Martin Saenz of Bequest Funds

[00:00:04] This is the Investor Connect podcast program. I'm Hall Martin and the host of the show in which we interview Angel Investors, venture capital, family offices, private equity, many other investors for early stage and growth companies. I hope you enjoy this episode.

[00:00:24] Hello, this is Hall Martin with Investor Day, we're here with Martin, Signe's managing partner at Bequest Funds Request Funds operates multiple residential mortgage funds designed to provide consistent income for qualified investors to fund purchases and owns a diversified portfolio of income producing mortgages. The purchase performing mortgages at a significant discount which produces above market returns. The fund is secured by real estate in the US. Martin, thank you for joining us. Paul, thanks for having me on. Much appreciated. Great. So what was your background before starting notes, investing and working with early stage companies?

[00:00:59] Sure. So I, like most people, went the traditional route. I went to undergraduate. I also received an MBA from Drexel and a Masters of Science and Project Management from George Washington University. So the idea was to go out and get a safe and secure job, as Richard Cohen talks about in his book. And so what I found was I found a real chaotic environment by which it was nothing like I thought it would be. And a few years into corporate America, in the 2002, 2003 timeframe, I was fired from that job. And so my wife and I, we really had a sorting out of things. And we we decided we can corporate America is just not for myself. And it's not it's not a fit for my personality. It's not a fit for my aspirations, et cetera. So we we decided to be small business owners. That was that was a decision and really just take back control of our lives. So we founded a federal government contracting company that sold museum exhibit services to the federal government. And that's really what we did for a number of years, along with purchasing a portfolio of commercial and residential properties.

[00:02:21] So we were landlords as well, and we still are to this day. And so but we found in our entrepreneurial journey that that we were really tied into long workweeks in real high stress making payroll. And and it was kind of like a rollercoaster ride. And so at about it, at about the twenty twelve point, my wife and I decided we're going to sell the company and just focus on on raising a family and taking back more control of our time. So it shifted from chasing the dollar to chasing time at that point. Right. So what excites you right now? Quality of life, quality of life and service to others? That's how I measure myself daily in terms of how I'm accomplishing my goals. And so I'm service oriented in nature and I love to I love to deliver value to people. I love to make the world a better place. And I do that through note investing and in that business that I run with my partner Sean.

[00:03:30] Right. So tell me more. What is node investing?

[00:03:34] So there's there's a few different forms of known investing, but for the purposes of what would I focus on, it's what it is, is it's it's distressed mortgage note investing. So we purchased we do two things. We purchase mortgages whereby the borrower has not made a payment in about four or five years and we work with the borrower. Since we buy these mortgages at discounts, we're able to work with the borrower, find out what they're able to afford, and work a program that works within their budget, create loan modifications and other types of resolutions. And we're able to do that because we purchased it at a discount. So we're creating win win situations that help homeowners stay in their homes. And so that's kind of one side of the business. The other side is bequest funds, which really we which truly is a place where we we purchase and manage performing mortgages across the United States. So these are mortgages that are already paying in bars or I'm sorry, investors invest into bequests and receive an eight percent annualized return on a monthly basis. So how did you get into note investing? What did you choose that it was something at the time, at the 2012 time period, it was something that I saw that I could do home based, starting out of the gate, something that I felt like it was providing a social good in the world. And it was also something I saw as a way to build freedom of time in my life.

[00:05:11] A great. Well, also, how risky is not investing?

[00:05:14] Well, it is risky is like any other business or how it's the level of risk is based on one's one's. Commitment one's competency level, one's just personal makeup, and so it carries risk in that if you're not vetting the notes correctly, using the right techniques, using the right resources, then then you're going to lose money out of the gate. You're going to buy loans that that are already unsecured or have other kinds of defects to them. And you can lose a lot of money. But if done correctly, if one becomes a student of note investing, then the sky's the limit. This has been the most incredible journey. I'm speaking about not investing for myself. I mean, what's what is provided and afforded to my family. And in just kind of the quality of life that I mentioned initially, it's just everything is beyond what I what I could have expected.

[00:06:14] Right. What happens if the economy turns down? How do you handle that?

[00:06:19] Well, we would buy more. We would buy more, buy more notes because more would hit the secondary market. So more distressed loans, more hedge funds would be selling off the performing loans to recapitalize. And so there will be more inventory and prices will drop. So actually, not investing is is more lucrative and more active in a down market. OK, and not that I'm wishing for that call, but it does happen.

[00:06:47] Yeah. Understand. So tell me more about the fund and how is it structured? How does it set up?

[00:06:52] Sure. It's a five six seed fund rigged. So it's a fund set up for accredited investors. It's a fifty thousand dollar minimum investment. Investors place their capital in the fund and they receive monthly distribution payments. Or they can let it compound the monthly distributions payout at an eight percent annualized return or compound these at eight point to nine or essentially eight point three percent. And we we pay our investors every month. In the whole the whole the whole idea behind paying monthly is that we want to create a cash flowing vehicle for our investors, our investor families. And what's what's important is that we receive these payments from the bars on a monthly basis. So why should we hold that money back and pay someone quarterly as an investor? So we want to treat our investors like gold and we receive the money monthly and we make our payments monthly. And I manage these we manage our team work because this is like a family. So we manage the team here internally. All the asset managers there, we're all in the same office space. We meet daily at eight or five. We have five morning meetings where we kind of go round robin and everyone talks about their metrics and accomplishments and big challenges they have going on in their day. And so the company itself operates, operates like a family. We have a real positive, upbeat culture. And we kind of that kind of translates to how we have our investor relationships. And it also the main thing is how we treat our borrowers. We treat our borrowers like gold, their customers. They're paying us. They're paying for our living. So we treat them very well. It's a boutique operation and I challenge anyone to find a mortgage lender that will treat their borrowers as well as we treat ours.

[00:08:53] Great. So what's your advice for people investing in this sector? What do you tell them to do before they put down that money?

[00:08:59] Well, I mean, like anything else, what's figure out what's important to them. If they're looking for diversification, they may have money in the stock market, but then they're looking for something that is more stable and pays out monthly. That's what we're about. And we feel like eight percent is a high yield given given the low risk, we have. Sixty five percent investment to value. So it's essentially we have thirty five percent equity coverage on our portfolio collectively. So there's plenty of cushion in case of a downturn. So capital preservation, that's always important to investors. I'm going to give you money. How are you going to protect it. Yes, I'm going to get money monthly. That's great, but how are you going to protect it? And so we manage these assets personally, internally, and we look at the stats daily. And so so so we have a real ownership in this. And that's kind of capital preservation is extremely significant. And myself and my partner, we have a million dollars in the fund ourselves. So we're investors as well. So we're along this ride along with along with the investors, but we're not for everyone. But if someone is looking to build multiple streams of income for themselves, then bequests can be a great vehicle for that.

[00:10:18] And so what's your advice for people that are running startups in this sector?

[00:10:22] Is to find find a successful mentor. So about every six months, I mentor a couple of individuals. I've written four books on note investing. So I've written one is a best seller and still is still is selling. Well, note investing made easier. And I just released Cash Flow Dojo last year. So so I'm very much involved in this space as a thought leader. And that's the one thing I would tell whether it's myself or someone else find someone who's successful. And is further along than where you are, whether you're a veteran or new or, you know, the advice is the same and learn from them, but you're going to need to bring them value to learn from them. People that are successful are busy. Right. And then and then they're not going to be able to extend that time to you unless you bring them some type of value, monetary or deal flow or what have you. You've got to pay the dues at some point. So be prepared to pay the dues and put in the work if you're new to this industry and you really want to make it a home for yourself.

[00:11:29] So. So how do you see the industry evolving? What changes do you see coming up now that we're coming out of it in various stages of reopening? What do you think is going to happen next?

[00:11:38] I think added complexity to the industry is what's coming in terms of added additional regulation. I think we're going to see more legal challenges with the distressed on the distressed side, on the performing side, its managing payments, managing expectations. It's being first of mind in the bars mind. So they make the payment to you over everyone else. So that's a different ballgame. So that's bequest. But on the distress side, it is going to be additional regulation, additional licensing in various states. So what I would just say is going forward, the mom and pop known investor is going to have a much more difficult time. If you are if someone's really considering coming into the space, they need to come as an entrepreneur and ready to build a business or just not going to work as as a novice, as a novice investor.

[00:12:31] So for your fund, what's your investment thesis? What exactly are you looking for?

[00:12:36] We're looking for like minded investors that are accredited and want a safe place to park their money and receive monthly payments for the rest of their life. Bequest by its name stands for Legacy. So if you want a vehicle that's an evergreen fund, no expiration, you put your money in and you get paid monthly for the rest of your life. And then you can hand down those monthly payments to your heirs and they can receive monthly payments. That's really what bequest is all about.

[00:13:08] Ok, so. So what are the challenges you face in this startup today?

[00:13:13] So we're kind of beyond the startup startup phase, but if you're referring to other people that are kind of starting, is that right?

[00:13:21] You know, those are just starting now doing what you're doing. What challenges do they face?

[00:13:25] They face additional regulatory compliance type work that needs to be done. So I'd say you probably need a little bit more money than you did before because you have to you have to allow for money to be spend it on compliance and making sure that you're doing everything correctly in the space within within all the states you're operating in. So that's kind of one thing and another building a relationship. You have to have patience because building the relationships within the secondary space that can allow for deal flow, they take time. So that's really what I find with a lot of individuals, is they want to rush the process. And I think that's probably just just a statement about the society today in general, is that people want things more immediate, but not investing if done right. And if done well, it just it takes time to cultivate it.

[00:14:21] And so one of the challenges for the investor putting money into these things, where is the risk?

[00:14:26] The risk is down market bar, stop making their payment. That's really just the number one risk. And a few of the protections that we do is we don't we're not leverage right now is a fund. So the investors have an equity stake in bequest and they're first in line to receive payments. So that's real positive. We were kind of nervous for a little bit during covid because we were thinking the collectibility percentages were going to go way down. The industry standard is 90 percent collected and you're doing very well. And we were thinking it's going to dip to seventy five percent collected during covid and we were wrong. We obviously overemphasized our touches with the bars and communication and everything else during covid to protect ourselves. But we ran at ninety two percent, collected all through covid, all through twenty twenty. And but that's not to say we're going to sleep on twenty twenty one at all. But what we found during covid is that people have a lot of people have more of an appreciation for where they live, not that they want to pay on it. Less on the debt, less. They actually they're fixing up their homes, they're mowing their lawns and doing landscaping. They didn't do doing projects they put off. And that's really helping the equity coverage on our notes that we own.

[00:15:51] Right. Well, there are many different kinds of houses out there, low cost and luxury and so forth.

[00:15:57] Any particular sectors that you think are good opportunities for investors to pursue, we focus such heavy emphasis on the bar and their ability to pay.

[00:16:06] So we really go where the best notes are, where they're seasoned, where there's equity coverage, where the borrower is making their payments, they're paying their property taxes, paying their other mortgages. So to us, it really doesn't matter location wise. Now we try to stay out of a lot of inner cities and we try to stay more in the suburbs or tertiary markets around the country. But to us, it doesn't matter the state that we're in. Right? Well, in the last few minutes that we have here, what else should we cover that we haven't? I think I think food for thought for anybody coming into not investing or just looking to build additional streams of income for themselves. I would just say in general, our rule of thumb, which which we pay a lot of attention to, is purchasing assets that we can control and the cash flow. And that's that's learned from very hard lessons, whether you're investing in notes or you're you're investing in some type of endeavor or you're selling a service, you should if it's something that you're going to make a living on for you and your household, you should have a sense of control over the outcome of the cash flow from from that and giving the money to Wall Street or or that may be a good approach in some way, but you really lose all control. And the whole notion of investing in assets based on appreciation, I've never bought into that. It has to cash flow from me. That's mandatory. Makes sense. Well, so how best for listeners to get back in touch with you? They can go to BQ funds Dotcom to learn more about the income fund if they're an accredited investor or they can go to note investing made easier dotcom where they can email me at Martin at BQ funds dotcom. Great.

[00:17:58] We'll put those in the show notes. I want to thank you for joining us today and hope to have you back for a follow up soon. Thank you for having me home. Thank you.

[00:18:06] Investor Canek helps investors interested in startup funding. In this podcast series, experienced investors share their experience and advice. You can learn more at Investor Connect, Doug.

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