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WHY THIS BOOK?

Real Estate Investors

If you are an ambitious real estate investor looking to take your dealmaking to the next level, this book is for you. It is specifically designed for those interested in raising capital to eventually acquire tens of millions worth of larger real estate projects. This is not a book for the average real estate investor who is content with using their own funds and a lender to purchase one or two houses and manage properties for their entire career. This is the book for you if you are not satisfied with netting a few thousand dollars monthly.

As a real estate investor, syndication and properly raising equity from investors, instead of just relying on your own capital and a lender, can be a powerful method for accessing larger deals. To make the jump from a self-funded real estate investor, to creating and closing your first syndication, you may face challenges that can hinder your ability to syndicate your projects. These challenges may include a lack of knowledge of legal, compliance, and securities issues, which are essential for ethically using the equity of others. Without a repeatable, predictable, and consistent way of compliantly getting discussions with an endless pool of investors with the mandate to invest in your deals, you may struggle to secure the extra funding you need to acquire larger real estate deals. Even the terms of hard money lenders may not be sufficient, because their rates, draw schedules, and other terms may not meet your needs.

To overcome these challenges and succeed as a real estate investor, we write this book to show you how to prepare and seek out additional equity capital from other sources. By building a strong network of investors and developing a clear plan for generating revenue from your projects, you can effectively leverage the power of syndication to achieve your real estate goals of owning $1m up to $100m and beyond worth of real estate.

Aspiring Business Buyers

Buying your first business can be a complex and time-consuming process, requiring you to juggle multiple tasks simultaneously. As soon as you start buying a business, you may take on various legal, financial, and negotiation roles. You may also need to raise debt and equity, negotiate with sellers, and learn about a business you may not have any prior knowledge of.

With so many tasks to juggle, we bring this book to give you a low-risk approach to getting it done so you can buy your first business.

Experienced Real Estate Syndicators

If you are an experienced real estate syndicator looking to create and raise a private equity fund, specifically a blind pool fund (a type of fund in which you raise capital first to acquire whichever deals you like), you may face more challenges.

Real estate syndications are powerful until a point. Eventually, common bottlenecks to growing your assets under management rear their ugly heads. Many experienced real estate syndicators deal with investors not following through on one-off syndication commitments. This forces you to scramble at the last minute to close equity gaps in acquisitions and syndications one by one, slowly and inefficiently. You may also find yourself stuck on syndicating minor real estate deals, not being able to acquire enough real estate to meet your ambitious goals. With no access to a pool of capital, you may have to endure the painful process of underwriting, selling, and raising one deal at a time, with inflexible terms from one-off funders. Building slow and expensive legal compliance documents that investors do not fund is disheartening and risky. Restructuring each deal inefficiently can also be challenging, especially if you have large goals of getting to dozens, then hundreds of millions of dollars.

Experienced syndicators! Just because this book is mostly geared toward beginners doesn't mean we've forgotten about you. We've got plenty of tips and tricks for seasoned pros. Whether you're looking to brush up on your skills or learn something new, we will address it. So don't worry; we haven't forgotten about you just because you've been around the block a few times. We cite examples of how many sophisticated syndicators have come to very basic conclusions as we observed them close their deals over the years. So let's start, and remember always to stay sharp and keep learning!

This book will provide tactics and strategies to create the right legal offering, financial package, and marketing package for commonly used structures. It will teach you how to overcome challenges and succeed as a real estate syndicator, new real estate fund manager, or business buyer by having a repeatable, predictable, and consistent way to communicate compliantly with an endless pool of investors who have the mandate to invest in your deals.

You will have access to short-term tools, tactics, and “hacks,” but the strategies in this book are designed to be evergreen, meaning they will not change. Regardless of interest rates, inflation, location, or type of deal, follow the formula and apply it to your situation. You will learn how to adapt these strategies to fit your specific situation, giving you the mental models and systems to succeed in any circumstance. Whether you are a new real estate investor, an experienced syndicator, or an aspiring business buyer, this book will provide the tools you need to succeed.

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INTRODUCTION

"The two most important days in your life are the day you are born and the day you find out why." – Mark Twain.

A Calling

For those of us who are fortunate enough to experience a "calling" in life, it can be a powerful and transformative force that drives us to pursue our passions and reach our full potential. The daily routine can become monotonous and unfulfilling for others, leaving their potential unrealized.

As I wrote this book, I was reminded of the amount of energy and purpose it takes to create a fund and raise capital. It can be difficult and often tumultuous, but it is ultimately rewarding.

I hope that by sharing my own calling for writing this book and providing some context on where it comes from, I can help you find your own purpose and guide you on your business and life journey. Whether you are just starting out or are well-established in your career, discovering or rediscovering your calling can be a powerful driving force that propels you toward success and fulfillment. So take the time to reflect on your passions and strengths, and pursue them with purpose and determination. If creating a raise for buying real estate or buying a business is your calling or it’s a vehicle to get you to your calling, continue reading; you’ll be at home in this book.

Allow Me To Introduce Myself

My name is Natu Myers, and I am the founder of Raises.com, a company that creates real estate and business acquisition deals for people and helps them systematically raise capital. I love learning to improve myself and my businesses to the top 1%. I find being "average" even scarier than being mediocre. The week I finished writing this book, I set a personal record by deadlifting 730 lbs for three reps. I use working out as an outlet and try to apply that same determination and drive to my business endeavors, pushing ourselves to go beyond new limits.

I graduated from Queen's University in Canada with a degree in computing while playing football on the varsity team. Although I had a passion for business, I spent a lot of time in business building and participated in numerous startup competitions. Before that, I used to be a software developer.

Several years ago, I discovered cryptocurrency before it became popular when my software coworker told me about “Ethereum.” “What was that?” I wondered. After going deep into the rabbit hole and learning how to trade cryptocurrency successfully, I quit my software developer job to focus on trading it full-time. Maybe it was the company I was at, or maybe it's working in general - I say this truthfully, humbly, and without the intention to offend: The idea of having to do what my boss told me to do to get paid felt like slavery to me at the time, so that was extra motivation to go my own way.

Working with investors and teaching them about cryptocurrency, I realized that companies trying to raise money had a more severe problem. Investors looking to deploy capital into deals weren't nearly as desperate. I decided to help crypto companies raise money legally and efficiently. Only two companies registered as investment banks in Canada knew how to raise money through cryptocurrency deals. I joined one, obtaining the necessary licenses to sell deals through the securities commission. We raised capital for various companies in different sectors and countries, raising tens of millions of dollars. This experience taught me about investment banking and its application to real estate and acquisitions.

Understudying mentors for years and gaining a thorough understanding of capital raising, I saw room for improvement. I started Raises.com. I had the necessary licenses, experience, and knowledge to streamline the process and make it more modern. I wanted to bring a fresh perspective to a slow and old-fashioned industry.

Looking back at my third year of football, destroying my shoulder was one of the best things that ever happened to me. It gave me the opportunity to take a break from football and learn about private equity.

Before that, I was clueless. I used to try to raise capital for failing pre-revenue deals and pitch all kinds of horrible ideas to angel investors in San Francisco. I was delusional and couldn't raise a single cent from investors. Raising capital required expert knowledge of the intricacies of the market and couldn't be done without decades of training.

But then, I started working with an investment bank and learned how wrong I was. They showed me that raising capital isn't about finding a magical formula. It's about communicating clearly and persuasively and having a vision that inspires people to help you turn it into reality. Raising capital effectively is about focusing on tried-and-true methods like real estate and businesses generating revenue and results, acquisitions rather than far-fetched pre-revenue ideas. It’s about properly structuring the documents, broker-dealers, and entities. I observed one investor investing the same amount in 20 minutes, which would normally take a startup 20 months to get. It was at this point I realized there was much more to raising capital than I initially thought.

When I was naive, I didn't know there were specific steps people needed to take to succeed with capital raises. But through the power of real estate and acquisition private equity deals, we’ve been able to get incredible results for our Raises.com members. So far, we helped people raise a net of $200m (not including unreported transactions). I am fortunate to have sparked a movement, all without a billionaire father, billionaire connections, or millions of dollars to start a private equity firm.

WHAT YOU WILL LEARN IN THIS BOOK

"People need to be reminded more often than they need to be instructed."- Samuel Johnson

This book is the instruction manual for going deep into private equity, which as David Rubinstein, chairman of one of the world's largest private equity firms calls it, "the highest calling of mankind." In it, I'll share everything you need to know about preparing and executing your real estate or acquisition capital raise so you can overcome any overwhelm and limitations and become the type of asset manager you want to be.

Too often, textbooks mix useful concepts with concepts you never see used in practice. Here, you'll learn how to deal with the complexity of securities law and intimidating lawyers so you can condition your mind to create optimistic, pragmatic situations and results.

It is my sincere expectation that, by the end of this book, you will have a clear understanding of the specific steps you'll need to take to create, protect, execute, and repeat your real estate and business acquisition deals and funds, so you will have all the tools you need to start taking control of them.

More specifically, this book will show you:

- How to prepare for challenges new emerging fund managers may face in the capital raising

process from having insufficient experience.
- Mental models that help emerging fund managers understand investor motivations
- Differences between real estate funds and real estate investment trusts (REITs) when raising capital for real estate projects.
- Strategies to raise capital for real estate and acquisitions during economic downturns.
- Strategies for selecting locations for real estate or acquisition deals
- Common practices for creating a compelling pitch, building a network of potential investors, managing the due diligence process, and being prepared for potential challenges
- How to protect yourselves and your potential investors from fraud by verifying the identity and credentials of potential investors and conducting affordable criminal background checks.
- How to hypothesize the ideal type of investors for your deal and where to find them
- The differences in seeking capital family offices, private equity firms, or limited partners
- If investors back out at the last minute, the strategies needed to have in place to deal with this potential challenge.
- How to close the deal and comply with regulatory requirements.

Let’s get started.

HOW TO USE THIS BOOK

I encourage you to read this book at least once and share it with someone you think it'll help (or tell them to get it at Raises.com/book). After that, I invite you to revisit the book and focus on the section(s) you want to explore in more depth.

In this book, I include many examples of true stories from people who worked with Raises.com. Sometimes we would need to protect the confidentiality of real transactions, founders, and their legal interests, but oftentimes we could freely disclose examples. Though I don't expect you to go through them all, I hope you'll pick some and apply them in your life and business. Remember, the results from this book depend on how much time and effort you're willing to put in.

If you feel this book is useful to your family members or business partners, share it with them by telling them to go to Raises.com/book. Capital raising can be complex, and my vision is to revolutionize global investment banking, set new global standards for efficiency, and empower investors and founders like you to turn your visions into reality.

PART I

HOW DO YOU CREATE YOUR RAISE?

"If I only had an hour to chop down a tree, I would spend the first 45 minutes sharpening my axe." – Abraham Lincoln.

1

HOW BUSINESS ACQUISITIONS AND REAL ESTATE SYNDICATIONS WORK

Acquiring a business and doing a real estate syndication could have many similarities. For example, both require identifying and evaluating investment opportunities, negotiating terms, obtaining due diligence information, and raising capital to complete the deal. The goal in both cases is to purchase an asset that will generate income or increase in value over time.

A key similarity is that both types of deals often involve a team of professionals working together to evaluate the opportunity and develop a plan to finance and manage the asset. This team may include lawyers, accountants, and other advisors who help identify risks and opportunities and ensure that all necessary legal and financial documents are in place.

Both business acquisitions and real estate syndications also involve a negotiation process to determine the purchase price and other terms of the deal. This may involve negotiating with the seller or owner of the asset and with any lenders or investors providing capital for the acquisition.

Most importantly, both types of deals require raising capital. This may involve seeking investors or lenders willing to provide funding or developing a financing plan with a combination of debt and equity.

Acquiring a business can be very similar to doing a real estate syndication, which is why these topics will

be combined in this chapter. We will first go through the process of acquiring a company, then explain some of the differences between this and doing a real estate syndication.
To summarize the process of acquiring a company:

1. Develop your acquisition criteria.
2. Connect with potential sellers through networking or messaging on LinkedIn.
3. Build rapport and sign a non-disclosure agreement (NDA) with the seller.
4. Obtain due diligence information from the seller.
5. Review and verify the information with analysts and yourself.
6. Submit an offer, ideally exclusively.
7. Raise the capital needed to close the deal.

Develop your Acquisition Criteria - Step 1

Create your acquisition criteria and position your brand. This should outline the specific characteristics and features you are looking for in a target company. This will ensure you narrow your search and focus on companies that align with your investment goals, mission, vision, and principles. Focus all efforts on attracting or “originating” sellers of this type of company.

If you are looking to purchase businesses in a particular niche, you must have a high volume of traffic from company owners in that niche that you are contacting and prospecting. There are various ways to approach sellers, including brokers, investment banks, consultants, or contacting them directly.

One option for sourcing transactions without a broker is connecting with online groups, such as Raises.com. These groups can be useful resources for finding deals and connecting with potential sellers. Alternatively, you can reach out to investment banks in your network for assistance in finding businesses for sale.

While traditional brokers can be a helpful resource, they may be slower in providing information than other methods. To find financing for projects in your chosen niche, you can consider sending a message like the following to your network: "Hi all, I am seeking financing for certain projects in [niche] and do not charge upfront fees because I will be deploying the capital and making control acquisitions. If you meet the following criteria, please email them to [your email]. You are also welcome to inquire about us as needed." Be sure to include your acquisition criteria in the message.

Letters of Commitment

For legitimacy, many sellers and brokers ask for letters of commitment or proof of funds because many people are new to acquisitions and may burden the seller's or broker's time because they don’t know how to raise money. We've found that our Raises.com letters of commitment it has helped dozens get through some broker and seller scrutiny. Sebastian Ameiva’s students (SebastianAmeiva.com) a friend and expert teaches people how to buy businesses also works with us also use this strategy successfully. Yes, draft terms sheets from lenders also help. Ultimately, it is confidence that can also help you through this. If you need a commitment letter, go to Raises.com/CommitmentLetter, and our company will offer you a commitment letter to get past this seller phase if our due diligence team approves it.

Online presence

Additionally, you can get a press release out on a reputable. To contact sellers, a phone number is recommended, but just a simple Google Voice or Zoom number would do. Close.com would be better for your serious outreach later on, so you can track everything with an assistant under you. We recommend using Go High Level to build a website with a simple landing page with the following information. (The square brackets are to be filled in)

About Us

[YOUR COMPANY NAME] seeks to make control investments and acquisitions in small and medium-sized businesses with a focus on these industries:

[YOUR ACQUISITION NICHE] and [INSERT ANY OTHER INDUSTRIES OR SUBINDUSTRIES HERE].

We are not brokers; we are principal buyers. We aim to fund and close transactions within 30-90 days of entering a Letter of Intent. We work with the management team of the businesses we acquire to improve performance and efficiencies, while also ensuring that robust compliance frameworks are in place.

Example Acquisition Criteria Outline

Our target companies generally have the following characteristics:

- *Revenues of $1m-$5m*
- *At least $1m of cash flow*
- *Principal operations in [AREA YOU WANT THE DEAL IN]*
- *In business for at least five years, with a minimum of three years of prior financial statements.*

Business Owners: We help business owners retire by buying their businesses. If you are selling your business and it fits our acquisition criteria, we would like to hear from you.

Building a board can also be helpful. In online forums, on Linkedin, or with networking groups like Raises.com, introduce yourself to people with experience in your acquisition niche.

- Thank them for taking the time to meet with you
- Tell them how you found them and your plan for the project
- Ask if they have any questions for you
- Explain that you're looking for someone with transactional experience and ideally sector experience
- Compliment them on their background and show that you've done your research on them
- Ask if there's anything you should know that will help or hinder your efforts to grow the project
- Ask how they believe they can help the

project and how their experience can be an asset
- Tell them you'll get back to them at a certain date with an update on your decision

Remember, you don't have to build a board at all, but it’s an optional tactic that helps build and position your brand. You can learn how to do everything needed before a Letter of Intent on your without a board, including financial analysis. If you do decide to build a board or bring on advisors, you can simply ask them to participate in one meeting per quarter and offer them a percentage of acquisitions and profits that is fair, without requiring any cash out of pocket.

Book Appointments With Sellers - Step 2

Book appointments with sellers of target companies that meet your criteria. You can do this through networking with other investors or by reaching out to potential sellers on LinkedIn.

Get an Initial Call With Sellers - Step 3

Get an initial call or meeting with the sellers to build rapport and sign a non-disclosure agreement (NDA). This will protect your confidential information and allow you to discuss the details of the deal openly. Go to Raises.com/NDA to see an example of a real NDA we use in practice.

Ask for Information - Step 4

After the NDA is signed, request a due diligence summary from the seller. This should provide detailed information about the company's financial health, operations, and potential risks.

Below is an example questionnaire you can present to a seller.

Due Diligence

Legal Due Diligence:

- Corporate structure
- Parent company and all incorporated subsidiaries of the issuer
- Incorporating documents for the issuer
- Any other "doing-business-as" names being used
- Fully diluted share and debt structure of the issuer
- Directors, officers, and significant shareholders (list of all directors and officers, list of all shareholders owning more than 5% of any of the companies)
- Financial statements and forecasts (all financial statements for the past three years, copy of current forecast, the term sheet for the current issue, sources and uses related to the issue)
- List of all lawsuits and litigation of those owning more than 5% of the associated companies over the last five years
- Service providers (auditors/accountants, lawyers, custodians, if applicable, all banks

where accounts are opened, including lawyer trust accounts and custodians, if applicable)
- Marketing materials (recent investor deck and any other presentation materials, list of all websites)
- Copies of applicable laws and regulations (copies of laws and regulations the company is required to meet with service and product on behalf of clients, list of any licenses required)
- Current or proposed commercial agreements (list and copies of all signed agreements, copies or descriptions of proposed or pending agreements, copies of any leases entered into
- Existing overhead expenses (list of all current and planned recurring overhead costs, including salaries, consulting payments, rent, and other recurring costs)
- Other materials as requested resulting from review of the documents listed above

Business Due Diligence:

- Valuation of the entity the investors are investing in (method used to come to this valuation, assumptions, returns)
- Pricing model and how it is distributed among customers
- Historic revenues
- Breakdown of capital raised to date if applicable
- Length of investment lock/illiquidity, if applicable
- Market segments served
- List of customers (market segment they

are in, amount charged to each customer, testimonials in print or video, achievement of promised outcomes, repeat customers)

- Larger trends in the market segments served
- Awards won by the company
- Customer acquisition methods
- Completeness of product/service and plans for upgrades and associated costs
- Competitors

Note this paragraph carefully; there are a few things that are particularly critical to consider. First, checking for scams and fraud by doing court case lookups on the principals involved is important. You can do this by visiting websites like Unicourt.com and Pacer.gov. Pacer charges a few cents per lookup, but it may take some time to get the results. Make sure to do a quick sponsor background check to see if the principals have been involved in criminal court cases or securities fraud. You can also do a quick Google search to see if any relevant information is available.

Perform Due Diligence - Step 5

Review all of the information in the due diligence summary. Have analysts verify and substantiate the information to ensure it is accurate and complete.

In addition to checking for scams and fraud, reviewing the securities documents for investment opportunities is important. This includes the private placement memorandum (PPM), which provides details about the company, the offering, and the terms of the investment. You should also review the subscription agreement if the investment involves equity. Most deals you're looking to acquire will not have these (you will be making these if you'd like to create a fund for an acquisition).

On the financial side, it is important to review the company's financial history, including its five-year operating history and statement of cash flows, and all of its financial statements. This will help you better understand the company's financial health and performance. It is also helpful to review the company's five-year operating history, as this can provide insight into its growth, stability, and potential for future success.

Hiring a chartered financial analyst or accountant is important so you can review the company's projections for the next three to five years. Freelancer.com, Upwork.com, and even Fiverr.com could be places to start if you're on a shoestring budget. Go to Raises.com/Jobs to see examples of job posts you can use.

This can give you an idea of the company's expected growth and financial performance in the future. After reviewing the financial information, it is helpful to consider the organizational basics of the company, including its marketing materials and organizational charts. This will help you understand the structure and leadership of the company, as well as its marketing efforts. You should also review any additional information about the company, such as its customers, tax paperwork, and any disputes or leases it may have. This can give you a better understanding of the company's operations and potential risks or liabilities. Finally, you may want to consider any additional or ancillary information relevant to your evaluation of the investment opportunity. This could include operational details or information about the company's environment or industry.

You have to remember your power. You are buying their business and have to position yourself as the investor. As an investor, it is crucial that you assert your position and consider the expectations of other investors in similar situations. Offer terms other investors would offer. It is important to remember that, as the investor, you are driving the negotiations and shaping the terms of the deal. Therefore, it is essential that you approach the negotiations with confidence and clarity, be slow to compromise, and be quick to collaborate with the seller!

Example Financial Due diligence

One of the contractors at Raises.com was working on buying a trucking company out in California.

What is especially interesting about this acquisition is the point at which we needed to get one of the financial analysts to review this company's financials.

The business acquisition cycle is similar to the sales cycle of products and services. It all involves leveraging the principles of influence and persuasion.

- You have to convince people to give you their attention
- Once you get their attention, you have to convince them of the idea of possibly selling

their business (if you're not interested in that already) or find people who are already looking to sell
- Then you have to sell yourself on potentially being worthy of them signing a non-disclosure agreement (NDA) with you to consider being a potential purchaser of the business
- Then you have to sell them on the ability of you for you to close on the deal
- Finally, you have to sell them on managing the company and its legacy based on the mandates of the owners

In our case, the contractor at Raises.com, let's call him John, found a company that was willing to consider the transaction of a Californian trucking company. The company actually just offered some tax returns and financial statements in a PDF format to John for his review (which was pretty hard for John's financial analyst to use, unlike a standard CSV or Excel file).

It is critical to understand the perspective and context around the financial statements you get and who sent them.

The statements he got were clearly for preparation to report to the IRS.

The statement was optimized to show that the tax was light because the way the model was designed made it appear that the profit margins were thin and most of the revenues were going back into the business. Because the person at the Californian firm didn't know the nuance of the fact that he was preparing statements from somebody who wanted to buy the business he was contracted at, it wasn't in his best interest to make it look like all the money is going back in the business. This business has never entertained sellers before, and it shows (what seller that wants to sell his company sends over a statement saying it’s barely profitable when the business is profitable?)

We know the ideal of making one true financial statement in practice. Still, unfortunately, many sellers could have multiple financial statements changed based on the message they want to convey to the viewer (shareholders of the company, the tax auditors, and the buyers).

Ultimately, we had a situation where John had to get a financial analyst training in tax law and in mergers and acquisitions to look through the details to make sure that:

1) John’s due diligence team looked at any accounting tricks or any accounting tricks that they use to fudge the numbers

2) What incentives are in place behind the person who is sending you the statements? Is it a tax advisor or accountant training in mergers and acquisitions? Both can yield radically different results.

Because some of these companies have never been purchased before. They've never been asked to be purchased before. Better yet, because no brokers were in place, it is likely to be less overvalued if the accountant had no training to exaggerate earnings.

Next, the second step is to come up with a ballpark valuation after cleaning the numbers, rebuilding financial models, and re-validating all assumptions.

John’s financial analyst gave him a clear answer on how much you should buy the company for. Rather than go into all of these advanced modeling model techniques. What's even more important is just to know the reason behind doing the advanced modeling techniques. Mainly: what is the minimum price you should pay for that business?

To do that, ask your financial analyst two questions.

1) Using any financial modeling technique, what is the minimum amount of money that anyone can pay for this business
2) Using any financial modeling technique, what is the maximum that anybody could reasonably pay for this business?

When you get all these answers, then it's for them to build a model based on that. Then you know, you're going to have to get the financial analysts to justify the lower price and the higher price and to spend, obviously, more effort justifying the lower price point.

The whole idea for people looking to buy even apartment complexes, businesses, or anything that could be later sold: the same thing applies. How do you optimize for getting the highest-value asset for the lowest amount?

At the end of the day, all capitalism is really just asking and answering the question: how do I spend the least to get the most? How do I have arbitrage? How do I put the least in to get the most outs and benefit the most? You must get the financial analysts to justify and build a case on why the lower price case is the most palpable.

When you go into the seller, you usually would fly down and talk to the seller (if you’re buying millions of dollars worth of someone’s business for the first time, it makes sense in most cases to see what you are buying) because our associate John bought a plane ticket to see the seller and negotiate.

You want to hit them with the lowball offer and be firm on that, knowing that you have the conviction to do so and you have the confidence to do so, ideally with seller finance if the company can cover the debt from comparable lenders. So that's how it's done.

Just to recap:

1) Make sure that, when you're working on getting a deal in the contract, you understand the context behind where it's coming from, whether it's a tax accountant or an M&A veteran. The incentives and skills of the seller’s financial people in place can hint at biases in the financials.

2) Ask your financial due diligence team the minimum and maximum anyone would pay, using any valuation model.

3) Make sure you justify and spend most of the effort justifying the minimum price you would pay by getting them finally to substantiate, and prove every single line of cash flow.

If you do all this, then you'll be able to have fun, book plane tickets, negotiate down to the lowest price possible, and potentially even get them to do seller finance.

In real life, our “John” unfortunately missed his flight because of a scheduling mishap with rental cars, but he is using the lessons he learned to close the next one.

This is just the pre-LOI (letter of intent phase), but I trust this makes sense for people working on acquiring apartment complexes or businesses of all kinds in the due diligence phase.

Send Letter of Intent - Step 6

Submit offers through a letter of intent, ideally with an exclusivity clause. This will show the seller that you are serious about the acquisition and prevent them from negotiating with other potential buyers.

Raise and Close - Step 7

During the negotiation process, raise the necessary capital to close the deal. This may involve seeking funding from investors or securing a loan from a financial institution.

Do not be over-optimistic. Allow extra time if you are raising equity as part of the acquisition. If the letter of intent (LOI) you sent to the seller will take three months or longer for any reason and you think it will take a long time to raise equity (it usually does), prioritize the equity and investor relations part of the acquisition. To many, I recommend people compliantly build their investor network before step one. This way, you can build and establish relationships with investors before raising capital. You could also have better insight into the types of deals that are bankable. Alternatively, if you are confident that you will not need to extend the deal and the seller will not be angry if you do, or if you already have investors ready to participate in the equity part of the deal, move faster. However, moving slower and being clear and flexible with your approach is usually better to ensure the deal closes successfully.

Now that we have gone over the big picture of buying businesses, what are the differences between creating a real estate syndication and a business acquisition fund? Just replace your acquisition niche with the real estate niche you want to acquire.

If you're considering finding a real estate niche, you should first be familiar with the different classes of properties, investment strategies, and available sectors in real estate.

Classes of Real Estate: A, B, C Approach

Class A properties are the top of the line – they are newer buildings with high-quality amenities and high-income tenants. They are usually located in desirable areas and professionally managed, and they typically have low vacancy rates and high rents.

Class B properties are a step down from Class A, and they tend to be older buildings with lower-income tenants. They may not be as well-maintained as Class A properties, and there may be some deferred maintenance issues. However, many investors see Class B properties as "value-add" opportunities because they can be upgraded through renovations and improvements.

Class C properties are the lowest-quality on the market – usually more than 20 years old and located in less desirable areas. They require significant renovations and have the lowest rental rates of any class of property. If you're looking to invest in real estate, it's important to understand the differences between these classes so you can make an informed decision.

Classes of Real Estate: Core, Value Add, Opportunistic Approach

Core

Core real estate investing involves acquiring low-maintenance properties in prime locations that attract high-quality renters with excellent credit. While the exact level of debt may vary, core properties are typically funded with less than 50% debt, allowing investors to retain significant equity in the property and minimize risk. These investments offer the lowest risk and greatest stability of the four asset categories, making them an ideal choice for those new to real estate investing.

One common example of core real estate investing is purchasing existing, tenant-occupied residential rentals in good condition with a down payment of 50% or more. These investments provide reliable cash flow through rental income and long-term appreciation due to their prime locations. They also require very little work and minimal attention from renters, making them highly passive investments.

Core property investing is also prevalent in commercial real estate, such as box stores filled with credit tenants on long-term leases. Credit tenants have impressive credit histories and resources, and their rental payments are considered safe as bonds to the property owners. These tenants often sign leases with terms of 10, 20, or 30 years, providing a stable income for the property owner with minimal effort.

While core investments offer moderate returns of 7-10% annually, they do come with the trade-off of lower returns compared to riskier asset classes. However, their primary goal is stable cash flow with some growth, making them a valuable choice for long-term investments.

Core Plus

Core plus real estate investing involves acquiring properties with higher debt leverage and greater asset management responsibilities, similar to core investing. However, these properties that are often older or located in slightly less desirable areas with the potential to improve over time, enabling investors to increase both the risk and reward potential of their investments.

Core plus properties are typically 50-60% financed and offer annual returns of 8-12%. An example of a core plus investment is a 20-year-old, tenant-occupied rental property purchased with a 40% down payment. Although it is in good condition, it may require updating in the near future and is located further from the city center in a neighborhood showing signs of growth.

Overall, core plus investments offer low to moderate risk and moderate reward, with a primary goal of strong cash flow and solid growth. They are a good choice for long-term investments and provide a balance between the stability of core investments and the potential for higher returns of riskier asset classes.

Value add

Value-add real estate investing involves purchasing an existing property with the potential for transformation and adding value through renovations such as changing the layout, updating fixtures and finishes, or adding an accessory dwelling unit. These investments offer the potential for substantial returns over a short period of time, with an annualized return on investment of 10-15%.

However, value-add investments also carry increased risk due to their heavy debt financing (typically 60-75% debt leverage) and the potential for mistakes during the renovation process. It is important for value-add investors to have the knowledge, experience, skill, and time to oversee the renovation project and attract high-quality renters.

While value-add investing is best suited for experienced investors, inexperienced investors can still participate through real estate syndication, which allows them to capitalize on value-add investments without personally managing the project.

In a nutshell, value-add deals offer moderate to high rewards with a primary goal of solid growth and stable cash flow. They are a good choice for short-term investments and offer a balance between the stability of core and core plus investments and the potential for higher returns of riskier asset classes.

Opportunistic

Opportunistic real estate investing involves high-risk properties or building new developments from the ground up, typically using 50-70% debt financing. These investments come with higher risks and higher rewards than the other three investment strategies, as they require significant capital upfront to fund the project and may take years to see returns.

For example, an opportunistic investment in a new multifamily development would require specialized knowledge to scout the ideal location, design a building that appeals to today's renters, and navigate the building process, including obtaining necessary permits. It would also require industry connections, a talented architect, a trustworthy project manager, reliable builders, and the time and effort to oversee the development through the construction phase and into the lease-up phase.

In exchange for this expertise, skill, time, and risk tolerance, opportunistic investors expect the highest annual investment return, with over 20% when done properly.

If it’s not development, opportunistic properties often have high levels of debt and vacancy and may require major repairs or a complete repositioning. Because of the risk, opportunistic investments offer a high reward with a primary goal of strong growth and solid cash flows. They are a good choice for mid-term to long-term investments and offer the potential for the highest returns among the four asset categories.

Real Estate Sectors

Single-Family

A single-family house is a standalone dwelling unit designed to house just one family. It's pretty self-explanatory if you think about it - it's a house for a single-family! You know, like in all those movies where the family lives in a house and doesn't have to share it with anyone else? Yeah, that's a single-family house.

But seriously, a single-family house is a common type of residential property that provides private living space for a family, including bedrooms, bathrooms, a kitchen, and a living area. It's often the typical image people have when they think of a "house." And although it may seem like a no-brainer, it's important to note that a single-family house is not the same as a multifamily house, which is designed to house multiple families under one roof. Simple as that!

The “Commercial” Real Estate Sectors

Multifamily

Multifamily real estate includes any residential property other than single-family homes. This includes popular investments like apartments, co-ops, and townhomes, which can be further classified as Class A, B, or C depending on factors like location and condition. Multifamily properties are valuable because they provide living spaces, but market factors and the ability to raise rent annually can also impact their value.

Some examples of multifamily properties include duplexes, triplexes, quadplexes, garden apartments, mid-rise apartments, high-rise apartments, walk-ups, student housing, and senior and assisted living properties. These buildings can be found in various locations, from the suburbs to urban areas, and can range in size from small multi-unit homes to large apartment buildings with professional management.

Office

Office buildings are a major type of commercial real estate that can be a lucrative investment, ranging from single-story buildings in the suburbs to multi-story buildings in cities. However, preparing spaces for new tenants can also be expensive. Office buildings are designed for multiple tenants and provide several revenue streams, as well as longer leases that offer lower risk compared to other types of commercial properties.

Office buildings are generally divided into three classes based on factors like age, condition, location, and more: Class A office buildings are the highest quality with higher rents, Class B buildings are competitive with standard market rates, and Class C buildings are lower quality with below average market rates. Class A buildings are often newly renovated and located in the central business district, while Class B and C buildings may not have the same amenities or location.

It is crucial for investors to understand the market, especially during economic uncertainty like the COVID-19 pandemic. The pandemic caused many businesses to shift to remote work, leading to a decrease in demand for office space and making some office buildings, particularly in tech hubs like Silicon Valley, distressed assets.

Distressed assets are properties experiencing financial difficulties and potentially at risk of default or bankruptcy. For office buildings, this could mean decreased occupancy rates and revenue, as well as increased vacancy rates. These properties may be hard to sell or finance and may be worth less than their original value.

Understanding the market allows investors to anticipate potential challenges and make informed decisions. During the COVID-19 pandemic, investors may have avoided or divested from office properties in tech hubs at higher risk of becoming distressed assets. On the other hand, investors who recognized opportunities in sectors less impacted by the pandemic (or even thriving) may have been able to take advantage of lower prices and potentially achieve higher returns in the long term.

Industrial

Industrial buildings are a desirable investment due to their long-term returns, leases, and low overhead costs. Located along interstate highways for convenient shipping and delivery, industrial warehouses are in high demand with the continued growth of eCommerce and the need for reimagined delivery infrastructure.

There are several types of industrial buildings, including heavy manufacturing buildings with tenant-specific floor plans, light assembly buildings for production and storage, bulk warehouses for product distribution, and flex industrial buildings with a combination of industrial storage and production space, as well as office space for corporate personnel. These buildings vary in size, layout, and other characteristics.

Mark, a Raises.com member, is raising capital to build and acquire an industrial property for his food product company. By adding an industrial property to his company's portfolio, Mark is adding a valuable asset that will provide long-term returns and stability. Industrial properties are known for their strong leases, low overhead costs, and strategic location along major transportation routes, making them a highly sought-after investment.

Mark wants a dedicated space to store, package, and distribute his products, as well as room to grow and expand his operations. By raising capital to fund the acquisition or construction of industrial property, Mark is adding an asset to an “asset-light” type of business. This business model may be lucrative for those who operate an asset-light business that relies heavily on cash flow.

Retail

Retail commercial real estate includes any buildings used by businesses to sell products and services to customers, including stores, restaurants, and more. Although the rise of eCommerce has led to a decrease in retail foot traffic, retail real estate remains a vital part of the retail industry in new ways. Retail properties, which can include strip malls, shopping centers, community retail centers, power centers, regional malls, and outparcels, offer investors a stable source of cash flow due to their longer leases. Retail buildings can vary in size and location, and can include a range of retail and dining options, as well as entertainment options in larger malls. Investing in retail commercial real estate can provide a reliable income stream and a strong presence in the retail industry.

Chris Goodman, the founder of NLXE, decided to use Raises.com to help him create a real estate investment trust. This trust was specifically designed to focus on purchasing fortune 500 retail properties. With the help of Raises.com, Chris successfully created a trust with a total value of $100 million. This trust allowed Chris and NLXE to invest in various high-quality retail properties and potentially generate significant returns on their investments. Solid retail deals are instrumental in helping Chris and NLXE achieve their goals of building a successful real estate investment portfolio and raising capital.

Hospitality

The hotel, and hospitality industry is a vital part of the economy, offering accommodations for travelers for leisure and business purposes. However, the industry can face challenges, such as economic fluctuations and competition from Airbnb. There are different types of hotels, including limited service, full service, extended stay, and resort. Limited service hotels offer basic accommodations without additional amenities like room service or a restaurant. Full service hotels offer additional amenities like room service and a restaurant. Extended-stay hotels are designed for long-term guests and often include a kitchen and larger rooms. Resort hotels are full-service facilities that often include an entertainment element in addition to accommodations, like a beach or amusement park. Despite these challenges, the hotel and hospitality industry remains an important part of the economy and offers a variety of options for travelers.

Raises.com's client Tempest22, led by Danny and his team, are experts in acquiring hospitality deals. They approached Raises.com to create a $50m fund where they could acquire multiple types of hotels. Tempest22 is a successful syndicator with a proven track record in the hotel and hospitality industry who wanted to go beyond their capabilities by creating a blind pool fund to acquire hotels of different types.

While hotels are similar to residential properties in some ways but also vastly different. One key difference is that the revenue from hotels is often very seasonal and lumpy compared to residential properties. This means that the income from hotels can vary significantly from month to month and may be heavily influenced by factors such as holidays, events, and the overall state of the economy.

Despite these nuances, Tempest22 has demonstrated its expertise in acquiring and managing successful hotel properties. By working with Raises.com, they hope to expand their portfolio and continue to excel in the hotel and hospitality industry.

Land

Land is a risky but potentially lucrative type of commercial real estate to invest in. Unlike developed properties, undeveloped land leaves the responsibility of generating revenue entirely on the investor. There are several types of land properties, each with its challenges and opportunities for portfolio growth.

Greenfield land, also known as agricultural land, includes farms, ranches, and other lands without buildings. Infill land is urban plots that were once developed but are currently vacant. Brownfield land is land that previously held commercial buildings, often with environmental restrictions.

Land may be the first part of the acquisition process if you're planning a real estate development project. In this case, you may have to break down your project into multiple phases to attract investors specializing in each phase. For example, the first phase of your project might focus on land acquisition. By breaking down your project into smaller phases, you can attract specialized investors who can help you successfully navigate each stage of the development process.

Mixed Use and Special Purpose

Mixed-use and special-purpose properties can be a great opportunity for real estate investors looking to diversify their portfolio and tap into unique markets. These properties offer a combination of asset classes, such as retail, industrial, office, and residential, and cater to specific activities or groups of people. They can be found in downtown high-rises, shopping centers, or in the form of amusement parks, churches, schools, and theaters.

While investing in mixed-use and special purpose properties may be more complex compared to traditional commercial real estate assets, they can also offer unique growth opportunities. These properties may be more difficult to value due to the lack of comparable properties in the area. Still, they can offer diverse revenue streams and cater to specific niches or markets. Suppose you're considering investing in mixed-use or special-purpose properties. In that case, it's important to carefully assess the risks and opportunities and have a clear plan for generating revenue from your investment. With the right approach, mixed-use and special-purpose properties can be a rewarding and profitable addition to your real estate portfolio.

Real Estate Investment Strategies

Strategies to build wealth for yourself and other investors in real estate, including Fix-and-Flip, Wholesaling, BRRRR Investing, Short-Term Buy and Hold Rentals, and Long-Term Buy and Hold Rentals. Note that some of these strategies work best for single-family housing, while others work best for commercial real estate.

Buy and Hold

Consider the benefits of adopting a short-term buy-and-hold strategy for your rental properties. This approach involves purchasing properties with the intention of holding them for 1 to 5 years, during which time you can increase the value of the property through remodeling, raising the rent, and reducing expenses. This strategy is particularly effective for multi-unit apartment renovations and rentals in markets that are appreciating in value but may not generate high cash flow. This method works for a wide range of real estate sectors.

On the other hand, the long-term buy-and-hold strategy involves owning real estate with the intention of keeping it for the long term. This method is popular due to the potential for rental income, tax shelter from depreciation expenses, loan amortization, and price appreciation.

Fix and Flip

If you're interested in a more active approach, consider fix-and-flip investing. This strategy involves finding properties that require repairs, completing the necessary work, and reselling the properties at a profit. While this method can be lucrative, it requires a quick turnaround and is best suited for experienced investors. This model often works for multifamily and single-family and is, in rare cases, applied in different real estate niches.

Wholesaling

Another option is wholesaling, which involves finding good deals on investment properties and reselling them quickly for a small markup. This strategy requires strong marketing and negotiating skills, so it may be a good fit if you're confident in your sales abilities. This model is usually used for multifamily and single-family.

BRRRR

Finally, the BRRRR method (Buy, Remodel, Rent, Refinance, Repeat) offers a way to build a rental portfolio without depleting your cash reserves. This approach involves finding fixer-upper properties that can be purchased at a discounted price, using short-term debt loans to buy the property, and then refinancing with a long-term mortgage once the property has been renovated and stabilized. If done correctly, this method allows you to pull out most or all of your original capital for future investments. All refinancing means, in layperson's terms, switching the loan for another loan. This model generally works for multifamily and single-family.

Real Estate Syndications Can Be Very Similar to Business Acquisitions

Syndicating real estate to buy real estate can be similar to buying businesses. Sure, some purists may point out the differences between real estate acquisition and general business acquisition, but for most people, this is more than enough information to get started. Don't waste time worrying about redundant details – just focus on finding the right opportunity and getting the ball rolling. Raising the capital is usually the hard part, not finding a seller or getting a deal under contract. You'll be on your way to success in no time!

2

HOW MUCH MONEY DO I NEED TO RAISE MONEY?

Samantha had always wanted to raise more money to do larger deals instead of just using her own capital and a hard money lender. She knew she had a lot to learn, so she had saved up some money, but she wasn't sure where to start. She thought it might be a good opportunity when she heard about a private equity fund for a real estate deal.

She contacted a syndication lawyer to get more information but was shocked when they told her it would cost at least $150,000 to set up the fund. She felt overwhelmed and frustrated, especially since she hadn't even saved that much money. She started to feel like this wasn't the right path for her.

The lawyer tried to reassure her, explaining that the cost was necessary to ensure everything was done properly and legally. But Samantha didn't understand all the complex rules and documents they were discussing, and she felt like they were just trying to take advantage of her lack of knowledge.

Feeling stuck, Samantha decided to seek out some advice from someone more experienced in real estate. She heard about our company from a recommendation of successful investors who had been in the business for years. She reached out to me, hoping I could help her figure out what to do.

To her surprise, I told her she didn't need to spend anywhere near $150,000 to set up a private equity fund. In fact, I showed her how she could do it for less than 10% of that cost at 10x the time. I explained that the lawyer had been trying to sell her on a more expensive and complicated solution that wasn't necessary for her needs.

With guidance, Samantha could set up her private equity fund and start acquiring real estate. She was grateful to have found someone willing to take the time to help her navigate the process and make the right decisions for her business. And as she started to see success in her deals, she felt confident and excited about the future of her private equity career.

A variation of the story above actually happens dozens of times a month. Tons of lawyers and consultants recommend complex structures that are above the client's needs.

What if, instead of just managing a small rental property for a few thousand dollars, you could raise $10 million or more for a multifamily acquisition without relying on a lawyer charging you $100,000 and your deal not getting funded? For someone who hasn't raised $10 million or more, there are several things that need to be taken seriously in this type of work.

When done effectively, using the tactics in this book to create a real estate or mergers and acquisitions fund, lawyers will quote you $5,000 to

$10,000 max.

To raise the capital, investment banks will usually quote you $5,000 to $100,000 plus a percentage of the capital raised (anywhere from 5%-10% after closing, this is a success fee). Few investment banks raise capital on a success fee only, but they usually require larger deals above $25,000,000 usually).

In short, if you’re paying above five figures to create and raise a modest fund for real estate or acquisitions, you should question it thoroughly. Otherwise, find someone to review and/or create your syndication or fund drafts at a reasonable price.

3

CHALLENGES OF NEW REAL ESTATE EMERGING FUND MANAGERS - THE "CHERRY-PICK" OBJECTION

"Better to Reign in Hell Than Serve in Heaven" - John Milton

Don't create a blind pool fund too early. Start with a one-off syndication first. Here's why.

Investors often object to investing in a new real estate private equity blind pool fund because they only want one of the deals in the portfolio usually.

Remember, a blind pool fund is where you raise money to invest in whatever you want. A syndication is when you raise money for a specific real estate asset.

This can be frustrating for fund managers who have multiple deals to offer. Many new fund managers approach larger private equity firms, hoping to secure large investments for their blind pool fund. However, these firms may only be interested in one or two deals in the blind pool portfolio. Many fund managers who have closed their first transactions on the Raises.com platform have experienced this same challenge. Fund managers must understand and address this common investor concern to raise capital successfully.

Many real estate investors start by investing in a few deals and then decide to set up a large private equity fund for other investors. However, they often encounter objections when they approach big firms for investments. The firms may not be interested in investing in the blind pool fund as a whole but may express interest in just one of the deals in the portfolio. This can be frustrating for the novice fund manager, as it goes against the structure and purpose of the blind pool fund. Instead of offering a return to investors as a general, investors ask the fund manager to act as a finder and receive a fee for introducing an investor to a single deal.

This reluctance from investors is known as the "cherry pick" objection. Many large investors, such as private equity firms and institutions, want to see an example of the deals closed in the past before investing because they need past performance they can trust.

I have worked with people with a lot of experience in solar energy and real estate. They have even gone to large private equity funds and had to pitch their ideas for the blind pool solar real estate fund. Despite their experience and success, they still faced the “cherry pick” objection from potential investors. Some investors were not interested in the blind pool fund or the returns but wanted one deal to add to their portfolio and sell to their own investors. One of the Raises.com members, who has attained multimillionaire status through successful real estate syndication, also faced this challenge.

Two ways to address this issue are:

1. Close Syndications and Build a Track Record
2. Target Less Sophisticated Investors

Close Syndications and Build a Track Record

To prove your worth, close multiple one-off syndication deals first and show the investor that you can manage their money better than they can. When an investor only wants one deal in your blind pool fund, it means they don't see value in your other offerings and think they can make more money by taking just one deal and working on it themselves without diluting their capital across your other strategies. This is why we recommend only experienced syndicators create a blind pool fund and why you shouldn’t worry about doing this until you close your first syndication.

An investor who only wants one deal from your portfolio is really saying that they don't see value in your other offerings. They believe the value of taking just one deal and either adding it to their portfolio or buying it outright is greater than investing their money with you and diluting their capital across all your deals and strategies.

An investor who only wants one deal in your blind pool doesn’t see the value in your other offerings or is convinced that your investment objectives align with their distribution timeline. They may try to sabotage your strategy by taking one deal or asking you to find a deal for them. To improve, close multiple syndications and show that you can manage their money better than they can. This will allow you to avoid being a "fetcher" for the big investors and, instead, prove your worth as a valuable investment partner.

Real estate syndication is a way to raise capital for a specific asset, like one building or development. By closing multiple syndications and demonstrating success, you can build a track record and pitch to investors for a larger private equity fund with multiple assets.

For example, your syndication could be focused on acquiring an individual asset, i.e., 123 Fake Street. This track record shows investors that you have a proven ability to provide returns on investment.

Target Less Sophisticated Investors

Another option is to target less sophisticated investors who may not understand the work that goes into managing their deals independently. Some investors may not want to work with you because they believe their money will be better managed if they leave it in a fund or strategy, such as the S&P 500.

To attract investors for your private equity fund, consider targeting those who are less sophisticated or do not have the time to manage their money. This can be done through exemptions with securities laws, such as regulation Crowdfunding or Regulation A in the US (note: Regulation A is expensive - like 6 figures), or prospectus exemption in Canada (which is also expensive!). Regulation D still seems to be the most cost-effective way. Regulation D 506b could work with some non-accredited investors, but you cannot advertise, and Regulation D 506c must have all accredited investors, but you can advertise. The Financial Conduct Authority also has guidelines for compliantly attracting investors in the United Kingdom.

When you target less sophisticated investors, they are less likely to cherry-pick individual deals because they may not have the knowledge to do so. By offering a fund that meets their needs, you can create value for them.

Consider targeting smaller investors who may not fully understand the details of fund structure, such as ultra-high net worth or high net worth individuals like doctors or lawyers. These investors may not be as sophisticated as larger investors at private equity firms and may not have the knowledge or processes to see the value in your offerings. By targeting these investors who are legally able to invest according to securities laws in your jurisdiction, you can provide value by helping them reach their investment goals faster or more easily. If you understand this and share your message with investors who fit your return targets, you can solve the problem of attracting investment for your blind pool fund.

You can create value by talking to the smaller investors who need to learn how to do what you do, so you could helping them reach their investment goals faster or more efficiently. Make sure to target investors who can legally invest according to securities laws in your jurisdiction. If you understand this and can share your message with investors who fit your return targets, you will attract investment for your blind pool fund real estate.

To summarize, one of the most common objections new private equity fund managers may face is investors saying they only want one deal from the fund rather than investing in the whole portfolio. This is known as the cherry-picking objection, which happens when investors do not see the value in your offer. To overcome this objection, you can either improve yourself by building a track record through one-at-a-time syndications or by targeting less sophisticated investors who do see the value in what you do. Both of these strategies can help you attract investment for your real estate fund, and unless you’ve done your first real estate syndication, in general, we recommend doing a real estate syndication deal first before doing a real estate blind pool fund.

4

MENTAL MODELS FOR CAPITAL RAISING

The mind in its own place, and in itself can make a heaven of Hell, a hell of Heaven." - John Mılton

You may not fully understand how private equity deals and capital raises work, even if you have experience with them. This is because your mental models, or the way you understand these processes, may be flawed. Here, we will discuss three reasons why your mental models may be incorrect and how they can deceive you.

First, it's important to understand what a mental model is. Essentially, it is the way we understand and make sense of things. For example, if you look at a map of a country, it is not a perfect representation of the actual land. It is simply a mental model of what the country looks like from afar. Similarly, our understanding of private equity laws and deal structures is a mental model, and it may not be completely accurate.

Now, let's discuss the three reasons why these mental models may be flawed.

Complexity: The structures and entities involved in private equity and capital raises can be complex and difficult to understand fully. You may not completely understand all the moving parts and how they fit together.

Limited experience: If you have not been involved in many private equity deals or capital raises, your understanding of these processes may be limited. You may not have the full picture of everything and may miss important details.

Misinformation: It's possible that you have received incorrect information about private equity and capital raises. This could come from various sources, including colleagues, articles, or even experts in the field. It's important to be cautious of the information you receive and do your own research to ensure that you have a clear and accurate understanding.

It is important to be aware of the limitations of your mental models when it comes to understanding private equity and capital raises. Don't be deceived by incomplete or incorrect information, and do your research to ensure a clear and accurate understanding.

How to fix complexity with top-down thinking

Fixing Regulation Complexity

First ask yourself, will you offer securities? If so, ask yourself what exemptions does my country allow whereby I can sell securities to accredited or sophisticated investors? The next step is to ask yourself, does my state, province, or region subject me to additional laws and requirements? Finally, find the source of the regional and federal agency responsible for these laws and requirements, and continue to pull information from them quarterly or yearly. Voila, the result of asking this question should lead you to an evergreen framework to consistently find the most effective legal structure available to you and your needs.

If this high-level explanation isn’t enough, we took the time to show you the basics in the United States, Canada, and the UK. Over time the regulations will change, which is why we encourage you to focus on the top-down strategy.

Go to Raises.com/regulations for a free download of a chart of current regulations.

Fixing Equity Sales Complexity

Having longstanding relationships with investors, taking them to golf, and knowing them well is obviously extremely critical and important, but it's also important to remember that there are patterns in what people want in the market.

Some investors will invest in a deal if it offers good returns and fits within their mandate; even if the relationship they have with you is great, the relationship may be just a bonus. However, others prioritize relationships over the quality of the deal, resulting in random relationships and deals without good results.

This is a common pattern across the market because people want consistent results with the investors they can reach. Instead of just finding a random investor and selling them your deal because you have a good relationship with them, without considering the quality and returns of the deal, you want to also have a strategy for finding investors who do not care about you but just care about good deals.

It's important to consider both the relationship and the quality of the deal when trying to scale and get a lot of investors.

You want to understand that the market has patterns, and many investors are looking for certain returns. Don't worry too much about their relationships initially because you can build those relationships in the long term. There are many private equity firms, investment bankers, and other groups that just look for a certain return, and they can handle the relationships for you. Once you understand the patterns and try to understand the broad patterns of what investors will invest in, it will remove a lot of the stress of having to find a random investor and spend years trying to build a relationship with them through activities like playing golf that may not be of interest to you. Instead, you can focus on getting good results for the market as a whole and building a team around you that can help you build investor relations campaigns. Once you understand the broad mandate that certain types of investors are looking for, you can systematize your capital raising and think beyond just randomly being friends with individual investors.

Top-Down Thinking to Avoid Stagnation

Third, it can be very hard for someone stuck in an industry to innovate and think outside of the box that has kept them stuck. Many real estate investors have been self-invested in real estate for decades and have never created a private equity syndication. It baffles me because many people stay stuck in joint venture (JV) agreements because they either don't know how to use a private equity syndication to get more capital, they are scared to do so, or they may be avoiding scrutiny under securities law. When people are so stuck in their typical real estate niche and can't see beyond it, they may miss out on opportunities to reach a higher status. For example, using private equity and properly documenting deals can help them reach the next level. However, if people get too stuck in the syndication world without doing it for a long time, they may be limited in their potential.

You have to stop thinking from the bottom up. Many people stay stuck with limited beliefs about building investor relationships or get stuck in their way of thinking. So try thinking from the top down. See mass market trends from the big picture.

It's much easier to see things from the big picture when you are from a different industry. When you look at what Elon Musk did with electric cars, one of the reasons he was able to innovate the entire industry is that he came from technology and migrated into automobiles. He came from a different niche. He could see things from the top down. After, he got the advisors, and he hired the people to fill the bottom gaps needed. But he saw things from the top down. Make sure that you try to see things from the top down because you'll be able to focus on the broad laws of the land so that you don't stay stuck on the intimidating laws up close.

When you see the entire body of laws governing securities in your country, it's important to understand them and know how to apply for the appropriate exemptions from a wide view.

Otherwise, you may not fully understand what's happening and feel intimidated by the legal language if you zoom in from the bottom up. It's also important to build relationships with investors, but consider broad, top-down market trends and what the market as a whole is interested in.

Do you want to break out of the cycle of small, limiting deals and start pursuing bigger opportunities? If so, it's time to start looking at the bigger picture. Focusing solely on quick fixes, flip, and merger deals, and originating deals may keep you trapped in a narrow perspective, missing out on valuable insights and opportunities.

It can be frustrating and disappointing to get stuck working on a small joint venture or promissory note deals for an extended period of time. While these deals may offer some level of financial stability, they may not provide the same growth and opportunity as larger, more complex investments in the order of tens of millions. For example, imagine working on small JV deals for 40 years when you had the potential to have hundreds of millions of dollars of assets under management in that timeframe. That would be a significant missed opportunity and could leave you feeling unfulfilled and regretful.

On the other hand, those who have completed real estate syndications or M&A deals may feel stuck because they don't realize that a private equity fund could be the next step for them. Private equity funds offer the opportunity to invest in a diversified portfolio of companies and can provide significant returns over time. However, if you don't take the time to understand the bigger picture and explore new opportunities, you may miss out on these types of investments.

That's why it's so important to take a step back and understand the various ways that people run their businesses and the market as a whole. By doing so, you can gain a broader perspective and identify new opportunities for growth and success. Don't let fear hold you back any longer. Embrace the bigger picture and take control of your career, life and business.

Complexity Regarding Simple Concepts in Securities Law

Don't let securities law intimidate you or hold you back from exploring new horizons. Instead, take a step back and understand that there are many different ways to run a business and that the market is constantly evolving on a larger scale. Doing so allows you to gain a broader perspective and open yourself up to new possibilities. Don't let securities law scare you. Take control of your career and business by embracing the bigger picture and some of the most powerful laws on Earth.

In the world of capital raising, there is often confusion about what is known as an exemption. Many people mistake exemptions for funds, but they are actually legal protection put in place to prevent the sale of inappropriate investments to unsuitable investors. This history of this protection dates back to the 1930s in the United States, when the Securities Commission was formed in response to the high-pressure sales tactics that led many inexperienced investors, including elderly people who had saved their entire lives, to invest in questionable companies that ended up failing and causing them to lose their entire fortunes. Exemptions are particularly important in the industries of private capital raising for real estate and mergers and acquisitions, as well as private equity. These exemptions help to ensure that investors are protected from being sold investments that are not suitable for them.

Thereafter, there were two types of companies in the market: publicly traded companies and private equity companies. Publicly traded companies are registered with the Securities and Exchange Commission and anyone can buy shares in them, like Apple stock. On the other hand, private equity companies are not listed on a public exchange and are, therefore exempt from registration requirements. However, private equity investments can be more complicated and do not have the same requirement for disclosure, expensive auditing, and reporting. As a result, they are often perceived as more sophisticated investments.

It's important to understand the difference between these two types of equities, as they can have significant implications for the capital raisers and the investors. Publicly traded companies are subject to stricter regulations, are expensive to conduct and must disclose certain information to the public, making them more transparent and easier to evaluate. On the other hand, private equity capital raises may be less transparent and involve more complex and risky investments, but they are substantially cheaper than going public.

Selling equity deals privately has a number of benefits. For one, you don't have to pay as much money to go through the public exchange, and you don't have to do as much reporting. This means that you don't have to go through the normal registration requirements to sell your deal.

However, there are still some rules and disclosures that you need to follow when selling privately. These are in place to ensure that only smart, capable investors are able to invest in your deal. By following these rules and disclosures, you can help protect yourself and your investors.

Overall, selling equity deals privately can be a good option for those who want to avoid the costs and reporting requirements of the public exchange. Just make sure to follow the rules and disclosures to ensure that you and your investors are protected.

In the United States, you can use exemptions to offer private equity deals. Regulation D 506C is the most popular exemption because it lets you raise unlimited money. 506c is not a fund, company, or thing registered with the SEC. It's just an exemption that lets you sell your deal privately to suitable investors rather than publicly listing it. You usually tell the SEC and your state after you use it.

Those are exemptions; they exempt you from registering the hard way to sell equities to the layperson.

The term "fund" is often used colloquially and does not have a clear legal definition. This is especially true when it comes to terms like “hedge fund” and “private equity fund,” which are not explicitly defined in legislation. However, these terms are often used to refer to a general partnership and limited partnership, which are types of legal entities with different levels of liability for the day-to-day operations of a business. A general partnership involves taking on full liability for these operations, such as securing loans and hiring staff, while a limited partnership involves having limited liability for the decisions made in running the business. It is worth noting that a general partnership is often a corporation legally, while a limited partnership is specifically referred to as a limited partnership legally. In contrast, the exemptions and terms discussed in this book are those that are explicitly written into law.

A limited partnership is where investors can place capital to invest by buying units of that limited partnership. The general partnership makes decisions on how to invest this capital. The limited partnership is where the investors place their money, and the general partner (you) will use this money to make down payments on individual real estate deals. If you're more advanced, you can use this structure as a blind pool fund to invest in any deals you choose.

When investors invest in a limited partnership, they buy units or membership interests instead of shares like in a normal company. These units give them the right to receive the returns promised by the investment. For example, if 100 units are sold for $1000 each, investors will pay a total of

$100,000 for all the units. The General Partner, usually the person managing the investment, will use this money to buy real estate or make a business acquisition. The number of units you own determines how much money investors get back in profits when the investment pays out. In other words, a fund is just a way for investors to buy access to shares in a company or companies and receive money based on the profits.

This is further explained in future chapters.

To recap, exemptions refer to how you sell private equity units or shares. In the case of a limited partnership, it allows you to sell units of a limited partnership privately. The fund is not affected by the exemption, but it uses the exemption as a legal gateway to allow you to distribute your investment. You can sell units or shares through an exemption, public listing, or other methods. It's all the same thing - the units sold are just a percentage of the partnership. All companies must be registered in a specific country, and they are also governed by the government's legal and securities regulations at a federal or statewide level. That's the basic idea!

5

WHAT TERMS ARE WORKING NOW?

Many people ask me about preferences, terms, and interest rates. They also ask me what investors are interested in and what terms they should offer. I usually give them my opinion, but it's important to have a good decision-making process so you won’t have to depend on anyone’s opinion. After going through this process, you won't need to ask anyone about hurdle rates, preferred returns, or terms needed to close a deal. I will walk you through this process. Even if a Wall Street veteran tells you what investors are funding right now, it may not be true for you.

The scientific process is the best way to understand the truth in your situation. It's the only way to test and understand the truth. Unless you have tested something, it's not true.

To know if something is true, you must try it and see the results for yourself. It can be difficult to predict what investors will invest in. Many people waste time trying to guess and pay a lot of money to investment banks and lawyers, but still don't get results. A shortcut is to ask Wall Street bankers what investors are interested in. But the only way to know for sure is to test it and see the results. Everything else is just a guess. Don't waste time and money on guesses. Invest in testing to get the truth.

So how do we find good guesses about what investors are investing in and what are they looking for? You want to focus on two things when they give you that feedback.

Recency

The most important factor is recency. The market changes over time, so it's best to ask when the information was gathered. For example, if someone tells you, they saw someone fund a solar deal with a return of 8% yesterday, that's a better guess than if they saw a 12% return solar deal get funded six months ago. Time is important because things change. To make a good decision, rank the probability of someone's guess being accurate for your situation. If you ask ten people about waterfalls, hurdle rates, and other factors, rank their responses based on how recently they closed a deal. In our groups, we get investor information from recently closed deals and use that data to make better decisions. Don't make decisions based on outdated information. Use recent data to guide your actions.

To make a good decision, consider how similar someone's situation is to yours. For example, a hotel fund may have different preferences and performance fees than a multifamily fund. It's important to understand these differences. If something is very similar to your situation, it's more likely to be accurate. For example, if someone who has closed 200 deals in Texas tells you the internal rate of return is 25% for residential deals, that's probably more reliable than someone who has closed only one deal in Texas and tells you the rate is 15%. Experience matters, but it's not the only factor to consider. Make sure to consider all the information available to make the best decision.

If someone is in a different situation than you, it can affect their perspective and advice. For example, when studying computer science at Queen's University, I asked someone for recommendations on elective courses. A person in biology recommended that I take pharmacology because they said it was an easy "bird" course. Without a decision-making framework at the time, I took the course because I was told it would be easy. However, it turned out to be much harder for me than my main courses, even my fourth-year courses, which I was taking in my second year. This was because the person who had recommended the course to me was in biology, whereas I was in computer science, and what was easy for them was harder for me.

If someone who has closed 200 deals tells you that it is easy to find investors, but you have not yet closed your first syndication, it may be easier for them due to their background and experience in private equity funds, where they have raised billions in the past 40 years. In this case, it may be helpful to consider how similar the context and experiences of the person giving the advice are to your own before making a decision based on their recommendation. Consider how similar someone’s context is to yours when weighing their advice. Don't blindly follow advice without considering the context.

Unless you can get into an environment where you can reproduce every single variable exactly as it is, you cannot reproduce anybody's experience down to the context, molecule and dollar. It's impossible to reproduce someone's experience exactly because you can't control all the variables. Don't be jealous of others or try to copy them exactly. Use their experiences as a guide to understanding what the market is doing. If you want to know what investors are interested in, but don't have time to test or access to investors, ask people who have done something recently and are in a similar situation as you. Make sure you have a lot of information to make a good guess. Don't rely on guesses based on outdated or unrelated information. Get the most accurate information possible to make the best decisions.

Risk Reduction

To reduce risk, talk to people who have done something recently and build your own deal. One of the best ways to know what's happening in the market is to join groups of people who run private equity funds, do syndications, and close deals. Groups provide live information on what's happening and what's working now, which is more valuable than static information that may not be up to date. Access to elite groups is a new form of education. Don't rely on outdated information or people who are not at the level you want to be at. Join groups on Facebook, Linkedin, otherwise conferences and clubs to get the latest and most accurate information.

6

ALL THE THINGS YOU HAVE TO KNOW TO STRUCTURE YOUR DEAL

What are a general partnership and a limited partnership? Why are they critical to understanding how a real estate syndication or fund works? A general partnership and a limited partnership are two types of business structures important to understanding when considering a real estate syndication or real estate fund. A limited partnership is a company that receives money from investors and is not responsible for managing the business. The limited partners have limited liability for downside risks, while the general partner takes on the risk. The general partner is the company responsible for finding loans and managing the business. The company's incorporation can be a C corporation or any other type of corporation, and the state of incorporation can be chosen based on what makes the most sense.

In a real estate syndication or fund, the limited partnership is used to sell units to investors to pay for the down payments and other expenses associated with buying a property. The minimum purchase amount is the minimum amount that an investor must invest in order to participate in the offering. To raise funds, the general partner writes a private placement memorandum and subscription agreement that explains how the funds will be used and then, if necessary, notifies the regulatory authority after the units are sold, and the transaction is closed.

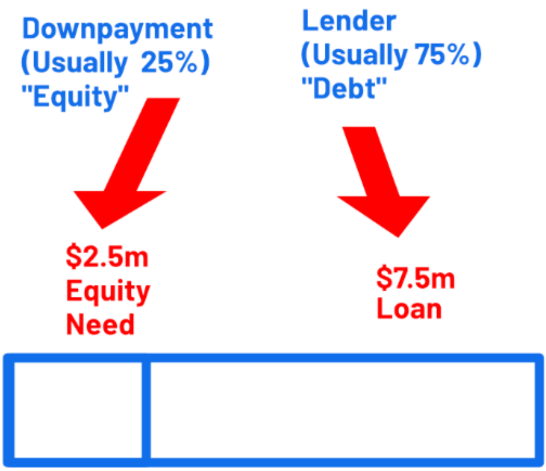
Business acquisitions can be done with debt only or with a combination of debt and equity. An investment bank that closes $30 billion in transactions annually has noted that debt tends to move faster than equity. Therefore, if it is possible to close a business acquisition with debt only, it may be advisable. However, in some cases, it may be easier to close a business acquisition without a debt deal, and investors may contribute money to the down payment as an equity deal.

Below are visuals that outline the three types of equity raises for real estate syndications, real estate funds, and business acquisitions.

Example Syndication

Real Estate Acquisition:
Apartment Price = $10m

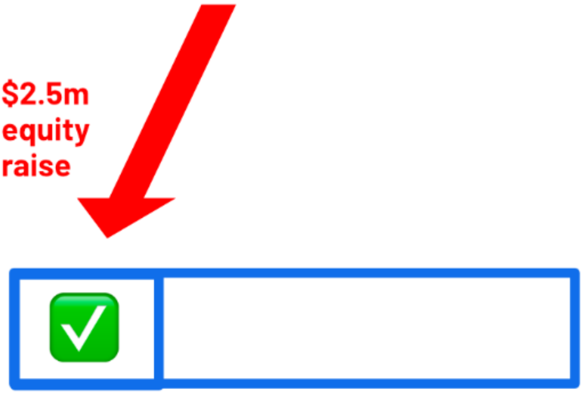
Typical Funding Needs:



How it's Structured:

Limited Partnership

$2.5m
equity
raise



The Companies:

20% of Profits
2% of Total Raise

Limited
Partnership
(These are
the investors)

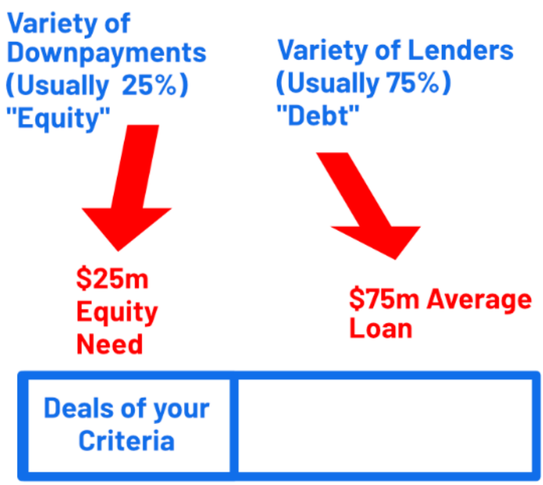
General
Partnership
(an incorporation -
this is YOU)

Example Real Estate Blind-Pool Fund

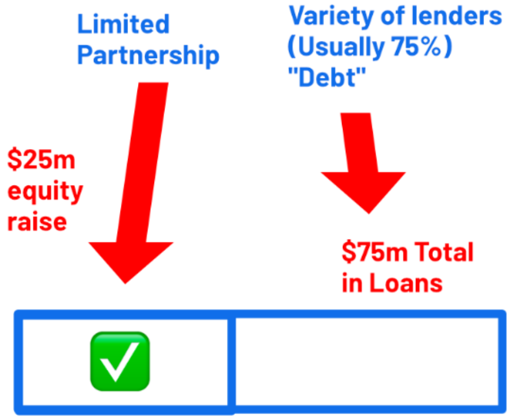
(Same as a syndication, except multiple properties instead of one)

Your real estate criteria (e.g.) $100m in apartments.

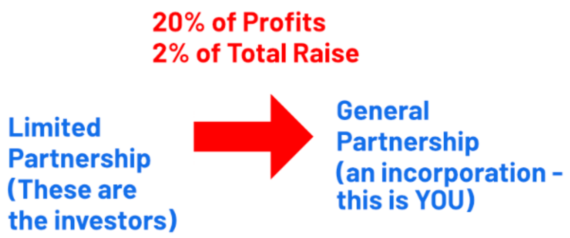
Typical Funding Needs:



How it's Structured:



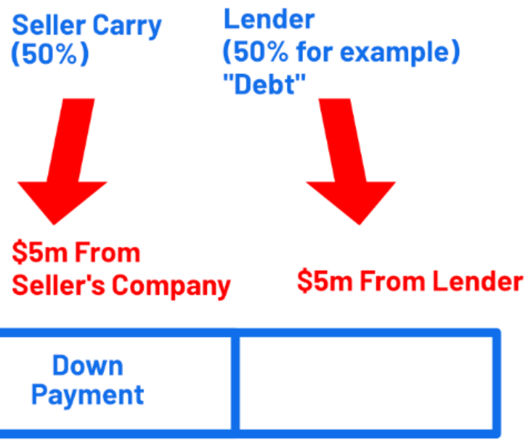
The Companies:



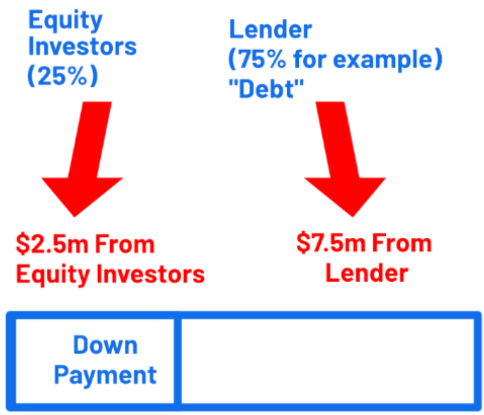
Example Business Acquisition

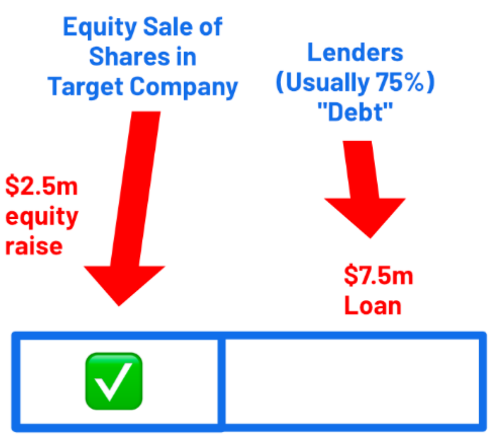
$10m Business Acquisition

Funding Needs (Lucky Scenario):



Funding Needs (Alternative Scenario):





Make sure the shares entitle the investor to significant upside!

Make a list of all the important values as small quick bullet points for either an equity deal or an incorporation purchase. After, use systems to put all the values into the legal documents while working with a consultant or lawyer to create your fund. Almost like adding variables to a machine, or adding the ingredients to a cake. Keep in mind that for business acquisitions that are purely debt deals, you do not really need this.

For blind pool funds:

- Full Legal Name of Fund, LP: This refers to the complete and legally registered name of a fund organized as a limited partnership.
- State of LP: This refers to the state where the limited partnership is legally registered.
- Offering Amount in Dollars: This refers to the total amount of money being raised through the sale of securities in the fund.
- Date: This refers to the date on which the offering of securities is taking place.
- Unit Amount: This refers to the number of securities sold as a single unit.
- Unit Price: This refers to the price at which a single unit of securities is sold.
- GP State: This refers to the state in which the general partner (GP) of the fund is legally registered.
- Minimum Purchase in Dollars: This refers to the minimum amount of money an investor must invest to participate in the offering of securities.
- Minimum Unit Amount: This refers to the minimum number of units of securities that an investor must purchase in order to

participate in the offering.

- Are Any of the Teammates Registered with FINRA?: This refers to whether any members of the fund's team are registered with the Financial Industry Regulatory Authority (FINRA), a self-regulatory organization that oversees the securities industry in the United States.
- GP Name: This refers to the name of the fund’s general partner.
- Number of directors: This refers to the number of directors on the board of the fund.
- Director 1
- Director 2
- Director 3
- Director 4
- Director bio 1
- Director bio 2
- Director bio 3
- Director bio 4
- Address
- Phone
- Email
- GP Unit Amount Owned: This refers to the number of units of securities that the general partner of the fund owns.
- Preferred Return: This refers to a return on investment that is paid to certain investors before any profits are distributed to the general partner of the fund.
- Management Fee: This refers to a fee charged by the fund's management team for their services in overseeing the fund's investments.
- How Long Will the Fund Stay Open?: This refers to the length of time the fund will

remain open for investment.

- Will You Go Public?: This refers to whether the fund plans to become a publicly traded company.
- Closing Date: This refers to the date on which the fund will stop accepting new investments and close to new investors.
- Date and Year of Investment Manager Incorporation: This refers to the date and year on which the investment manager of the fund was legally incorporated.
- How Much Cash Will You Put In - Skin in the Game?: This refers to the amount of money that the fund's management team is committing to investing in the fund themselves.
- Target Cash-on-Cash Return: This refers to the expected return on investment that the fund aims to achieve, based on the cash invested in the fund.
- Target Return on Equity: This refers to the expected return on the equity invested in the fund.
- Target Internal Rate of Return: This refers to the expected rate of return on the fund's investments, considering the time value of money.
- Location of Origination: This refers to where the fund will find its deals
- Loan to Value Ratio of Portfolio: This refers to the ratio of the total value of the fund's loans to the total value of the assets in the fund's portfolio.
- Conservative, Lowest Overall Loan to Value Ratio: This refers to the lowest loan to value ratio that the fund aims to maintain in order to ensure a conservative approach

to investing.

- Origination Method 1: This refers to the method by which the fund identifies and secures investment opportunities.
- Origination Method 2: This refers to an additional method by which the fund will identify and secure investment opportunities.
- Target Investment Type 1: This refers to the specific type of investment that the fund is targeting.
- Percentage of Portfolio of Target Investment Type 1: This refers to the fund's portfolio allocated to the target investment type.
- Purpose of Portfolio of Target Investment Type 1: This refers to the specific purpose or goal of the fund's portfolio allocated to a target investment type.
- Target Investment Type 2: This refers to the second type of investment that the fund is targeting.
- Purpose of Portfolio of Target Investment Type 2: This refers to the specific purpose or goal of the portion of the fund's portfolio allocated to the second target investment type.
- Target Investment Type 3: This refers to a third type of investment that the fund is targeting.
- Percentage of Portfolio of Target Investment Type 3: This refers to the percentage of the fund's portfolio that will be allocated to the third target investment type.
- Purpose of Portfolio of Target Investment Type 3: This refers to the specific purpose

or goal of the portion of the fund's portfolio that is allocated to a target investment type.

- Do you have a board of directors?: This refers to whether the fund has a board of directors to oversee the fund's operations.
- How many directors?: This refers to the number of directors on the fund’s board.
- Will you have an investment committee?: This refers to whether the fund has an investment committee to review and decide on investment opportunities.
- Annual return of units in percentage: This refers to the expected annual rate of return on the fund's investments, expressed as a percentage.
- Investor country location: This refers to the countries where investors in the fund are located.
- Minimum amount to raise before closing: This refers to the minimum amount of money that the fund needs to raise before it closes to new investors.
- When will the first closing happen?: This refers to the date on which the fund will close investors for the first time.
- How many subsequent closings?: This refers to the number of additional closings that the fund will have after the first closing.
- How many years will you keep the fund open?: This refers to the number of years that the fund will remain open for investment.
- Management fee as a percentage: This refers to the percentage of the fund's assets that will be charged as a management fee.

- Time period by which you’ll offer reports: This refers to the frequency with which the fund will provide updates and reports to investors.
- Your law group: This refers to the law firm that is providing legal services to the fund.
- Auditor: This refers to the auditor that is reviewing the fund's financial statements.
- Tax advisor: This refers to the professional or firm that is providing tax advice to the fund.
- Minimum manager redemption as a percentage: This refers to the minimum percentage of the fund's assets that must be redeemed by the fund's management team.
- Redemption risks associated with the state of the LP: This refers to the risks associated with redeeming the fund's assets, specifically as they relate to the fund's legal structure as a limited partnership.
- LP incorporation date: This refers to the date on which the fund was legally incorporated as a limited partnership.
- Do you have a board of directors?: This refers to whether the fund has a board of directors to oversee the fund's operations.
- Risks associated with leverage: This refers to the risks associated with using borrowed money to amplify the potential returns on investment.
- Risks about tax: This refers to the risks associated with the tax implications of the fund's and investments.

For one-off syndications

Pretty much the same, except replace

- Target Investment Type
- Percentage of Portfolio of Target Investment Type
- Purpose of Portfolio of Target Investment Type

With the specific description of ONE property and what you will do with it.

For business acquisitions, much of this may not be needed because either a business acquisition would be financed with debt, or there it would be financed by raising equity into the corporation (not limited partnerships like the real estate fund or syndication).

The list would be pretty much the same, except there would be no GP and LP, nor preferred return. Also, units would be replaced by:

- Max stocks: This refers to the maximum number of stocks a company is authorized to issue.
- Min stocks: This refers to the minimum number of stocks that a company is required to have outstanding at any given time.
- Price per share: This refers to the price at which a single share of stock is being sold.
- Min investment: This refers to the minimum amount of money that an investor is required to invest to buy shares of a company's stock.
- Amount of minimum shares: This refers to

the minimum number of shares that an investor must purchase to meet the minimum investment requirement.

- Investment holding account company: This refers to a company that holds investments on behalf of its clients.
- Present shareholders %: This refers to the percentage of a company's total outstanding shares currently owned by shareholders.
- New shareholders %: This refers to the percentage of a company's total outstanding shares that will be owned by new shareholders after a stock issuance or sale.
- Date company incorporated: This refers to the date on which a company was legally formed and registered with the appropriate authorities.
- Shares directors will own after: This refers to the number of shares that the company's directors will own after a stock issuance or sale.
- Percent dilution: This refers to the percentage by which a company's earnings per share (EPS) will decrease due to issuing new stock shares. Dilution occurs when a company issues new shares of stock, resulting in a decrease in the ownership percentage of existing shareholders.

I got all this information together. Now What?

Follow the instructions in the MENTAL MODELS FOR CAPITAL RAISING chapter, and based on your countries law's, work with a consultant or lawyer to plug everything into the correct private placement memorandum and subscription agreement, and then voila! You have an initial draft; congratulations.

7

WHAT FINANCIAL NUMBERS MATTER?

"The signal is the truth. The noise is what distracts us from the truth." - Nate Silver

There are countless financial terms out there. Still, in our experience working with deals totaling over $600 million with over $200m closed, only a few tend to get the majority of attention from investors and general partners alike. Therefore, in this chapter, we will focus on the key financial metrics that are most commonly discussed in these deals. We have found that the more complex a term is, the less practical it is in many situations. We will go to the heart of the matter without overwhelming you with unnecessary details by keeping our discussion focused on the few key simple metrics that matter most.

As a team at Raises.com, we have actively engaged with our members and sought to address their questions by collaborating with knowledgeable chartered financial analysts to create projections and models. In doing so, we have identified several key metrics that consistently arise in investor conversations. These include the internal rate of return, the cash on cash return, the return on equity, the preferred return, and the capitalization rate. These metrics are especially relevant when evaluating the equity portion of a deal, and by thoroughly understanding and utilizing them, investors can make well-informed decisions and optimize their returns. By carefully considering these important measures, you can make confident pitches for any investor.

Internal Rate of Return (IRR)

The first one we will look at is the Internal Rate of Return (IRR). It's a metric used to estimate the potential profitability of an investment. If you're familiar with Net Present Value (NPV), it's a special case where it figures out the break-even point for NPV, where NPV would be zero. That's the rate it calculates. Generally speaking, the higher the IRR, the more profitable the project is or, the more desirable the project is.

As an investor, to find a project worth pursuing, it can be helpful to consider the internal rate of return (IRR) as one of the metrics. Generally, the higher the IRR, the more attractive the investment is. To give you an example, let's say you have an initial outlay of $250,000 (an outlay is just the initial amount of money or resources that are invested in a project or asset), and the expected cash flows that come out of the deal for the next five years are $100,000, $150,000, $200,000, $250,000 and $300,000. These cash flows are calculated on an after-tax basis. You can use a formula in Excel or Google Sheets to calculate the IRR by selecting the cells with the cash flows. In Google Sheets, the formula will automatically give you the percentage. In summary, the IRR is an important metric to consider when evaluating potential investments, and a higher IRR is generally better for the investor.

Return on Equity (ROE)

Return on Equity (ROE) is a commonly discussed metric in investing. It measures a company's profitability and how effectively management utilizes the resources at its disposal. A higher ROE is generally seen as a positive sign. To calculate ROE, you divide the net income by the shareholders' equity.

For example, a company has $4 million in net income and $16 million in equity. The ROE would be calculated by dividing $4 million by $16 million, which is a relatively simple calculation. The key takeaway is that a higher ROE indicates more efficient management and better utilization of resources.

Cash on Cash Return

The next financial metric we'll discuss is cash on cash return, which is particularly popular in real estate transactions due to its simplicity compared to other metrics. It's important to note that cash on cash is calculated pre-tax, unlike the previous two metrics we discussed (net income and after-tax cash flows). Cash on cash is a measure of an investment's profitability yearly, calculated by dividing the annual cash flow from the investment by the cash invested. For example, if an investment generates $1,400,000 in annual cash flow and the cash invested in the investment is $790,000, the cash on cash return would be calculated as 1,400,000/790,000 = 0.177 or 17%. While cash on cash is useful for evaluating an investment's yearly performance, it doesn't provide much insight into the overall trajectory of the investment. Plan on holding an investment for an extended period. It may be helpful to consider other metrics in addition to cash on cash to get a fuller picture of the investment's performance.

Preferred Return

The preferred return, also called the hurdle rate, is a minimum rate of return that must be reached before any distributions can be made to the general partner of an investment. For example, if the limited partner has invested $90,000,000 and the general partner has invested $10,000,000 in an investment with a 9% preferred return, the hurdle rate will be calculated as (90+10)*0.09 = $109,000,000. If the investment does not generate at least $109,000,000 in the first year, the general partner will not receive any distributions. However, if the investment generates more than $109,000,000, the excess will be distributed to the general partner according to the terms of the investment agreement.

Cap Rate (Capitalization Rate)

The capitalization rate, also known as the "cap rate," is a financial metric that is used to evaluate the potential return on a real estate investment. It is calculated by dividing the net operating income (NOI) of a property by its market value or purchase price. The higher the cap rate, the greater the expected return on the investment. The cap rate is typically used to compare the potential returns of different real estate investments, and it is often used as a measure of the risk associated with a particular investment. It is important to note that the cap rate is based on a one-year time horizon and assumes that the property is purchased with cash, so it may not be suitable for evaluating properties with irregular cash flows or properties financed with a mortgage.

For example, a property has a net operating income of $100,000 and a market value of $1,000,000, which gives us a cap rate of 10%. This means that based on the current market value, the investor can expect to receive a return of 10% on their investment over a year.

Note net operating income, or NOI, refers to a property's income after subtracting all of its operating expenses. Basically (not for the faint of purists!), it’s the profit of a real estate deal. It’s used to measure a property's profitability and compare the potential returns of different real estate investments. To calculate NOI, you take the total rent collected from tenants and subtract all the costs of running the property, such as property taxes, insurance, maintenance, and utilities. NOI does not include expenses related to borrowing money, like mortgage payments, because these are not considered operating expenses. This means that NOI shows the profitability of a property before debt financing is considered.

Since you have to divide the net operating income of a property by its market value or purchase price, it clearly does not showcase the entire story. A higher cap rate usually means a higher expected return, but it also usually means a higher level of risk.

In a second example, let’s say we have three properties: A, B, and C. Property A has a net operating income of $50,000, property B has a net operating income of $30,000, and property C has a net operating income of $20,000. Property A has a market value of $1,500,000, property B has a market value of $750,000, and property C has a market value of $450,000. Property C has the highest cap rate, even though it has the lowest net operating income. This is because the market value of property C is lower than the other two properties, resulting in a higher expected return on investment.

When evaluating a real estate investment, it's important to consider other factors as well. For example, the consistency and regularity of cash flows can affect the overall profitability of a property. Investors should also think about their own risk preferences when evaluating an investment. A higher cap rate may indicate a higher potential return, but it also usually means a higher level of risk. It's important to carefully consider an investment's potential rewards and risks before deciding to put a deal under contract and send a letter of intent. Also, in the second example, lower operating income could sometimes mean a higher cap rate because it depends on the buying price.

8

REAL ESTATE FUND OR REAL ESTATE INVESTMENT TRUST?

Syndication experts! This one's for you. If you're an experienced syndicator who's already raised equity from others, this is the opportunity you've been waiting for. But if you're new to the game and haven't raised equity yet, then you might want to sit this one out. Or, you know, use it as entertainment until you're ready to create your own blind pool fund.

I will explain the pros and cons of setting up a real estate fund versus a real estate investment trust (REIT). I'll focus on the sales perspective, as many people focus on setting up the deal and raising capital and wonder which is best based on their situation. It depends on various factors, but I'll emphasize the ability to close sales from the perspective of people who sell to investors.

One pro of setting up a REIT is its "brand recognition." People know what a REIT is. However, when raising capital for a fund, the fund is more flexible and broad, so you can put anything inside of it and structure it however you want. It may require more investor education as general real estate funds don't have as much "brand recognition."

On the other hand, people may think that a REIT will go public one day and they will get rental income from their investments on day one, as well as the tax benefits. With a real estate fund, people may be concerned about the risks associated with the product and may not know if it's a real estate development, land acquisition, or rental property investment. A lot of education is needed upfront when setting up a real estate fund, while with a REIT, people are expecting to invest in something that is already generating rental income.

The second issue is from a setup point of view, there are definitely fewer burdens, and you have more control if you're setting up a real estate fund because a real estate fund has so many different ways to set it up. When people hear about real estate funds, they might just think of the typical limited partner (LP) agreements, where there are a general partner and management fees and performance fees. But the setup of a real estate fund requires more nuance and explanation beyond that. On the other hand, if you're setting up a Real Estate Investment Trust (REIT), people expect to put money into something where they're buying shares in the REIT corporation and getting income from those shares. These shares may be something that could potentially be traded publicly, as there are many publicly traded REITs that the average person can access. So, the point I'm making is that, generally, the setup of a real estate fund is easier than the setup of a real estate investment trust.

To launch a REIT, you need multiple shareholders (100 at the time of writing) to invest in your deal. There are additional rules and regulations to follow, as well as securities law, to meet the requirements of a real estate investment trust. There are also significant tax implications to consider and greater legal costs. One of the Raises.com members was pitched a

$40,000 legal fee to set up a real estate investment trust (luckily, after some of our magic, we managed to get the fee down to $15,000). If you can handle these burdens, a REIT may be a good choice for you. If you want to go public and leverage the brand of a REIT, but you also want something simpler to set up, a real estate fund may be a better option as it can be more affordable and swift to get up and running.

Lastly, the difference from a sales perspective is that the benefit of using a real estate fund over a real estate investment trust is if you want to have flexibility in the types of deals you want to originate and you want to make the rules yourself. So from a sales perspective, it really depends. But if you're working with people with a strategy to invest in a development deal or a certain type of asset, then a development deal would probably draw people to a real estate fund.

9

PREPARING FOR RAISING DURING HARD ECONOMIC TIMES

The key principles for maximizing returns for investors during economic downturns are based on two factors. It's essential to understand both yield and capital appreciation, as these are the primary focus for private equity returns. As discussed in this book, there are two main types of private equity funds in the real estate industry: one-off real estate syndications, where capital is raised for a specific project, and real estate blind pool funds, where capital is raised for multiple acquisitions. Acquisition deals are typically structured one at a time for new investors, similar to syndications if there needs to be an equity downpayment.

To protect your investments during a potential recession, consider the average length of recessions, typically one to two years. By structuring your capital raises around this timeline, you can ensure a solid return for your investors.

If you consider the historical data, most recessions since 1950 have lasted an average of 15 months, ranging from 10 to 15 months. This information can be useful when planning a capital raise, as it can help guide the timing and structure of the raise. For example, if you anticipate that a recession may be on the horizon, you may want to consider raising capital before the recession begins or during its early stages, as this can provide a cushion to help your business weather the economic downturn. Alternatively, if you think the recession may be more prolonged, you may want to plan for a longer-term capital raise, possibly with multiple tranches, to ensure that you have the resources you need to maintain your operations and stay afloat until conditions improve.

To maximize returns on private equity investments, it's important to focus on buying low and selling high. This means entering investments at a low value and exiting at a higher value. Many people make the mistake of buying high and selling low, which can lead to poor returns. To avoid this, consider the timing of your investments and aim to exit after a recession, which typically lasts one to two years. Private equity funds often have a term of five years, so if you can structure your investments to exit within a year or two of the recession, you will be in a strong position to generate good returns for your investors. Following these principles can increase your chances of success in the private equity market.

Investors prioritize consistent cash flows because they offer a dependable source of income. In real estate, investors can secure consistent cash flows by investing in properties or businesses that generate rental income or by leasing buildings or properties to businesses. However, during a recession, renters or businesses may struggle to pay due to financial issues or layoffs. Investors should consider properties or businesses in stable industries or locations with low unemployment rates to reduce this risk. This conservative strategy helps ensure that the investment's cash flows remain reliable and consistent, even during economic downturns.

For commercial deals, investors should also aim for stable, blue-chip companies that will likely remain in operation during economic downturns. These companies are often financially strong and have a history of stability, which can help ensure that they can continue making rental payments during challenging economic times. By following these steps, investors can provide consistent cash flows for themselves, which is crucial for producing good returns on private equity investments.

At Raises.com, a client is setting up a $100 million real estate investment trust and targeting Fortune 500 companies like McDonald's to ensure a stable source of income. By working with commercial deals with these kinds of companies, you can be confident in the stability of the leases and cash flow. To maximize returns and minimize risk, focus on robust real estate assets and carefully plan the timing of your exit and entry. Protecting the cash flow and downside is key to success in real estate investing.

Lower the Risk

One effective way to do this is by offering low-risk terms that exceed expectations. Usually, general partners charge limited partners 20% on profits while also charging a management fee of 2%. For example, if you raise $1 million, you would take a $20,000 annual fee for managing the funds as a management fee. However, you can further reduce the risk for investors by offering bonuses and incentives based on your expertise and track record.

Consider taking the following steps:

1. Reduce performance and management fees,

and only invest in properties with the potential for both cash flow and capital appreciation.

2. Be cautious about M&A deals, and aim for a lower loan-to-value ratio to reduce risk.
3. Stick to what you know and understand. If you and your team have invested in Class C multifamily properties for decades, don't branch out into unfamiliar territory just because you have extra money to invest. Focus on your areas of expertise to further reduce risk.

To protect your investors and maximize returns during economic recessions, consider the following:

Time your entry and exit into the market carefully to maximize capital appreciation.

Focus on cash flow and capital appreciation, and choose stable investments even during recessions. For example, consider renters with stable, recession-proof jobs or blue-chip commercial properties.

Keep a conservative loan-to-value ratio and avoid taking on unnecessary debt.

Stay within your areas of expertise to further reduce risk.

Consider offering even lower fees to your limited partners.

Following these tried and true principles can protect your investor’s deals and maximize returns during any economic downturn.

10

STRATEGIES FOR LOCATION

If you're looking to register your general and limited partnerships for your private equity deal and don’t know where to incorporate, the answer may be more tricky than just incorporating in Delaware. These principals work globally, so even if you’re outside of the US, examine how this can apply to your situation. It's important to focus on two main criteria: securities laws and tax laws. Understanding and following these laws is crucial for the success of your deal. Not only do you need to ensure that you're complying with federal and state securities regulations, but you also need to consider the tax implications of your deal. By considering these two factors, you can set yourself up for a successful and compliant capital raise.

It's important to understand the laws that govern equity raising, as there are two types: federal and state (or provincial). In the US, the Securities and Exchange Commission (SEC) enforces federal laws, while each state has its own set of rules known as "blue sky laws." The Canadian Securities Administrators (CSA) and its provincial Securities commissions regulate equity raising in Canada. The Financial Conduct Authority (FCA) is responsible for these laws in the United Kingdom. It's essential to keep track of the rules in each jurisdiction, as they can vary depending on the specifics of your equity deal and the location of your investors.

Two main factors determine what the laws say about your deal: where you sell to the investors and the securities laws in that location. It's important to understand where your investors are located, whether in a single state, multiple states, multiple provinces, or even a different country. This will help you determine where to register your deal and whether you need to file additional notifications with the state or federal government. For example, if you sell a real estate deal in California to investors, you may not need to file with the SEC (but still check to make sure). However, you may need to follow federal regulations if you have investors across the country or offshore. Ultimately, the laws that apply to your deal depend on your investors' location, the laws of your local jurisdiction, and federal regulations. It's important to keep track of these factors and understand them to ensure compliance and complete your deal successfully.

Consider tax law as the second factor to determine where you should register your company. While not the primary focus of this book’s discussion, some high-level approaches can assist with your decision-making. Tax law largely depends on two things: where your investors invest from and where you originate deals. Therefore, consider the locations of the deals you want to fund with other investors' money and the involved companies and people. Based on this information, you can understand the potential tax implications of your company's location. For example, if your company is based in New York City and generates a certain amount of revenue before tax but pays a certain amount of tax in that state, consider how the tax would change if the company moves to another jurisdiction or is acquired by another parent company in another jurisdiction. This can help you decide where to register your fund and set up your business.

Additionally, consider whether the company may change locations and the potential impact on tax liability. If a parent company takes over and invests in a subsidiary company, consult a tax advisor to understand how this could affect returns and tax. Another factor to consider is investor reporting requirements, which may vary based on the location of the target company or real estate. Considering these factors, you can determine the best location to register your fund, ensure compliance with tax laws, and avoid unnecessary burdens on yourself and your investors.

So that's pretty much it in a nutshell. There are two things to consider: securities laws and taxes. These can help you determine where to register your entities. When it comes to securities laws, you should consider both federal and local jurisdictions. In the United States, you may need to notify the EDGAR system (Electronic Data Gathering, Analysis, and Retrieval) and your state, depending on the number of investors you have and what you want to achieve. If you have investors overseas, that can also impact the paperwork you need to do and where to register your entities.

When it comes to taxes, consult a tax specialist, and you should consider the location of the company you are acquiring and how that may affect the deal. Make sure to understand the company's tax obligations and how they may change after the acquisition. Once you have all these factors, you can build your business plan and determine the best location for your private equity deals.

PART II

HOW YOU RAISE THE CAPITAL

"If you're afraid - don't do it, - if you're doing it - don't be afraid!" - Genghis Khan

1

FOCUS

"So often, people are working hard at the wrong thing. Working on the right thing is probably more important than working hard." - Caterina Fake

Two people want to start a real estate fund. One person successfully raises $50 million for their private equity fund and takes their deals to the next level. In contrast, the other person struggles and remains stuck in syndications, even though they have more experience.

What separates these two people? Focus.

To succeed in setting up a fund, focus on a specific goal and do not work on random deals at a whim. This is essential. From our experience helping people set up real estate and M&A funds ranging from $10 million to $100 million, we've noticed that focus is crucial in determining success or failure.

It takes a lot of energy and effort to start something from scratch, and it doesn't make sense to take that energy away from something that already has momentum. Think about the laws of physics: building something up from zero to a lot of momentum takes a lot of energy. But why would you focus that energy on something with zero momentum instead of continuing to invest in something that already has momentum?

We've seen people with decades of experience in real estate get bored and start spreading their energy and attention across multiple start-ups and random opportunities instead of focusing on what's already working. Don't waste your energy on something that's not moving forward - keep building on what's already working.

When Steve Jobs was fired from Apple, he focused on eliminating excess and realizing that it's not about saying yes to everything but about being selective and saying no to what doesn't align with your goals. People who lack focus and spread themselves too thin by working on random deals are likely to fail. If you've spent years building up expertise in a particular area, don't take your eyes off what's gotten you to this point. Focus on your mandates, and don't be distracted by shiny objects. Working on random start-ups means starting from scratch and taking all that effort away from something that already has momentum. It's essential to resist the temptation of instant gratification and have clear criteria for evaluating opportunities, as this can significantly impact your performance in business. Remember, working on random deals haphazardly is one of the top deal-killers for real estate investors and syndicators looking to set up their private equity deals.

When it comes to getting started, it's best to focus on what you know best and have spent years building expertise in rather than getting distracted by random start-ups and opportunities. It's essential to learn how to say no. As Steve Jobs pointed out, one of the critical predictors of success is knowing when to say no. Apple had a wide range of products and opportunities, and when Steve Jobs returned to the company, he told everyone to say no to everything except the top two or three products they would focus on. This laser focus helped Apple become one of the first trillion-dollar companies. So, don't get overwhelmed by random start-ups and opportunities - focus on what you know and do best, and learn to say no to everything else.

If you choose to work on random projects, ensure they're not truly random and are still in your area of expertise to an extent. For example, if you're setting up a hotel fund, focus on deals in that area rather than branching out into something completely unrelated. The key is to keep moving forward with your primary focus, even if you're also working on side projects. Some people in real estate, for example, might hesitate to set up a private equity fund for multiple apartment acquisitions because they need to decide whether to focus on getting a deal first or setting up the fund. But it's important to remember that there's a big difference between knowledge and application - you can have all the knowledge and resources you need from consultants, this book, investment bankers, lawyers, and even investors who have committed to supporting you. You need to take action to set up the fund and reach out to those investors to make progress to see works for your specific situation. Don't let procrastination hold you back - take action to set up your fund and market it.

To recap, ensure you don't work on random deals and commit fully to something from start to finish. When setting up a real estate private equity fund, it's important to do the work and not just get an emotional high at the beginning. If you have opportunities to work on side projects while setting up the fund, go for it, as it can be a good source of revenue, but don't let that become an excuse for not moving forward with the fund. Remember, it's important to have a sense of urgency and not waste time. It might be helpful to consider your mortality and use a "memento mori" (a reminder of death) to motivate you to take action and focus on your deals and goals with focused conviction. If that's what it takes for you to get your deals done, then use it as a tool to help you stay focused.

To ensure success, it's crucial to focus on your mandates and not get distracted by random opportunities. Starting something from scratch over and over again requires a lot of energy, and it will be far less efficient than investing that energy into something that already has momentum. Don't let distractions pull you away from what you're working on - stay focused and committed to your deals to maximize your chances of success.

2

DEFEND YOURSELF AGAINST FRAUD

"Don't Lose. All of these masters, while driven to deliver extraordinary returns, are even more obsessed with making sure they don't lose money. Defense is ten times more important than offense. You have to be very focused on the downside at all times." - Tony Robbins

You are on the way back from a nice workout and suddenly get a phone call from an ex-FBI agent that a fraudulent business buyer is on the loose in the community.

Oh boy.

There's nothing worse than closing, or about to close an acquisition, than to realize last minute that you've been doing business with some criminals masquerading as deal makers. It sounds like a leap to some, but it's more common than you think.

Acquisitions, mostly driven by debt capital, are usually less regulated than equity markets, so the amount of scrutiny some actors in the acquisition space get can be far less at times than when equity and limited partners are involved.

When you're raising money for your new acquisition, how do you avoid getting seriously scammed and encountering some fraudsters when you're working on building your reputation with investors for the first time?

You've worked hard to read books like this, learn, originate, negotiate and get to the finish line. Do heed these lessons and learn from the mistakes of other acquisition fans to avoid getting in acquisition "bed" with someone on the run from the law. You won't want to tarnish your name forever and realize the company you purchased forged bank statements. After building new relationships with lenders and equity investors, you won't want to be left stuck with that legal liability.

The biggest way to prevent getting scammed seriously when you're working on raising money to acquire business real estate is by doing a proper court case lookup of all the people you're associated with. Consider anyone who owns more than 10% of any associated business acquisition, more than worth looking up (although, even if they own nothing and are associated, it still is worth looking them up).

It's worth taking yourself and anybody you do business with as seriously as possible. Not just the sellers of the company you're buying. All parties (lenders, investors, sellers, lawyers, consultants) matter.

Talking about millions of dollars requires an attenuated level of detail. It all starts with a simple court case lookup.

If you're in the United States of America and that's where you're doing business, the US is probably one of the most, if not the most, litigious places on Earth. As a result, it happens to be very easy to find court cases on people and find court cases.

The service we recommend is Pacer (http://Pacer.gov). It's only a few cents for every lookup you do. Go to their website, follow the prompts, and sign up; it will take a few weeks to get your package in the mail to get the password to log in, and you can use Pacer. That's the most common way in the United States.

Another method you can use is a third-party service that integrates with Pacer. The problem with Pacer is that, sometimes, it's mostly focused on bankruptcy law or business owners who went bankrupt. While tracking who had business failures in the past or did not pay their rent can be helpful, digging more into crime or petty disputes could be even more helpful. Sometimes third-party services are better if you want to find people more involved in criminal cases.

The main third-party resource that I recommend for the US is Unicourt.com. Unicourt is probably the best way to find criminal cases on US residents. Doing your homework will lead to you seeing many lawsuits ranging from child custody and divorce paperwork to murder. Understand the context and type of lawsuit: lawsuits aren't always bad. Sometimes they're a good thing. In general, you want to ensure that the people you're looking to enter an acquisition with are not the defendants of a criminal court case. Suppose they're the defendants in some small claims court case, or a contract dispute. In that case, it can depend, obviously, on the context; if you're able to get the information on the case and if the case has been disposed of, it may not be a big deal.

The danger is if the acquisition prospect has many active, ongoing criminal court cases, then that's probably that's the biggest red flag you'll see. Even worse, you'll be able to get yourself in danger if you're working with somebody who has active court cases and then they've been found guilty of anything, especially for a crime. It then becomes a high-risk type of transaction.

The problem is that when you work with lenders and investors in the future, and they look you up, they're going to see all the people that were attached to you and people that you work with because they'll do background checks on the people that you do business with. So just be careful and be safe by doing the lookups.

If you're outside the US, they have different court case systems, many of which are free. For example, Canada has something called Canlii.org, which is essentially the same thing where you can find court cases on different types of people, and it's usually the same process. In the UK and Ireland, you have Bailii.org.
Another type of accusation someone can face is securities fraud, which is another type of fraud mainly associated with deceiving and misleading equity investors.

In the US, the "bad actors act" requires the US governing body called the Securities and Exchange Commission (SEC) to adopt rules banning specified felons and other "bad actors" from participating in securities offerings of securities under Rule 506 of Regulation D under the Securities Act of 1933. The same principles apply to varying degrees in Canada and different Commonwealth countries to protect the investing public.

In other words, you can actually get banned from raising money on down payments on business acquisition deals if you are a felon. Hence, some people deliberately enter debt markets, avoiding the regulatory oversight of the SEC (which mainly focuses on governing equity markets…the cash people raise can get a down payment on a business buyout deal), giving the acquisitions world a potential haven for fraud.

The thing people should do is a simple Google search. It is hilariously easy, but some people still do not do it. I’ve worked with an investment bank that raised $30 billion yearly for companies. The investment bank recommends checking court cases and having a recurring Google search and Google News alerts for any news mention. Simply Google if they’ve been involved in scams because even senior executives forget the basics.

Googling in the format "FIRSTNAME LASTNAME" AND ("fraud" OR "proceedings" OR "violation" OR "scam") is a quick hack.

I’ve seen publicly traded company CEOs that didn’t Google the people their employees are working with, and one of them was found guilty of securities fraud on the first result of Google, paying the SEC a $600,000 fee. I don’t need to say anything more than this.

Finally, do they pass the sniff test? Some people are not even real people, so make sure that the people you’re doing business with have a registered company and that you can see the country where the company is operating. Anyone who runs a company has to notify their country’s system.

There are also certain qualitative measures and certain gut feelings that people can have about somebody. Some of it is illogical and intangible, but finding out where pangs of intuition come from often leads to something tangible that makes sense. Your gut feeling comes from experience, so the more experience you have with people, the better you'll be able to tell if something is "off."

Accurate intuition takes time and experience, but it comes from doing the first two things for years.

1. Check court cases

2. Simply Google

3. Trust your guts. Especially if something doesn't make sense from a logical point of view based on the first two things.

If somatically, you have a tight gut feeling, then it's probably coming from your intuition.

If you do all those three things, you're pretty much in a good position to make sure that people are not going to scam you because you check the court cases, you check to see Google, and you've trusted your guts.

With this, I trust this piece makes a little bit of sense in preventing you from getting into trouble. Don't be the person that gets a call after a nice picnic with your family that you're suddenly wanted for wire fraud by neglecting your upfront due diligence.

Optimism without defense is naïve, and too often, in the business buying world, we are thought to be offensive while neglecting the defensive. Wisely, Dan Peña and other renowned experts arm new deal makers with offensive tactics of aggressively raising money which we are used to. Not often enough, we balance our aggressive strategies with defensive and proactive ones, protecting us from a downfall that can wipe us out for a lifetime.

So, if you have all the necessary information, just go out and execute it and protect yourself during your capital raise.

3

BUILD YOUR INVESTOR HYPOTHESIS

"In The Land of The Blind, The One Eyed Man is King." Proverb

On a call with a Raises.com member, I was asked if I could show some capital-raising magic. I replied, "Capital raising is often more science than magic."

By following the scientific process and drawing on the expertise of others, we make an informed hypothesis or a guess on what we think investors would want, and then validate that hypothesis. Others in this line of business may lose because they rely on their memory and react to situations, but we stay proactive and organized by writing everything down and delegating tasks as needed. This ensures that everything is done to the highest standard, instead of acting haphazardly and leaving your success up to chance and chaos.

Everything you know about investors has to be written down and tracked meticulously with almost an obsessive-compulsive level of detail. This is how we win.

At Raises.com/formula, you will see a paper written by our team that explains the details, but basically.

Your success in tracking investors depends on five things.

There are five extremely important variables in the process of courting investors. To prepare for these five things, we will present a flurry of general questions to help you understand what investors want.

The point of these questions is to nail down these variables and understand what type of investors you're targeting, where they reside, what benefits they like, what fees they can invest at, what deal structures they'll invest in, and the channels they use. This is our hypothesis on what will work, and we'll iterate as needed. Write these all down!

Investor Mandate

This is the criteria of deals an investor is investing in. Check if they list their mandate publicly, such as "passive multifamily value add investing" or "control acquisitions of companies greater than $10m EBITDA".

Types of Transactions

Consider the type of transaction pursued, such as senior debt, junior debt, private equity, or equity in public markets.

Type of Investors

Investors can be categorized into limited partners, private equity firms, family offices, and investment banks.

Financial Services Licenses

If applicable, note any financial services licenses held by the investor, such as a FINRA license.

Investor Associations

Determine which associations the investor is a part of, such as the National Venture Capital Association (NVCA), Angel Capital Association (ACA), or American Association of Private Lenders (AAPL). Also, consider which conferences they attend.

Investor Titles

Check the titles used by the investor on LinkedIn or their websites, such as managing director, partner, or principal.

Location of Investors

Investors may be located in different cities or countries around the world.

Some focus on local investments, while others invest in companies in different regions or countries.

Turning it into a Formula

R(t) is a formula used to track the success of a capital raise at time t. It considers five variables:

M(t), representing the investors with a mandate to invest.

B(t), which means the benefit or transformation the investors will receive from investing.

P(t), which represents the fee that the investors will pay the general partners to invest with the company.

D(t), which represents the deal through which the investors will invest, including the legal entity, share structure, and financial structure.

C(t), which represents the channel through which the company can access the investors, such as introductions, golf clubs, LinkedIn, or YouTube.

This formula can be used to track the success of a capital raise and make adjustments as needed in order to improve the chances of success.

Time t is the most important because the market changes, and what's hot today could be ice-cold tomorrow.

Putting it together, In practice, R(t) is a hypothesis that represents a group of investors with a mandate M(t) (for example, venture capital investors in Australia seeking pre-seed companies). These investors will receive the benefit of the terms of the deal B(t) (for example, capital preservation) in exchange for paying a price of P(t) (for example, 20% of the profits they make) for allocating their capital through a deal structure D(t) (for example, as units of a limited partnership with a Regulation D 506c exemption). You will approach these investors by running email marketing campaigns through channel C(t).

The investor mandate comes first!

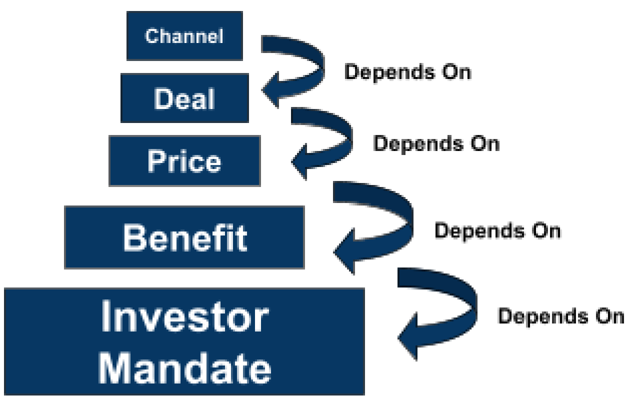
You cannot have a benefit without an investor's mandate (a benefit relative to which investors?).

You cannot have a fee without a transformation or benefit for whom that benefit applies (for what benefit are we charging?).

You cannot have a deal structure without a fee or a benefit (how can you structure a deal without keeping a benefit in mind for the investors?)

You cannot have an access channel without a deal, general partner fees, and an investor set since you can't derive a net contribution before marketing is used to determine the bounds of the access channel (how much can we spend to talk to these people, and wait… which investors are we talking to anyway?).

In plain English, the investors you target at a time is the most important thing, or all else is for nothing. Knowing the investor's mandate comes first.



To build your hypothesis, write down the five variables:

M(t), which represents the investors with a mandate to invest (what deals are they looking for).

B(t) represents the benefit or transformation the investors will receive from investing (how much money they will make).

P(t) represents the fee the investors will pay to invest with the company (will they do a 20% performance fee).

D(t) represents the deal through which the investors will invest, including the legal entity, share structure, and financial structure (Do they like limited partnerships)?

C(t) represents the channel through which the company can access the investors, such as introductions, golf clubs, LinkedIn, or YouTube (should you send emails or meet roadshows?).

Warning

When testing your capital raising hypothesis, only change one variable at a time. For example, if you've been reaching out to investors with the following hypothesis:

M(t), Investors seeking distressed multifamily apartments in Detroit

B(t), Seeking 40% IRR

P(t), Willing to pay 50% Performance Fee

D(t), GP/LP

C(t), Direct mail

If you want to change your test, only change one variable at a time, so you will be able to determine cause and effects. If you change your outreach channel from direct mail to cold calling and cold calling works, then you determine the true cause. But if you change two things simultaneously (deal structure to a promissory note and change channel to email outreach), it would be hard to know what caused a difference in your results. After you make any changes to your hypothesis, make a new version so you can track your progress.

Next, we will test this hypothesis!

4

PRINCIPLES FOR NETWORKING WITH THE ULTRA-HIGH NET WORTH

The first billionaire I met was introduced to me through a connection I made who was the CEO of a solar firm who I met through broad LinkedIn outreach. I developed a deeper relationship with him over time by being human, sharing opportunities with him on Whatsapp, and helping him out where I could find value. Eventually, I found a deal that needed capital, and he had a connection with who could invest in it.

I sent a message:

“Hi Andrew, our bankers and I connect projects to investors globally, raising $3b+. There's a revenue-generating renewable energy project with a projected 500 MWs of near shovel-ready projects, several GWs to be signed-off to begin in a few months, and 30-year PPAs. When suits to discuss? Best,”

In networking with ultra-high net worth individuals, I can speak from both other people's experiences and my personal experience. For those new to capital raising and private equity and who want to network with ultra-high net worth individuals, there are three core tenets to keep in mind.

The first principle I needed to remember was that ultra-high net worth individuals are just human beings. The richest person I spoke to was worth a few billion dollars in China from this connection. I realized they are just human, not God, and have flaws like anyone else. When networking with other investment bankers, it's important to remember that we are all just human beings, regardless of our pay grades. Ironically, their success often creates their flaws. It's important to keep that in mind.

The second useful principle is to realize that building relationships with ultra-high net worth individuals can take a long time. If you don't have a relationship with ultra-high net worth individuals, find someone who does and let them work on your behalf. This is what I usually do. Life can be short. Trust people more well-connected to you to do the heavy lifting, and just incentivize them through positive-sum games. This is the quickest way to network with ultra-high net worth individuals. Another way is to focus on providing them with something they absolutely need. This can help build a deeper relationship with them.

In this book, we talked about people with mandates. If someone is mandated to invest in something, they may still prefer to invest in people they like, but they will invest in what they are looking for, whether they like you or not. If an ultra-high net worth individual has a specific problem or is looking for something, the quickest way to transact with them and build a relationship is to provide them with what they are looking for. However, if they don't have a mandate or are not looking for an investment, you may need to build a relationship with them the old-fashioned way. You can use someone as a proxy if you don't know how to do this yourself. The quickest way to use a proxy to build a relationship with an ultra-high net worth individual is to determine their mandate. The proxy to the ultra-high net worth individual is often looking for mutually beneficial deals with them as well. Many ultra-high net worth individuals don't make themselves easily accessible, so using a proxy can be helpful in these situations.

The securities legal system is also key to understand when networking with ultra-high net worth individuals. When reaching out to an ultra-high net worth individual to sell a deal, it's important to understand the regulatory systems in place, including the necessary registrations for an investment advisory firm, broker dealer, exempt market dealer, etc. Failure to understand and comply with these systems can lead to problems, such as being reported to the SEC or facing a whistle-blowing event. Even if you build a positive relationship with an ultra-high net worth individual and they invest, you can still get sued if you fail to comply with regulations. It's also important to consider compliance when adding someone to an email list and sending them a deal.

At the end of the day, it's important to remember that ultra-high net worth individuals are just human beings, not magic. Building long-term relationships with them are important, but if you don't want to do that, you can use someone as a proxy who already has a relationship with them and a mandate for a particular type of transaction or deal. It's also important to understand the systems in place and the rules and to be careful when pitching deals to ensure that they are compliant and provide legal protection. Remember that the ultra-high net worth individuals you interact with likely got rich through their intelligence and hard work, and they deserve respect. Focus on creating win-win games where all parties benefit and mutual self-interest is prioritized, as it can be hard to trust others in the high finance world.

5

GET ON THE PHONE

"Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence." - Helen Keller

First order of business: some housekeeping and priorities. The only thing that matters is getting investor appointments and getting signed subscription agreements from investors. Everyone will try to distract you with webinar technology, roadshows, fancy websites, sales, and manipulation tricks, but it all comes down to getting investor appointments. If you don't get investor appointments, you might as well close this book, shut off your laptop, and change business models.

Think of this as a science and an art. On the one hand, it's a scientific and engineering problem, like trying to fit as much water as possible through a pipe. The more investors you can get through that pipe through direct outreach, calls, and meetings, the closer your deal will be to getting funded.

On the other hand, it's an art - nothing will replace the value of introductions to investors, so get as many as you can. Investor introductions are limited, so you need to have a broad approach (like hunting with nets) and a sniper approach (hunting with spears) concurrently.

Above all else, focus on helping the investor. No tactic can hide a bad deal with a sloppy presentation.

So with that, we will go into ways of actually acquiring those investors.

Finding investors for a business can be a daunting task, but there are several strategies that can help increase the chances of success.

Your Equity Sales Process and Script

We recommend that you have two calls; first a 10 minute call to “get to know” the investor and make sure they are a qualified person for you to sell to, and then next, a more thorough call to go over the investment opportunity.

DO NOT BOOK A SECOND CALL UNLESS YOU KNOW:

- They are an accredited investor or direct investor
- They have the mandate of ________________________ (Go to your investor hypothesis sheet and fill this out)

How The Script Works:

We want to attract people who ________________________ (Leader of VA, go to your hypothesis sheet and fill this out)

The process of the 10 min chat:

1. Figure out if they are available and are looking to deploy EQUITY capital for it
2. Obtain permission to ask questions about their business
3. Figure out if they are looking to deploy capital (accredited)
4. Figure out if they are qualified (timing, decision maker, has a problem/need)
5. Book a second call if you can WHILE ON THE PHONE. DO NOT SEND THEM THE LINK TO BOOK

The second call should be an open question and answer period of you answering each and every question about the investor opportunity. As time goes on, you'll be able to make your own frequently asked questions page to turn it into a system.

Web Presence

If you want to attract accredited investors for your acquisition or syndication, it's important to have a strong landing page that clearly explains your criteria. This page should be the first point of contact for potential investors and should be designed to capture their contact information, including name, email, and phone number.

One tool that can be helpful in this process is Go High Level, which is a software platform that can be accessed at Raises.com/gohighlevel. This platform allows you to easily collect and organize investor contact information, as well as schedule appointments through a calendar page.

In addition to collecting contact information, it's important to have automated follow-up systems in place to nurture relationships with potential investors. This can include both text and email follow-up, which can help warm up cold leads and keep your brand top of mind.

Having a strong landing page and follow-up system in place is key to attracting accredited investors for your acquisition or syndication efforts. Don't underestimate the importance of these tools in building your investor base.

Warm Introductions

One approach is to use warm introductions, reaching out to people in the industry who may be able to provide valuable introductions or feedback. This can include investment bankers, private equity firms, or individuals with whom the business has a preexisting relationship.

Warm introductions are the best, but they are limited for one reason: Dunbar’s number.

Dunbar's number is a concept in psychology that refers to the maximum number of social connections that an individual can maintain at any given time. The number is typically estimated to be around 150, and it is thought to be based on the cognitive and emotional capacity of the human brain.

There are a few reasons why Dunbar's number might limit people's ability to know more than 150 contacts:

Cognitive constraints: The human brain has limited capacity for processing and storing information about other people. Maintaining social connections requires remembering details about each person, such as their name, appearance, and personal history. It becomes increasingly difficult to do this as the number of connections grows beyond 150.

Emotional capacity: Maintaining close social connections also requires emotional investment and engagement. This means that people need to be able to devote time and energy to building and maintaining these relationships. As the number of connections grows beyond 150, it becomes increasingly difficult to do this in a meaningful way.

Time constraints: Maintaining close social connections also requires time and effort. People can only spend so much time with other people, and as the number of connections grows beyond 150, it becomes increasingly difficult to devote sufficient time to each relationship.

Dunbar's number suggests that there are limits to the number of close social connections that an individual can maintain; this is why getting warm connections can be a silver bullet that you cannot always use as your only tool. While it is possible to have more than 150 contacts, it becomes increasingly difficult to maintain close, meaningful relationships with these people, so it helps to have a combination of warm contacts and cold contacts that you nurture into warm contacts over time.

If you're skeptical of the effectiveness of outbound strategies, then this way of doing business is not for you. If you're not willing to put in the hard work and effort required to make outbound strategies successful, then you might as well stop reading now and look for a charlatan shortcut.

But if you're willing to do whatever it takes to make your business a success, then you need to embrace the power of outbound strategies. I personally know people who make and raise millions of dollars per month just by outbound methods. Outreach is a crucial part of the process, and it takes dedication and persistence to see results.

You have a few options when it comes to executing an outbound strategy. You can do the work yourself, or you can hire someone who is willing to put in the work and has the expertise to get results. Lastly, you can buy prevetted lists of contacts from solutions like Pitchbook.com. Regardless of your chosen approach, the key is to be willing to do whatever it takes to make outbound strategies work for your business. It's a game of numbers, and the more outreach you do, the greater your chances of success. So don't give up – keep pushing forward and you'll see the desired results.

Outbound

The colder way to find investors is through outbound messages, such as those sent through LinkedIn or by email. Businesses can set up longer, more serious calls by sending targeted messages to potential investors and qualifying the initial call with interested parties. Go to

Raises.com/linkedintool for an invite only tool that can help you build a sales team to do this. Make sure you input the information from your hypothesis that we made and use that as search criteria for your targeted investor. Having a professional and well-presented LinkedIn profile is crucial in today's business world. It is often the first point of contact potential clients, partners, and investors have with you and your business, so it is important to make a strong impression.

Most cold contacts will say no.

If someone says no to your offer or request, it's important to try to understand their reasons and see if there is any way you can work with them in the future. One way to do this is to ask for their mandate, or the specific parameters or criteria that they are looking for in a deal or partnership.

Once you have a clear understanding of their mandate, you can add them to your text and email database to stay in touch and keep them informed about any future opportunities that might be of interest to them. There are several tools that can help you manage your contact list and keep track of your interactions with potential partners, such as Gohighlevel, close.com, and drip.com.

Another option to consider is setting aside a budget for a "success fee" that you can offer to people who introduce you to potential partners or investors. This can be a way to reward people for their help even if they are not directly involved in the deal. Just be sure to do this in a compliant way, following any relevant laws or regulations in your jurisdiction.

It's important to keep an open mind and be proactive when it comes to building and maintaining your network of contacts. Even if someone initially says no to your offer, there may be other ways you can work together or find mutually beneficial opportunities in the future.

One way to ensure that your LinkedIn profile stands out is by hiring a professional photographer and graphic designer. A professional photoshoot will help you present yourself in the best light and convey a sense of professionalism and competence. A graphic designer can help you create visual elements, such as a branded header image and logo, that reflect your brand and give your profile a cohesive and polished look.

Presenting yourself and your business well on LinkedIn shows shows that you are ready and willing to do business. This can help you stand out in a crowded market and increase your chances of attracting potential clients, partners, and investors. So don't skimp on these important details – investing in a professional photoshoot and graphic design can pay off in the long run.

Ads

Attracting investors for your business can be challenging, but online advertising can be an effective way to reach potential investors and generate leads. By targeting specific keywords and locations, businesses can attract qualified leads who are already interested in investing.

We recommend two platforms that we recommend for this type of marketing: Google search ads and Youtube ads. These platforms allow businesses to show ads to users who have demonstrated an interest in investing, rather than showing ads to users who may or may not be interested.

If you're new to online advertising, there are resources available to help you get started. Clickminded.com has libraries of instructions and tutorials that can guide you through the process of creating and running ads. Alternatively, you can hire a team of experts on Upwork.com or Freelancer.com to manage your ads and websites for you.

Online advertising can be a valuable tool for businesses looking to attract investors. By targeting qualified leads and using the right platforms, you can effectively reach potential investors and generate leads for your business.

One of the Raises.com members, Andrew spends $2,000 a month on Facebook ads and nets over $100,000 in real estate investments for his fund. Another member Amir, spends a spends a cool $5,000 a month on Facebook ads and nets $150,000 for his Biotech fund.

Online advertising may attract small and large investors more effectively because of “status-delta.” As we have previously noted, persuading and selling to less sophisticated investors is often easier. These investors may be more receptive to marketing efforts and more likely to invest in smaller amounts. Therefore, targeting smaller investors through online advertising can be an effective strategy if you are seeking to raise capital through a small offering or through the aggregation of many smaller investments.

Online ads can be particularly useful for reaching many potential investors interested in smaller cheques, typically those below $250,000 per cheque. By targeting specific keywords and locations, businesses can attract qualified leads who are already interested in investing and may be more receptive to marketing efforts.

Overall, for those seeking to raise capital through small offerings or the aggregation of many smaller investments, online advertising can be a valuable tool for attracting less sophisticated investors who are interested in investing smaller amounts. Most importantly: remember, you can only advertise when your exemption allows you to do so. For example, the Regulation D 506c exemption in the US allows you to advertise, but only share the details of the offering to those who identify as accredited investors.

Ultimately, the key to finding investors is to be proactive and try multiple strategies. By using a combination of warm introductions, outbound messages, and online advertisements, businesses can increase their chances of finding the right investors for their needs.

Wait! How Do I Accept Investment?

By now, you should have hired someone to create a subscription agreement for the investor to sign and provided instructions for wiring the money. Worrying about how to report to investors on a quarterly basis should not be a concern until you have confirmed that you have an interested investor. Many capital raisers worry about building the fund and paying $20,000 to create a fancy fund or syndication websites before they have even confirmed that there is an interested investor.

After you confirmed your deal is bankable, start worrying about either getting a lawyer’s escrow’s account or a broker dealer like North Capital or several others to help you accept the capital in.

Focus on getting the investors interested first, and confirming if there’s a market there and then use $10,000 of the proceeds from the money you raise to hire accountants to handle quarterly reporting. If you want to go the extra mile, you can use Appfolio, Juniper Networks, or Syndication Pro to handle consistent investor reporting. But until you receive your first check, there is no point in reporting to investors that you do not have yet. Focus on closing the deal.

6

TURN YOUR RAISE INTO A SYSTEM

"If you can't measure it, you can't improve it" - Peter Drucker

I'm going to quickly go over the capital raise key performance indicators (KPIs). Many people don't have a clear idea of how to work on their campaigns, so we've tried everything and have provided a full formula for how we do it.

The Capital Raise KPI’s

There are critical numbers that are used to track the conversion rate of the teasers you sent. This is done by measuring the number of teasers that were sent and comparing it to the number of initial calls confirmed, termsheets received, and termsheets closed. The resulting percentages show the conversion rate at each stage of the process.

A teaser (sometimes called an executive summary) is a brief, informal introduction to an investment opportunity that is sent to potential investors to gauge their interest. It typically includes information about the investment, such as the type of business, the amount of capital being sought, and the expected return on investment. Teasers are typically used to initiate contact with potential investors and provide a summary of the investment opportunity before more detailed information is provided.

A termsheet is a document that outlines the terms and conditions of an investment offer. A termsheet is usually a preliminary agreement used to negotiate an investment's final terms. Once the terms of an investment have been agreed upon, a more detailed agreement, such as a subscription agreement, is typically signed.

In the context of a capital raise campaign, a teaser generally is used to initiate contact with potential investors and generate interest. At the same time, a termsheet outlines the terms of an investment offer to those investors who express interest.

Here is an explanation of each of the Capital Raise KPIs:

- Closing Desired In 90 Days: This is the target time frame for closing the capital raise, set at 90 days in this case.
- Outbound: This section deals with the outreach aspect of the campaign, where teasers are sent to potential financiers.
    - Total Financier Teasers Sent (You Enter This): This is the total number of teasers that were sent to financiers.
    - Total Financier Initial Calls Confirmed (You Enter This): This is the total number of initial calls confirmed with financiers after the teasers were sent.
    - Financier Teaser to Call Conversion Rate: This is the percentage of teasers that resulted in initial calls, calculated by dividing the number of initial calls confirmed by the number of teasers sent.

- Inbound: This section deals with the response to the campaign, where financiers send termsheets indicating their interest.
    - Total Termsheets Received from Financiers (You Enter This): This is the total number of termsheets received from financiers.
    - Termsheets Closed (You Enter This): This is the total number of termsheets that resulted in a closing.
    - Financier Termsheet to Closing Conversion Rate: This is the percentage of termsheets that resulted in a closing, calculated by dividing the number of termsheets closed by the number of termsheets received.
    - Financier Teaser to Closing Conversion Rate: This is the percentage of teasers that resulted in a closing, calculated by dividing the number of termsheets closed by the number of teasers sent.

These conversion rates can be used to track the progress of the capital raise campaign and identify areas for improvement.

Using spreadsheet formulas to track the progress and performance of a capital raise campaign can be extremely useful. Spreadsheets allow you to quickly and easily enter and track data, and the use of formulas allows you to automatically calculate key performance indicators (KPIs) that can help you understand the success of your campaign.

One of the benefits of using spreadsheet formulas to track a capital raise campaign is that it allows you to focus on the most important aspects of the campaign. By setting up formulas to automatically calculate important KPIs, you can free up time and resources to focus on other aspects of the campaign, such as identifying potential investors and negotiating terms.

Another benefit of using spreadsheet formulas is that they allow you to make quick and informed decisions about your campaign. By using formulas to track the conversion rate of teasers sent, initial calls made, and termsheets received and closed, you can quickly identify areas of the campaign that are performing well and those that may need improvement. This can help you make adjustments to the campaign in real-time, increasing the chances of success.

Finally, using spreadsheet formulas allows you to use your own intuition and judgement to tailor the tracking of your campaign to your specific circumstances. By creating formulas that fit your unique needs and goals, you can track the most important aspects of your campaign and make informed decisions about adjusting your strategy as needed.

Troubleshooting

If one or multiple numbers in the capital raise campaign KPI's are low, it means your campaign is not generating enough interest for a specific reason you could likely control. This could be due to a variety of factors, such as a poorly crafted teaser, a lack of outreach to potential investors, or a lack of attractive terms.
Here is a breakdown of what low numbers could mean for each item in the conversation:

- Teaser to Call Conversion Rate: If the conversion rate of teasers to initial calls is low, it could mean that the teasers are not effectively generating interest from financiers. This could be due to a variety of factors, such as a faulty script, a channel that isn’t ideal or a lack of relevance or appeal to the target audience

- Termsheet to Closing Conversion Rate: If the conversion rate of termsheets to closings is low, it could mean that the terms being offered are not attractive enough to financiers, or that there are other issues preventing the investment from closing such as the fees, benefit or deal structure.
- Teaser to Closing Conversion Rate: If the conversion rate of teasers to closings is low, it could mean that the overall campaign is not effectively generating interest or securing investments. This could be due to a combination of the factors mentioned above, such as poorly crafted teasers and unattractive terms. The investor mandate at the most basic level is the most important thing, so usually that could be the source of the problem.

If the numbers in the campaign are low, it's important to identify the reasons for this, go back to your investor hypothesis and make adjustments to the campaign in order to improve its success.

7

HIRING A CAPITAL RAISING TEAM

"Everyone thinks they're a good judge of character until they're judged on who they hire. Similarly, everyone thinks they're a good judge of character until they have to hire people." - Leila Hormozi

If you need help with capital raising, you can hire one of the four primary types of capital raise companies. These companies are experts in providing funding for various types of financial transactions, including real estate private equity funds and mergers and acquisitions deals. They can offer a range of options to suit your needs and help you raise funding of $10 million or more.

Types of Capital Raise Companies

The first type of capital raise company is a consultant. These professionals are typically hired to help businesses or individuals identify potential funding sources and develop strategies to secure them. They may work with a variety of different funding sources, including venture capital firms, private equity firms, and investment banks. Consultants may also be able to provide guidance on how to prepare for and negotiate funding deals, as well as help businesses, understand the terms and conditions associated with different types of funding.

Note: consultants, if they collect success fees, must be acutely aware of securities laws, or they may be illegally raising capital. Check to make sure the consultant has taken into account all the regulations.

The second type of capital raise company is often a platform. These companies combine elements of consulting and investment banking to use technology and systems to help businesses raise capital. These platforms can be useful because they offer alternatives to traditional investment banking methods and the way that many consultants work. There are many platforms available that can help businesses raise capital

The third type of capital raise company is an investment bank. These firms provide a range of financial services, including underwriting, advisory, and financing services. Investment banks may be able to provide funding through a variety of methods, such as issuing securities or providing loans. They may also be able to help businesses access other funding sources, such as venture capital firms or private equity firms, through their networks and relationships.

Building Your Own Equity Sales Team, and Should You Outsource?

The fourth type of capital raise company is your equity sales staff. These are employees or contractors you hire in your organisation tasked with raising capital and securing funding for your business. They may work with a variety of funding sources, including banks, venture capital firms, and private equity firms. Your equity sales staff may also be able to help you develop and implement a fundraising strategy, as well as negotiate and manage funding deals.

Some people pay their staff in cash, but it has to be done carefully and compliantly if you want to give them commissions as part of the capital raise if you have a limited partnership and general partnership. Some use their staff as Co-GPs or co-general partners. Co-GPs are individuals or entities that serve as joint general partners in a partnership. They can be hired to help manage a partnership and make decisions on behalf of the other partners. In some cases, co-GPs may be hired specifically to help management sell equity and raise capital for the partnership.

There are a few options for incentivizing people who work for you to raise capital:

Offer co-GP or employee commission on a "pro-rata" schedule and delay the distribution of your success fee (it could be 1%-3%) as monthly or quarterly payments on a schedule after funding. This can be written as "capital raising costs" as an expense item in the books.

Have a higher "trailing commission" - this is a commission that is paid out over time based on the performance of the fund.

If you're going public one day, offer options in addition to cash commissions. Options can be given to contractors/employees, while warrants are typically offered to broker dealers.

Consider offering a commission solely based on the profits of the GP.

Offer an upfront percentage that is payable on a prorated basis, with the possibility of trailing commission and options.

It's important to note that the specifics of the commission structure will depend on the consultant's involvement and their licensing. If they are not properly sheltered by a firm or written into the PPM, pro-rated schedules may be a common practice (however, this is a grey area and is not securities advice).

A trailing commission is a commission that is paid out over time based on the performance of the fund. For example, if a fund has a trailing commission of 1%, the fund manager may receive 1% of the profits generated by the fund each year as a commission.

Prorata refers to the allocation of something in proportion to the share or contribution of each individual or group. In the context of financial transactions, it may be used to determine the allocation of profits, losses, or expenses among different parties based on their contribution or participation in the transaction.

Prorata schedules are often used to structure the payment of commissions in a way that makes it appear as though the parties are not paying commissions, but rather consulting fees. This may be done for a variety of reasons, such as to avoid regulatory scrutiny or to make the transaction appear more favorable to the parties involved.

Options are financial instruments that give the holder the right, but not the obligation, to buy or sell a specific asset at a predetermined price (called the strike price) on or before a specific date (called the expiration date). This is usually a discount and usually makes the most sense for deals that list publicly.

Should You Hire and Outsource?

Can you outsource the entire capital raising process? It is possible to have a capital raising team work on your behalf to sell your deal, but the concern is that many people lose control over their deal when they depend on others to do the capital raising for them.

Investment banks are companies that are hired to raise capital for people and typically sell either private equity deals that don't go public or deals that later go public. It's important to remember to maintain control over your deal when working with an investment bank or other capital raising team.

Bear in mind that working with investment banks is more for the advanced audience, or those who have done multiple syndications.

- If you're new to private equity or doing your first syndication, you should probably not delegate to early so you can master the skills yourself
- Many investment banks look at deal of millions of dollars, not small deals of a few hundred thousand dollars.

We had someone new join our members at Raises.com who was working on raising $100 million to acquire gas stations. The concern for this person was not only setting up a private equity fund for the real estate attached to the assets but also making sure that the process was hands-off. It's possible to have a hands-off approach to capital raising, but it's important to make sure you maintain control over your deal.

That's how many investment banks make their money. Nothing may happen when people give control over investment banks and send a few emails without any insight or control into the capital raising process. This is nobody's fault but your own. Investment banks are often motivated to get their commission, which is a percentage of the money raised, and they may charge a retainer fee of between $10,000 and $30,000 to begin working with you. The problem with this is that while investment banks are incentivized to make money for you by getting a percentage of the deal, they may also be incentivized to hide information from you because they are not a platform or something similar. It's important to maintain control over the capital raising process to ensure that it is successful.

One problem that many investment banks face is that if they provide access to an investor and don't have a good relationship with that investor, the company may go around the investment bank and deal directly with the investor. This is why investment banks may hide the investor contact information from you. If the deal closes, they want to be the middleman so that they can get their commission. An alternative approach is to work with investment banks but make sure that the relationship is not exclusive. An exclusive relationship can kill a deal. This is when an investment bank is the only company allowed to raise capital for you. It's important to ensure that investment banks don't have exclusive control over the process, as this can be a problem.

An exclusive relationship means that you are not allowed to work with any other investment bank except for the one you are talking to, and you are not allowed to speak to any of the investors. Instead, the person you spoke to would have to do something called a carve out, where all the people you've spoken to can be excluded from the process. This is one way to avoid an exclusive relationship.

Warning About Investment Banks

Be careful which investment banks you engage with. Some associates of mine have complained about investment banks acting like an investor that would fund their deal, asking $50,000 to $200,000 in fees, then after receiving, not have the ability to raise the capital. Do not rush to pay investment banks large sumes, unless they are a tier 1 or tier 2 investment bank that has closed billions of dollars in deals annually, or they are a smaller, more honest investment bank that doesn’t have stories about taking consulting cash and disappearing.

Make sure that the people you reach out to do not get too excited when investors show interest. It's important to avoid celebrating too early like Usain Bolt did when he broke one of his records. He celebrated too soon and ended up getting a slower time. This can happen with deals, too - if you think a deal is closed before it actually is, it can ruin you. Instead, you should work hard and assume that nothing will work out, continuing to work with as many investment banks as possible and raising capital directly yourself. This brings me to my third point: make sure to raise capital yourself, not just rely on external investment banks. This means not only employing salespeople to sell equity but also selling the deal yourself. In many cases, you don't actually need an investment bank to raise money for you as long as you follow the rules and exemptions.

In the United States, for example, if you're raising capital through regulation D, you're only reaching out to accredited investors and allowing them to invest in your deal. Instead of working with all kinds of people to raise capital for you, it's better to build your own sales team within your company to sell your investments. This is important because many people get into trouble with financial regulatory authorities, like the Financial Conduct Authority in the UK or throughout Canada and the United States, if the person raising capital for them is not licensed to do so and is working on multiple deals at the same time. This can be seen as breaking securities law. However, if the salesperson is a full-time member of your team and fully committed to your company, they usually don't need to be registered. To do this, you should hire a trained salesperson within the regulatory framework you have to set up and have them raise capital as a full-time team member without any other projects they are working on. There are many levels to this, including having someone do some emails and administrative marketing within the bounds of the law.

Have someone make voice calls and have in-person meetings. This is more advanced and typically requires a skilled salesperson. When hiring these salespeople for your company, it's best if the founder or principal can do it themselves, but if they don't have the time, it's okay to bring a salesperson in the top 1% of the market to get the job done. It's important to keep the strategies for raising capital in-house and outsource the tactics, such as scripts and processes. You should be trained to lead from the front and not depend too much on investment banks, as they may be incentivized to hide information from you. Until the deal is done and the money has been wired, it's important to keep working and going on investor appointments to get the results you're looking for. To raise capital successfully, you should have trained salespeople who are full-time members of your company and follow the scripts and processes you've set.

CONCLUSION

Thank you for purchasing this book. I sincerely hope that it helped you make sense of your real estate or business acquisition private equity deal and gave you the tools you need to start taking better control of them. Stack skills on top of each other: As you acquire new skills, try to build oof them and combine them creatively through your team and the systems you build. This can help you create exponential value and differentiate yourself from others raising capital.

Massive leverage comes from massive accountability. Everything that doesn't work as it should in your capital raise is your doing: It is vital to take massive responsibility for the success or failure of your business. If something needs to be fixed as it should, it is likely because you lack a particular skill or knowledge. Rather than blaming external factors, take this as an opportunity to identify the gap and work on filling it. You will be accountable for investors' returns, so you will also be entrusted with massive sums of capital to use appropriately for the betterment of the human race. If you treat one of them contemptuously, you will lose all of it. That goes for capital and investors. You will be entrusted with more capital, control, and freedom if you provide returns.

With the great privilege and knowledge of partaking in what David Rebunstien calls “the highest calling of mankind,” private equity, it is essential, to be honest with yourself about your weaknesses and areas where you need to improve. Putting your ego aside and transcending all limitations can be difficult but necessary if you want to grow and succeed!

ABOUT THE AUTHOR

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Hi, I'm Natu Myers. My company Raises.com and I helped over 200 real estate investors and business buyers raise a collective $200m for their new funds and acquisitions. After I helped his first client create an investment bank in Canada, I founded Raises.com which enables real estate investors and business buyers across the world to swiftly create and raise complex private equity offerings with greater ease.