

REAL CAPITAL SOLUTIONS

A Family of Real Estate Initiatives

How to Create Wealth

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Succession at RCS-Lecture #2
Marcel Arsenault, Founder RCS

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Creating Wealth: What it Takes to Get There

Issue Being Explored: (Assumptions Made Here)

1. Personal Success Creates Wealth (as a By-Product)
2. Wealth Creation is Beneficial (offers freedom, opportunity)
3. How you can apply factors to your success and wealth creation

Agenda

- Factors driving wealth accumulation – Universal/general factors
- Factors driving wealth accumulation – RCS/Real Estate specific
- Power of Compounding: hard-work, save and reinvest
- Marcel's secrets to success – observations and thoughts
- Showing Examples: "High Return for 10Xer" vs "Normal Company"

Creating Wealth: General Factors to Consider

"The most powerful force in the universe is compound interest"

- Albert Einstein

Primary Factors to Guide **everyone**

1. **Save Now** (*invest now*)
2. **Disciplined Investment** (*Apply Your Expertise & Group Expertise*)
3. **Long Term Focus** (*20 year, Re-write, Learn, Adapt*)
4. **Make a Plan** (*Written & Spreadsheet=Simple & Track Plan*)
5. **High Return** (*join only BEST IN CLASS Company*)

RCS/Marcel Compounded annual growth = 26.6% (like Warren Buffet)

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Creating Wealth: Any Individual (Getting Started)

"Wealth starts with Seed Capital (this is usually SAVED \$)"

Your START : Must Earn & Accumulate your SEED CAPITAL

1. **Work Hard** (*This Develops High Expertise & Money*)
2. **Get Promoted** (*Rapid Pay Increases*)
3. **Start Saving** (*Become Frugal*)
4. **Prove Your Ability to Add Value** (*Expertise attracts Capital*)
5. **Find/Invest With Proven Experts** (*"Best in Class always win"*)

Two Examples over 20 years 1. "RCS or 10X" vs 2. "Normal"

Jim Collins "Great by Choice" works as an excellent guide for ALL of us

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Creating Wealth: Characteristics of Wealthy People

General factors driving wealth creation/accumulation

10X Concept

- Personal drive and commitment – hard work
 - Rapid pay increases, attract capital
 - Quick promotions, high growth ventures
- Live frugally
 - Creates the Seed Capital
 - Compounds savings rapidly
 - Increases your margin of safety
- Expertise & high-level practice
 - Shadow successful CEO/Entrepreneur – practice what they do
 - Start doing deals/add value and use your capital
- Find & work for high growth/high success company (avoid “normal”)
 - Google, Apple, Milender White, RCS
 - Invest alongside them! (High IRR & High Learning)

Level 5 Ambition

Save & Buy Bullets (MA)

Empirical Creativity

“Bullets first”

Join their Team (MA)

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Real Estate Enhancing Wealth: What it took at RCS

10X Concept

- Perfect execution (build, lease, refinance)
 - Always add-value (=5% to 10% IRR boost)
- Develop a deep understanding of the RE cycles
 - Saved Marcel from periodic collapse
 - Go from 15% IRR to 25% IRR
- Discipline to demand and generate high returns
 - Don't settle!
- Manage your taxes and expenses
 - Ordinary income destroys Net IRR
 - Do capital gains or exchange (real estate)
 - Hold real estate/stock long-term

Level 5 Ambition

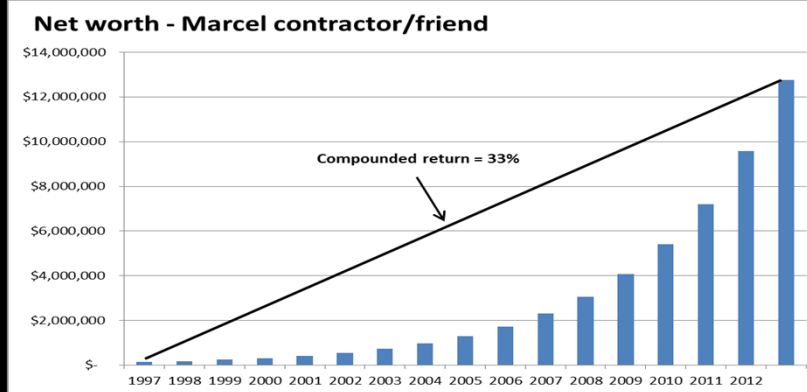
Empirical Creativity

Fanatic Discipline

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Creating Wealth: A Construction Company



- High expertise added to money => creates high value-add
- Initial risk is high (6 out of 7 new businesses are shut-down after 7 years +/-)
- As expertise grows, risk is reduced and can be further offset by "momentum effect"
- Taxes shouldn't consume wealth (capital gains = stock, not just income)
- As wealth accumulates resist temptation to increase spending (do we need that?)

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Two Examples: Normal vs High Growth

Normal Company ("Good"):

- 5% salary growth (with periodic promotions)
- 7.5% return on investment [stocks, etc.]
- Frugal lifestyle & reinvest
- Conclusion: Wealth = \$1.5 million in 20 years

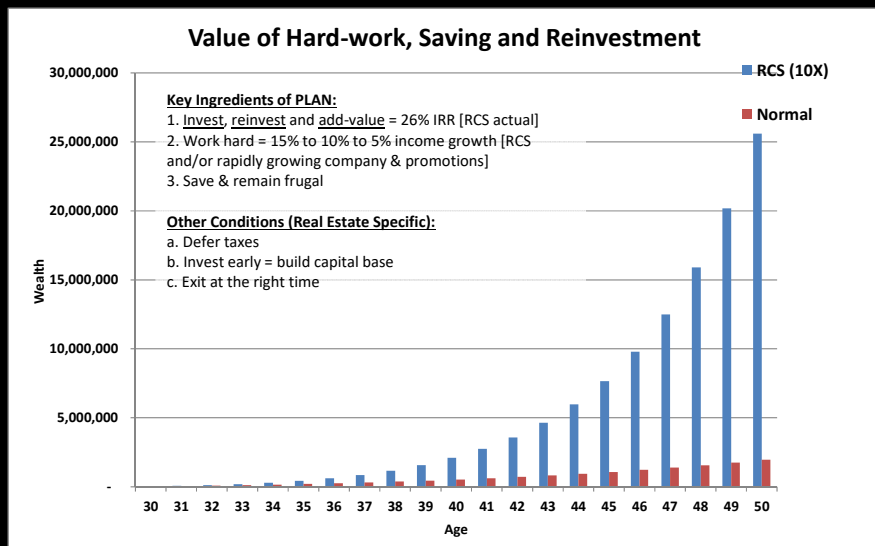
High Growth RCS Employees with 10X characteristics!:

- Excellent salary growth (15% → 10% → 5%)
- 26% return on co-investments (fully invested)
- Frugal lifestyle & low tax (stay invested)
- Conclusion: Possible wealth = \$21 million in 20 years

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Starting: "Growth & 10X" company vs "Normal"



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Getting There: "A 10X Employee @ A 10X Company"

10X Employee - Long Term PLAN for creating wealth

Salary & bonus New MBA at RCS

(OR HIGH GROWTH CO)

\$ 67,500

Taxes (income below 84k)

25%

Tax Rate (income above 84)

28%

State Tax

5%

Expenses

\$ 36,000 *Should be frugal

Expense growth rate 5% *Assuming continued frugal lifestyle

RCS Salary Growth Rate 15% *Assuming hard work and promotion

RCS Returns [co-invest savings] 26% *RCS track record

Salary growth rate (10X Employee only)

15% 15% 15% 15% 15% 10% 10% 10%

Expense growth rate (assumes no-kid scenario)

0% 5% 5% 5% 5% 5% 5% 5%

Age 30 31 32 33 34 35 36 37

Time 0 1 2 3 4 5 6 7

Year 2015 2016 2017 2018 2019 2020 2021 2022

Salary \$ 67,500 \$ 77,625 \$ 89,269 \$ 102,659 \$ 118,058 \$ 129,864 \$ 142,850 \$ 157,135

Taxes \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ -

Expenses (do a budget) \$ (36,000) \$ (37,800) \$ (39,690) \$ (41,675) \$ (43,759) \$ (45,947) \$ (48,244) \$ (50,656)

Remainder (must be reinvested!) \$ 31,500 \$ 39,825 \$ 49,579 \$ 60,984 \$ 74,299 \$ 83,917 \$ 94,606 \$ 106,479

Accumulated wealth = RCS returns (must defer tax) \$ 31,500 \$ 79,515 \$ 149,768 \$ 249,692 \$ 388,911 \$ 573,945 \$ 817,777 \$ 1,136,878

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“Real Estate Secrets” to Wealth

1. Timing - Know when to Buy, Know when to Sell
 - Must love analysis (look for the pattern);
 - Pattern recognition is what some people do (off hours/not day job)
 - Without intense curiosity hard to “win big” in Real Estate
2. Love winning, but remain paranoid;
 - Never confuse a bull market with brains;
 - Earn your pay every day (improve systems and iterate);
 - Work very hard (eliminate flaws and risks everywhere)
3. Remain tough and disciplined;
 - Control costs (cheaper);
 - Add value (faster and better);
 - Live frugally (Prius) & work hard.

*To be successful, build a Career (not a “job”)
Enjoy working hard. Learn to experience success.*

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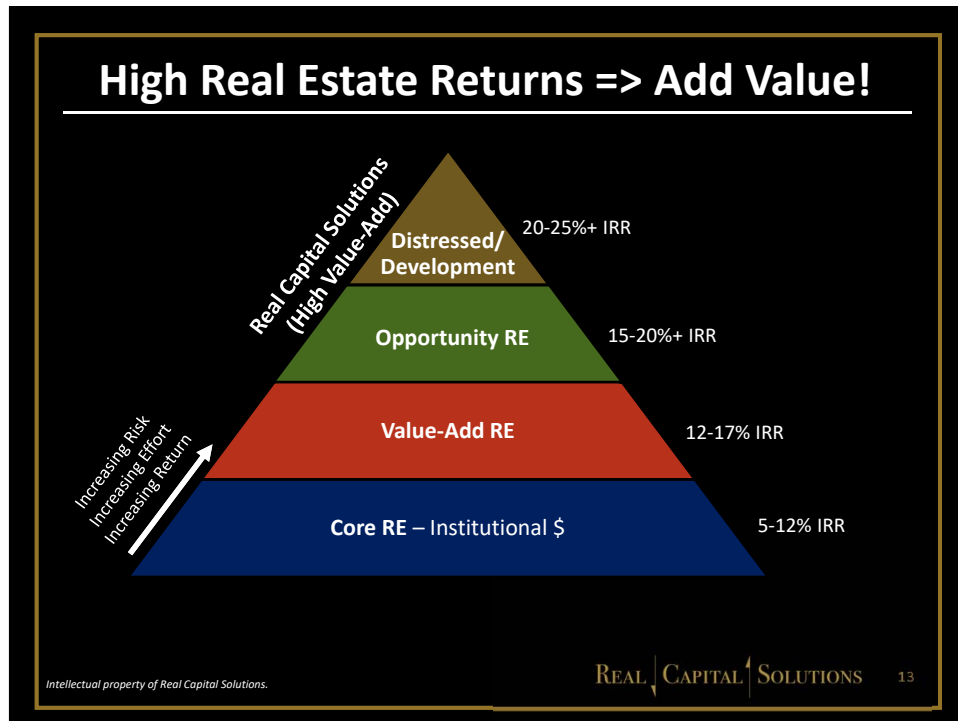
FINAL “Secret”: Success is ONLY YOURS

1. Are You Really READY for the “Trade-Offs”?
 - Hard work, long hours is difficult Level 5 Ambition?
 - Living frugally requires personal discipline Fanatic Discipline?
2. Following Discipline Success Becomes FUN
 - Deferred Gratification = Best Indicator
 - Marshmallow Test (Stanford and 4yr olds)
 - Don't eat your Marshmallow (Seed Capital!)
3. Many Paths & Many Types of Success
 - You Get to Define YOUR Success Set Goals, Write Them
 - Measure Progress (Be Honest, Iterate)
 - Success & Career is yours, Company “rents & pays for it”

*In the end, success is NOT about money. Money is measurement.
Success => Achievement, Adding Value, Deferred Gratification*

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Marcel's Unique Secrets to Success

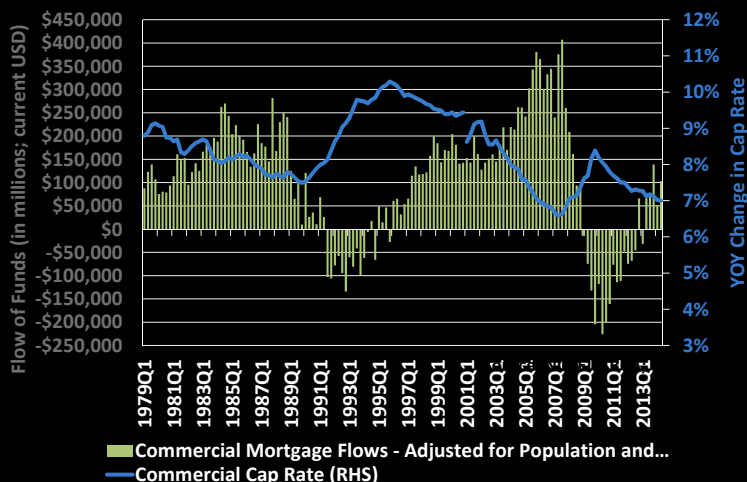
1. Remain analytic and Curious (Timing & Pattern);
 - Reading, writing looks like “an obsession” from the outside;
 - Mostly do it when I’m not getting paid (weekends, early morning);
 - Without intense curiosity, I would have shown mediocre returns.
- 2.. Build Teams (share responsibility; but retain culture)
 - People are the secret to success (not real estate)
 - Find Great partners,
 - Hire “best in class” at RCS
 - Specialize and become “unbeatable expert”
 - Housing, condos, development, Spain

***For RCS to continue success, transition responsibility
BUT: should create a “Founder’s Culture of Success”.***

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INDICATORS & TIMING: Mortgage Availability

Mortgage Flow to Multifamily Assets VS. Cap Rate



Research by Professor Peng and myself proves mortgage flow influences pricing. (CONCLUSION: It is Difficult to Deeply Track PATTERNS & INDICATORS).

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SUMMARY THOUGHTS/TAKEAWAY

Think L · O · N · G.....Act NOW.....Repeat.....

Effort x Expertise =>
Personal Success => Financial Wealth

“Planning without acting is a daydream. Acting without planning is a nightmare” Japanese Proverb

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How to Create Wealth

Questions?

*Please raise your hand wait for
the microphone.*



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