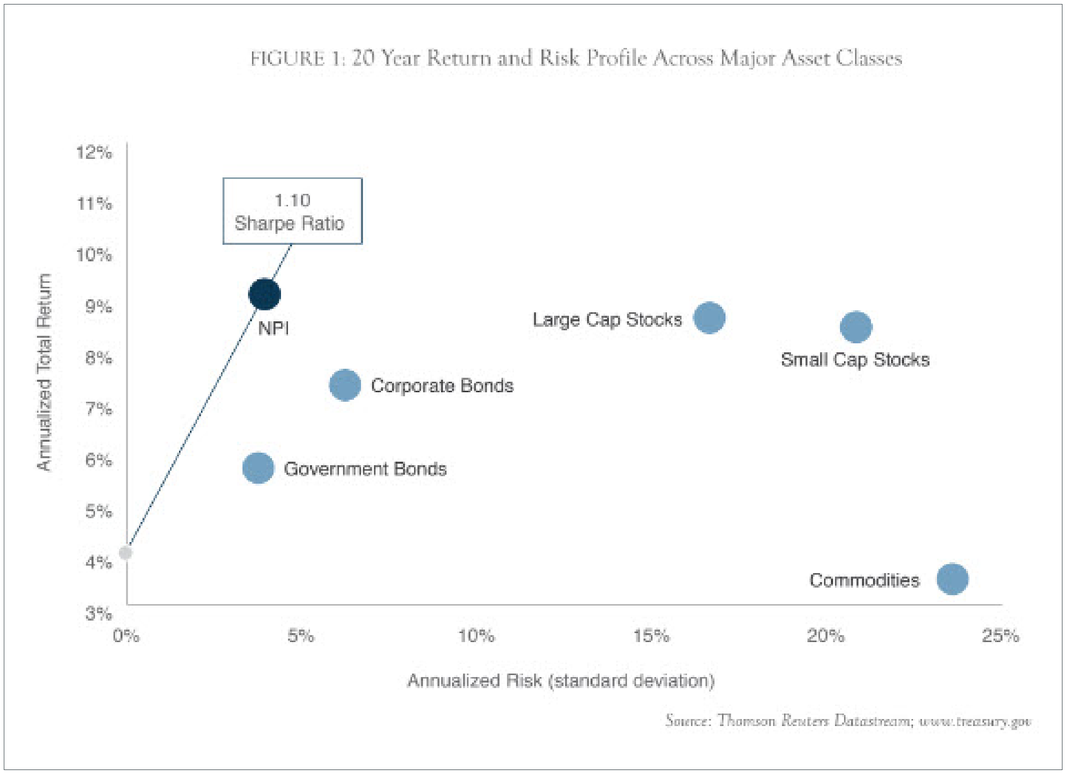
Let's take two fundamentally different yet very common types of investments: buying bonds and flipping houses. Most people know, off the top of their head, that bonds are less risk for less reward, and house flipping is much higher risk for a higher reward.

This is why the number one -- and most important rule -- for New American Dream Investing is to consider "risk-adjusted returns". This helps you select asset classes that balance healthy returns with a very low chance that you would ever lose your capital.

The investing world calculates risk-adjusted returns using the **Sharpe Ratio.**

This measures the potential returns in excess of what you would make in a nearly risk-free investment, and divides it by volatility (the standard deviation of expected versus actual returns). A higher Sharpe Ratio means a higher return for each unit of risk.

Based on the Sharpe Ratio, bonds are not bad. Unfortunately, you're not achieving any American Dream with the return on bonds. On the other hand, house flipping can have strong returns but force you to take on risk that makes them closer to a gamble.



The Sharpe Ratio for all commercial real estate segments is measured by the National Commercial Real Estate Investment Fiduciaries' Property Index (NPI) as seen on this chart.

It turns out that the ideal asset class (the ideal balance of returns to risks) is commercial real estate. Within commercial real estate, we have identified key strategies to narrow down specific investments:

1. Properties should have positive cash flow from day 1
2. Debt on Properties should be long term, with moderate leverage
3. Properties should have healthy capital reserves

We'll shed more light specifically on cash flow when we dive into Rule 2, below.

Rule 1 Summary

- All investments must start with the question "is my capital safe compared to all other choices?"
- Speculative investments like residential house flipping and real estate development are not ideal vehicles to protect your capital.
- Stabilized commercial real estate and bonds are lower risk investments with commercial real estate having the substantially higher Sharpe Ratio.

Rule 2 Invest In Assets That Generate Cash Flow & Have Tax Breaks

Often when we mention commercial real estate, people think of one word:

Developers.

However, this book is not about real estate development.

While it's true that they play a big role in the real estate industry, we don't generally advise you invest in new developments unless you are a professional. A major issue is the window of risk between when your capital is deployed versus when you start to see actual returns.

So what you want to look for is cash flow. Like how a stock pays you dividends, or a rental property generates monthly rents. That ties back into Rule 1, because it's harder to lose your investment capital when the investment is making money to begin with.

So forget about developing a new property. Let's focus on acquiring existing properties/ businesses that are cash flow positive from Day 1

Commercial real estate has historically produced the highest total returns to investors. And these returns are largely from the cash flow of tenants paying rent. Either monthly, quarterly, or yearly, the money piles up in your account.

But as the saying goes "it's not how much money you make, but how much money you keep."

See, Rule 2 is useless unless you understand which investments give you tax advantages to protect your returns (just like you protected your capital with Rule 1). Actually you are not just looking for an advantage, but an almost unfair advantage. The kind of thing that only the supposedly ultra-wealthy know about and use.

Well there is something that not a lot of people know about...

The good news is that it is accessible to you. It's a special form of depreciation that can be applied to real estate, and it is called accelerated depreciation. Conducting a Cost Segregation study allows this special form of depreciation to be applied, even for passive investors.

So even if you make pure profit, and your property accrues no expenses, the IRS will still let you write off a percentage of the building each year as depreciation. The principle is that assets depreciate over time, due to "wear and tear".

Even if your real estate has been renovated and can actually fetch higher rents, you still get to file your taxes as if the property depreciated. A Cost Segregation study allows you to separate your real estate holding into personal and real property. Residential real estate is depreciated over a period of 27.5 or 39 years. Personal property depreciates over 3, 5, 7, or 15 years.

For example, the flooring in a multifamily apartment complex may wear out faster than, say, the brick or stucco on the outside of the buildings. So you can apply the faster wear and tear of the floors as personal property, and be able to show a much higher expense in the current tax year, instead of dripping it out over the life of the property.

In case you think we are introducing all sorts of complicated extra tax filing hoops to jump through, think again. Partners/members on a commercial real estate project (whether active or passive investors) get a document called a K-1 each year for each property investment, which details all the tax efficiencies we spoke about above, and all they have to do is simply hand it over to their accountant.

You'll be pleased and shocked when your entire investment profits are balanced by corresponding tax write-offs... meaning you end up owing nothing to the IRS!

K Partner's share of liabilities:

	Beginning	Ending
Nonrecourse	$	$
Qualified nonrecourse financing	$	$ 69,509.
Recourse	$ 0.	$ 0.

☐ Check this box if Item K includes liability amounts from lower tier partnerships.

L Partner's Capital Account Analysis

SEE STATEMENT

Beginning capital account	$
Capital contributed during the year	$ 50,000.
Current year net income (loss)	$ -24,787.
Other increase (decrease) (attach explanation)	$
Withdrawals & distributions	$(358.)
Ending capital account	$ 24,855.

M Did the partner contribute property with a built-in gain or loss?

☐ Yes ☒ No If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

12 Section 179 deduction

13 Other deductions

14 Self-employment earnings (loss)

A 0.

21 ☐ More than one activity for at-risk purposes*

22 ☐ More than one activity for passive activity purposes*

*See attached statement for additional information.

IRS Use Only

This K-1 from a late year investment shows the first year net income (-$24,787) due to passive income depreciation which can be used to offset other passive income. Keep in mind, in the sample K-1, the distributions ($358) are very low due to closing on the property in the last two weeks of the year.

Even if the property was owned since the beginning of the year and the distributions were much higher (e.g., $5,000), the paper loss would still be almost five times higher than the actual cash flow.

So you must pick assets that are not only generating money, but also have a built-in structure to let you keep that money, and all while you sleep. This is the key to the mindset for the New American Dream:

Your goals must all be aligned to produce true passive income.

Rule 2 Summary

- You must pick a stabilized asset that is already bringing in cash
- New developments don't necessarily work, because of the window of risk before returns are generated
- You need to minimize the amount of taxes you pay on returns
- Commercial real estate (eg. apartment complexes) allow you to access accelerated depreciation through Cost Segregation studies to lower your tax burden

Rule 3 Invest with Professionals & Partners for True Passive Income

Notice we keep saying "true" passive income.

That is because a lot of our investors used to understand passive income from the point of view of a landlord or a businessman. They were buying and growing assets.

They "made money in their sleep". But wow did they sure work really, really hard for it.

And eventually they ran out of time and energy to keep building, and so they hit a money limit and had to stop buying.

So for this rule it's important that when you pursue passive income you stop describing yourself as a landlord or a businessman, and simply describe yourself as an "investor".

We'd like to tell you about one of our most successful investors, Jorge

Jorge's Story

Jorge was a second-generation immigrant. His Father had come from Cuba to start a successful construction business. And soon Jorge was in charge of running and growing that business. At the same time, his family had gotten into real estate by buying several small multifamily properties, eventually building a pretty decent income-generating real estate portfolio. By all accounts, their family was doing very well and basically living their own American Dream.

But while Jorge knew he was a successful businessman and landlord... he was not exactly a successful investor (and nothing about it was passive).

When we met him, he told us:

"I could be out there, using my only free time, to source more opportunities. But I realized that I need to spend more time with my family. Now I need a reliable partnership for deal flow and to diversify."

Jorge was ready to become a better investor. He also always asked questions and wanted new books to read, and we were happy to help him with that. But more than anything he was looking for a trustworthy real estate sponsor to be his active partner.

He was finally ready to use the power of true passive real estate investing.

Since earning his trust, he has invested in three separate properties with us. Each of them successfully protecting and growing his capital, bringing him passive income, and saving on taxes, without spending even an hour more of his time.

Commercial Real Estate Syndications

So we have now mentioned that commercial real estate (CRE) is the ideal asset class for Rules 1 and 2.

But the passive part comes when you use the vehicle of CRE syndications.

A syndication is when a group of investors pool their capital to buy a property. The investors are split into two classes: General Partners (the "sponsors") and Limited Partners (the passive investors).

Like Jorge, no matter how smart and successful and energetic you are, sourcing new deals, negotiating debt, and managing properties is a full time job.

If you want to achieve freedom of both finances and time, you need to work with trusted General Partners.

That's actually how we met Jorge.

We held a monthly meetup in Miami called "The Multifamily Investing Club". Since he already ran a few apartment buildings, Jorge knew how to tell if someone really understood real estate investing and operations (or if they were just all hype). He asked a ton of detailed questions about our experience and our latest deals. More than anything, he was looking to invest with **people** he trusted before he invested in properties.

The key principle here is he invested with people he trusted. It doesn't matter what the deal or the market is like if you aren't investing with people of integrity.

And we would encourage you to do the same.

Learn to properly vet a commercial real estate syndicator, and your returns will not just be in money but also in time.

Rule 3 Summary

- Shift your mindset from being a landlord or a business owner
- Become an investor, with the focus on true passive income (no extra work for more money and time)
- Focus on vetting people (the sponsors) before vetting properties or deals

Rule 4 Start Yesterday

Remember when we told you Stony's story earlier?

Well, at the risk of sounding ungrateful, we left out this one little detail that we will now reveal:

> "I am truly happy that I make money in my sleep, with a properly diversified portfolio, that allows me many tax breaks and of course more time with my family.
>
> But the truth is, I have one recurring thought that pops in my mind every time I see a new distribution go into my account, or I get another K-1 that allows me to avoid paying taxes, or I read about the many affordable, safe, and comfortable living spaces that we provide for our residents across America...
>
> And that thought is 'gee, I wish I would have started this a lot sooner'."

Since you can't actually start yesterday, we recommend you invest in suitable real estate syndications as soon as realistically possible.

You have likely heard of the power of compound interest.

That -- given a fixed rate -- the same amount of money invested now will be worth more than that invested in the future? Well that's just as true of returns in real estate as it is anywhere else.

Plus, all over America, businesses are failing. The stock market is so volatile that it's becoming much less passive. And then you may have to worry about timing your retirement to avoid another inevitable market crash.

So you need the safest possible investment that still has a chance of securing your family's wealth for a long time to come. And as we've already discussed, it's not like you're going to find more time in the day. There is still the possibility of an American dream, but it's not going to happen the old way. And if it's going to happen, you need to act on the plan RIGHT NOW.

Putting Together Your American Dream

Each of these chapters are important pieces of the puzzle. But it's only when they are put together that the magic really happens.

So let's do a quick review of how everything fits into an ideal investing plan for you:

Capital Preservation

You are going to invest in low-risk commercial real estate deals, to achieve...

Cash Flow & Tax Efficiency

Properties generate positive cash flow right away, and use accelerated depreciation to lower your tax bill -- so the money part is solved and you move onto the time issue by...

Passively Investing With Professionals

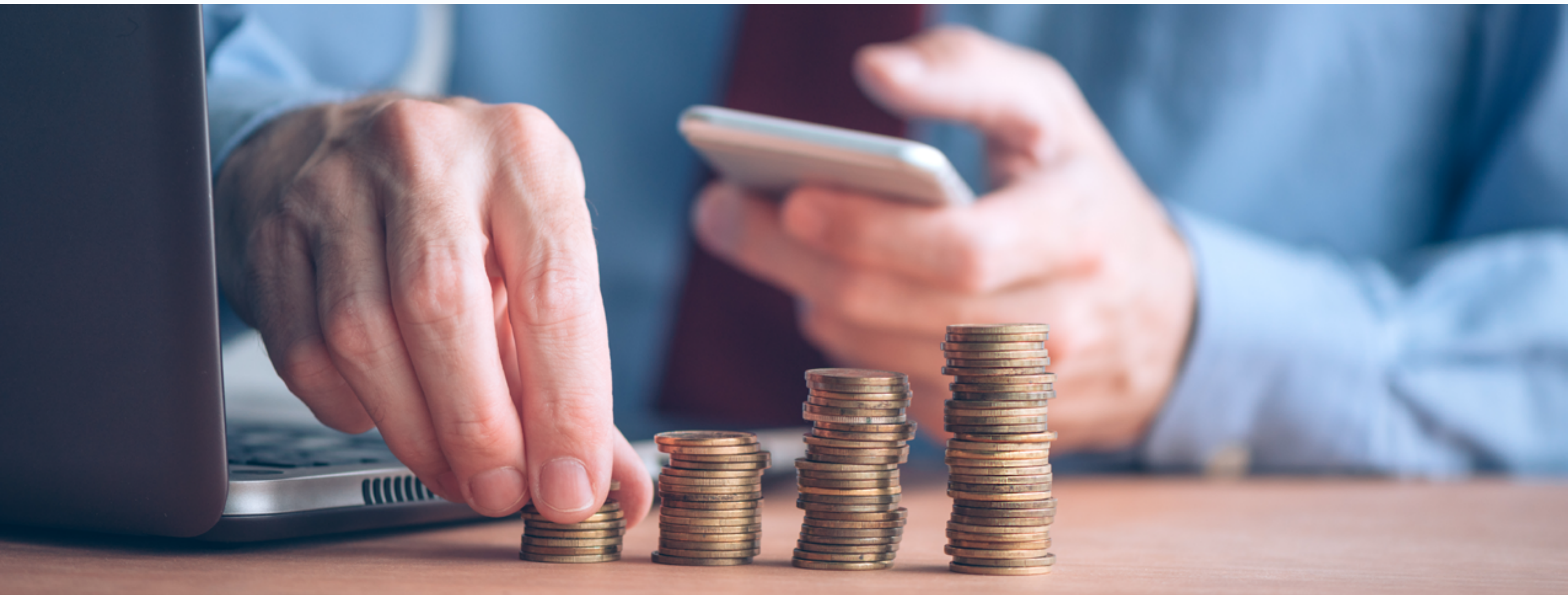
Thinking like an investor rather than a landlord, you leverage the expertise and network of a Real Estate Syndicator...

Right Now!

Don't wait because each day you don't participate in a syndication means way longer to your goal of time and financial freedom.

At this point, the biggest question we usually get is "so how do I pick the right Syndicator?"

Well, that means relationship-building. And we have a way you can easily get started, in the next (and final) chapter.



Join The Passivo Investors Network

We have created the Passivo Investors Network to be a free-to-join private membership of like-minded investors who want to achieve financial and time freedom.

Yes, it does give you access to several private and, many times off-market real estate investment opportunities.

But like we said before, **People come before Properties.**

So the first step after joining is to get on the phone with either Lennon or Story to find out if Passivo is the right commercial real estate syndicator for you.

There are no commitments, no obligations, and all your information is kept completely private.

We have found that commercial real estate, when following the four rules we outlined above, has allowed us, our investors, and all our families to build generational wealth while reclaiming the much-needed time to actually enjoy that wealth.

We'd like to invite you and your family to invest alongside us and share in that.

To get started, visit the link below and fill in the form.

INVEST WITH US

"STONY" STONEBRAKER, CCIM

Stony started his career with NASA in the Apollo space program working on the Instrument Unit of the Saturn V rocket. Later, he was with a large electric utility managing Telecommunications and winning Network World's national User Excellence Award and twice benchmarked as the best telecommunications operation in the USA.

Stony was the catalyst in forming a fiber optic telecommunications transmission company, he started a radio tower leasing business, and he wrote the business plan which was used to migrate the country's first broadcast TV transmissions from satellites to fiber optics networks.

During his career in technology, Stony invested in income-producing vacation condos, land, and single family homes in Florida and North Carolina. He was also involved in major commercial real estate development, including office complexes up to 600,000 square feet, warehouses, transportation centers and service centers.

He is currently a full-time commercial real estate investor and real estate professional, with investments in over 1,000 units of multifamily properties in Florida and Texas.

Stony holds a Bachelor of Electrical Engineering degree from Georgia Tech, an MBA from the University of Miami and has completed post-graduate studies at MIT as well as numerous professional business courses. He is married to Anne Grealy and they have a son, Graham, and live in Coral Gables, FL.

LENNON LEE

Lennon came to the United States with his family in 2010 due to unrest in his home country of Venezuela.

He took responsibility for investing his family's life savings in real estate to build a solid future for his parents and siblings.

Alongside his investment partners, he has been involved in the acquisition of over 2000 units of multifamily real estate with an approximate market value of $200 million.

A full-time investor and real estate professional based in Miami, FL, Lennon is also the founder of The Passivo Investor Meetup (formerly The Multifamily Investor Club), which provides an educational and relationship building platform for local passive real estate investors.

He holds a Bachelor's of Science in Telecommunication Engineering and a Master's Degree in Engineering Management from FIU. He is also a Licensed Real Estate Advisor in the State of Florida.

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