

The 23 Most Costly Mistakes Investors Make and How to Avoid Them – Part 1

by David Lindahl

It has been said that experience is the best teacher. But I've come to realize that it's stupid to reinvent the wheel. Instead, if I learn from those who have been successful before me – doing the same things that I want to – I become more successful much faster. Aside from reading as many books and listening to as many tapes that I can on real estate investing, I also attend lots of conferences and boot camps. My goal when I try to get to these events is to seek out the people who are also successful and see what information I can learn from them to increase my own success.

When talking to these individuals, there is one question that I always ask and am most interested in. That question is “What was the biggest mistake you made when you first started and looking back, what could you have done to avoid it?”

This question usually evokes an odd smile as these now successful investors look back into their once-shaky past and conjure up their biggest folly. Often, they would not mention just one situation, but two or three.

The biggest single quality that each of these investors possess is that when they were stuck by adversity, they did not fold up their tents and decide that real estate investing was not for them. They stuck it out and turned each one of their mistakes into a valuable lesson, not to be repeated.

The Japanese have a saying: “fall down six times, get up seven”. With almost every situation in life, whether it is business, family, relationships or money – if you adopt this attitude, you will become unstoppable.

The following 23 mistakes come from a blend of my own experiences and the most common responses I received when I asked other successful investors to talk about their past. Read them, study them and don't forget them. It is not enough to ask for information or even to read it and take it to heart; it is the wise man that puts it to use and thus prospers by it.

Mistake #1: Waiting Too Long to Start Investing

The real reason people don't start investing earlier is fear. Fear takes many forms, but the three most common forms of fear are fear of failure, fear of success and fear of the unknown.

When I first thought of investing, my father told me I was crazy. As a matter of fact, most of the people that I shared my dream with warned me about real estate investing. Of course, none of them had done it themselves! But all were willing to share their horror stories of a friend who tried to invest in real estate. They filled my head with “what ifs”.

What if you cannot resell it after you buy it? What if you cannot do the repairs? What if someone gets hurt on your property and you get sued? What if you can't make the mortgage payment? What if...what if...what if. I'll have to admit, I was getting pretty nervous.

When I bought my first property, the fear of failure was pretty high, so I decided to reduce that risk by learning as much as I could before I bought that first house. And it worked! Knowledge is a powerful antidote to ignorant fear.

Another common fear is fear of success. For many reasons – and almost all of them deal with the past – the fear of success haunts many people because they feel undeserving of the success. If you suffer from this fear, it's time to face whatever problem you had in your past, understand what it is and why it happened. Come to terms with it so it doesn't continue to affect your future.

The fear of the unknown is the last of the big three. Who wants to go into a dark room? Who wants to go to a party where you don't know anyone? Who is not nervous about buying their first investment property? Whenever the outcome is uncertain, fear raises its ugly head.

In real estate investing, the way to conquer fear is through knowledge. The way to get knowledge is to read books, listen to tapes and network with people who are already doing what you do. Prepare yourself for battle and you will be victorious.

Universal among the other real estate millionaires I talked with is the wish that they had conquered their fears earlier. If they had just started earlier – whether it is six months, one year or more, they all realized that they would have been that much wealthier today. They realized that after they took action, their fears went away. They learned what they needed to learn, to successfully invest and become wealthy as a result. I applaud you for seeking out the lessons of successful people, studying them and applying them to your real estate career right away!

Mistake #2: Not Having a Plan

The fastest way to get from point A to point B is to have a plan. The fastest way to earn one million dollars or more in real estate is to have a plan. You've got to plan your marketing, plan your purchasing, plan your renovation work and plan your resale. Plan, plan, plan.

The fastest way to go broke, lose a lot of money and be forced out of the investing business is not to plan. Many successful investors found themselves working very hard in their investing business for one, two or even three years but not really getting anywhere. It was only after they started sitting down once a day to plan their activities did they start making real progress in their investing business.

Nothing substantial in life is completed without some sort of plan. When ships cross the ocean they chart a course. What they are doing is planning. Across all of our oceans are buoys, those red, floating devices. If you've ever been in a harbor or seen a harbor scene in a movie, you've seen a buoy. Some of them have bells attached so you don't hit them at night. Buoys are the ocean's traffic signals. They are all numbered and there is a universal ocean law followed by all captains whenever they return to a harbor. It's the three R's – Red, Right, and Returning. Any captain will tell you that when you are returning to a harbor, the red buoys should be on your right. This is the way you plan your entry.

When you are going from point A to point B across the ocean, you chart out a series of buoys that you will set as your road map. It's like playing connect the dots across the ocean. As you go from buoy to buoy, you successfully navigate your journey to your destination.

Plan your real estate investing with the same philosophy. To get from where you are now to one million dollars, you have to plan to perform certain activities and meet certain milestones (buoys) to connect the dots, to get to your goal. Without your goal constantly

in mind, and until you begin to plan properly, you'll drift aimlessly and unprofitably, like a sailboat without a rudder.

If your business or life is chaotic now, start planning. When you begin the planning process, you won't suddenly wake up tomorrow and start planning every day for the rest of your life. (If you could, you would become an awesome money-making machine.) But alas, we are all human and we begin by planning a little, reaping the rewards, getting away from it, becoming chaotic again and then going back and planning a little more. It's just human nature.

However, each time you get away from planning and then go back again, you are taking a giant subconscious leap forward to successfully embedding planning into your business and your life. It takes 21 days to create a new habit. Start your planning habit today!

Mistake #3: Not Requiring Written Repair Bids Every Time

Almost all problems with a contractor or his performance can be traced back to the fact that the investor didn't have a written repair bid signed by the contractor.

This is what happens: You award a job to a contractor and when he gets on site and begins the work, you realize that it is not what you had expected. After you talk with the contractor though, you realize that it is exactly what he expected. A written repair bid eliminates any confusion because the bid states what the contractor will do and what materials he will use. You then both know what you hired the contractor to do.

Without a written bid, sometimes there is also confusion on the price. The contractor "forgets" what the agreed-upon price was and needs help remembering because the figure that he now thinks is correct is higher than his original bid price!

Within the contract will be the "Scope of Work" addendum which specifies what work will be performed and what materials will be used. This information is taken directly from the written bid sheet. The contract will also specify the dollar amount of the contract. Your contract should also include a Clean Up clause, Damage clause and a Payment Disbursement addendum, among other clauses and addendums.

Another reason to get repair bids in writing is so that you can compare this contractor's bid with the other bids that you have received from other contractors to make sure that you are comparing "apples to apples". If one contractor is lower but has omitted a couple of items from the bid that need to be completed, then maybe he isn't lower after all.

Always get your repair bid in writing and save yourself a big headache.

Mistake #4: Not Charging Tenants for Damage

Let's say a tenant damages your property and you go over the property or send someone over to the property to fix the damage. If you do not charge the tenant for the repair, you have just told the tenant that it is OK to be negligent in your apartment. Not only that, but you have just informed the tenant that you are running a maintenance company that is free for the tenant to use whenever he/she "accidentally" damages your property.

And use it they will! They will begin to call you at night, then during weekends and then they will graduate to calling you on holidays. Any time they do not feel like getting off their lazy butts they will call you to perform some menial task. There is an immediate need to start training your tenants to respect you and your property.

It must begin with the first interview. When someone used to call my office for a repair, I estimated how much that repair would cost and asked him or her to have payment ready

when the maintenance man got there. It's amazing how many clogged toilets became unclogged before the maintenance man got there! It's also amazing how tenants seemed to be able to fix a number of other minor issues that arose after that.

Another common call many landlords receive is the old "apartment has been broken into" syndrome and now a door or window needs to be repaired. Curiously, nothing ever seems to have been stolen during these "break-ins". Reading between the lines, what the tenant is actually saying is "I lost my key and had to break in".

We require that the tenant show us a copy of the police report before we will do the repair. After all, if they were truly broken in to, wouldn't they have called the police? No police report, no repair. It's amazing how many tenants don't want the police to come out to their apartment. Train your tenants from the get-go and you will only be called for the substantial damage that you do want to know about. (*Continued next month.*)

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