

## YOUR INVESTING COMFORT ZONE

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*“You can’t get what you want, ‘til you know what you want”*  
**Joe Jackson**

Clarity is Power and nowhere is this concept more true than in investing. We have seen many investors – especially when starting out building their direct investment portfolio – make a fundamental error by not spending time getting crystal clear on their goals.

We aren’t even talking about what Commercial Properties to focus on here ... we are talking about what basic “Flavor” of Investment you are looking for. What “Flavor” of Investment makes you smile and lets you sleep soundly at night. Once you know your favorite Flavor, you can focus your efforts on the Commercial Property types that will get you the results you are seeking.

Without a clear understanding of the type of investments you are looking for you will waste literally hundreds of hours looking at every opportunity available.

Clarity on your Investing Comfort Zone will allow you to rapidly identify, research and purchase the right investment the first time. Clarity on your Investing Comfort Zone will also allow you to quickly become an expert in that investment type ... your time and energy will not be diluted by fruitless efforts to perform Due Diligence on investments that ultimately you are not comfortable with.

**Fortunately, you can get quite clear on your personal investment goals by answering just two deceptively simple questions...**

1) The first question is about you and your comfort zone:

### **Are you a Passive or an Active Investor?**

An Active Investor is a person who is involved with the day-to-day management of the investment. An Active Investor isn’t comfortable if they do not have some control over the direct management of the project.

Since we are talking about Commercial Real Estate let's be specific. We are talking about the day-to-day management of the Apartment Complex or Retail Strip or Office Building or Industrial Space that is the basis of the underlying investment.

In Commercial Real Estate a 100% Active Investor is the one who finds the property, puts it under contract, does the due diligence, arranges the financing, closes on the deal, manages the property manager, oversees the sale. They have both hands on the wheel of the project from beginning to end.

A 100% Passive Investor is a person who puts their money to work in an Investment and does NOT become involved in the day-to-day management of the project at all. A Passive Investor isn't comfortable if they have day-to-day responsibilities of management.

Passive Investors write the checks for the cash needed to control a Commercial Project. They put their money in to get the deal going and the Active Investors run the project.

Neither Active or Passive is better than the other. This is all a matter of finding your personal preference. What we can tell you is this ... if you find yourself invested in property that does fit your preferences for Active and Passive involvement, you will find it difficult to sleep at night. So ask yourself these questions now. Remember Clarity is Power.

2) The second question is about the nature of the investment itself:

### **Does the Investment pay off in regular Income or with Appreciation down the line?**

Do you need a regular monthly or quarterly income check or are you looking for a significant return several years down the line when you cash in on the property's appreciation and no cash along the way.

#### **NOTE:**

Each of these questions exists on a continuum ... meaning with some investments your role is Passive some Active and some in between. Some investments are pure Cash Flow and some pure Appreciation and most are some of both.

#### **Examples:**

A Passive / Active mix occurs any time you invest on a team where you do not have 100% of the management responsibilities. You play a role and your team members do the rest. You can play as big a role as you wish, depending on your skills and experience.

Income and Appreciation are almost impossible not to mix. Almost all Commercial Real Estate investments are a blend of both Income & Appreciation. Take an Apartment Complex as an example. Most would think of Apartments as an Income investment. This is deceptive because the majority of your profit will

almost certainly come at the sale based on Appreciation. The building’s ability to produce Income forces even more Appreciation. The only pure Income investments are things like CD’s and Money Market funds

Your answers to these two questions go a long way to defining your Investing Comfort Zone. One way to hone in on your personal Investment sweet spot is to make a visual representation of your answers on the following scales. Just put an “X” on the line in the position that describes your investment preferences the best.

Once you have your answers, you can plot your investment preference onto the Four Quadrants Chart below. This is a visual reminder of the different “flavors” of investments and of the quadrant where you are most comfortable.

**The Four Investing Quadrants**

**Active**

(I am actively involved in the management of the project)

**Passive**

(My money is working hard for me in someone else’s project)

**Income**

(I receive a regular stream of cash and that is why I am in the deal)

I

II

**Appreciation**

(I will make a large profit down the road when the project is complete and little or no cash along the way)

III

IV

I	II
III	IV

## Some Commercial Real Estate Examples:

- **Quadrant I** – Your own self managed apartment complex or retail strip
- **Quadrant II** – A TIC investment in a NNN Shopping Mall
- **Quadrant III** – Your own raw land development where you lead the team producing finished building lots
- **Quadrant IV** – Investing in raw land development as a equity partner

## The two keys to investing within your Comfort Zone are ...

### 1) Know what you are looking for in your next investment.

Ask yourself the questions

- Passive or Active?
- Income or Appreciation?

That way you can search only those investments likely to reach your goals. When you know you are focused on only one of the four quadrants, you can limit your property research to only the 25% of deals that fit your goals. This will save you hundreds of hours of time and frustration and accelerate the construction of a portfolio that is smack in the middle of your comfort zone.

### 2) Know where your portfolio lies

Evaluate all of your current investments with the two questions and plot them on the 4 Quadrants chart on the last page.

#### **What is the pattern?**

Is it a scatter ... several different kinds of investments?

Is everything clustered in one quadrant?

Neither one is good or bad AND it is useful to look at your portfolio in this way. Perhaps you want to diversify. Perhaps you want to focus even more on one quadrant. The two questions and the four quadrants will provide valuable information to help you choose.

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There you go for a start on the world of creating your Investment Goals and Portfolio Analysis. Remember this is just an introduction to the topic and a basic understanding based on our experience of over \$100,000,000 worth of Commercial Properties in 6 different states.

This is real world experience put into a format you can use right away.

**And this is just the beginning ....**

You can find much more FREE information on Commercial Real Estate Investing at our website [www.investortours.com](http://www.investortours.com) . Visit often and don't forget to sign up for our ITU Newsletter and Commercial Power Hour Teleclasses.

To your investing success,

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