

Chapter 4

Finances

One of the most overlooked and misunderstood areas of this business is finances. Failure to adopt good practices will leave you broke and owing the IRS taxes, which is not a fun endeavor. Please understand the IRS will never forget about you and failure to pay penalties and interest is worse than credit cards.

I have talked with agents around the country and it is alarming how many are on installment plans. If paying 21.9% interest is appealing to you just don't pay them!

Form good habits now. Every single time you close a transaction and earn a commission, you need to put some away. PLEASE if you take nothing from this book except this practice then the book has served you well. When you get a commission of say \$5,000, IT IS NOT YOURS.

Assume you already paid a split to your broker and you received a check for \$5,000. You need to take 20-30% right off the top. Discuss with your CPA... Also, one of the best investments you can make is paying a bookkeeper to manage your books. This small fee will save you a great deal of time and headache at tax time.

I hear people say they do their own. I do not agree with that practice. For the same reason, I do not change my own oil. I let those who are experts in their field do their job. This is the same concept we give FSBOs to hire us, so follow your own advice. We will dig deeper into this later in the chapter.

Back to the commission check. So that 5,000 had 25% taken off the top, this leaves 3,750. You need to account for business expenses because this is what you lead your company with so 20% off the top, 1,000 into the business account. This leaves 2,750. This is your income. Very different from 5,000.

From that remaining 2,750, I suggest 20% goes into a rainy day fund until you reach at least 3 months' reserves. Ultimately 6 months. I prefer to take my brokerage split when I cap and apply to this fund. Every time I get 6 months saved, I put 3 months away in savings and work towards 6 months again.

Check breakdown

Commission: \$5,000

Taxes 25%: 1,250

Business 20%: 1,000

Remainder: 2,750

Rainy Day: 550

Personal Income for bills: 2,200

Don't forget about your retirement strategy.

While we are talking about finances let's take a look at expenses and ROI - Return on Investment. Get used to that term, you will hear it a lot.

There are 2 expense types to think about

1. Operational. These are systems that keep you organized and productive but no real ROI is measured.
2. Lead Generation. These tools bring business to you and the ROI is measurable.

If you decide that you are going to try out some lead generation systems, I suggest you lead with revenue. This means you wait until there is ample amount of money in your business account.

But adhere to the following principal. Expense X 4. I personally like expense x 5. Of course anything more is a win. What does this mean?

If you spend 500 a month, that is 6000 a year. This investment needs to return at least 24,000 in GCI. Otherwise the ROI does not

make a good investment.

Look at it this way. You need to recoup your initial investment, pay taxes, and put money into your business account. What is left over is your income.

Investment: 6,000

Earned Commissions (after splits): 24,000

Recoup Investment: (-6,000)

Taxes: (-4800)

Business Expenses: (-2,400)

Income: 10,800

Now when you look at it the real way, it seems a little different. If it makes you feel better add the business expenses back in since it is money that you will be using to grow. The final total when adding that back in is still 13,200.

So really that is why is it crucial to watch and understand your expenses? Sometimes we get carried away with the top number when in fact it is the bottom number that makes sense.

This is such a crucial piece and it is often overlooked by agents. We get so excited at seeing that top GCI number that it is easy to not pay attention to the net when it is the net that is important since that is take home income.

Get into good habits now and time block an hour or two per week to track and categorize expenses and also look at the numbers.

Once per month pull a P and L. If you hire a bookkeeper for 100-200 per month, they will do much of that for you and keep you on track so you can focus on your most important task—Lead Generation.

Now I want to show you something that makes sense to me and why the bookkeeper concept is a good concept. First, you have to determine what your hourly worth is. Easy to figure out if you have been in the business for a while, but talk with leadership to get some average numbers for your market.

GCI / Hours worked = Hourly Rate

So assume you make 100,000 in GCI and work 30 hours per week 50 weeks out of the year. Your hourly rate is 66 per hour.

200,000 working 40 hours per week, 50 weeks out of the year it is 100 per hour.

250,000 working 40 hours per week, 50 weeks out of the year it is 125 per hour.

OK so you get the gist. Now if the bookkeeper saves you 2 hours per week that is 8 hours per month. So your time value on this task is 528-1000 based upon the examples above. If you pay 25 per hour times 8 hours that is 200 bucks a month.

Not only do you get the job done better and more efficiently, you free up time and that time makes you more money. And at tax time it is a breeze. **IT IS COSTING YOU MONEY TO DO IT YOURSELF.**

I have seen countless agents at tax time scrambling, sitting with shoe boxes of receipts trying to figure it all out. Spending hours

sorting, categorizing, and making spreadsheets. Disciplined financial habits are crucial to start from day one.

Good financial habits will either make or break a company.
Start off with good habits and grow.