What's Ahead For This Crazy Economy? With Jason Hartman

Hosted by*:* Joe McCall
Guest: Jason Hartman

Joe: What's going on, guys, Joe McCall, Real Estate Investing Mastery podcast, got a great episode for you today. We're going to be interviewing a good friend of mine, Jason Hartman. And if you've been in the podcasting world for any amount of time, you know, Jason, he's originally or he's one of the goats, the guy who has been doing podcasts the longest longer than anybody else probably has more episodes than anybody else in our space and been doing it the longest. He's a great guy. He understands real estate investing. And the thing I like about Jason, too, is he is really good at understanding the macroeconomics. What's really going on from a political standpoint? Economic, social like where are we kind of at, what's going on? And regardless of who you like in office or who you don't like or who, if you're glad somebody is out of office or that doesn't matter as much as how can we take this current situation that we're in with the pandemic and how can we profit from it. Right.

Joe: Like how can we, Real estate investing is obviously probably the best class of assets to invest in. Right. But there's a right way and a wrong way to do it. And it's important to understand what's going on in the economy today and how we can take advantage of the situation that we're in. And Jason Hartman is one of the best guys to talk to about that. He really got his ear to the ground and he knows what's going on. And so I've invited him to be on the show and I'm glad he's here. But first, I want to just let you all know you can get my book here, REI Secrets. And this is a book that I published about a year ago, and it's one of my favorite books. And it's easy for me to talk about it a lot. But if you don't have this book, you can get it for free at REISecrets.com, REISecrets.com. And I wrote it as about one hundred chapters. Each chapter is a couple of pages long. You can read one a day. It's going to give you daily nuggets of real estate investing wisdom to help you get more leads, close more deals and make more money. I talk a lot about here inspirational motivational things, but related to real estate, you know.

Joe: How to do more marketing, how to talk to sellers, how to follow up with sellers, the important things to focus on and the time that you need to stop focusing on a lot of good REI Secrets. And these are things that if you just implement half of what I talk about in here, you're going to crush your real estate investing business and you're going to do more deals. So with that said, get the book for free at REISecrets.com again, REISecrets.com. Should we bring Jason on? No, I think we should. Jason, how are you, my man?

Jason: Joe, it's great to be here. Good afternoon and good evening and good morning wherever you are in the world.

Joe: So glad you're here, man. Thank you so much. First of all, guys, a lot of your watching right now on YouTube, Facebook, if you've got any questions or chat, anything you want to say, type it down below. Tell us where you're from. I'm from Iowa. I'm from Scotland. We have people literally all over the world listening and watching these things. So as we go through this, please type in your chats. Any comments, let us know you're here. Say hi, tell us where you're from. And if you've got good questions that you want to ask. Jason, this is a place and the format to do that.

Jason: Cool questions are great. We love your questions and comments.

Joe: Yes. And we'll show them up here on the screen, too, as they come in. Jason, where are you these days? Where do you live?

Jason: I am in Palm Beach, Florida. And I moved here about, I guess, two and a half years ago, originally from Southern California, most of my life. And you know, Joe, I moved to Scottsdale, Arizona, like ten years ago now. And then I moved to Las Vegas for a little while and then Florida. And every time I move, I lower my tax rate. And here you can't get any lower unless you go to Puerto Rico or you're not an American citizen.

Joe: So you are you going to be in Florida for a while then?

Jason: Yeah, I think I'll stay put. No state income taxes, business friendly environment, landlord friendly environment, which is something maybe we'll talk about. And this is just where the action is. This is where people are going. They're going to business-friendly places where they have reasonable taxes, not too much government intervention and can have a high quality of life. So that's the good plan.

Joe: We're glad you're here. I love Florida. I'm going to be there in a couple of weeks for a mastermind that you'll be at.

Jason: Yes, I will see you there at the Family Mastermind.

Joe: And you and your dog. I'll see your dog there for sure.

Jason: I'll probably bring her. She's kind of become part of my trademark.

Joe: Only Jason can bring this dog, is a beautiful dog. What's her name?

Jason: Coco.

Joe: Coco. That's right. And you see her just running around. She says hi to everybody.

Jason: She does. She's the ambassador of goodwill. My dog has actually been to eighteen countries, amazingly, including Russia. How many dogs have been to Russia?

Joe: It's awesome. Pretty cool. All right. So you did a really cool presentation to a large, very influential mastermind just a few weeks ago, I believe, and been hearing about it. I'd like to I'd like to ask you to maybe share some of your slides, talk and give maybe real quick before you jump to the slides, give it kind of context for what you were what you were doing with this presentation.

Jason: Sure. Yeah. So, you know, obviously we are living in an absolutely crazy world right now. Nobody can deny that. Most people thought that there would be a. Giant real estate crash and probably a stock market crash in an economic crash a year ago, right about a year ago now, it was a pretty scary time for the entire world and the opposite happened. And of course, the reason the opposite happened is probably two main reasons. One is that the government just started creating currency money. It's really called currency, not money out of thin air. And that found its way into assets and created a lot of asset inflation. I've been teaching people a lot for the last 18 years about inflation, deflation and stagflation, the three major economic maladies. And what's interesting, when you look at inflation, which is the most common economic malady, there's really two major types of it. One is consumer price inflation, which is what most people think about when they think about inflation. But there's also asset price inflation. And we have seen both.

Jason: Many will say that there hasn't been much consumer price inflation. And in comparison, to the amount of new money created during the Great Recession 12, 13 years ago and then during the pandemic over the last year, that's probably true in comparison. But there has been significant consumer price inflation, if you really look at it right. And we'll drill down and talk about some of the ways the government wants us to believe inflation is lower than it really is. And what this means to real estate investors, what it means to your audience that are who are out there doing creative deals, doing lease options, really ways that they can hopefully take advantage of this and align their interests as investors with the two most powerful forces the world has ever known: Governments and central banks.

Jason: We may disagree with them all we want. We may hate what they're doing philosophically. And I wouldn't argue with anyone on that. But the fact is, they have standing armies and police forces and rule of law and we're not going to change it. So we might as well if you can't beat them, join them. And I hope to help people align their interests with these two most powerful forces the human race has ever known. And there are ways we can do that and really benefit from it.

Joe: Yeah, that's cool. All right. So that's again, I forgot to even mention this. Your podcast is the Creating Wealth podcast with Jason Hartman. That's just one of them. How many total podcasts do you have?

Jason: Oh, well, it kind of depends how you count them, because we have, I can't say it too loud, but the Alexa, if I say the word, she's going to start talking to me. So we have that and then a bunch of other podcasts on a variety of topics, mostly centered around financial and economics. But I also have like a show on longevity and survival and some different topics that just were of personal interest over the years.

Joe: Are you still doing this survival show?

Jason: You know, I don't do any of them that often. I post new episodes kind of sporadically. My main interest is really economics and personal finance and investing.

Joe: All right. OK, cool. So let's jump in the slides. And first of all, though, let me just say this again. If you want to get more information on Jason's podcast, just go to any podcast app, do a search for Jason Hartman. You'll find his. But there's main his main show is called Creating Wealth. Just Creating Wealth isn't that it?

Jason: The Creating Wealth Show. And I know there's overlap. I know my people listen to your shows and yours listen to mine. And so we're always happy to have new listeners. So thanks for thanks for mentioning it.

Joe: Right. So let's jump in these slides. I'm going to share your screen here and I'm going to stick around and ask you questions. But I want to just give you permission to kind of go with what you shared with this high-level mastermind group that you were in, because I think this is really, really important and relevant for you guys to understand how can we prosper in this current economy. But what's going to be happening in the near future? Let's be prepared for it. Let's not be caught flat footed. Right. Let's know where the cheese is moving and how we can position ourselves to take advantage of the situation we're coming into.

Jason: Yeah, that's great. You know, that was a famous book years ago who moved my cheese and the cheese is definitely moving.

Joe: So let me explain one more thing to add on to that. Right. Well, doesn't disappear. It transfers right. And it's moving always from one place to another. And so the people that succeed and last have that long lasting impact and get and have a business that an investment that lasts for a long, long time. They're constantly looking to see where is the wealth moving, where has it moved to, where is it going to be going to? And Jason, really good is going to be talking about that.

Jason: Joe, I am so glad you mentioned that. You are absolutely right. One of the things when we look back at the Great Recession and there's varying opinions on when it really started, I think it was a two-phase thing. The first phase was the mortgage meltdown, because obviously there were tons of mortgages that were poorly underwritten that, of course, you knew there were going to be massive mortgage defaults. That wasn't very hard to predict. But what a lot of people didn't know and I didn't know I mean, I predicted the mortgage meltdown. That was easy. Most people could see that coming. But what I didn't know about was what Wall Street was doing behind the scenes, taking the same loan, bundling it into pools and one loan they'd put into three different pools. And it was just complete fraud, what Wall Street was doing right behind the scenes. So there were really kind of like first we had the first punch was the mortgage meltdown. Then we had the second punch, which was the Wall Street fiasco behind the mortgage meltdown. And so what was the my point at that? Oh, here it was my friend. You said that wealth doesn't disappear. And I love that comment because one of the things I said to my listeners back then, Joe, was that, you know, if, you know, if you were awake the day before the Great Recession began or before the mortgage meltdown or the Wall Street fiasco or before Lehman Brothers collapsed.

Jason: Right. And then you went to sleep, maybe didn't sleep well at night, but then you woke up the next day and you looked around again. The world had exactly the same number of assets. There was no difference in the amount of gold in the world, the amount of real estate in the world, the amount of oil in the world, the amount of coffee beans, soybeans, pork bellies, you know, glass, steel, lumber, everything was the same. Right. The assets didn't evaporate. They were all there, just the same. The only thing that changed is the ownership moved around and the entitlement to the revenue stream moved around and things like that happened. And, you know, the money supply changed. And when that money supply changed, it really changed people's lives. It had a huge impact on people. So that's one of the things we'll talk about today. So let me just kind of dive into some of this stuff and let's take a peek at this, OK?

Joe: Yeah. By the way, guys, if you're listening to this audio podcast right now and you can see these slides in these charts, really I'd encourage you to go to my YouTube channel, just go to YouTube, search for Joe McCall, and you'll find this interview with Jason here. And you got to see these slides because he's got a lot of really good graphics and images in here.

Jason: And also, Joe, I'll try and verbalize those and you can try and verbalize them, too. So if you don't have a chance to go see them, I will try.

Joe: And don't check out because he's going to be explaining these.

Jason: And don't crash while you're driving. So anyway, this is just a chart that shows pending home sales, how they're up 32 percent from a year ago. This is the complete opposite of what many people thought would happen. The market is absolutely on fire. It's in fuego, as they say. You know, I've been doing this a long, long time. I got my real estate license when I was 19 years old. And I have never seen a market like this. And I have been through many cycles of booming markets. And this market takes the cake. It is absolutely out of control. And I do want to make the disclaimer that I personally, you know, we run a referral network, we help people buy properties nationwide and build their portfolios, and you help people go do it themselves. And we kind of help people that don't have time to do it themselves to do that.

Jason: And we find it very hard to operate in this market. So I do not wish for this type of market. A lot of people think I love it, that I'm being promotional. This market is difficult to operate in. It's not an even keel market. The favorite market of mine is where it's a more even keel market, where there's a reasonable amount of supply and a reasonable amount of demand. And now the supply is so constrained, the supply of housing that it is, it's very difficult to operate in this market. So just suffice it to say, sales are incredible. Prices also the same thing, prices up 15 percent to another new year high. No surprise with either of these stats. But here's one of the things I teach something called the Hartmann risk evaluator, which is basically something I realized after 19 years in the business. And what it takes into account is the ingredients of a house or an apartment building. And this is important because these commodities that are the ingredients of the house really dictate the value, the price.

Jason: So this chart shows softwood lumber prices and one of our clients is in the lumber business. And he sent us the internal newsletters of the lumber industry. And it is absolutely amazing how the prices of lumber have increased. They've gone through the roof, in fact, on the typical new home today, just lumber price increases, not including concrete, glass, steel, energy costs, petroleum products, copper wire, none of that just lumber alone will increase the typical new home price now by fourteen to twenty four percent. That's huge. It is huge. It is huge. So I don't want to teach the strategy. I call it packaged commodities investing.

Joe: You're talking like twenty to thirty thousand dollars.

Jason: Yeah, typical house, right, and everybody wonders, Joe, why builders aren't building low cost houses. They can't afford to. There's no profit in it for them. They've got to build more expensive properties where there's a bigger margin to stay in business. They just can't deliver cheap houses anymore. It just does not the economics don't work. So a lot of a lot of stuff going on there. Now, let's combine that with when the lockdowns first sort of lifted that first round of lockdowns and quarantines. We saw this mass migration out of cities, out of urban areas, to suburban and rural markets, OK, because people were concerned about density. Density was the danger. When you have a virus, if you live in a place where you are stacked on top of your neighbors, where you've got to take an elevator and you've got to take mass transit, that is not a good environment if you're concerned about a virus. Also, those same areas shortly after the virus, concern turned into riot zones and they experienced a lot of civil unrest. Same areas were affected in both cases.

Jason: So people have been leaving these areas in what I call The Grapes of Wrath:2020 and 2021. John Steinbeck wrote that book years ago. I remember I had to read it in English class in like 10th grade. And it was about this mass migration during the Great Depression in the 30s. And we are seeing that again. And this migration is a wealth transfer, just like you said earlier, it is a wealth transfer out of urban areas, out of cities, to suburban markets mostly. So people are leaving New York, they're leaving San Francisco, they're even leaving Silicon Valley, even the suburban areas of Silicon Valley, because these places are not business friendly. They're too expensive to live in. And a lot of them are high density. And people have realized since they've been working remotely that they don't need to go into an office. And their employer has realized that, too.

Jason: And so we have learned how to work remotely. We've learned how to use Zoom as a world. You know, pretty much everybody, even my mother, who is not the least bit interested in technology, is using Zoom OK and other tools like that. So we've realized and I think there are sort of two phases to this migration. The first phase, for example, is people leaving the high-density areas for nearby areas. OK, so the rich Manhattanites that lived in New York City, they went out to their second home or they rented a second home or bought a second home in the Hamptons. Another very expensive market, but low density. OK, but now the second round of that is that they're thinking, you know what? It doesn't matter where I live. If I live 10 miles or 30 miles from New York City or if I live 500 miles, it's all the same. Right, because we're communicating at the speed of light. So why not move to a much less expensive, much more friendly environment where you can just have a better quality of life at a much lower price? And that's what people are doing in this second wave that is just beginning of migration.

Jason: So we can see the stats here. New York City down two hundred and seventy-seven and Orlando, Florida up one hundred and thirty-seven. Right. So there's this mass exodus that's going on as the chips are moving around. Here's a way people listening or watching can do some research. They can simply go to U-Haul dotcom, the U-Haul website, and they can. And I did this myself and I just said, OK, I want to price renting a truck, leaving New York City and moving to Palm Beach, Florida. And basically what I saw is that that truck would cost thirty four hundred dollars. But to do that in reverse, that same exact truck on a one-way rental would cost a third less. It would only cost twenty-one hundred dollars. So this shows you right here where the action is. You can use the U-Haul website as a research tool.

Joe: You also have stats on where these where the most U-Haul trucks are going to. Have you seen those stats?

Jason: Oh yeah. Yeah, no, it's absolutely amazing. And you know, U-haul some of the prices are much more extreme than this. One of our clients is leaving the Sacramento area and moving to Boise, Idaho, and they posted the same U-Haul images. And their example was much more extreme. U-Haul many times is having to pay people to drive empty trucks back to the markets? Right. So, yeah, it's really telling of what's going on. I interviewed a woman named Meredith Whitney years ago. She's a Wall Street person and she wrote a great book called The Fate of the States. I interviewed her on my podcast maybe seven, eight years ago, and this was just about the new geography. Of American prosperity, and it just talked about the more business friendly climates that were lower cost of living where people were moving to, and so this has been accelerated during the Soviet era. People are voting with their feet and they are just saying that they don't want to be in high tax areas now, leaving California, leaving so soon? Was it something we taxed? And instead of I love New York, it's I leave New York. OK, so things are definitely, definitely changing. And this chart just shows you where people are moving to and all the usual suspects. OK, so probably no surprises there.

Joe: Where are people moving to? What are some of the most popular states?

Jason: You know, they're moving to what we call linear and hybrid markets, mostly business friendly states where prices don't accelerate or go crazy at any certain level. They just kind of chug along and they appreciate in a in a sort of reasonable fashion where they don't.

The chart of appreciation doesn't look like a roller coaster. Those are what we call cyclical markets. Los Angeles, where I'm mostly from, San Francisco, New York, these are cyclical markets. The rest of the country is linear and hybrid pretty much. OK, so. So that's where they're going. They're going to Texas. They're going to Florida. They're going to Georgia. All of these places, Arizona, Nevada, those kinds of markets.

Joe: Idaho is a big state that's growing, right?

Jason: Oh yeah. Idaho, yeah. Many of them. Many of them. It's a big country and there's a lot of opportunities like that. So that's kind of a little bit of the picture. But the next phase we should talk about is new currency creation, new money creation. Money and currency aren't the same thing, but they're kind of used generically and interchangeably. And the Federal Reserve and the government and other central banks around the world and other governments around the world have been creating money like it is going out of style in this money as it floods the markets, has had the effect of pushing prices up to really insane and illogical levels. So a reasonable question to ask would be, well, what happens when it stops? And we should definitely get to that question, OK, because I got some predictions about that. OK, so if you look at this.

Joe: It's gotta stop sometime soon, doesn't it?

Jason: Yeah. Yeah, well, it can't go on forever because it's just not possible to defy gravity forever. It's very irrational. So this chart is one example of money, stock or money supply. And you can see at the end of it, just last year from 1980, it's going up a whole bunch, really. Nineteen seventy-one. When we went off the gold standard, you see there's a lot of new money supply. Right. And there's been a lot of inflation over those times. But you hit 2020 and it just goes up straight. It's not even what they call the hockey stick graph. It's just straight up. Absolutely, absolutely insane. In fact I think the statistic was that last year, thirty five percent of all dollars that have ever been created were created in one year.

Joe: Thirty five percent.

Jason: I mean, it's just almost hard to comprehend. Yeah. Here's another chart. This is called the M2 Money Stock. The other was MZM. And here we see the exact same thing. It's just a straight up here in the last year. It's absolutely unbelievable. You know, it's like I have no words for it. Here are some other charts that show this is M one and it shows the same thing, the basically almost straight up there. And in two weeks, you know, massive, massive increase in money supply. Here's another way to look at it. This is M one March to November of 2020. You know, these numbers are just absolutely incomprehensible, really. In 1971, good old Richard Nixon took us off the gold standard.

Jason: And I want to play this little video clip, or I can if you want. It's real short. And what's interesting about it, Joe, is he says it would be temporary, which wasn't true. And this was really the change in the entire world. This this is what changed everything where when the dollar was no longer tethered to gold, the government and the Federal Reserve could do whatever they want and they could inflate us like crazy. And remember, for most people, inflation hurts them. But for smart real estate investors, they love inflation. And it's not just for the reason that we tend to think that it causes appreciation. There's a hidden wealth creator in the inflation scenario that is really, really beneficial. So you want me to play the clip real quick.

Joe: If the audio will come through, do you think?

Jason: Yeah, I think it will. I'm just going to move my microphone over there, do it the old-fashioned way. You'll hear it. It's just a short clip and check this out because it is telling. I'm not. Going to play the whole thing, so here we go.

Richard Nixon: The indispensable element in building the new prosperity is closely related to creating new jobs and holding inflation. We must protect the position of the American dollar as a pillar of monetary stability around the world. In the past seven years, there's been an average of one international monetary crisis every year. Now, who gains from these crises? Not the working man, not the investor, not the real producers of wealth. The gainers are the international money speculators because they thrive on crises they helped to create them. In recent weeks, the speculators have been waging an all out war on the American dollar. The strength of a nation's currency is based on the strength of that nation's economy, and the American economy is by far the strongest in the world. Accordingly, I have directed the secretary of the Treasury to take the action necessary to defend the dollar against the speculators. I have directed Secretary Connally to suspend temporarily the convertibility of the dollar in the bold or other reserve assets, except in amounts and conditions determined to be in the interest of monetary stability and in the best interest of the United States.

Jason: So you heard that he said it would be temporary, which was a big lie. And here we are literally. This is the fiftieth anniversary, Joe, of this speech. OK, it's this was 1971. It's now two thousand twenty-one. Right. And we still have a dollar that is not convertible to gold. OK, so that's when everything changed. And a lot of people, a lot of real estate investors are operating off of an old game plan that doesn't work anymore. You know, our parents, our grandparents, they told us save money. And they were right based on the times they lived in. That was the right game plan. But it changed when Nixon gave this speech 50 years ago. The whole plan changed. And a lot of people, including Dave Ramsey, by the way, are still operating on this old plan, that it no longer makes sense right now, the end for the last five decades. And I'm going to share a very specific real-world example of it. The plan has completely changed. It's been the opposite, OK?

Jason: And I think that'll be really interesting. And I'll share how you can really create wealth with this. OK, so no one will disagree that the government spends way too much money. I love what Ronald Reagan said about that. He said to say the government spends money like a drunken sailor is an insult to drunken sailors. And he's right because the government has just overspent massively. And so that leaves us with a big problem. We are in massive debt as a country and we have a whole bunch of unfunded mandates coming at us as a country in the next 10 to 15 years that we simply cannot afford to pay. So how do we get out of this mess? Well, I've identified six ways out. Number one way the government could just default. It could say sorry to all its creditors and it could say sorry, Social Security recipients. It could say, sorry, government employees, welfare recipients, we can't pay. We're sorry. Well, this isn't going to happen because it would be very politically unpopular. We saw what happened in Greece and other parts of Europe when they instituted austerity measures. There were riots in the streets. This is too politically unpopular. It's just not going to be what they're going to do.

Jason: They could raise taxes, you know, eat the rich, tax the rich. Right. Well, that's not going to work either. And the reason is as much as people who aren't rich might hate the rich and they have decent reason to sometimes because some of the rich are pretty evil, but those are usually the super elite billionaire class rich. You know, they can't raise taxes enough to pay for the problem. The problem is much bigger than taxing everybody at one hundred percent. Look, the whole GDP of the country is about twenty trillion dollars a year, give or take. The problem is two hundred and twenty trillion dollars. So you can't tax your way out of this problem. And if you tax everybody at one hundred percent, that would simply be called slavery. OK, nobody would work anymore. You know, it's like communist Russia. People just stopped working. You know, they faked working. They acted like they were working and the government acted like they were paying them.

Joe: The ultra-rich are smart. They're going to find a way not to pay those taxes. Right. And they're going to move their money somewhere else to another country, whatever. Then it's those taxes are going to hit the middle class.

Jason: You are absolutely right. The rich will vote with their feet, as they always do, and they're doing it. Now, look, you know, big companies, Amazon, Apple, et cetera. I mean, it's just disgusting what they do, frankly. You know, they keep their money offshore. They have they have this thing called the double Irish twist, where they create other companies and other jurisdictions to pay money out. So it never hits US shores and they never pay taxes. It's awful, but it is the way it is. OK, they can do that. So this doesn't solve the problem. Taxation won't solve it. OK, we could have a yard sale. The country could sell off its assets. The US has a lot of assets. You know, years ago, we all remember in the news we were going to sell the ports to Dubai. We were selling military equipment like fighter jets to Libya, who was our enemy for decades. Right now we're doing all sorts of imprudent things that we shouldn't be doing just because we need to raise money. Right. So that's not good. But it is happening. We could steal. We could use our military to steal the resources of other countries.

Jason: We've been accused of doing that. It's not really true. But, you know, this is the history of the world and the probably one of the most famous military leaders you could look to is Napoleon, the short guy. He was basically a burglar with a with an army. OK. I mean, you know, that's history, folks. That's what's happened throughout history. On a positive note, technological innovation. Maybe there will be some giant innovations that create so much wealth and prosperity and tax revenue that that could solve the problem. I don't know. Biotech, energy, nanotechnology, you know, maybe. Let's hope so. OK, but the most likely way out of the mess, that is the best business plan for governments and the business plan I want all of you to take advantage of is this one: Inflation? OK, the government and the central banks around the world have a huge, huge incentive to inflate away the value of the currency, the dollar, the yen, the euro, the Brazilian real, the Mexican peso, whatever, OK?

Jason: And they have an incentive to do that because it benefits them in a huge, huge way. So let's take advantage of it, OK? Because this is the likely thing that will happen. So in other words, what they do is they say, look, we will pay Social Security, we will pay welfare, we will pay our debts to China. We owe China a bunch of money, but we're going to devalue our currency so that we pay it back in cheaper dollars. Now, as real estate investors, we have a very special, unique opportunity.

Joe: Let me just clarify that real quick. When you say they devalue the currency that causes inflation, right?

Jason: Yes, they well, they create more currency. And because the two primary value drivers of anything in the world are simply scarcity and utility, I mean, those are my own words. I don't know if I don't know if I'm a big time. Economists would agree with that, but that's what I say. OK, so, you know, look, diamonds are scarce and they do have some utility, mostly not a specific utility, but there's a limited supply. Right. So they have value. Right. If they had no utility, but they were scarce, their value would be lower if they have utility and that in scarcity their values higher. But if they're abundant and useful, they're values lower. Now, sand is I mean, sand is actually there's kind of a sand shortage, but compared to diamonds, it's abundant. Right. So sand is a lot cheaper than diamonds. It has a lot of utility because you need it to make cement. So sand is cheaper, even though it's useful. It's more abundant than diamonds. Right.

Jason: But currency is the same way. OK, dollars. The more dollars there are, the less valuable each existing dollar is. And since they can create them out of thin air, they become less valuable according to the government and the central bank. Yeah, OK. And that's what happens. And this is what they want. And it is not a mystery. It is their stated goal to create at least two percent inflation per year, if not a lot more, and they do create a lot more. So what does this all mean to real estate investors? Well, now's the time to get excited, folks. OK, so check this out. Let's understand what inflation is, OK? Inflation, to understand that, we need to distinguish the difference between real and nominal so we all know what real means. Maybe we don't really think about what a nominal means very much. Simply, the definition for the word nominal means in name only. OK, it's the name of something. So if I held up a twenty dollar bill and I said, Hey Joe, what is this called? You'd say, Jason, it's a twenty-dollar bill, the right. But say we went back in time and I held up that same twenty-dollar bill in 1960 and I said, Joe, what's it called. Well we neither of us were around back then. But just say we were right.

Jason: You'd say it's a 20-dollar bill, duh. But the value of it has declined dramatically since then. OK, so we need to understand that the name of something is not the value of something. And I know that may seem simplistic, but stick with me, OK? So inflation is the insidious hidden tax that destroys our purchasing power and a lot of people wonder why is it that in just over one hundred years ago, we created the Federal Reserve, the Central Bank of the United States, and almost immediately after creating the Federal Reserve, we created the Internal Revenue Service. Why did that have to come right after? We didn't have a federal taxing authority before that? Before 1915, I think it was the IRS came about. And the reason was, is that they figured out a way that they could tax people not once but twice. They could tax people by devaluing the savings that they had. But they could also tax people by saying, look, whatever you earn every year, give us part of it. So they tax people in two ways, not just one. And this, of course, is a bad deal for us right now.

Joe: So interesting. I never looked at it that way. Yeah.

Jason: So inflation destroys the value of savings, stocks, bonds, even equity and real estate, and thankfully, it also destroys the value of debt. So how do we use this to our advantage? I'll show you in a minute. OK, inflation is the most powerful method of wealth redistribution the world has ever known. I interviewed Joe the Plumber on my podcast. Remember him? Yeah. In 2008, he walked up to candidate Obama and he said, Obama, you're going to redistribute my wealth. And he got famous. He got 15 minutes of fame from that. Right. And he was talking about that Obama was going to tax at a higher rate. And that is a method of wealth redistribution. But inflation is far more powerful than taxation. One reason is that people notice the tax rate they pay. They don't really notice the inflation tax because it's sort of subtle. It's behind the scenes. So inflation redistributes wealth from lenders to borrowers. Think about this. This is big. OK, Joe, if you go out tomorrow and you buy five houses and those houses, the rental houses, and they cost two hundred thousand dollars each and well, let's say they cost a million, too, just for my example.

Jason: But you borrow a million dollars. OK, so your loans on those houses are one million and over the course of one year or three years or doesn't matter how many years, say over the course of those years, you have 10 percent inflation, that means that you're paying back. So you had an interest only loan. You're paying those loans back when you got the houses, it said on your mortgage statements when you added them all up and said you owe one million dollars and three years later, their interest only. So it still says you owe one million dollars. But guess what? There's been 10 percent inflation in that time. In real dollars, you're only paying back nine hundred thousand dollars because inflation has destroyed or diminished the value of your debt.

Joe: So the debt doesn't inflate.

Jason: You know, it depends how you look at it, but it sort of inflates away and then it deflates in value because in real terms, you're paying back a cheaper amount. So think of it from a national and international level, right. The U.S., if the U.S. owes China a trillion dollars and there's 10 percent inflation, then the U.S. gets to wipe away a hundred billion dollars in debt. Poof, it just goes away. Magic. Now, of course, China knows this. They're not stupid. They know what we're doing, OK? And this is a problem. And so whenever you see on the news or you hear or read about, oh, there's a meeting of the G7 countries, the biggest economies in the world. Right. The G7. Right. The industrialized countries. And they get together because they're going to solve all the world's problems or they get together in Davos, Switzerland, or last time on Zoom at the World Economic Forum. Literally, they can talk about this in complex terms and they can talk about QE and quantitative easing and this and that and or the twist program that the Federal Reserve was talking about years ago. And, you know, Operation Twist and all of these complicated things.

Jason: At the end of the day, it's all the same frickin thing. They're creating more fake money out of thin air. That's the net result of any of these things. OK, and what that means for us is that if you owe a lot of debt, you get the honor, the privilege of paying the debt back in cheaper dollars, in devalued dollars. And this is an absolutely beautiful thing.

Joe: So when that starts happening to the banks, though, what are they going to do? Are they going to start raising interest rates?

Jason: Well, maybe, but let's just examine what banks do with mortgages, because that's a really good question. You just asked. If the bank kept the loan on their portfolio, they would suffer from this because lenders get hurt and borrowers prosper in this environment. But mostly they sell the loans off on the secondary market. Right. But even if they don't, even in the rare instance where a bank keeps the loan as a what's called a portfolio loan and they don't sell it. Remember banks, of course, they care about this, but they don't care that deeply about it because all the banks doing is they're making money on the margin between the deposit and the loan. So if that margin gets squeezed a little bit by inflation, it doesn't really matter that much because of something called fractional reserve banking or fractional reserve lending. And this is a hard concept to understand. It took me a long time to get my head around this. This it's some of this stuff is really esoteric and it's frankly amazing how these people thought of all this stuff. But if you go to the Internet and you type in fractional reserve. Banking or fractional reserve lending, it's referred to both ways you'll learn this concept that the way money is mostly created is that it's lent into existence.

Jason: So when a bank makes a loan on a mortgage or a car or student loan or whatever, right. They get a multiplier effect from that where they can they take in a deposit and they can lend that out at a 10 to one ratio usually, OK. So the way the system works is that it is just like super complicated, OK? And there's no way I can explain it here. And I wouldn't do it justice. But just understand they borrow as a Federal Reserve member bank. They borrow money from the Federal Reserve, they borrow money from other banks to a bank deposits. When you deposit money in the bank, that's a liability for a bank. And a loan is an asset. It's the opposite of our balance sheet. Right. The way the banks balance sheet works is the opposite. And so just understand that they don't really get hurt by this as much as we might think. So, you know, because the whole thing is so complicated and esoteric, there are ways they shield themselves from this.

Jason: But you as the borrower most definitely benefit from it. OK, one more thing before we go to the next thing, it's also a wealth redistribution mechanism from old people to young people. Now there is an automatic wealth transfer that happens between the generations upon death through inheritance. And so that's the way wealth is transferred. But it's also transferred before death through inflation. And why is that? It's mostly because old people at least hopefully have assets and savings in stocks and bonds and equity and real estate in young people mostly have debt. So when inflation occurs, young people get their debts reduced and the old people get their savings. Stocks and bonds and equity and real estate also reduced now because it has less value through inflation.

Joe: My question, though, is if they have a lot of equity in real estate, how does equity and real estate get reduced in inflation?

Jason: Great question. So the real estate will appreciate in value, but mostly that appreciation is largely a myth. And the reason is, is that it only appreciates approximately over time and depending on the market and the property, you know, there's a lot of nuance to this, of course, but it generally appreciates at approximately the rate of inflation, maybe it hedges and appreciates better than inflation a little bit. So if you paid cash for properties, you really only tread water. You keep pace, you don't drown, OK, like you do with other assets. If you had your money in a savings account, you're drowning, OK? If you have your money in real estate, all cash free and clear, at least you're keeping pace and maybe exceeding inflation by a margin. But it's not much. But when you leverage the real estate and then when you rent the real estate out, it gets really, really beautiful. OK, so I don't want people to pay off their properties. I want them to use the same business plan that governments and central banks use to create wealth and shield themselves from the bad effects of inflation. And that's what they need to be doing. So any more thoughts on that or shall we move on?

Joe: Let's get real numbers.

Jason: I know this is a mouthful and there's a lot here. So, you know, I hope I'm not overwhelming anybody, but OK, this is a big spreadsheet. You don't need to worry about every number on it. At my live conferences and Zoom meetings, I go through all these numbers, but I'm just going to summarize it for you. OK, so let's go back, because this is not a theory. It's not some esoteric theory. This really happened to millions of people, OK? Millions and maybe tens or hundreds of millions of people. But let's go back to nineteen seventy-two. And that's one year after Nixon took us off the gold standard. And in 1972, if you can see my mouse, the median house price was eighteen thousand dollars approximately. I'm just going to round off for speed about eighteen thousand dollars in nineteen seventy-two. And if you went to the bank and said I want to borrow an 80 percent mortgage and I want to put 20 percent down, the bank would say, OK, we'll give you a loan of just over fourteen thousand dollars. All right, great. The mortgage rate back then was seven-point three seven percent on a 30-year fixed rate mortgage. So great we borrowed just over fourteen thousand dollars to buy the median price house with 20 percent down at seven-point thirty seven percent now in nineteen seventy-two. No inflation had occurred when we bought the property because no time had passed yet. So a dollar was worth a dollar and the mortgage payment every month on this house was one hundred and one dollars.

Jason: So pretty cheap. Now, that seems super cheap, but by 1984, the year George Orwell wrote a great book with that title that everyone needs to read, because that's exactly what's happening to us now. He predicted that back and I think nineteen forty-nine when he wrote the book. And we are here, sadly, but that's another discussion. But read the book. Nineteen eighty-four. OK, so by nineteen eighty-four the value of one dollar was only 40 cents. So 60 cents a value in that dollar had vanished. It had just disappeared. But this mortgage was a fixed rate mortgage. So that's wonderful. The mortgage payment didn't change. Every month these borrowers are still writing a check every month for one hundred and one dollars because that was the payment in 1972 that they agreed to. But guess what? It didn't feel like one hundred and one dollars 12 years later, it only felt like forty-one dollars because inflation had diminished the value of the monthly payment. And it also diminished the value of the whole mortgage balance, too. But they don't care about the balance yet because they're just making monthly payments. All right. So now let's fast forward to the end of this 30-year loan.

Jason: At the end of the loan, the nineteen seventy-two dollars now only worth twenty-four cents. And the one hundred and one dollar a month payment is only feeling like twenty-four dollars now. So if this house is actually feeling really cheap now, know that this is an owner occupied home. It's not an investor home, it's not a rental property. So every number, we go over here on a rental is infinitely better, but it's pretty darn good just on a home you live in too. So that's all we're talking about here, not a rental property. OK, so let's remember what we started with. We started with a mortgage of just over fourteen thousand dollars, OK? And in nominal dollars, meaning the name of the dollars over that 30 years, they repaid thirty-six thousand dollars, just over thirty six thousand dollars with that interest rate. But after inflation attacked the value of those dollars in real dollars, adjusted for inflation, we only repaid sixteen thousand three ninety-three. Now we thought we were paying seven-point three seven percent interest rate. But after inflation came along and devalued the cost of that money, the time value of money.

Jason: We were really only paying an effective real interest rate of one point zero six percent, much better than seven point thirty-seven. Right. But wait, it gets even better. Remember, the interest payments are tax deductible. You get to deduct those. Now, that depends on the person's tax bracket. So this is just a very generic example. But in this example, after taxes and inflation. In real dollars, adjusted for taxes and inflation, they only repaid twelve thousand six fifty-five. But wait, you say didn't they borrow fourteen thousand six hundred? Yes they did. So they paid back in real dollars and tax deductible dollars less than they borrowed. Yeah, that's what they did. So their effective interest rate on this money was negative, one point one six percent. They literally got paid to borrow the money. OK, yeah. And Joe, that deserves a sound effect. Pretty good, huh?

Joe: Yeah. You know, I got to learn how to do those sound effects. Yeah.

Jason: Yeah. Well, it's a little machine you can buy. OK, it's no big deal. But this this is the hidden wealth creator. You get paid the price of the money. Yeah. And on a rental property, remember, you don't even have to pay the mortgage. Someone else pays it. So on a rental property, this example is unbelievably better. And and we didn't talk about appreciation or anything. We simply talked about one thing. And this is a term I trademarked years ago. I call it inflation induced debt destruction. OK, and that's exactly what's happening. Inflation induced debt destruction, because people get paid to borrow the money. So this is why good quality investment grade debt. Debt is my favorite four-letter word and it really is the hidden wealth creator.

Joe: Well, that's a whole nother topic, too. And I want to encourage you guys, I did interview just before I forgot to mention this, that we did a podcast a long time ago, Jason, and you called it the Refi Till You Die.

Jason: Yeah, well, that's a whole different strategy, and I love that story. I'd be glad to come back and do that one again with you sometime, because that that's kind of part of this, but not exactly. But yeah, that's a great strategy.

Joe: I should say, too. In defense of Dave Ramsey, not all debt is bad because there is a place to borrow money for investment properties. Right now, his timeline may be shorter. He may say get a 15-year mortgage, put twenty five percent down. Just make sure you can afford it. Other people may say 30 years, but there is a good place. There is a place where you have to borrow money. If you if you especially in real estate, it's too hard to come up with all of that money. Yeah, but yeah. Go ahead.

Jason: You know, to be fair to Dave Ramsey, look, I think Dave Ramsey is great for the market. He serves, OK? There are a lot of people out there with credit card debt who are overspending, who, like he says at the beginning of a show, have the BMW in the driveway and they can't afford anything right there, like, you know, and this is the problem. You know, most people go into debt on the appearances of wealth rather than the things that actually create wealth. So stop getting into debt and wasting your money on depreciating assets like clothing, vacations, cars, motor homes, boats, all that crap, all those toys. Look, you can buy all that stuff once you create some wealth for yourself. Sure. Treat yourself. But don't you don't buy that in the beginning of the cycle. You got to delay gratification, buy some rental properties. You know, it's the old the old like guns and butter theory. Right. You know, the butter is all those luxuries of life.

Jason: And you buy those when you can afford them and deserve them. Not at the beginning of your journey. You buy those later in your journey after you have a bunch of assets. You know, Robert Kiyosaki, the rich dad, poor dad author. He says that his wife, Kim, who I've met both of them, I've had had Robert on my show a couple of times. And, you know, he says, my wife says to me, hey, you know, I want a new Ferrari, which he calls a doodad, OK? And that's a cute name for it to do that. And OK, well, if you want a new depreciating asset, then go buy an apartment complex to pay for it. Right. OK, fine, that's fine. So, you know, Dave Ramsey is good for the market he serves. The problem is a lot of people are still listening to his advice. That becomes bad advice when you get into the investor class. That advice no longer applies. It's good when you're broke and being dumb with your money. Dave is great. But, you know, when you're a real estate investor, forget about Dave. He's not the guy anymore. You need a new guru.

Joe: Yeah. Yeah. All right, cool. So are you done with do you have more there?

Jason: Yeah. You know, I've got like a client did this five-year plan video that takes this stuff into account that I can show you, but we don't have to go into that. Just contact information. Nothing, nothing much there.

Joe: So. Well, it's been really good. I'm going to bring our. Yeah, there you go. You did it. Yeah. It's pretty a deep topic. And, you know, people can dive right into it. And let's just bottom line it for people. If somebody was confused and maybe got lost in the numbers and the translation. Their bottom line, just like what is your advice to investors right now and let's address three different people, let's address maybe somebody that's already working a full-time job. First, somebody has got a full-time job and they may or may not necessarily want to quit their job and do real estate full time, but they're wanting to build wealth. Let's address that person and then let's address the person who is doing real estate full time or trying to do it. You know, what would you what kind of advice would you give to the guy who's working full time job, just wants to build a portfolio career, retire early?

Jason: Great question. So first of all, income, property income producing real estate is the most historically proven asset class in the entire world. There is simply no other asset class that can match it. It has special characteristics. It is a multidimensional asset class where you earn your return on investment in many, many ways. If you buy precious metals, gold and silver or bitcoin or non-dividend paying stocks, there's only one strategy. Buy low. Sell high. That's it. That's the whole game. We're done. OK, go home now. Right then there are the two-dimensional asset class, a dividend paying stock. Buy low, sell high, get some dividends along the way. No big deal. But with income property you have multiple dimensions. You have appreciation. You have inflation induced debt destruction. You have income, you have tax benefits. You have leverage, which kind of combined with the other one, you can do creative things like you teach Joe that can improve the value of your property.

Jason: One of the things I absolutely love about income, property, and I call it income property, not real estate for a reason, because income property is a different class of real estate. It's income producing real estate. You know, you can renegotiate the deal all along the way. You're not married to the deal you buy. For example, you buy a property today and you get a certain loan terms, you know, rent for a certain amount. But you can renegotiate that deal. You can refinance it later. You could do one of your creative lease option lease option strategies. And that basically changes the whole complexion of the deal. It allows you to renegotiate it. You can improve the property. And you can if it's a multiunit property, you can do other creative things add a laundry room and get some revenue there or put some vending machines, you know, whatever. Like I owned apartment complexes and you can do all those things, too.

Jason: So you're not married to the same deal. You can keep improving the deal and making it better. So my advice in a nutshell is follow the plan. The big kids play the governments and central banks and big businesses do this, too, you know, in the in the Wall Street world, back in the 80s when the Wall Street movie, the original one came out and, you know, we all heard about these corporate raiders, right. Carl Icahn, T. Boone Pickens, you know, all these big names. Right. All these billionaires doing all this incredible stuff. You know, they did a thing, a technique they called an LBO or a leveraged buyout. And the leveraged buyout is really what we do with income property. It's the same thing. Here's the way the LBO works on Wall Street. You buy a company and you use the cash flow from the company to pay for the acquisition of the company. It's called self-liquidating debt. And that's what real estate or income property offers to us.

Jason: Look, I wouldn't like this plan at all if I had to pay my own debts, but I don't I can outsource the debt obligation to the tenant. And plus, they even pay me a little extra every month called positive cash flow. So, you know, look, if someone is starting their journey now, they may think, you know, oh, gosh, you know, it's going to take forever. It really doesn't take forever. OK, you delay gratification instead of buying that boat or that motor home or that bigger house now for yourself or going on that you're probably not going on vacation right now, but, you know, whatever. Save money by some properties, OK, you can buy these properties with twenty-five thousand dollars down and get a 30-year fixed rate, cheap interest rate loans and let the tenants pay for them and let inflation do that destruction work its magic. It's just a beautiful thing. In a few years you could change your life like three to five years. It's a massive difference. It's incredible.

Joe: That's impressive. Awesome. Let's talk to the guy who or gal who is already doing real estate full time. They're self-employed, which makes it harder to get loans, right. Not impossible, but a little bit harder to get some financing. What kind of advice would you give to them?

Jason: Yeah, so we have those clients, too, and they are a little harder to finance, but they can get they can get loans through this new breed of lender that you know about, Joe, these portfolio lenders that do not underwrite things like traditional banks and they're going to have to pay a higher interest rate. But it's not that bad. It's still pretty good. You know, they can get rates in the five and a half to six percent neighborhood probably, and they can buy a lot of properties with one blanket loan. So it's really convenient. And these companies are really set up to work with investors. They understand investors and they can do those kinds of loans. They can get commercial loan financing where basically the property is repaying the loan and it's underwritten by the properties rather than the borrower. So there are things you can do. But look, if you're thinking pay off your properties, you are you are following an old game plan. That's the pre nineteen seventy-one game plan.

Jason: And you know that work sort of. But it doesn't work great. You know, it'll work over a long time. Look at I have an aunt who used to be an aunt uncle, but my uncle passed away and they own like one hundred and twenty single family homes and you know, they got a ton of real estate, pretty much all paid off. I mean, I think they have some small loans on a couple of them. But for all intents and purposes, everything's free and clear. And look, you know, it took them forty years to do that, OK? And you can do that. And it still sort of works, if you will, but it doesn't work nearly as well. Is using good quality investment grade debt and doing it with a good strategy, like my Refi til You Die strategy that you mentioned, and you can just do it a lot faster this way.

Joe: All right. Awesome. It's been very informative. Jason, I appreciate you being on the show. Yep. And we've covered a lot, guys. If you were listening to the audio and you want to see some of the charts and the sheets spreadsheets that Jason was talking about, just go to my YouTube channel, your search for Joe McCall, and you'll find this episode. Do a search for Joe McCall, Jason Hartman. You'll find this YouTube video there and subscribe to the channel while you're at it. Right. Give us a thumbs up. There's a lot of good stuff in here. And then check out Jason's podcast. It's called Creating Wealth with Jason Hartman. Got a lot of good stuff that Jason does over there. And you also, Jason, sell a lot of deals to investors as well. Don't you do workshops, you do events, and you educate and train people on how to build long term wealth? Anything coming up soon that people might be interested in?

Jason: You know, not a not a specific event. But what I could offer is I've got a free mini book at PandemicInvesting.com.

Joe: PandemicInvesting.com

Jason: And that's just a free mini book there. That'll give you some guidelines specifically for this situation, this market we're in. And my websites, Jason Hartman dot com, you can always find that. And there's a lot of great resources there. Podcast, YouTube channel, all the cool stuff you're doing to and just happy to help people. We basically help people find properties in good markets nationwide that we recommend and we offer software and, you know, we just help them through the whole process of building real estate portfolios.

Joe: Jason, what if somebody has a bunch of properties they can sell to you and you can sell to your clients or can refer properties to you? How can they reach you or are you looking for that right now, too? Yeah.

Jason: Oh, believe me, Joe, we are looking for inventory like you can't believe because there's just such an inventory shortage. So, yeah, if one of your students or followers has a bunch of properties they want to sell, if maybe they're reallocating their portfolio or they feel like they're rich enough and they want to cash out, we. We'd be happy to talk to them and help them do it, and we've got to thousands of investor clients that would be interested in potentially buying their properties.

Joe: Nice. So you can just reach you at Jason Hartman. Dotcom. Is that one of the best ways?

Jason: And if people are in the US, they can call one 800 Hartmann and, you know, good old fashioned phone number two.

Joe: Never. I've never had anybody, I think, to say, here's a phone number. Call me.

Jason: I know nobody calls anybody anymore, do they? But we do have a toll free number, one 800 and is available to me to see if I got this right there. You got it. 800 Hartman. Yeah. Yeah, you got it. That's awesome. You know, I'll tell you the funny story about that. There is the guy with the last name Hartman who found me online and said, do you want to buy this phone number from me? And I said, heck, yeah, that's serious.

Joe: Yeah. So if anybody has McCall One e or one, McCall or something like that, let me let me know. I'll buy that toll free number

Jason: Your name is really good because it's got call in it.

Joe: Call McCall. Yeah I could do Call McCall.

Jason: You could do something with that I like.

Joe: I wonder if that's even available. Call McCall is that is one, two, three. That's nine numbers. Oh I need ten.

Jason: Yeah. Well you can just say one or no you can't start with one. But two Call McCall, I don't know whatever you can figure it out.

Joe: One eight hundred what you might call it. Yeah. There you go. All right. Thanks, Jason.

Jason: All right, Joe, happy investing to you and your listeners. Appreciate it.

Joe: All right. We'll see you guys all later. Take care, everybody. Bye bye.