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The Ultimate Guide to Real Estate Investing in a Changing Economy

Chad Carson

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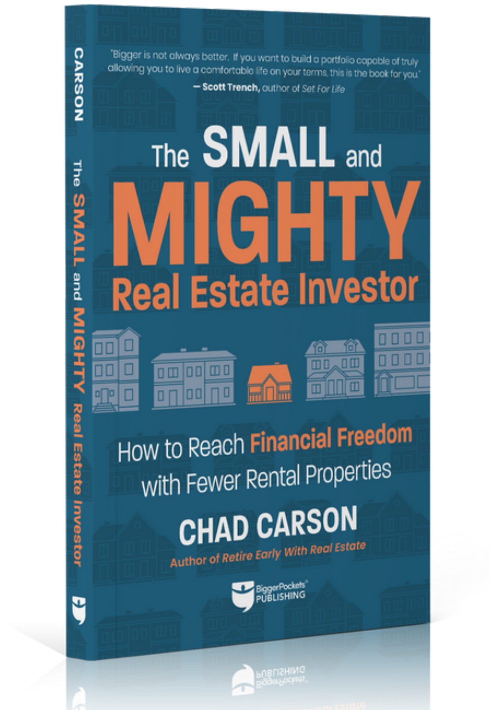
The Ultimate Guide to Real Estate Investing in a Changing Economy (originally a $9.99 value, but this is yours free for becoming a BiggerPockets Pro Member!) is a bonus from the book [The Small and Mighty Real Estate Investor: How to Reach Financial Freedom with Fewer Rental Properties]() by Chad Carson. In his book, Chad shares practical, step-by-step strategies for real estate investors who want more freedom, not another job. Whether you're new to real estate or hoping to downsize, this practical guide will show you a simpler, safer, and faster path to building cash flow with rental properties—so you can get out of the financial grind and do more of what matters in your life.

Chad Carson (aka Coach Carson) is an author, investor, podcaster, and life-long learner who used real estate investing to reach financial independence in his 30s. With a portfolio of thirty-plus houses and small multifamily properties, Chad's primary real estate strategy is buy-and-hold rentals—but he has also used private lending, wholesaling, fix-and-flips, and creative financing. His current passion is teaching other investors how to build a small and mighty rental property business so they can get out of the financial grind and do more of what matters.

The Ultimate Guide to Real Estate Investing in a Changing Economy is a A 10,000 word guide that any investor needs to read: It offers guidance on de-risking and approaching your investments with a small and mighty mindset in any economic condition, just like author Chad Carson, who has procured for two decades in real estate (yes, even in 2008).



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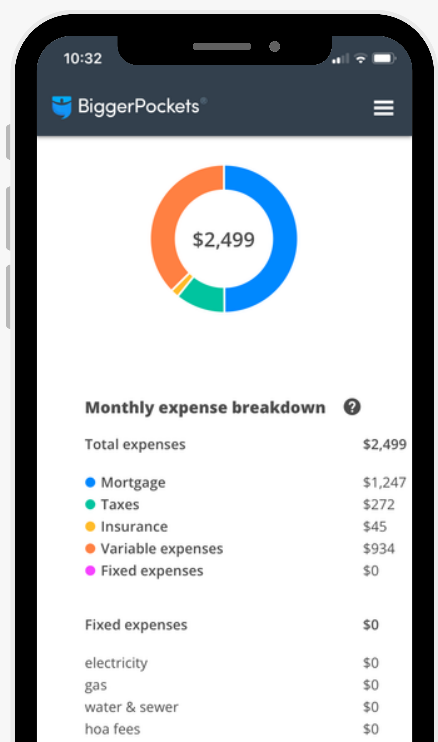

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Are we in a housing bubble? Are these high prices sustainable? Will I lose money and look like an idiot if the market crashes right after I buy an investment property?

Stepping into the economic unknown as a small and mighty real estate investor is scary. As a full-time investor for twenty-one years (including during the Great Recession), I get it! I've experienced some dramatic rises and falls in the market.

But I've also learned that you rarely win as an investor by sitting on the sidelines or trying to time the market. This approach is even more dangerous for your finances.

Instead, I've found that it helps to remember to be the real estate tortoise (Rule No. 2 of a Small and Mighty Investor). Slow, steady, forward movement negates many of the concerns of economic doomsday predictors. And in this bonus chapter, I'm going to share some specific lessons that will help you navigate current and future economic changes.

My first goal will be to share how to invest wisely so that you don't lose money or make bad decisions. Then I'll share how you can continue to buy profitable investments that move you toward your goals, no matter what the market is doing.

To get this topic started, I first want to acknowledge the loud economic voices you're probably already hearing.

The Prediction Entertainment Business

As someone with my own YouTube channel, I like to pay attention to popular real estate channels like Graham Stephen, Ken McElroy, and of course, BiggerPockets. Can you guess the titles of the most popular videos lately?

Here are a few examples:

- “The Worst Housing Crash Just Started”
- “The Next Housing Market Crash (Worse Than 2008)”
- “The Inconvenient Truths of Today's Economy | Housing Market Crash”
- “Real Estate is About to “Get Ugly” as The Fed Makes Drastic Moves”

As you can see, the most popular titles are all about predictions of a housing crash. And it’s understandable that viewers want to hear what successful people think will happen next. It’s also understandable that the makers of these YouTube videos want to satisfy their fans and get millions of views!

But guess what? In my opinion, the only value of these predictions is entertainment. And really smart investors who’ve been around for a while agree.

Market Predictors or Fortune Tellers?

Billionaire hedge fund manager Ray Dalio said that “He who lives by the crystal ball is destined to eat ground glass.” In other words, those who try to succeed based on predictions of the future (i.e., using crystal balls) are bound to fail.

John Templeton, another famous billionaire investor said, “The influence on stock prices are so numerous and so complex that no person has ever been able to predict the trend of stock prices with consistent success.”

And Warren Buffett has *repeatedly* said for decades that "The only value of stock forecasters is to make fortune tellers look good."

In some cases, these billionaires were talking about the stock market, but they could have easily substituted the housing market instead. Why is this true? Why can’t even the smartest of people consistently predict the movements of the market?

The answer is that the housing market and the overall economy aren’t simple math equations. In fact, they’re something much more complicated called “complex adaptive systems.”

Complex Adaptive Systems: Trying to Predict the Unpredictable

Have you ever noticed how the weather reporters on TV get less accurate the further into the future they go? This is because weather is an extremely complex system that’s influenced by an incredibly large number of variables.

In a science lab, you can control variables and attempt to explain them with simple math equations like a + b = c. But out in nature (with *millions* of variables or more), the equation is much more complex. And even when you do know the important variables—like air temperature, humidity, and wind with weather forecasting—the variables constantly change and adapt in real time in response to one another!

Our economic markets are similarly complex and adaptive. It's not as simple as "the Federal Reserve raises interest rates so the housing market will go down." That's a + b = c.

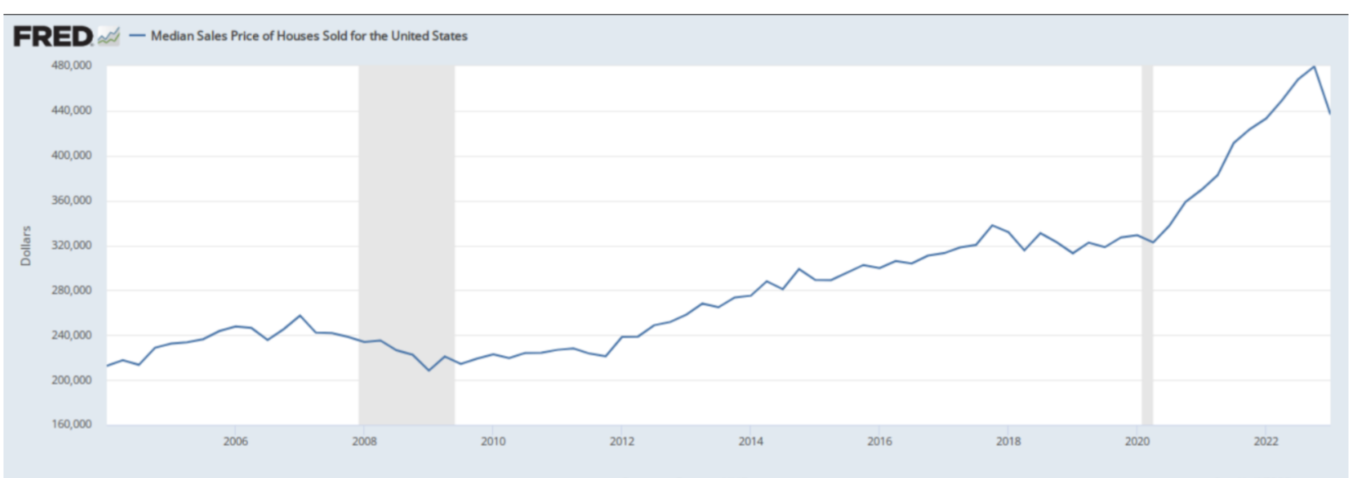
Yes, the Federal Reserve and overall government policy matter a LOT. But there are also billions of other individual decision-makers and transactions that matter as well. And the many pieces of this incredibly complex system adapt in real time to decisions of the Fed and of every other player in the market.

That jumble of complexity is what makes accurate predictions VERY difficult to make. But that doesn't mean there's nothing we can do as investors. We just need to take a different approach to the information at hand.

PREPARE, DON'T PREDICT

As you can see, I'm a little skeptical of people who make housing market predictions. I'm sure they get predictions right from time to time. But I'm skeptical that they can *consistently* get them right, and I'm even more doubtful that we can use their predictions to make reliable investment decisions.

So what approach should you take instead? Let's start with what we do know.



In 2023, the housing market clearly had a price correction. Higher interest rates put a halt on demand, and prices fell, as indicated by this chart of median housing prices by the Federal Reserve Bank of St. Louis.

There are also indications that other parts of the commercial real estate market may be facing problems. For example, many developers and other larger investors are challenged by the reality of refinancing at higher interest rates. And this has spooked many investors and market analysts, who are calling for further declines.

All of this is true. And it's helpful information. But here's the distinction I'd like to make: Use the information to make *preparations*, not predictions.

Preparing means you get ready for multiple possibilities. The market could go up, go down, or sideways. And the timing of those changes could last for months, years, or even decades. You need to be ready for it all!

Of course, you may have a bias towards one prediction over the others. But an attitude of preparation is grounded in humility. You acknowledge you'll often be wrong. And by not taking yourself or your predictions too seriously, you're never completely surprised when things don't go as planned.

This process of adapting to reality reminds me a lot of mixed martial arts, which small and mighty real estate investors can learn a lot from.

WHAT REAL ESTATE INVESTORS CAN LEARN FROM MARTIAL ARTISTS

Have you ever seen a mixed martial artist fight with opponents?

Their entire body remains poised and ready for anything, yet it's also relaxed and fluid. Their center of gravity remains balanced, not overcommitting to any one challenger. And when the attack does finally come, their strategy is to work *with* the attacker's energy and not against it.

As a small and mighty real estate investor, you have the benefit of being nimble, quick, and low to the ground. This means you can use a similar approach! Instead of overcommitting to any one market prediction, stay balanced, prepared, and make small and steady forward movements.

An example of overcommitment would be to say, "I'm going to completely sit out of the market and wait for the crash." But if you had done this after listening to crash predictions on YouTube videos in 2016, 2021, and so on, you'd probably still be waiting! And you would've missed out on amazing opportunities to build wealth.

It's also an overcommitment to go ALL-IN and ignore caution. If you overleverage, buy too many properties, and lose your financial footing, you could get knocked out of the game. When you lose big, it's tough to recover.

A more balanced, small and mighty approach would be to still look for and buy properties in any market condition—while still remaining conservative and only buying properties at a good price, with safe financing and solid cash flow numbers. This means you'll buy fewer properties during hot markets and more properties during down markets. But you'll always be buying and moving forward!

Now I want to place some of these ideas into real life by sharing my own story of financial survival during the economic downturn of 2007–2009.

My Descent Into The Economic Black Hole of 2007–2009

In 2003, my business partner and I began our investing journey by finding, fixing, and flipping houses. I had just graduated from college, and my business partner had a relatively new internet startup (which was not a big money maker at the time). While both of us lacked financial resources or knowledge, we did have a lot of enthusiasm, energy, and desire to learn.

By 2007, we finally found our rhythm of finding good real estate deals. We set big goals, and in one year we had thirty-three closings (totaling to over fifty units). These deals included some flips and some buy-and-hold rentals. Most of our properties were bought at low prices and used a lot of leverage, either with 100 percent private loans or variations of the BRRRR strategy.

Like a lot of our fellow investor friends, we had our nose to the grindstone working hard to accomplish our goals. Also like most people in the financial markets, we didn't predict the depth or true danger of the financial storm clouds brewing.

Fast forward four years, and the Great Recession of 2007–2009 drastically altered everyone's plans. Fortunately, my business partner and I survived and eventually thrived throughout that period. But unfortunately, several local real estate investors we knew went out of business completely. They had overextended themselves by buying bad properties or using bad financing, both of which I'll talk about later in this chapter.

Strangely, our own financial survival wasn't because we were smarter or more capable than the people whose businesses failed. And we *certainly* didn't predict what was going to happen.

In some ways, we were lucky. In other ways, we had some conservative instincts and had listened to the advice of wiser and more experienced investors. But whatever the cause, we made preparations that helped us adjust as the market fell apart. You can learn from our story and make similar preparations, too.

The Preparations That Pulled Us Through the Great Recession

The preparations that helped us to pull through the Great Recession included:

1. Large cash reserves, in our case over six months of expenses
2. Flexible financing without any built-in balloons, triggers, or major changes
3. Strong business relationships built on mutual trust, including with vendors, tenants, and lenders

Despite not predicting the market nosedive and despite *numerous* property acquisition mistakes in 2007, we survived. But that doesn't mean it was all fun or easy!

It was scary as we dipped into our cash reserves to cover vacancy costs, repair costs, and negative cash flow rentals. It was harrowing to realize our highly leveraged portfolio could go upside down quickly, even though our financing was long-term, fixed-interest debt that allowed us to weather the storm.

But in the end, our preparations helped us to make it through. And now in 2023, the lessons we learned from those preparations are still relevant.

To help you make your own preparations, I want to go back to our martial arts metaphor. Like a skilled fighter, you must play both defense and offense. Defense means protecting yourself financially to avoid major risks and vulnerabilities. Offense means being aggressive, when appropriate, to take advantage of financial opportunities and move forward toward your goals.

Let's start by looking at a few ways you can prepare yourself defensively.

Real Estate Defensive Strategies

I've noticed through my own mistakes and from observing the mistakes of others that there are three primary areas of vulnerability for us as real estate investors. They include:

1. Bad properties

2. Bad financing
3. Insufficient cash reserves

A good preparation strategy is to evaluate your investment portfolio to find where you are vulnerable. Then solve or eliminate the worst of your vulnerabilities while the market is still good.

Let me explain each one in more detail.

Bad Properties

My best real estate properties are in the most desirable locations that tend to attract the best tenants with very little marketing required. For these rentals, the physical properties are also usually well-built and low-cost to maintain.

My bad properties, on the other hand, are in bad locations. I've owned rentals in areas with excessive crime or with difficult next-door neighbors who scare off my good tenants. My bad properties also often have substandard construction (like poorly built foundations) or high-maintenance materials (like a 100 percent wood exterior that has to be painted every three to five years).

No property is perfect. But I recommend evaluating your current property portfolio to rank your properties from best to worst. Use the lessons that I outlined in Chapters 10 and 11 of *The Small and Mighty Real Estate Investor* about the best locations and properties to create your own ranking criteria. If you find properties that rank at the bottom on several important categories, sell them and find others!

My business partner and I have been selling our worst properties ever since we got stuck with them in 2007. About eleven years later in 2018, we were finally satisfied with almost all of the properties we own, and we were comfortable keeping them even through a major market fluctuation.

Bad Financing

Bad financing is probably THE biggest risk to your investment portfolio. The investors I saw go out of business in 2007–2009 did so largely because of their financing problems. This is the reason I spend so much time in the book on financing and why I shared the "7 Safe Debt Rules" in Chapter 18.

To summarize again here, what does bad financing mean? It means financing that creates negative cash flow—especially when you have to write BIG checks for that negative cash flow.

For example, many commercial loans have something called a "balloon payment" within three to five years. This means that you have to make a large, lump sum payment at that time. Other loans have sneaky clauses where a bank can call your loan "due and payable" for a variety of reasons, including changes in your financial situation. The end result of these loans is the same—enormous financial risk to you, the borrower!

If these balloon payments come due during a down market, you may have to come up with large amounts of cash exactly at the time when no banks are lending and no buyers are buying. If you can't find the money, the banks will foreclose on you and try to collect money from your other assets (particularly if you've personally guaranteed these loans).

This was the exact situation that caused not only real estate investors but also many large corporations to fail or require bailouts during the 2007–2009 downturn. They didn't have enough cash to pay off their creditors.

If you want to prepare for and avoid this situation, evaluate all of your loans right now. Ask yourself if your financing would allow you to hold for the next ten years to weather potential ups and downs. If you have loans that scare you, refinance or pay them off *now* (even if it costs you) so that you can avoid larger risks later.

Insufficient Cash Reserves

It's common financial advice to keep between three and six months of cash reserves for your personal finances. Guess what? The same is good advice in business!

Do you have between three and six months of your business expenses set aside in a cash reserve fund? Some more conservative investors may argue for even more. If you don't have cash reserves, you are vulnerable to drastic changes in the market. This is especially true if you have a lot of leverage (like I did in 2007).

If you find yourself with less cash reserves than you need, treat it like an urgent problem to solve quickly.

This may mean that you have to sell properties in order to raise the money. You could also refinance a property, although be careful about using bad financing like I just discussed in the last section. I'd also be careful thinking a line of credit or HELOC (home equity line of credit) is a replacement for cash reserves. Remember that everyone, including banks, need cash during a credit crisis. Line of credit lenders have been known to use the fine print of your line of credit contract to close down your access to funds *right* when you most need them.

Now that we've covered a few defensive strategies, let's also look at how to prepare to play offense.

REAL ESTATE OFFENSIVE STRATEGIES

When you have a strong defensive position of good properties, safe financing, and cash reserves, you can more confidently and boldly take action when real estate opportunities present themselves. But how do you identify opportunities when the market is so competitive? Here are a couple of ideas I'll explore more:

1. Always be a buyer (aka dollar cost averaging into real estate)
2. Zig while the competition zags
3.

Always Be a Buyer (Dollar Cost Averaging into Real Estate)

Many investors say, "I'm just going to sit out the market until the crash comes." But as I've already explained, your likelihood of timing that correctly isn't good. Instead of trying to time the market, why not employ a tried-and-true strategy from the stock market called *dollar cost averaging*?

The essence of dollar cost averaging is to invest fixed amounts of money into the market on a consistent basis, like every month or year. When the market is up, you'll buy less for your money. When the market is down, you'll buy more. But it avoids the risk of being *completely* out of the market, where you miss out on all the potential gains.

In the book *Building Wealth One House at a Time*, author John Schaub advises the exact same thing in real estate. For five decades, he's made it a goal to continue buying at least one house per year, and he's become very wealthy.

Keep in mind that always being a buyer doesn't mean you have to buy bad deals! Every deal should meet reasonable investment criteria. That's also why you likely will buy *fewer* deals in hot markets, and you may even strike out for months or years at a time as your offers get rejected.

The point, however, is that you're always looking. By staying in the market consistently, you'll tend to consistently find deals and keep growing towards your goals.

Now let's look at a few ways to increase your chance of successfully finding deals in a hot market.

How to Zig When the Competitions Zags

Have you noticed in 2023 that properties on the MLS or Zillow get snapped up very quickly? If you look for deals on the normal, easy-to-access channels, you won't likely find many good opportunities.

Instead, be a little more aggressive by doing the following:

1. **Use Off-Market Lead Generation**. Use the lessons in Chapter 14 of the book on finding good deals to find off-market leads. These are often sellers who are more motivated to offload their properties. You can use less expensive strategies like driving for dollars, social media, cold calling, and networking. You can also spend more money with strategies like digital marketing (e.g., websites and pay-per-click ads) and direct mail to various lists. Marketing for leads is very much a science, and it requires an investment of time and money. But the return on investment can be big.
2. **Look for Value-Add or Expandability**. Many profitable investments don't look like deals on the surface. You need to have imagination or see how to change things in order to get to the opportunity. A common example is a fixer-upper property where you can spend money to increase its value. But other examples include raising rent, changing the use (e.g., converting a long-term to short-term rental, or residential to commercial), subdividing a lot, combining multiple lots, rezoning, fixing title problems, and more. To find these opportunities, you normally need to study a very small segment of your market or a specific technique to master the nuances of the opportunity.
3. **Find Under-Valued Locations**. As I explain in Chapter 10 of the book, real estate is a location game. And markets that are changing quickly present pockets of opportunity where residents or other investors don't realize yet what they have. The strategy here is to start with the best, A+ locations. Identify what makes them special, like proximity

to a park, historic charm, and so on. Then study your map and find *similar*, nearby locations that are selling for lower prices. If you can buy properties on terms that allow you to hold, you can often ride the wave up as the spill-over effect from the A+ neighborhoods makes its way into these up-and-coming neighborhoods.

There are plenty of other techniques to play offense and make money in a competitive market. You'll have to stay on your toes, because they're also constantly changing! Revisit and study my chapters on negotiation and deal finding to really take this skill to another level.

FOCUS ON WHAT YOU CAN CONTROL

In many Alcoholics Anonymous groups, the members begin their meetings with the following prayer:

> "God grant me the serenity
> To accept the things I cannot change;
> Courage to change the things I can;
> And wisdom to know the difference."

Whether or not you are religious, the advice of the prayer is powerful. And it applies very well to real estate investing in 2023 and beyond.

There are some things you *can't* control, like the movement of interest rates, the behavior of other buyers, or your current circumstances. For these external forces, you just have to accept them for what they are.

But there are some things you *can* control, like the defensive preparations and creative offense strategies I've shared in this chapter. You can also control how hard you work and the quality of the people you choose to surround yourself with.

And most of all, in times of uncertainty and change, you must do your best to apply wisdom to your investing efforts. It's not easy to avoid getting caught up in the euphoria or the panic of the moment. But your ability to do that, to maintain discipline and patience no matter what the market brings, will ultimately determine your success as an investor.

Best of luck riding the market waves! *The Small and Mighty Real Estate Investor* book you now own is a guide you can return to even as markets change. The principles you'll find there are not fly-by-night predictions or hot trends. They are principles you can use in ANY market to build wealth, cash flow, and financial freedom.

I look forward to hearing about your progress and riding the economic waves with you!

Chad / Coach

Granada, Spain

2023

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