Avoiding Rookie Passive Investing Mistakes

by Steve Suh

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To my fellow Left Field Investors founders and officers:

Jim Pfeifer, Chad Ackerman, Sean Donnelly, Ryan Stieg, and Patrick Wills. It has truly been an honor working with you on this Left Field "movement" to help others have more financial and time freedom in their lives.

To all current and future Left Field Investors. Thank you for your support and for keeping this Community going. Invest Passively. Think Differently.

Foreword by Jim Pfeifer

In August of 2023, I read a draft of an ebook that would be given to people who signed up for our Left Field Investors (LFI) newsletter. I thought it had such great information that I told the author, Steve Suh—a fellow founder of LFI—that he should publish this as a “real” book on Amazon.

He begrudgingly reworked the formatting on this project, did some more editing, researched how to put a book on Amazon, and published it as a Kindle book and a paperback just in time to have hard copies available for the attendees at our second Meetup in the Left Field in early October 2023.

Despite the extra work I assigned to him, he thanked me for pushing him to go down this route with his book. It became a best-seller in its category on Amazon! Now, Steve will realize his “dream” of finally putting out a “free” ebook. He and you can thank the team at PassivePockets for making this available to paid members.

If you have listened to my podcast, *Passive Investing From Left Field* (now known as *PassivePockets: The Passive Real Estate Investing Show*), you may have heard me in an ad for Steve’s book saying that this is the best passive investing book I have ever read. I still stand by that statement.

Who is Steve Suh, and why should you take his advice seriously?

Steve is a full-time ophthalmologist who spends evenings and time between patients looking over deals. Like myself, he dabbled as a landlord but did not enjoy direct ownership. He has invested in over sixty private syndications in sixteen different asset classes! While working closely with him on Left Field Investors, I discovered that he has a passion for analyzing the numbers in deals to ensure that the underwriting is conservative and that the asset will actually cash flow. Because of this and his penchant for being the “grammar police,” we appointed him as Chief Content Officer of LFI. He was responsible for editing all our blogs and any significant content that was published on our website.

Steve first contacted me in the fall of 2019 after reading my email to the active real estate investing group I started in Columbus, Ohio, in 2016. It was an announcement about my upcoming talk at the meeting, where I would explain why I was transitioning from being an active investor to investing passively in syndications. Steve had been doing passive investments since 2009 but did not know anyone locally doing the same. Neither did I! After a few emails, we met at a Starbucks and chatted about our experiences with passive investing.

You may wonder how such a short book can be my favorite passive investing book. In the five years I have known Steve, one word I would not use to describe him is verbose. Just like his personality, his book cuts to the chase. This is not one of those books where you keep yelling, “Get to the point!” He explains concepts in an easy-to-understand manner and still gives you tremendous content.

If you invest the one hour needed to read this ebook, you will become a wiser investor because of the lessons he has learned from fourteen years of syndication investing. Although he did not personally make

all of these “mistakes” in his investments, he has put into practice the lessons he learned from other experienced investors. He is a testament that trial and error can be much more costly than learning from other people’s mistakes. These lessons have made him a much better investor, so take his advice seriously.

At this time, you may be asking, “How did a Left Field Investors’ book become an ebook on PassivePockets?” Here’s the story.

In March 2020, cofounder Sean Donnelly, Steve, and I planned to host a small dinner meetup at a local restaurant to talk about passive investing to interested active investors. Unfortunately, the pandemic struck, so that dinner meeting never happened. Instead, we decided to try this thing called Zoom. Because it was virtual, we decided to open our monthly meetings to anyone.

With each meeting, we recognized pretty quickly that there were a lot of people who wanted to learn more about passive syndication investing. The word spread slowly but surely, and we had about fifty members by the end of 2020. Along the way, Chad Ackerman, Ryan Stieg, and Pat Wills joined the leadership group as founders.

As the Community grew, we started adding educational content, investor tools, and a private forum where members could share information. The result was that everyone became better investors. LFI continued to grow, and we started allowing syndicators and operators to present deal flow to our Community members. We soon realized we had started a business.

When this opportunity to partner with BiggerPockets came up, we were 100 percent confident that this was the best thing for our Community. We felt that we did not have the resources to continue to grow and support the Community in the best way for our members. BiggerPockets could bring those resources and that expertise.

Starting in early 2024, Chad, Pat, Ryan, and I worked for six months with the BiggerPockets team to work on a merger. We have learned that they are dedicated to passive investing education and networking and have complete alignment with the LFI values. They are especially committed to maintaining the culture of LFI, which so many of our members have enjoyed.

We are thrilled about this next chapter with PassivePockets. It has never been a better time to be a passive investor! With PassivePockets in the game, investors will have top-notch resources.

I am excited for you to read this ebook. You will collect a boatload of investing nuggets that will help you make money and, more importantly, keep you from losing money. If you have already read this book, please re-read it to remind yourself of the lessons that Steve and the LFI Community have learned.

—Jim Pfeifer

Founder of Left Field Investors, Host of *Passive Investing from Left Field podcast,* Host of *PassivePockets: The Passive Real Estate Investing Show*

Introduction

Complications. That's not a word you or your family want to hear from your surgeon right after an operation or in the days to follow. As an ophthalmologist and somewhat of a perfectionist, I despise complications during and after my eye surgeries because that may mean that the patient may not end up seeing well. I do my best to prevent complications from occurring, but if you do enough surgeries, you will eventually have some.

When I attend continuing education conferences in my specialty, many of the cataract surgery lectures are not about new techniques but are about avoiding and handling complications. In my 25 years of practice, I have been able to steadily decrease my complication rate to a minimum because of my personal experience and by heeding the advice of other surgeons who discussed their complications at these meetings.

Pausing distributions. Unplanned capital calls. Loss of your original investment. These are "complications" that you do not want to hear about after you have invested in a syndication. If you invest in enough deals, you will have some bad ones that did not go as planned. But through your experience and learning from other peoples' mistakes, hopefully you can minimize those "complications" because you picked up on something during your call with a sponsor or saw something in the private placement memorandum that was on your "red flag" list.

As someone who is passionate about real estate investing, I am a firm believer in the benefits of passively investing in private syndications. However, my initial foray into this area had a major "complication," and I wondered whether I could ever trust investing in syndications again.

My start into syndications

After witnessing my net worth plummet after each stock market crash in 2000-01 and 2008, I was desperate to get some of my money off the "Wall Street roller coaster." After reading books about alternative investments and attending local real estate conferences, I stumbled upon a group that was looking for investors interested in speculative oil and gas drilling syndications.

The double-digit cash-on-cash pro forma returns were mesmerizing, and being able to deduct a large percentage of the intangible drilling costs off my W-2 income as a physician was appealing. I spoke with members of their team several times. I vetted the group as much as I could by doing searches online and talking with a few of their early investors. After reading through the legal documents—such as the private placement memorandum and the operating agreement—I mailed my check with the subscription agreement to the company in Texas in October of 2009.

I was thrilled to have received some small distributions within a couple of months. That was enough proof of concept for me. I proceeded to invest in four more of their speculative oil well syndications over the next seven months.

But after another six to twelve months rolled by, the frequency and the amounts of the checks began to diminish. Email communication also dwindled. Two years after investing in the fifth syndication, I received a notice in the mail that the company filed for bankruptcy. Other than a handful of small checks and getting the tax deductions, I lost most of my original capital in those five deals.

I was demoralized. I thought I had done enough due diligence on their team and checked their references. Where did I go wrong?

It took a few years for me to figure out what had happened. Some articles online revealed that this group had scammed at least 300 investors for $22 million dollars in what was probably a Ponzi scheme!

I was hesitant to try again. I didn't want to lose more money by investing in syndications. But with time and more education, I began to realize that my early failures were not indicative of the private syndication industry. I even attended The Real Estate Guys' Secrets of Successful Syndication conference in 2014.

A few years later and after a short stint in direct ownership of three small rentals, I got back into the syndication game as a passive investor. But even with my experience in the oil and gas debacle and the education from that seminar, I still had some "complications" with those next investments. However, those bumps in the road did not keep me from moving forward.

Today, I am in several dozen private syndications and am happy to report that I have had some nice, overall returns from the deals that have gone full cycle (i.e., sold) and have had respectable and regular, cash-on-cash returns on others. I have become a strong believer in this powerful investment strategy. While my early experiences were challenging, they taught me some important lessons about due diligence and risk management that I carry with me to this day.

The start of a movement

Soon after the pandemic shut things down in early 2020, I helped start a monthly Zoom meeting for real estate investors who were interested in learning about passively investing in syndications. As word got around about our meetings, attendance climbed each month. We had, and continue to have, great speakers which have included syndicators from all different asset classes and highly experienced passive investors.

A few of the founders and members exchanged hundreds of emails and texts and met frequently in between those monthly meetings to figure out the direction of this burgeoning group. We settled on the name **Left Field Investors** (LFI) because most people think that we are "out in left field" for placing our money in so-called alternative investments. Of course, for those who invest in stocks, bonds, and mutual funds, we have dubbed them Right Fielders. And people, like me, who invest on both sides are called Center Fielders.

Even though I helped start LFI, my education level from being a part of this movement has skyrocketed my knowledge about vetting sponsors and deals, and is the single-most important element in the successes in my latest syndication investments.

Left Field Investors, and now PassivePockets, is a community of like-minded individuals interested in networking and education for the purpose of investing in real assets that produce real cash flow.

Why did I write this book?

In March of 2022, I wrote a blog on the Left Field Investors' website titled *13 Lessons Learned from 13 Years of Private Syndication Investing*. By that time, I had written several blogs, but I received more emails, messages, and comments about this one than all the other ones combined! People liked that I was open about my losses, and they were encouraged that I did not give up on syndication investing despite my setbacks.

In this book, I discuss those 13 lessons more in depth and added 7 more lessons that I have learned from my experiences and from my network. Please note that these are not in any particular order of importance. My hope is that these lessons will keep you from having any "complications" when investing in syndications.

Syndication: An agreement between a group of investors—limited partners (LPs) and general partners (GPs)—who share in the profits of a business venture.

Private placement (offering) memorandum (PPM): A legal document that outlines the objectives, terms, and risks of an investment.

Pro forma: A financial report projecting the income and expenses of an investment.

Cash-on-cash return: The percentage of the annual pre-tax cash flow divided by the total cash invested.

LESSON 1

Invest in yourself before investing in syndications.

An investment in knowledge pays the best interest.

—Benjamin Franklin

Unfortunately, I invested in my first syndications before I fully understood all the different aspects of private placement offerings. If I had educated myself more thoroughly, I may not have lost so much money.

Randomly finding information on the internet can certainly be one way to educate yourself on a topic, but it is usually inefficient and probably insufficient. I read real estate books and blogs and listened to countless podcasts, but I had no guidance or direction when starting with syndications.

It wasn't until I paid to attend a few conferences on syndications that I had a better handle on vetting sponsors and deals. Attending these weekend seminars helped me to compress time frames and flatten my learning curve.

I applaud that more and more capital raisers and syndicators are offering online passive investing courses. This type of education may jumpstart your journey and help you build confidence when vetting operators and deals. Back in 2009, I would have been so much better off if these types of courses were available.

Beyond courses, another key to success in this type of investing is to belong to a community where there is constant dialogue.

You do not have to be an expert in the asset classes in which you want to invest, but you should at least educate yourself to a high enough level to understand the nuances of that sector. Start by reading books and listening to podcasts aimed at teaching about those asset classes.

Don't be afraid to spend some money on your education and on in-person meetups and conferences because the return on your investment will be well worth it. Trial and error is usually more costly than learning from other investors' mistakes. You will find that fellow real estate investors are always willing to share their experiences because most of us have an abundance mindset.

Attending a two- or three-day conference may set you back $2,000–$3,000 if you include the meeting fee, hotel stay, and airfare. But contrast that to losing $50,000 in a syndication that goes poorly because you didn't know how to vet the operator properly or did not understand how to evaluate the deal.

An Investment in Education that Paid Off in Fifteen Minutes

Toward the end of the 2023 Best Ever Conference for real estate syndicators, capital raisers, and passive investors, I was riding down in the elevator to get back to the meeting area. Another attendee and I were the only ones in that confined space. He had his carry-on luggage with him and was clearly heading back home.

He noticed the Left Field Investors shirt that I was wearing and asked me what our group did. So, I proceeded to give him my elevator pitch...in an elevator! He was intrigued and got out on the floor of the meeting hall with me instead of the first floor to catch an Uber to the airport.

I discovered that he had invested passively in more syndications than I had. As with most passive investors at a real estate meeting, we asked each other if we had invested with certain general partners.

He mentioned that he saw a sponsor at the conference with whom he had invested years ago. He was not a fan of his group. He had barely made any money on an apartment deal after it was sold several years later and knew other investors who had lost some of their original capital in other deals. Obviously, he was not going to invest with him again.

I was shocked when he told me who it was because it was one that was on the top of my mind because of a deal that I had just seen. That quick discussion gave me a reason to pause on investing with that group.

That gentleman then asked me about a syndication group that intrigued him that he just met at the meeting. Even though I had not invested with them, I had heard some negative things about them from a reliable source. He was so thankful for this information.

With that brief interaction, we learned some new things about syndicators that were contrary to what we had heard before. That fifteen-minute conversation alone may have been worth the cost of the conference for both of us! We traded our contact information and ended up having another productive conversation on the phone a few weeks later.

No one will ever care about your money more than you will! Continue educating yourself and networking with like-minded people to take control of your financial life. Sometimes, it may mean spending money to invest more prudently and to help you achieve your goals faster.

LESSON 2

Ignore naysayers.

The most contrarian thing of all is not to oppose the crowd but to think for yourself.

—Peter Thiel

Because of the decades-long dominance of stocks, bonds, and mutual funds in traditional retirement plans and for investing in general, most people do not understand alternative assets.

Many real estate investors, active or passive, have probably come across family members and friends who believe they are out in left field for placing their money into these “risky” assets. The typical financial advisor will not recommend that their clients invest in private syndications because they cannot make any commissions from them.

There is nothing wrong with thinking differently from the masses as long as you do your due diligence and educate yourself. If I had not changed my mindset and started investing in tangible assets that generate steady cash flow and appreciate in value, I would still be a panicky Wall Street investor strapped into the roller coaster ride like most others.

Yes, I still do have a 401(k) and have most of those funds in the traditional asset classes, but having a portion of my capital in syndications helps to make that ride less nausea-inducing. Despite the illiquidity of these “Main Street” syndication deals, I feel as though I have more control over my financial destiny.

LESSON 3

Get sponsor referrals from experienced passive investors.

If you want to go somewhere, it is best to find someone who has already been there.

—Robert Kiyosaki

Be cautious of referrals given by the sponsors. Who knows if they are even actual investors? When I wired my money to the oil and gas sponsors, I did not have any friends or acquaintances who had invested with them.

On the other hand, if you have a trusted college friend who has invested in four deals with Sally the Syndicator over the past six years and tells you that she communicates with her investors regularly and gives out steady distributions, wouldn't you feel more comfortable about wiring your money to Sally?

Now, imagine that you have a few dozen "friends;" or better yet a few hundred "friends" who love talking about syndication investing. This is what happens in online forums and during virtual or in-person networking events.

If you don't know anyone who has invested with Sally's syndication group, your only choice may be to communicate with her investors that she has hand-picked.

Ryan Gibson, Chief Investment Officer of Spartan Investment Group, had great advice about asking for referrals directly from the sponsor.

1. Ask a sponsor to tell you about their worst deal and proceed to ask for a referral from someone who invested in that syndication. Then you can get the investor's take on how the sponsor handled that deal.
2. Ask for a reference from someone who has invested in at least 75 percent of their deals. You can ask them why they like this sponsor so much.
3. Ask for someone who has only invested in one deal with them and did not invest again. Find out the reasons why they only invested with them one time.

And while you have these referrals on the phone or on Zoom, ask them about other syndicators with whom they have invested. I don't know any passive investors who put all their money with only one syndication team. Take advantage of this time to expand your knowledge and your network!

The bottom line is to avoid reinventing the wheel. **Learn from the past experiences of others.** As I have discovered, trial and error can be costly. Learning about a syndicator from someone else first may help guide your decision on whether to contact them. Imagine the time that you will save not having to talk with a bunch of below-average sponsors who are on your network's "Avoid at all costs" list!

LESSON 4

Network, network, network!

Your network is your net worth.

—Porter Gale

I already alluded to this lesson, but I feel like this may be the most important one to master.

Even when I got back into syndications in 2016, I still did not know of any family or friends who were doing what I was doing. I went to several local real estate meetups, but the real estate entrepreneurs there were chatting about the hottest, local sub-markets for single-family homes and talking about the most economical vinyl plank flooring for their house flips.

I eventually decided to get out of my comfort zone and attended some national conferences on real estate syndications which not only educated me more about this space, but also helped to expand my network.

In October of 2019, I received an email regarding the November agenda for a local, active real estate investing meetup. The speaker was going to be Jim Pfeifer—who was the head of that group—and he was going to talk about his transition from buy-and-hold investing to full-time, passive syndication investing.

I emailed Jim immediately and told him that I was also getting involved in the same type of investing. We ended up getting together at a Starbucks a week before that meeting. It was surreal and reassuring to find someone who had invested in the same deals as me!

Networking is vital to your success as a real estate investor. I wholeheartedly agree that your network is your net worth. By talking with other passive investors, you can glean so much knowledge about asset classes and sponsors.

There are more and more virtual and in-person conferences catering to passive real estate investors. They are also a great way to meet many syndicators one-on-one in one location.

If you are an introvert like me, networking may not come naturally. You can always bring a friend or family member to help with your confidence. As you continue to network, the chances that you will meet people who can help you attain your goals will increase exponentially.

Virtual networking has boomed especially since the pandemic. Technology allows you to “meet” investors from the comfort of your home. However, as with all things, you must make an effort to get involved in these groups! You never know who the next person will be to give you some great advice.

During the LFI days, if you asked our Infield members what the single most valuable part of their membership was, I’m pretty confident that most of them would have said it was our private forum. And as a PassivePockets member, you have access to our members-only forum. There are so many simultaneous, active posts going on at once. Just reading through them will help you find great sponsors, introduce you to new asset classes, and get advice on how to diversify your passive investing portfolio.

A Great Networking Opportunity

At LFI's inaugural Meetup in The Left Field in October of 2022, we had a happy hour the night before the actual meeting. There was a loud buzz from the seventy to eighty passive investors from all over the country who were crammed into the private meeting room of the restaurant in Dublin, Ohio. Most of the attendees did not know more than a handful of people, but we were all floating around chatting with one another as if we had been friends for years. It did not matter if you were an introvert or an extrovert; we were all extroverts that night.

It was all because we were there for one goal: to learn as much as we could about passively investing in syndications. I guarantee you that every one of those interactions involved some, or all, of these questions:

- Who are your favorite sponsors?
- What asset classes interest you the most right now?
- What geographic locations are you interested in?
- What do you think of the economy?

These are the conversations that are so invaluable! In a ten-minute discussion, you can learn great information about another person's investing journey which will help you become a more prudent investor.

There is no "Yelp for Syndicators" (yet!), so you must have many conversations with many investors to help you use your time wisely and to avoid losing your hard-earned money.

LESSON 5

Being a podcast host or guest does not necessarily equate to being a great syndicator.

First impressions are always unreliable.

— Franz Kafka

I am always listening to podcasts—when I drive, when I run, and when I work around the house. I have learned so much about real estate investing from what I call “Podcast University.” Before I had a community, I relied on podcasts to learn about and to get comfortable with sponsors.

While hosts and guests on podcasts may exude confidence and authority, it is essential to maintain a healthy level of skepticism. Remember that the medium itself enhances their credibility, but it is your responsibility to dig deeper and assess their true expertise.

When you have your opportunity to talk with them, try to be as objective as possible. Ask the tough questions. Have they had a deal that did not go as planned? How did they handle the situation? Did they ever have to do an unplanned capital call? What was the final outcome? By listening to how they managed such situations, you can evaluate their problem-solving skills, resilience, and adaptability.

Take this a step further by using the guidelines outlined in Lesson 3 to obtain references. Ask those investors if they were satisfied with the general partner’s communication and outcome on their deals.

As mentioned before, use the power of your community to get opinions from investors who were not hand-picked by that sponsor.

Podcasts can be a double-edged sword. You may learn much from the, but you may also be drawn in by a glib host or guest that convinces you of their expertise. By remaining objective, utilizing your resources and network, and asking pointed questions, you will be able to make better informed investment decisions.

A Marketing Precaution

While we are on the topic of “marketing,” many capital raisers and sponsors will mail prospective investors, and even current investors, glossy, multi-page brochures of their latest project to entice you to invest. Please do not be persuaded by these promotions. They may be solid deals, but only invest if you believe in the sponsor/operator and after you have done your due diligence on the location and on the asset itself.

LESSON 6

The early communication may be indicative of their later communication.

The single biggest problem in communication is the illusion that it has taken place.

— George Bernard Shaw

The following happened to me a few years ago during the early days of COVID. Sometime after speaking with a sponsor, I received his latest offering in a new asset class in which I was interested. I read through the documents and financials and was ready to invest for the first time with him. I emailed him explaining that I wanted to invest.

Two or three days went by without a response. I chalked it up to the weekend and emailed him again. He answered after the second time and sent me the link to sign the virtual documents. I asked him another question via email and he did not respond in a reasonable time frame. It took another email to get my question answered. I signed the documents and wired the money. I emailed him to make sure the money was received, but it took a follow-up email for him to confirm that it was.

About six weeks later, I received an email that explained that since the deal was dropped because of the uncertainty with COVID and the quarantining, we could put that money into his latest deal instead.

That was news to me! I never got the email notice that the original deal was canceled. I even checked my spam folder. As might be expected, I requested that I get my money back and I unsubscribed from his email list.

When communication is subpar from a sponsor early on, be wary that this may be the norm for them—even when you are an investor. **Communication is so important as a passive investor in syndications, especially when there are hiccups in the deal.** I would expect the email updates to increase when things are not going as expected in a deal. This would give me confidence that the general partner is staying on top of things when there is turbulence.

LESSON 7

Don't be anyone's guinea pig.

I fear not the man who has practiced 10,000 kicks once, but I fear the man who has practiced one kick 10,000 times.

— Bruce Lee

Jim Pfeifer loves to say, "Don't be anyone's guinea pig." In other words, be careful when you are considering sponsors who are raising money for one of their first syndications. They may have flipped fifty-six houses and owned/managed thirty-three single-family homes in Lincoln, Nebraska, but commercial real estate syndications are a different animal.

Do not discount their previous real estate experience, but you do not have to be their experimental guinea pig. There are so many experienced syndicators out there who have been through several commercial real estate cycles who would be more sensible choices.

Also, be wary of the experienced commercial real estate syndicator who is raising capital in a new-to-them asset class—such as the veteran, mobile home park operator who now wants to purchase A-class, high-rise apartments. These asset classes are different kinds of businesses. **Search for general partners who have a solid track record in the asset class in which you want to invest.**

As I mentioned earlier, I am an ophthalmologist who has performed thousands of eye surgeries, but I do not think you want me to do your emergency appendectomy!

Now, if that mobile home park operator wants to hire a team who has been managing apartment complexes for many years, then I might feel more comfortable with this. However, I will probably wait to see that they have had successful exits on their first and second deals before taking the plunge.

LESSON 8

Syndicators/Sponsors/Operators should be doing this full-time.

It is those who concentrate on but one thing at a time who advance in this world.

— Og Mandino

I am certain that I will get some flak for this, but I need to say it. Real estate syndications are big businesses that deal with tens, or even hundreds of millions of dollars of investors' capital. So, why should these general partners need to be working a non-related W-2 job?

They should be using their daytime hours overseeing their property management team to ensure that they are taking excellent care of their properties and tenants. They ought to be finding ways to maximize the net operating income so that they can keep up with the monthly mortgage payments and the other overhead expenses. Spending time streamlining their processes will help profitability. They should be developing systems in order to be able to scale efficiently as they acquire more assets so that they do not spread themselves too thin.

What is the advantage of having a time-consuming, W-2 job in addition to managing a syndication company? Plus, if they work more than half-time in their job, it will be difficult for them to prove that they personally qualify for the tax-friendly real estate professional status.

With all things being equal, I will take a syndication team dedicated to asset management full-time over one that has sponsors working other W-2 jobs.

LESSON 9

Wait one year before investing again with the same sponsor (if this is your first deal with them).

Why is patience so important? Because it makes us pay attention.

— Paulo Coelho

One of the best recommendations I have heard is to wait one year before investing again in another offering with a syndicator who is new to you. I wish I had heard this advice before I mailed in my second, third, fourth, and fifth checks to those oil and gas syndicators only a few months after the first one. Unfortunately, I was drawn in by the early distribution checks and the outsized predicted returns and, thus, wanted to deploy my capital quickly. I was impatient!

I learned this wise rule from one of the members of my community, David Shirkey. He stated that twelve months will give you enough time to see if the syndicator provides detailed and regular updates and to see if the distributions are close to the first year's pro forma cash-on-cash returns. This advice can help you avoid investing more with syndicators who do not live up to their promises.

This can be a tough rule to follow if sponsors have steady deal flow and if all their deals look like they will be home runs. But don't fret! Remember that successful syndicators with great track records will continue to have more deals for their investors for years to come.

While you may be tempted to get all your money active, consider the cost of having all your money active with a bad sponsor. You can afford to be picky! There are plenty of great sponsors out there who have had and will continue to find fantastic deals for their investor base. Don't get caught up in FOMO (fear of missing out) because FOMO can eat away at your net worth!

Real estate investing should be a financial marathon, not a sprint. Private syndication investments often take several years to come to fruition, so be patient and trust the process. Taking the time to carefully evaluate your options and to make informed decisions will ultimately lead to better results. This will also help you to follow the next lesson.

LESSON 10

Diversify your investments.

Diversification is an established tenet of conservative investment.

— Benjamin Graham

You can diversify your investments...

By asset class
I do not consider myself a general partner-level expert in any asset class. When I invest with a sponsor that I have vetted, I do expect their team to be specialists in the asset class in which I plan to invest. Nonetheless, I believe as a passive investor you should diversify. Having a solid, passive portfolio in various asset classes such as multifamily, self-storage, mobile home parks, industrial facilities, and ATM funds will help hedge your investments. These sectors have their cycles so this diversification will help even out your monthly/quarterly distributions.

By sponsor
By diversifying by asset class, this will help you automatically diversify your sponsors. I would take that a step further and invest with different sponsors within the same asset class. Some sage advice that I learned from reading *Do the Work Once, Get Paid Forever* by John Bogdasarian is, “Don’t invest more than 20 percent of your net worth with one person or entity.” Even if you trust a syndicator implicitly, anything can happen that may be out of their control. By spreading your investment dollars around, you will de-risk your portfolio.

By geography
Real estate trends tend to be local so spreading out your investments by geography is also sensible. Some locations will be hot for a while and then may settle down after a few years. Job and population growth will wax and wane. Don’t put all your investment “marbles” in one geographic location.

By timing
One aspect of diversification that is often overlooked is timing. Some new passive investors may discover the wonderful world of syndications and end up dumping a large sum of money with various sponsors in the first year. Unfortunately, I was guilty of this FOMO early on, and it did not serve me well! Although I applaud that some folks are investing in real assets quickly, I would advise spacing out the timing of their investments.

Think of this as being analogous to the familiar dollar-cost averaging strategy used in traditional Wall Street investments. Investing too much at the beginning of a real estate cycle downturn may become an uphill battle for those assets to reach the pro forma returns.

One other issue with investing the bulk of your capital in a small window of time is that you may have a lot of exits close together. While it is great to have assets go full cycle where you may receive your original capital back plus some nice gains, you may have a hard time redeploying that much money in a timely

fashion if your goal is to stay invested in syndications. Therefore, you should also investigate deals that have shorter and longer projected timelines.

By cash flow vs. appreciation
Another way to diversify is to invest in both debt funds and equity deals. The former should give you more steady cash flow while the latter will hopefully magnify your net worth when the deals go full cycle.

Maybe this would be akin to the traditional 60/40 stocks-to-bonds portfolio although you would need to determine the appropriate ratio between the equity and debt deals for your current situation.

If you have a steady W-2 income, you may want to be more weighted on the equity side where you don't need as much monthly cash flow but would like to magnify your net worth with the back-end profits from the sales of the assets.

On the other hand, if you are retired or want to exit your W-2 job soon, it may make more sense to have more debt or preferred equity deals in your portfolio so that you can live off the more predictable cash flow.

Above all else, make sure your goals are aligned with the sponsor's investment thesis
LFI founder and chief operating officer Chad Ackerman often tells the story of his first passive investment. He had been wanting to get into real estate investing full-time so that he could cut down hours at—or better yet quit—his W-2 job. He was inspired by the stories of other passive syndication investors who were been able to become "W-2 optional," so he decided to concentrate on this type of investing rather than being a landlord or a house flipper.

Chad found a deal that he liked from a syndicator that he trusted and wired the money. In the excitement of getting into his first deal, he did not closely consider the timing of the cash flow projections. This historic downtown office building was going to be transformed into mostly high-end apartments with some retail and office space on the lower floors. This was not just another value-add project; this was more of a development deal.

Thus, the cash flow would be minimal for the first few years and most of the returns would come from the appreciation when the asset sells. The lack of distributions in the early years did not help Chad towards his progress in quitting his job.

In addition to diversifying your syndication assets, make sure your goals are aligned with the investment philosophy of your sponsors.

LESSON 11

Invest similar amounts into each syndication.

Do not put all your eggs in one basket.

— Proverb

Of all the lessons, this one may have the least effect on most investors. But if you invested an outsized amount into a syndication that goes awry, you will wish that you had listened to this advice.

It's simple arithmetic. Let's say you have $1 million to invest. You put $100,000 each into Syndications A, B, C, D, and E. You then decide to invest $500,000 into Syndication F. If you double your money on Syndications A-E after their respective sales, you will make a $500,000 profit.

But if the syndicator of asset F manages it poorly and ends up getting it foreclosed by the bank (hence losing all your capital), you would end up with $0 in net profit from all six syndications!

If you had invested only $100,000 into Syndication F, you would have made a net profit of $400,000 in your portfolio from a $600,000 investment. That's quite a difference!

Plus, you could have invested the remaining $400,000 from the original $1 million into other syndications to possibly get an even better return.

It doesn't matter if syndication F was a once-in-a-lifetime, A-class apartment complex or a well-diversified mobile home park fund managed by a rock star operator. **Anything can happen!** A natural disaster can wipe out an asset, or the operator could win the Mega Millions jackpot and skip town!

Also, if you are dependent on the regular cash-on-cash returns from your investments, the pausing of distributions in one outsized syndication could put a damper on your livelihood. Likewise, an unplanned capital call on that bigger deal would also cut into your overall distributions to a much greater degree than if there was a capital call on one of the smaller deals.

Reduce your investment risk by placing similar amounts into each syndication. It may take longer to deploy your capital, but this will also force you to diversify your investments.

LESSON 12

Ask if a sponsor will take a reduced minimum investment.

Always ask yourself: 'What will happen if I say nothing?'

— Kamand Kojouri

When I recently found and reviewed the subscription agreements for those five oil and gas deals, I noticed that I invested a full share in only two of them. In the other three deals, I only invested in half a share each. If I had gone with the full share on all five deals, I would have lost 38 percent more money!

Several years later when I got back into the syndication game, I must have forgotten that I had used this strategy before. It did not occur to me to ask real estate sponsors to invest at a reduced minimum until I heard other Left Field Investors doing this.

While it's important to avoid being overly persistent in asking for a lower investment minimum, many sponsors have been increasingly responsive to this request and may even mention it on deal webinars specifically for first-time investors. Since most private syndication minimums are between $50,000 and $100,000, it will be difficult to get them to reduce the minimum on any given deal to less than $25,000.

Just ask! The worst they can say is "no." I have been able to get into many deals for half the minimum to test the waters with syndicators and asset classes that were new to me. The next lesson will give you another avenue to invest smaller amounts without having to get permission from the sponsor.

LESSON 13

Invest with a "tribe."

If you want to go fast, go alone; if you want to go far, go together.

— African proverb

Group investing is a terrific way to start investing in syndications and to spread your capital out over more deals than you could as an individual.

Since minimum investments in syndications are usually around $50,000, many people will quickly run out of investable money because most deals will not go full cycle for a few years. By joining a tribe of like-minded investors, you can stretch your capital and diversify your portfolio.

Most syndicators do not have any problem with LLCs investing in their deals. One caveat though is if your tribe intends to invest in Reg. D 506(c) deals, all members must prove that they are accredited investors.

How does group investing work? Let's say that you form a tribe that has ten members. If you each decide to put in $50,000 ($500,000 total in the LLC), you could eventually be a part owner of ten cash-flowing commercial properties at $50,000 each instead of just one. Talk about diversification and reducing risk! Your personal liability in any given investment would be $5,000.

At the time of the publishing of this book, I am a member of six tribes. One is an entity that invested in only one multifamily fund. Another one invests in cryptocurrency funds and Bitcoin mining funds. This one allows each of its members to invest in this risky asset class without having too much personal capital exposure.

Three other tribes invest in asset classes which we would not normally invest the full minimum amounts by ourselves because they are newer or untested asset classes.

The last tribe is a special one because I have been able to invest in "boring" cash-flowing assets with my parents and brother—some of my early naysayers.

You can tailor your tribes however you want. You can group together with family, friends, co-workers, or people you meet at conferences or on networking platforms like online forums.

Open Tribes

Open Tribes are a new concept in which these LLCs invest in only one deal. Most of the members may not know one another. Tribevest will manage these entities and charge a nominal fee to its members. If you really wanted to get into a certain deal but only wanted to put in a fraction of the minimum, this is a great way to accomplish that.

Maybe there is a new asset class that looks intriguing, but you want to test the waters before putting in $50,000. Or maybe you are new to alternative investments and want to start out small. Whatever the reason, consider getting involved with tribes.

Accredited Investor

A person who either earned income of more than $200,000 (or $300,000 together with a spouse) in each of the last two years and reasonably expects to earn the same for the current year, or has a net worth over $1 million, either individually or together with a spouse (excluding the value of a primary residence). This person would be allowed to participate in investments not registered with the U.S. Securities and Exchange Commission (SEC).

LESSON 14

Embrace JOMO!

Don't be afraid of missing opportunities. Behind every failure is an opportunity somebody wishes they had missed.

— Lily Tomlin

I admit that I'm a sucker and have a hard time saying "no." All those sales and marketing techniques work too well on me. Oftentimes, I will have FOMO. But lately, I am happy to say that I have been enjoying JOMO (joy of missing out) too. I first heard that term while listening to the *Passive Investing From Left Field* podcast. The guest, M.C. Laubscher, the Cashflow Ninja, talked about how he had been experiencing JOMO lately.

When I look back at my three worst syndication investments, I was rash in my decision making with all of them. However, each time, the sponsor personally called me to see if I wanted to invest in their next deal or add more money to the current deal. Lofty returns were mentioned. None of these panned out, and I either lost all my invested capital or made far less than the projected returns. The bottom line was that I had FOMO.

If a syndicated deal is solid, it should be able to sell itself. Cold calls from the sponsor are not necessarily a good sign. Be wary of the syndicator who tries too hard to get you to invest in their latest deal. **Embrace JOMO!**

Currently (in 2023), I am low on "dry powder," as they say, since most of my investable money is tied up in syndications. The current high interest rate environment has kept several of my assets from being refinanced or sold as planned. The general partners are trying to maximize rents and occupancy while hoping that the rising interest rates stop climbing, especially if they have interest-only loans.

This has forced me to sit on the sidelines and watch deals go by. I have been so active in investing in syndications over the last five years. However, I have not gotten into any deals in the first half of 2023. This year has been good for me to practice JOMO!

For the past two years, I had been assessing a type of deal that kept rearing its head from time to time via emails from the sponsor or in discussions in our forum. The tax breaks were extraordinary because they could offset W-2 (earned) income. The distributions were also said to be generous and regular.

Recently, this operator and one of his capital raisers have been slapped with a lawsuit from the SEC for fraud. I was probably lucky that my lack of investable funds kept me from fulfilling my FOMO on this one. I do hope that the investors eventually get all, if not, most of their capital back.

If it sounds too good to be true, then it probably is. Developing and sticking to your personal investment criteria will keep you from getting sucked up into marketing hype and FOMO when the latest deal comes out. Make sure to do your unbiased due diligence on every sponsor and deal which you are evaluating. **Remain unemotional and be patient!**

LESSON 15

Invest in “boring.”

Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas.

— Paul Samuelson

Many active and passive real estate investors, including myself, are guilty of the so-called “Shiny Object Syndrome.” Some of my early passive investments included a feature movie, a Panamanian coffee farm, resorts in Puerto Rico and Costa Rica, and a Broadway show (no, I am not kidding!). Although the musical has been giving great returns, the other four assets have yet to give out any distributions in 5–13 years!

Do not get caught up in “Shiny Object Syndrome!” Unfortunately, I have a decent amount locked up in these yet-to-be-cash-flowing assets.

If I had used that money to invest in two “boring” apartment complexes in Texas, they probably would have gone full cycle by now, and I could have reinvested the original capital and the profits into three or four more multifamily assets! The importance of the time value of money cannot be emphasized enough!

Nothing beats steady, tax-advantaged cash flow to de-risk your investment over time. Multifamily, self-storage, manufactured home communities, and ATMs are some of the “boring” asset classes that have been doing just that. And the upside potential upon exit on some of these assets can be anything but “boring!”

I will admit that I do invest small amounts into cool start-up companies hoping for that huge, asymmetric gain down the road if they go public or get bought out by a bigger company. However, I do limit the total of these investments to a single-digit percentage of my net worth. Maybe this will satisfy my FOMO!

Another way to accomplish this is to start a tribe to invest in that trendy, new asset class. Travis Smith, founder and CEO of Tribevest, and his brothers bought a racehorse through their tribe! But he will admit that most of the investments in that tribe are dull, cash-flowing assets. In one of my “experimental” tribes, we invested in a pickleball company developing multiple facilities all over Florida.

In the long run, however, it really is hard to beat monthly or quarterly cash flow and steady appreciation from boring, Main Street assets. They will be the workhorses of your passive investing portfolio.

LESSON 16

Don’t let the tax tail wag the dog.

Know what you own, and know why you own it.

— Peter Lynch

As I mentioned earlier, one of the appeals of those oil and gas investments was the tax savings that I would receive. This certainly can be a game-changer, but if the investment is not giving you steady cash flow or a nice equity multiple when it goes full cycle, then it may end up being a wash.

Assess the riskiness of the deal by evaluating, among other things, the location, the underwriting, and the bank financing terms. Warren Buffet’s first rule of investing is ***never lose money.*** His second rule is ***never forget rule number one.*** What good is a tax shelter if you don’t have a net positive result?

As you probably know, investing passively in real asset syndications can give you accelerated tax benefits in the form of bonus depreciation. From 2017 to 2022, a cost segregation study enabled the syndicator to pass through 100 percent of the pro rata bonus depreciation to their investors. From 2023 and each subsequent year, the bonus depreciation decreases by 20 percent until it gets to zero percent.

Nonetheless, the passive losses usually offset passive gains from the monthly or quarterly cash flow and may even help offset the sale proceeds. Passive losses are carried forward each year until they are used up. Good timing on your investments can help mitigate your tax burden. At Left Field Investors, we call this the “Lazy 1031” because it has a similar tax mitigation effect as the 1031 Exchange without having to adhere to the strict 1031 rules.

But remember—none of these tax deductions will help you increase your wealth if your investments are not making money!

Equity Multiple

The total cash distributions received from an investment (cash flow from income and sale plus the original capital) divided by the total equity invested.

LESSON 17

Don’t just look at the Big 4: Cash-on-cash return, average annualized return, equity multiple, and internal rate of return.

It is not the return on my investment that I am concerned about; it’s the return of my investment.

— Will Rogers

Early in my passive investing adventures, I made the mistake of simply using the “Big 3” return metrics to vet the merits of a deal. Of course, you want to know how much cash flow you might expect annually and your total profit when the asset sells, but you absolutely need to consider the riskiness of the deal! And, by the way, I have yet to see any pro forma returns match up with their actual returns.

In my opinion, the most comprehensive book on evaluating risk in a syndication is *The Hands-Off Investor* by Brian Burke. Even though this book pertains mainly to the multifamily asset class, the concepts discussed in it can be applied to most real estate syndications.

Don’t be a rookie by only looking at the “Big 3” return metrics. Up your game so that you can also assess the risk-adjusted returns.

It is beyond the scope of this resource to go into the specifics of how to determine the riskiness of a deal, but you should consider the following.

1. Structure of the debt and the capital stack (see Lesson 19)
2. Projected exit cap rates as compared with entry cap rates—if the difference is small, this can make return projections look like home runs.
3. Economic vacancy
4. Debt service coverage ratio (DSCR)
5. Breakeven occupancy
6. Yield on cost minus market cap rate (development spread)
7. Conservative rent growth

Use the findings from your evaluation to keep you grounded. With surgery, I always explain the risks and benefits to my patients. The benefits must outweigh the risks. This is no different! The risk metrics should play in your favor. **Don’t get emotional about any investment!**

Ultimately though, the operator is going to be the most important “metric” to evaluate. Any experienced passive investor will tell you that the team managing the asset is so much more important than the specifics of the deal itself or its location.

LESSON 18

The operator is the keystone of every syndication.

keystone (noun): a central stone at the summit of an arch, locking the whole together. the central principle or part of a policy, system, etc., on which all else depends

— from Oxford Languages

There is the adage that success in real estate is all about "location, location, location." When evaluating a real estate syndication, the location is certainly important to evaluate. You undoubtedly should be assessing the major market and its job and population growth. And likewise, you need to explore the submarket to make sure the area is safe, has good schools, and has essential amenities like grocery stores and shopping centers nearby.

Evaluating the metrics of a deal are also vital—as mentioned in Lesson 17—to get a sense of its risk and return profile. If the numbers don't add up, the deal will not have a good chance of meeting its expectations!

While the location and the deal itself should be vetted thoroughly and should weigh heavily on whether to invest, most experienced investors will agree that the operator is, by far, the most important piece of the syndication puzzle. **A great operator can save a bad deal, but a bad operator may quickly sink an A-class property.**

Up until this point, I have been using the words "syndicator," "sponsor," "general partner," and "operator" to refer loosely to the same thing. They raise capital, put together the legal documents with the aid of their attorneys, source and vet deals, obtain bank financing, manage the assets, and ultimately, sell the assets.

But in this section, I want to use the term "operator" to include all or some of the above tasks, and I would like to emphasize their importance in the actual day-to-day management of the property or business. One example would be the syndication teams that have their own in-house property management. Since everything is under the same theoretical roof, they should have strong control over all aspects of the management of the property or business.

In the scenario where a syndicator has a third-party property manager (PM), I would argue that the PM is possibly more essential than the GP's asset management team when looking at the profit and loss statement. They are the boots on the ground that will determine who they place as tenants, who they evict, how they market to attract tenants, and how fast they can turn units. Of course, the PM will not want to stray too far from the wishes and plans of their bosses—the syndicators—because they can get replaced.

I recently saw an update about one of my apartment syndications. The syndicator had been frustrated with the below-average performance of the third-party PM team and replaced them. Within six months after

hiring the new PM, the occupancy went from 72 percent to 90 percent, and the collections improved from 64 percent to 94 percent. Talk about a boost in the net operating income!

Another example is the popular ATM syndication business. Many sponsors/syndicators/general partners raise capital for these deals, but they have very little say in the actual running of the business itself. They rely on the expertise of the ATM operators to find the ideal markets and to place the ATMs in those locations.

As I mentioned in a previous lesson, I invested in a Costa Rican resort development several years ago with an experienced syndication team and have yet to see any return of capital or profit. They hired a man who had experience in development and placed him there to head up the project. As time went by, the syndication team did not see eye-to-eye with him on the vision of the development and wanted to oust him. But this meant that we would have needed to do an expensive capital call just to hire a legal team. The syndication team eventually removed themselves from the asset management, and now we are at the mercy of this operator. Time will tell if he turns a profit on this venture.

While it is essential to ask for the track records of syndicators, you also need to know who is running the daily operations of the asset you are evaluating. If they use third-party management, interview them too. Ask who else they manage for and call up those owners/syndicators to see if they are running a tight ship. A sponsor may have an excellent track record, but if they go into a different market, they may have to work with a new PM team. In this situation, you should not put as much weight into that track record. Remember: don't be anyone's guinea pig!

Make sure you understand who is making the final, day-to-day decisions that will make or break the deal. Dig deep to find out these answers!

LESSON 19

Pay attention to the capital stack and the debt structure.

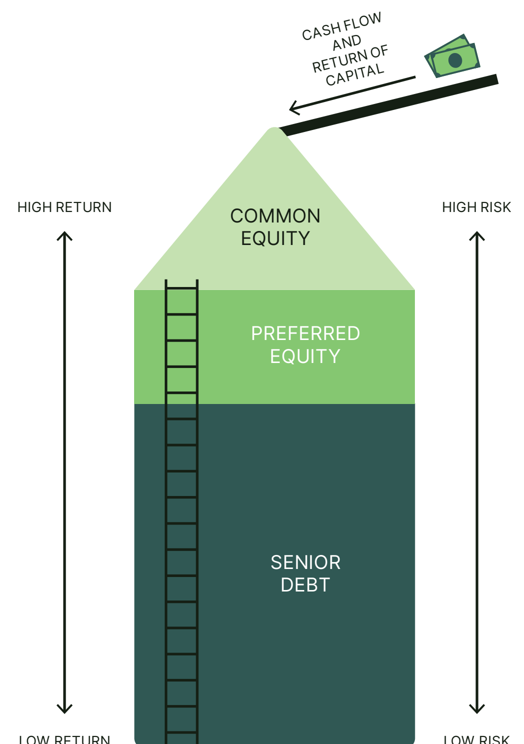
Debt is like any other trap, easy enough to get into, but hard enough to get out of.

— Josh Billings

Understand your position in the capital stack.

The offering documents contain so much information that certain vital parts are easily overlooked. Some of the executive summaries/slide decks will contain a diagram of the capital stack, which illustrates the order in which the various parties involved in a transaction get paid back. Investors should pay attention to the details of this diagram and the wording in the PPM.

1. **Senior debt:** This is the first layer of the capital stack and represents traditional bank financing for the real estate project. It has priority over all other types of financing in terms of repayment and is secured by a mortgage on the property. Senior debt typically has a lower interest rate than other types of financing but also has more stringent underwriting requirements. This usually takes up 50 to 80 percent of the capital stack. Sometimes, you may see a section for mezzanine debt—a secondary institutional option for more financing—but it is not used often in private syndications.
2. **Preferred equity:** This tier represents an equity investment in the project that sits between senior debt and common equity in terms of repayment and distribution of cash flows. Because "pref equity" typically has a fixed return similar to debt, this option is popular among many family offices, debt funds, and institutional and individual investors who are also desiring lower risk.
3. **Common equity:** This is the final layer of the capital stack and represents the ownership interest in the syndication. These LP and GP investors have the highest risk and potential return in the project, and their investment is typically the last to be repaid in the event of default or bankruptcy.



This diagram compares the capital stack to the filling of a grain silo. Imagine filling this with money. The bottom (senior debt) section gets filled first while the middle section (preferred equity) gets their money next. The common equity investors must wait until the other two get their share before they get anything. Take notice of the loan-to-value (LTV) ratio of the

bank debt. Higher LTVs will mean more money is borrowed so the risk will be higher. In the event of a market downturn or an increase in rates (if there is a floating rate loan), this will make it more difficult for the cash flow to keep up with the mortgage.

If you plan to invest in the common equity portion of a syndication that is also raising pref equity, find out how much they expect to raise from this level. This could impact your returns and risk in the deal because you will always get paid last.

For example, if the LTV is on the conservative end like 65 percent but the preferred equity raise is going to be 25 percent, this means that 90 percent of the distributable cash flow needs to be paid out before you, the common equity investor, pockets any of it.

The bank is the biggest "partner" in most syndicated deals.

The main culprit for capital calls and foreclosures on apartment syndications in 2023 (and in the foreseeable future) has been the floating, interest-only (bridge) loans without rate caps or with soon-to-be-expiring rate caps.

Four large multifamily complexes in Houston that were purchased in 2021 and 2022 with $229 million of debt by one syndicator and his limited partners were lost to foreclosure in April 2023 because of the rapidly rising rate on their bridge loans, which had an LTV of 80 percent. Within a year, the rates went from an average of around 3 percent to about 8 percent. Unfortunately, the bank did not require an interest-rate cap!

According to a well-versed mortgage broker, those annual interest payments went from $6.9 million to $18.4 million. Since the net operating income was nowhere near that adjusted payment, the sponsor fell behind on the monthly mortgage payments. On top of that, pref equity was also a part of the capital stack. Therefore, the bank had to foreclose, and the common equity investors will probably end up losing all their original capital.

The debt structure should match up with the goal of the syndicated deal. If it is a value-add project where they expect to sell the asset in 2–5 years, then a floating-rate bridge loan could make sense. But please make sure that they have purchased a reasonable rate cap. You could even have the syndicator run the pro forma numbers with that higher-end interest rate to ensure that there will be profit for the equity investors. Long-term agency debt (Fannie Mae/Freddie Mac) for this kind of deal may not be the best option because of the onerous, pre-payment penalties if they sell early.

On the other hand, if the sponsor is planning for a long-term hold of an A-class asset, say 7–10 years, then a bridge loan is probably not the best option. The sponsor should be obtaining fixed-rate agency debt.

Playing Devil's advocate

Some people argue that variable rate debt should be avoided in all cases. Imagine if all those deals that were foreclosed or those that needed to do a capital call had fixed-rate debt? Most of those deals would still be chugging along without the need for an infusion of new capital. Using a fixed-rate loan to finance a short-term, value-add syndication would have reduced the pro forma returns, but would you rather be in a deal with a capital call?

I am first to admit that I have been guilty of glossing over the capital stack and the debt structure in many of my deals. But after seeing a number of syndications requesting unplanned capital calls and reading about these foreclosures, I will put these things front and center when I analyze future deals. **Always weigh the risks and benefits of any deal and temper it with the amount of money you invest.**

LESSON 20

You can lose all your invested capital in a syndicated deal.

Success is not final, failure is not fatal: It is the courage to continue that counts.

— Winston Churchill

When I invested in those oil and gas syndications, I never thought that I could lose my money even though the PPM said that I could...in capital letters nonetheless! These were speculative projects though. They were allegedly drilling for oil where they thought there was oil. The same could be said for investing in start-up companies. Who knows if their great idea will be profitable and eventually be bought out by a larger company or go public. It's like playing the lottery.

I used to think that investors could never lose all their capital in a tangible asset like an apartment complex. The buildings are still standing so they must be worth something. As discussed in Lesson 19, you can absolutely lose all your capital in any deal, especially when the bank forecloses on the asset.

Should this discourage you from investing in private syndications?

Look at the stock market. All financial advisors direct their clients to diversify because they know that some stocks or mutual funds will not perform. But they are betting that a large percentage of the equities will do well over time to make up for those losses. They also advise putting some money into bonds, which traditionally are not as volatile. It's a game of averages.

We discussed diversification in alternative investments as a safety play so this will keep you from being too heavily weighted in one asset class or syndicator or geographic location.

Not all your syndications will be home runs or even triples. But hopefully you will at least have lots of singles and doubles. If you do this enough though, you will have an occasional strikeout, where you may lose all or part of your invested capital.

It all comes down to minimizing your "complications" that I mentioned at the beginning of this book. **As you gain experience and learn from others, you will reduce your "complications" with syndication investing.**

Conclusion

Ancora imparo. (I am still learning.)

— allegedly spoken by Michelangelo at the age of 87

Even with my many years of syndication investing, I am ever evolving. Hopefully, I will continue to learn from my "complications" and adjust accordingly in future investments. My worst syndication investments taught me about ten to twelve of these lessons in each of those deals.

You do not learn much when you get a 2X multiple from a straightforward, apartment deal in Dallas. In fact, you may become complacent and not pay as much attention to the details of that next deal from the same syndicator. **This is where you can get into trouble.** So, when deals go south, even temporarily, you have to figure out why this happened so that you can continue to become a better investor.

If you are hesitant to invest in private syndications because of some initial setbacks, don't be discouraged. With the right approach and a commitment to thorough research and networking, you too can find success in this exciting area of real estate investing like thousands of other passive investors.

Continue to educate yourself and try not to gain too much "experience" through personal trial and error because that can be costly. Take advantage of every networking opportunity you get!

Thank you for reading my book. I hope that you have learned a few takeaways that will help you become an astute syndication investor while minimizing the loss of capital. I wish you the best in continuing your financial education and in reaching your life goals! Keep learning and keep networking!

Quick Reference to the 20 Valuable Lessons

1. Invest in yourself before investing in syndications.
2. Ignore naysayers.
3. Get sponsor referrals from experienced passive investors.
4. Network, network, network!
5. Being a podcast host or guest does not necessarily equate to being a great syndicator.
6. The early communication may be indicative of their later communication.
7. Don't be anyone's guinea pig.
8. Syndicators/Sponsors/Operators should be doing this full-time.
9. Wait one year before investing again with the same sponsor (if this is your first deal with them).
10. Diversify your investments.
11. Invest similar amounts into each syndication.
12. Ask if a sponsor will take a reduced minimum investment.
13. Invest with a "tribe".
14. Embrace JOMO!
15. Invest in "boring".
16. Don't let the tax tail wag the dog.
17. Don't just look at the Big 4—cash-on-cash return, average annualized return, equity multiple, and internal rate of return.
18. The operator is the keystone of every syndication.
19. Pay attention to the capital stack and the debt structure.
20. You can lose all your invested capital in a syndicated deal.

About The Author

Steve Suh, MD, one of the founders of Left Field Investors and its Chief Content Officer, has been involved with real estate and alternative assets since 2005. Like many, he saw his net worth plummet during the two major stock market crashes in the early 2000s. Since then, he vowed to find other ways to invest his money. Reading ***Rich Dad, Poor Dad*** gave Steve the impetus to learn about real estate investing. He first became a landlord after purchasing his office condo. He then invested passively as a limited partner in oil and gas drilling syndications, but quickly learned the importance of scrutinizing sponsors when he stopped getting returns after only a few months. Steve came back to real estate by buying a few small residential rentals.

Seeing that this was not easily scalable, he searched for alternative ideas. After listening to hundreds of podcasts and attending numerous real estate investing meetings, he determined that passively investing in real asset syndications was the best avenue to get great, risk-adjusted returns. He has invested in several dozen syndications involving apartment buildings, self-storage facilities, resort properties, ATMs, industrial triple-net lease, car washes, a coffee farm, and even a Broadway show.

Steve obtained his undergraduate degree from Miami University (Ohio) and his medical degree from The Ohio State University College of Medicine. He completed his ophthalmology residency in Pittsburgh, Pennsylvania. He has been in private practice since 1998 and lives in Westerville, Ohio, a suburb of Columbus. He is married to Daphne, and they have three young adult children—Gregory, David, and Stephanie.

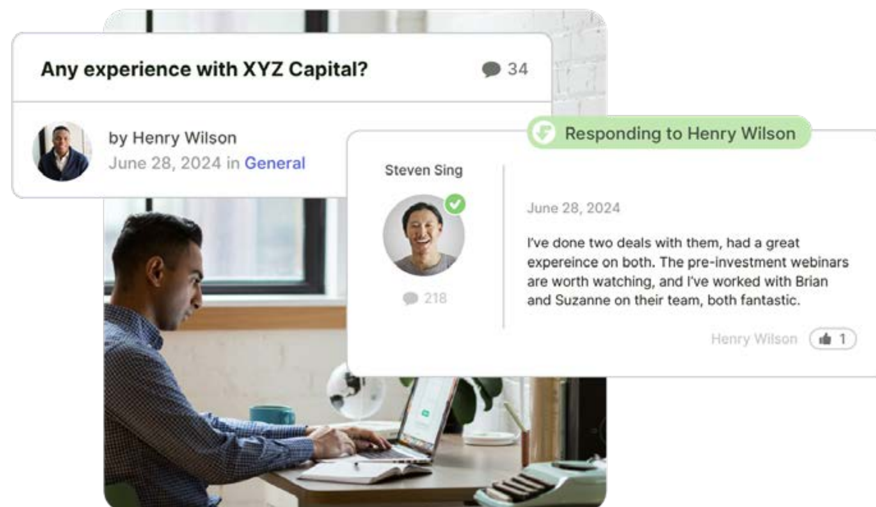
Connect with Steven Suh, MD on LinkedIn.

About PassivePockets

PassivePockets is the go-to resource for passive investors seeking to make more informed investment decisions. Our platform offers:

- **Educational Resources:** Masterclasses, articles, podcasts, and a weekly newsletter—all designed to give you the edge.
- **Due Diligence Tools:** Rigorous vetting frameworks and community-sourced sponsor ratings & reviews.
- **Investor-Only Spaces:** Private forums and weekly Zooms, exclusive to investors—no sponsors or capital raisers allowed.
- **Sponsor Directories:** Detailed profiles with track records, investor reviews, strategies, and more.
- **Deal Directories:** Comprehensive deal profiles, webinars, and direct sponsor connections in dedicated forums.
- **Ratings & Reviews:** Honest feedback from members who have invested with sponsors—the good, the bad, and everything in between.

Our mission is clear: to shine a light on the passive investing space and provide you with the tools and knowledge to navigate it more confidently. PassivePockets is designed to do just that.



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