

[Transcript] My First Million / Michael Sonnenfeldt: The Most Successful Real Estate Deal of All Time and Building a Community of Billionaires

All right.

Quick break to tell you about another podcast that we're interested in right now.

HubSpot just launched a Shark Tank rewatch podcast called Another Bite.

Every week, the hosts relive the latest and greatest pitches from Shark Tank, from Squatty Potty to the Mench on a Bench to Ring Doorbell.

And they break down why these pitches were winners or losers.

And each company's go-to-market strategy, branding, pricing, valuation, everything.

Basically all the things you want to know about how to survive the tank and scale your company on your own.

If you want to give it a listen, you can find Another Bite on whatever podcast app you listen to, like Apple or Spotify or whatever you're using right now.

All right.

Back to the show.

There was that one article that came out that's total nonsense.

It came out years ago.

It said, like, you don't get significantly happier after a certain amount.

And the amount they said was crazy.

It was \$70,000 a year.

But of course, this was like 15 years ago.

And I thought that was crazy.

I'm like, I don't think that's true.

Yeah.

How long ago did you start the company?

About 21 or 22 years ago at this point.

What was the original idea?

It's really a simple idea.

If you're an incredibly successful entrepreneur, could be building a business for 10 years, 30 years, 30 years, and then you sell the business.

You think that it's the magic moment when you sell it.

But actually what happens is the day after you sell it, you have a lot of money, but you might be alone.

You might have an assistant, but you don't have 1,000 employees.

You don't have anybody laughing at your jokes anymore.

You might even have to get your own coffee.

And everybody around you thinks that you're wealthy and successful, but you've lost the platform that allowed you to feel successful, and all of a sudden you're back at a new point.

And the number one challenge that you have is to be a wealth preserver so you don't lose what you've made, except that you don't know anything about preserving wealth.

What you are is a great entrepreneur or a great leader or a great manager, and you're good at inspiring troops, but you don't have any troops anymore.

So you have this dramatic shift, and it turns out that what it takes to be a great entrepreneur might qualify you to be a mediocre investor.

When you're an entrepreneur, you focus on a single opportunity.

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You're highly emotional about it.

You give it everything you can.

When you're an investor, you have to be more dispassionate.

You have to have a diversified portfolio, and you have to be unemotional about it.

So the sum of it all is that there's a little understood transition, which a few very lucky, very successful people get to go through, and we wanted to study that, which is what we've done over the last 21 years to help people in that transition get through it and onto a better place.

When you originally started the business, what was the product?

Was it like YPO, where it was a monthly group meetup?

What was it?

Sure.

So you mentioned YPO, which is a fantastic organization.

There's another similar organization called Vistage, and they both are for CEOs, and if those are the great colleges, we're the one great graduate school, and so we have a lot of YPO members that graduate into Tiger 21 and a lot of Vistage members that graduate into Tiger 21.

Just to give you an idea, the last time I looked, both Vistage and YPO have about 50,000 members globally.

It might be 60 now.

I've lost touch.

Wait, Vistage has 50,000 members?

And YPO, each.

Oh, oh, oh.

Okay.

That's about 30,000 each, I think.

That could be a little more.

I haven't looked in there a couple years.

That's a huge company.

Oh, these are huge businesses, sure.

Because Vistage charges like 50 grand a year, right, or 25 grand a year?

I think Vistage is around 15,000 or 18, I don't have the exact number.

It could be 20.

YPO doesn't have a single price because depending on whether you go on the trips and there's different people pay different amounts, but the big difference between those two, which are great organizations, is YPO is self-facilitated by its members, whereas Vistage and also Tiger 21, our groups are led by professionals.

We have over 100 groups around the globe now, and so we have a cadre of over 40 professional chairs.

It might be 60, excuse me, 60 professional chairs that we've trained exquisitely to lead these incredible groups.

But the bottom line is that those are the two great organizations for CEOs and business owners, and when you decide as a rule for life that you want to get off of the merry

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go round, for whatever reason, the next decision point is best focused on with peers that you'll find in Tiger 21.

So basically the original premise, and you can tell me if that's still the premise, is you have a small group of peers, I don't know how big the group is, you can tell me. 12 to 15 people.

So 12 to 15 people, and you meet of some type of cadence, like four or some weeks. Monthly, full day a month.

And you have a coach, or what do you call your coaches?

Facilitators.

They're the chair.

You have a chair who leads these discussions, and what was the original fee, and what was the requirements?

The original organization 20 years ago started with people who had created net worths of between 10 million and 100 million, and very quickly the top end exploded with success. So it grew to a billion dollars, and more recently we've realized that our focus is on members between 20 million and a billion.

And what I was going to say is the main difference between Vistage and YPO and Tiger 21 is the average net worth of Vistage and YPO members is probably maybe a tenth of that, or fifth of that of Tiger R. If you do the math, we have 140 billion dollars under management.

We don't manage it.

Our members manage it by themselves.

We're not a money manager, but collectively we have a little under 1200 members.

So it's a little over 100 million dollars per member.

That's crazy.

And what's the price now?

The membership is about \$33,000 a year.

We try and have a kind of one price.

So the only thing you pay is a single membership fee unless you come to the annual meeting.

There's lots of other events that are included, but because there's hotels and all that kind of stuff, if you come to the annual meeting, there's an additional charge of a couple grand.

So I can't do the math in my head, but like that's like over 100 million in revenues.

No, no, no, no, no.

It's about a thousand.

It's a very simple business model.

It's about 1200 people that are paying a little more than \$30,000.

So it's about \$35 or \$40 million.

Oh, I think you said 12,000 members, my bad.

No, 1200.

And that's what it costs to run.

That's crazy.

And what's crazy is 10 million today is a significant amount of money.

20 years ago, 10 million was obviously a significant more than it is now.

How did you find your first folks?

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So I was in a Vistage Group, which had about 15 members, and in a dramatically weird coincidence in 1998, five or six of us sold our businesses.

We were all in that Vistage Group because we were business owners trying to be better managers, owners, CEOs, and we loved the group.

And so after our businesses were sold, we didn't want to leave the group, but we found over about a six-month period, we were going to meetings trying to figure out how to make your CFO and your sales team and your production more efficient, but we didn't have that anymore. We had sold our businesses.

So I frankly said, wow, I'd like to be spending time with peers, but what I want to be learning is how they're going through this transition of becoming a wealth manager and how they can help each other be more successful managing through that transition.

And that was the roots of Tiger 21.

What was your first business?

My first business?

Sorry, the one that you sold?

The first business that I sold, I developed something called the Harborside Financial Center with a partner.

We were 50-50 partners.

I was 25.

He was 57.

It was the largest commercial renovation in the country at the time.

We bought a rundown warehouse that had been the largest building in the world in 1929 when it was built, eclipsed a few years later by the Pentagon, but it was an industrial warehouse on the waterfront in Jersey City directly across from the World Trade Center. And I had the idea literally when I was 17, because I worked there when I was 17, that it was just 3,000 feet from Wall Street.

And what was happening is that was in the age of large computer centers, and so you had all the downtown Wall Street firms building computer centers, and if they didn't want to be in Manhattan, they would go to a faraway campus on a suburban, you know, somewhere in suburbia, and people felt like they weren't in suburbia.

They felt they were in Siberia.

It was too far from the mothership.

And I had the idea that if you could put some of those computer centers into this huge industrial warehouse, it would be five minutes from the parent under the Hudson through the path train.

And in three minutes, you could get back to whatever the parent company's parent was.

And that was sort of the original insight that this old industrial building had floor loads and ceiling heights that would accommodate raised floors for computer centers and the weights that you needed, the weight loads, the floor loads, and that was basically the idea.

And that's the thing that you sold before.

But that was...

Yeah, I sold that when I was 30.

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Then I did another business that was basically a real estate merchant bank that acquired a lot of distressed real estate when the real estate market crashed in the late 80s.

I don't know if you remember that the stock market crashed in 87.

The real estate market followed.

So I was able to acquire a couple hundred properties from banks that had gone under and the federal government had taken it over.

And when I sold that business in 1998, I said, I don't want to have to go back to work.

I want to know how to preserve money.

How do people who've sold their business, how do they think about what they're going to do so that they don't take stupid risks and find out they've lost it all?

Because building Tiger 21, you kind of...

Was Tiger 21 supposed to be a business earlier?

No, it's actually...

It's been a labor of love for me.

But oddly, was it able to create more wealth than the other things?

No, it hasn't at all.

Basically for 20 years, I put every penny back into Tiger of revenue because I wanted to hire some of the best people in the world and the best teams and get it right.

But there's a lot of inherent value in it.

There's no question because we have extraordinary members and the value of our franchise has to do with our members and the team we've put together was incredible.

But I realized that in order to scale the business to fulfill its potential, I needed more senior help and in order to attract that senior help, I needed people who were interested in equity.

So having a private equity partner made it easier to attract world-class talent who would own part of the equity.

You're kind of in an interesting position, which is you know or you work with a significant amount of wealthy people and you have some interesting insights.

What have you seen are kind of like the levels of wealth that someone where they see changes in their life?

Like so many things, I could give you one number or another, but it's really a state of mind.

You have people who are retired and they get X dollars and then you have other people who are retired and they get 10 X dollars and yet the one who's achieving or receiving the lower amount might be more evolved and emotionally balanced because of meditation or work they've done.

The most interesting thing is there's endless studies that show that up to whether you ask people who earn 70,000, 700,000 or 7 million dollars a year, how much more do you have to earn to be happy and the number is something like 20%, no matter where you are, the average person just needs just a little more to be happy, which tells you about the unfilled nature of human ambition.

I've read a bunch of stuff like that and the way that I remembered it and I could be wrong, it was like 2X, so it was like maybe it was for net worth, so like if your net worth is

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a million you're like, well I would feel a lot better if it were 2, but then they talk to people who was 100 and most people would say like, man if you have 100 liquid, like it's going to be a little bit hard to screw up, but even they were like, yeah, but if I had 200 I think I would finally feel more comfortable.

The fact is that wherever you are, you have the illusion that if you had a little more it would make your life a little easier, but sometimes if you have a little more, it's a burden because now you have to manage it and when you say it's a burden, what I mean is intellectually you have to work harder to make sense of it and in that sense it is a burden.

It's like a job, it's just in the nature of things that the grass always seems greener on the other side and that's part of why I say a lot of this is just a mindset and there's another part which is really important as well.

It doesn't matter whether we're talking about 3 million or 30 million, if you take two people who've worth 3 or 30 million and one had been worth 50 million and lost 20 and now they're worth 30 and another had been worth 20 million and made 10 and is now worth 30.

Those two people are worth 30 million, you could do as the example with 3 million as well, but the person who got to 30 million by losing 20 feels absolutely devastated and the person who got to 30 million by making another 10 feels generally quite positive or proud of themselves, it's the same 30 million so it's a lot of things that are specific to the individual that generates the psychology.

All right, a quick message from our sponsor, you know, I was thinking about the shortest day of the year earlier and while we technically have the same amount of time as every other day of the year, the lack of daylight makes it feel so much shorter which is exactly the same kind of feeling as working with disconnected tools.

Our work day is the same length as always but before you know it, we spent three hours just fixing something that was supposed to be automated.

Thankfully HubSpot's all-in-one CRM platform can serve as a single source of truth for managing your customer relationships across marketing, sales, service operations with multiple hubs and over a thousand integrations and an easy-to-use interface, HubSpot lets you spend less time managing your software and more time connecting with your customers. Learn how HubSpot can help you grow your business at [HubSpot.com](https://www.hubspot.com).

There was that one article that came out that's total nonsense.

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It was \$70,000 a year but of course this was like 15 years ago and I thought that was crazy.

I'm like, I don't think that's true but I was like, I do think there is like a number where it's like, all right, maybe like there's like a threshold here where you could definitely continue to get happy but like there's a baseline.

I always thought I'm like, I think you will always want more money but today maybe like if you're in like the 10 or 15 range liquid, I'm like, maybe there's like, all right, maybe life won't change significantly more after that because like, you know, like that's,

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you could screw that up but like you got to kind of screw up majorly and but I don't know. That's kind of what I always thought.

The \$70,000 is a number that shows up in literature meaning below \$70,000 every increment that you get closer to it.

If you are earning \$30,000 and you get to \$50,000, \$50,000 to \$60,000 anything up to \$70,000 increments have dramatic increases because it's just kind of obvious.

It's basic needs.

You need to put a roof over your head.

You need to put square meals on the table.

You might need a car and at \$70,000, you can pretty much afford most of those things.

Not in the lap of luxury but you can afford those things.

Below it, it's really, really tough.

So that's kind of, it might be \$90,000 today with inflation but it's somewhere in then.

I don't mean to trivialize the difference between \$70,000 and \$90,000 but everything above that, you know, for every level that you have, you can just spend more and create the same sense of being overextended if you're not disciplined.

And it's the rare person who generates excess capital and doesn't change their lifestyle so no matter how much they have, they keep spending more because if you can keep that gap of not needing what you have, that gives you a cushion that's rare and really something remarkable for those who have it.

Have you met people who have done that, who have been, let's say, worth hundreds of millions of dollars but still live like, don't even live nearly like that?

Well, you know, the most classic example would be Warren Buffett who still lives in a 30 or 50 or \$100,000 home that he bought in the Midwest where he lives in Omaha.

And you know, it's really hard to have one person comment on another person's health.

You wonder what's all that money for but now he's given half of it or something to charity and there's tremendous benefit gained from the money he's given to charity.

But you know, it's one thing to live within your means that's responsible.

It's another thing to be so disconnected between your wealth and what you're living that there's something going on inside and you know, I'll leave it to the shrinks to figure it out.

But it's kind of hard to understand why a person who might be working 60, 70, 80 hours a week as if there's no tomorrow and then they might be worth a certain amount of money but they're living on one hundredth of it as if they had a hundredth less.

You know, they had one percent of the wealth that they do.

What are they hiding from?

There's lots of answers.

They're all dependent on different people.

Most of the people I hang out with, so I'm 32 years old.

I started an internet company.

My co-host Sean is a little, a year or two older than me also started an internet company and the majority of our friends are in like the late 20s, early 40s age and like all mostly except for a few in the internet.

And so like I run in this like very like internet-y young circle and the vibe that I get from Tiger

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is that it's a little bit older and more like traditional businesses or maybe finance or real estate who have kind of knocked it out the park.

Is Tiger 21 mostly, am I categorizing it correctly?

Or do you guys actually have like a lot of young folks?

So only because of how we've grown and when you have, you know, 1150 or 60 members, the answer is the average age has fallen over the history from the high 50s to the low 50s.

But in order for it to do that, given that a lot of people stayed, most of our new members are in their 30s and 40s.

So we have a lot of internet folks, but the reason they're joining Tiger as opposed to something else is when they're sitting around, they're not just sitting with internet folks, they're sitting with people who have, you know, real real estate experience and experience running businesses, you know, in the world that isn't just from the internet.

And the reason we're so excited to have folks that are in the crypto space or the internet space is precisely because they're understanding these new technologies that are going to transform the world in a way that many of our members wouldn't otherwise.

So it's this combination that makes some of our meetings so electric.

Have you noticed the difference between like, let's just say group A is like these people who are made their money on the internet, made their money in only like three or eight years, selling just internet stuff so, you know, like not real stuff that you can touch versus let's say like the small business owner who like scale something over 20 or 30 years and then eventually sold it or made cash flow along the way versus the tech person who was probably poor for a long time and then suddenly boom, they're not had because they sold their business and they weren't ever profitable.

But have you noticed a difference in those people's attitude or the problems they have?

Well, there probably, you know, as many differences as there are people, but there's some fundamental

truths that I think you're pointing at.

You know, when I went to business school at MIT 40 some years ago, you know, if you were doing a marketing exercise, they'd say, come up with a product that you could sell to a thousand people.

And today, if you go to Stanford to a marketing course, they'd say, come up with a service you could sell to a billion people, literally a billion people.

That's what Facebook does and some of the other major social media.

So scaling is not just a difference in size.

We have a dramatically more frictionless economy.

The nature of internet and technology allows businesses to scale.

That's why we have unicorns today, but we almost never did in the past.

So when you think about life expectations, people who started out 30 or 40 years ago had an expectation that they'd have to put their nose to the grindstone for 30 years before they'd hit a payday, not all of them, but some of them.

And of course, there are many different types of wealth I distinguish between people who are workers versus people who have some kind of God-given talent, a singer, a basketball player, an actor, a rapper.

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These are people not who are building businesses, but have God-given talents. Of course, they have to work hard to hone those talents, but it's very different when your wealth is created from your own talent than when you have to scrimp and save to make a payroll and get everything done.

But then if you compare that to people who are creating wealth today, first of all, they can do it in three to five years.

You have unicorns in three to five years or not much longer.

And so one of the big differences is that if you were 58, 20 years ago and you sold your business, you probably were retiring because you spent 30 years doing something.

And that was your first sale.

But today, if you sell, you might be 30 or 35 or 38, you're not retiring, you're going on to the next thing.

So I think the biggest difference is this kind of expectation of what a life looks like.

A generation ago, a really successful entrepreneur had one or maybe two serial successes.

Today a successful entrepreneur could have three, four or five or multiples because he or she has figured out how to manage a couple at the same time.

Elon Musk is not the only person who has multiple businesses.

He's certainly the most visible, but it's much more a creature of today.

It happened in the past, but just much less so.

When I was selling my business, I would talk to some bankers and I would talk to some friends and advisors and a nice amount or like, yeah, sell it and get paid and like, you know, you don't have to worry about money anymore and that's wonderful.

And then the other group of people though were like, man, starting something that works is really, really, really hard and a lot of people sell a business and want to start it again and they don't realize like, you know, there's some luck involved and it's just actually really, really challenging and sometimes you get confident and you think, oh, I can just do it again.

And so if you don't have to sell it, never sell it.

And I've lately fallen in the category of like, if you don't have a lot of money, sell a company.

If that means that you're like financially secure.

But then after that, oftentimes try not to sell anything ever.

Like to see if you can just like run it or get it to run it on its own or hire people because it's quite hard to get, getting something going is such a pain in the butt.

Do you fall, do you tend to, when you're talking to your members, do you, what do you think most like, which of those categories do you think is actually a little bit more true or more common?

And I think you're onto something really important and it's kind of like all of the above.

One of the biggest learnings is that most people who sell their first business have no idea that it feels like having the rug pulled out from underneath you because you see a big dollar amount and you're so focused on the sale that it's the everything else that's kind of the shock.

And the most important one is the momentum or the platform that you don't even realize

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how valuable it is.

So one of the things we really talk about is before you sell, you really have to think about not just the pros, but the cons.

And particularly in an environment like today, forget that the markets are down this year in a low interest rate environment, when you sell a typical industrial building, obviously you're talking about other types of metrics, but it used to be a typical meat and potatoes business would sell for seven or eight times earnings.

And if you take a business that was making, I'll use an example, \$3 million and you sold it for \$20 million and you paid the taxes.

Now you have \$16 million, but if you buy bonds at 2%, you're now making \$320,000 on that same capital that was generating \$3 million before.

You've lost 90% of your earning power and we call that sticker shock and 90, I would say the vast majority of people who sell their first business go through sticker shock because they haven't really thought through that the passive earnings on the profits of the sale will generate dramatically less income than the business itself did.

Now of course, the positive is that when you sell that business, you don't have all the risks of that business and maybe the business had risks that could put it out of business, so a good sale allows you to take chips off the table and that has a lot of benefits.

But I think you're really, you know, you're on to the central issue around selling businesses because particularly if you hold on to the business, you don't have a tax liability.

I'm not against taxes in general, I'm just saying that it eats into some of the value, whereas if you continue to own the business, the full value is working to make the business larger and larger.

So when you're thinking about risk, I think the greatest service that we do is help some of our members think about the things they hadn't thought about when they're thinking about selling.

Like what?

Well, just what we're talking about, this sticker shock, this sense of do you really want to lose the platform that you have and will you have enough capital?

Because we've had many examples of people who think when they sell the business, it's going to be easy street, but when they don't realize the loss of income that occurs when you're taking dollars from a sale and putting it into passive assets or worse, in order to generate income like they had before, they take risks they don't understand in investments because investing can be a lot harder.

You know, when you own a business, it's kind of like being on a dog track, a dog track, you have a fence to your left and a fence to your right, somebody shoots a gun behind you and you can only go forward.

You know, if you're a paperclip manufacturer or you sell rocks or frankly even an internet service, you have one direction, you want to be the master of whatever your business is and that's really hard.

But intellectually, when you're an investor, how can any one person understand all the markets and if you're starting out with no fundamental understanding of the markets because you've just been running a business, one of the real shocks is most people think the

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hard part is making the money and then once you have the money, you're on Easy Street. But from an intellectual challenge point of view, many of our members find the challenge of managing the wealth that they've created is actually intellectually more challenging than the business because the business might have come naturally to them.

They might have had an idea and they just pursued it to its good ends.

When I sold, I mean, I didn't know it, this was only a year and a half ago or a year and a couple months ago.

I didn't know anything.

I mean, I knew nothing.

When people said that they're going to short a stock, I was like, I don't know what shorting means and they say they're going to go long.

I'm like, don't know what that means and so it was and people like friends and family were like, well, what are you going to do with your money?

And I'm like, I don't know anything.

I think people are surprised that your ability to earn is not often correlated with your ability to invest.

Just the opposite, that's what I'm trying to say.

You can be a great entrepreneur and a really lousy investor and just to give an expectation for people who might be listening, how long do you think it takes to go from being a successful entrepreneur that is a mediocre investor where you were a year ago, how long do you think it takes till you have sort of a modicum of confidence that you know what you're doing as an investor?

I mean, years.

I don't know.

I mean, I've been studying it now for a year and a half and I feel like I don't know much.

Five years.

Five years.

Yeah.

And that's if you really work and edit.

What I just did was put, so are you familiar with HubSpot?

Sure.

Yeah, so they're the ones who bought us, so I own HubSpot stock and then the rest was just mostly a Vanguard Total Index fund and some real estate and real estate funds.

With your folks, what's like the asset allocation of what you've seen?

What's like a fairly successful asset?

Sure.

Yeah, I want to be really, we're not an investment advisor, but I do track the asset allocation of our members and can simply report on it, which is...

Yeah, you guys put up this annual report.

That's awesome.

I love that.

Yeah.

So the asset allocation, very roughly, is traditionally real estate has been king with about 28% of

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the assets, maybe 27%.

Does that include primary residents?

No, generally not.

It's mostly investment real estate.

And does that mean they own it or they're in a reed?

It could be they're in a reed, more likely they either own a building or they own a limited partnership in a real estate fund of some sort.

Second would be public equity, about 26%, anywhere between 24% and 26%.

That's so much lower than I thought.

Exactly.

And private equity, and this is unique to the Tiger community, our private equity has, for the last couple of years, been more than public equity.

It's now a little neck and neck, but private equity is around 21% to 24%.

And what's so remarkable is if you take those three numbers, the private equity, public equity and real estate, it adds up to 70% plus.

Those are the risk-on assets.

So our members are relatively long-term bullish on investments.

Even when they think we're going into a recession, they still are over 70% invested in, when I say risk-on assets, that's what the investors say are assets that are risky and have to do with business-like qualities.

Then fixed income, until now, is at a historical low point, about 7%, it was as high as 12 or 14 in prior years.

And crypto and gold creeping up 1% or 2% assets each, and cash at 12%.

Our members' cash has stayed relatively fixed over a long period of time.

It typically fluctuates between 11% and 13%, but in the pandemic, March of 2020, it spiked to 20%, which statistically is off the charts.

That's how concerned our members are.

But generally, in the 12% range is what our members are looking at in cash.

What do they love about real estate so much?

It's the gift that keeps on giving, and first of all, they're terrific tax attributes of real estate because of depreciation.

But when most people think of an investment asset and they buy a company, that company is subject to competitive forces every single day.

That's why most operating businesses don't lend themselves to multi-generational families.

Of course, there are exceptions and some very important ones, but real estate is a much more tolerant asset for multi-generation, or if you own certain natural resources, if you own timberlands, those are good to pass from generation to generation.

Because when you own a great piece of real estate, the joke is your child can be, let's say, less than brilliant and still know how to collect the rent.

Even in your own lifestyle, if you own a great piece of real estate, the tenants have to pay the rent even when you're playing golf.

But when you're running a complicated technology company or something else, you got to be out there and work it every day.

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Your team has to be really, really good.

And I'm not in any way suggesting real estate.

It takes a different kind of unique smarts.

It's not an easy game, but it's very different.

One way to think about it is if you took the whole economy, I don't know if you remember the Dewey Decimal System of libraries, but if you broke the economy into all of its sectors, and one of those sectors was real estate and nine other sectors, medical and education, everything else, high tech, aerospace, et cetera.

If you took those nine other categories, real estate is more different than those other nine than any of the other nine are to each other because of this durability, this multi-generational capacity of real estate.

We always make a joke that people, they get offended about this, but I'm like, it's kind of a compliment.

We always say that real estate has the highest number of dumb rich people.

And that was kind of like my side.

Dumb like a fox.

In other words, they may not people who have the same intellectual pursuits that you are, but they can go and smell an opportunity and sniff out where there's a problem in a way that most other business owners don't.

And that's why I say it's very deceptive because they're a breed apart, but that's become a little less so in the last generation because as real estate became more securitized with different types of ownership and debt that went to Wall Street, it became more of a Wall Street game.

So it's a little more today a Wall Street game than it was 20 years ago.

Yeah.

And the kind of the strategy that my wife and I had was let's just try to get somewhat wealthy with tech stuff and have that continue to make cash flow and selling companies and pile a lot of it into real estate because that's something because like with my business, we had to send an email every day.

But if Gmail changed, like it could go out of business, a building that I own, I can lose a fair amount of money on it, but like there's it's still a thing that someone will purchase even if it's at a huge loss, but it's not going to go to zero, whereas my company, it definitely could.

Like if I owned a conference business in a pandemic hit, like which I did, like it literally made zero dollars, whereas this land that I own that I'm looking at right now, like that's probably not going to go to zero.

You know, none of these things are as simple as we'd like.

I think you're making some really excellent points.

But if you owned retail or movie theaters or airports in the pandemic, that went to zero too if you had any leverage on it.

So it's not that real estate hyperbolic, but no, I totally get it.

It's not that it's without risk, but as an asset category, it's a long dated asset.

One more thing about the selling and selling versus not selling, because you have a way

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bigger sample size.

A, do you regret selling your companies and B, the thing about selling, like let's say that you sell a business and you make 30 million, you pay taxes, now you're left with 20. To make 20 million, like you could build a business for five or 10 years, sell it and make that, to make 20 million after, to make 20 million from cash flow, annual cash. That's really freaking hard.

Like you got to, I mean, your taxes are higher because it's income versus capital gains. But I mean, it's just like, it just seems like selling a business is probably the easier of the two.

And it's still not easier.

It's still not easy.

It's easier of the two to accumulate like your first bit.

Would you agree with that or no?

Well, it's, the problem is that it's better to think of it as a shift in risk.

Because when you made the decision to sell for 30 million, the example you just gave, what you've done is you've taken a lot of risk on the table.

So the chance of losing that 30 million now goes down radically.

It's much less once you've turned it into cash.

But the chance of getting to 60 million might have gone down also because you lost the engine of growth.

So it's, do you want to sleep well or do you want to eat well?

Are you long-term greedy or short-term greedy?

But there's no question that when you sell your business, in my opinion, more often than not, it's not number dependent, it's risk dependent.

You want to take risk off the table.

You don't want to have the risk just as you said of losing your business anymore so you can take your chips off the table and diversify it over a number of investments.

But it's going to be much harder if the business was a well-functioning growing business to get to that.

You've increased the hurdle rate before you can get to that next level of 60 or 80 or 100 million dollars.

Do you regret selling your two things and Tiger?

All right.

So you didn't sell it.

First of all, I'm still the chairman and majority owner of Tiger, but it's run as if I'm 50-50 partners.

And Tiger would be a great example.

I'm 66 and when I sold Tiger, the risk that I was most concerned about because I'm a cancer survivor is longevity and sustainability if something happened to me.

So our board said I was the number one risk.

And because I love this business, I said, well, how do I reduce that risk?

Well, the first thing is I bring in a co-owner and the second is we bring in a world-class CEO and in order to bring in that world-class CEO, I needed to bring in a co-owner.

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So Tiger is immeasurably stronger today from a team point of view and an ownership and a resilience point of view.

It is still my legacy.

I'm the founder.

It was my idea.

But I never went into it for money and I'm not sure that I would have done any better on my own.

I think the diversity of ownership and the addition of a team that we built into a world-class team is just dramatically different than I could have created on my own.

So I have no regrets whatsoever with Tiger.

And with the other businesses, it was interesting.

I sold my first project that I mentioned to you when I was 30.

Can you say what you sold it for?

So we have context?

It was a project that I was a partner in, but the project got sold for over \$100 million.

And that was in 1987.

That was pretty life-changing, I'd imagine.

Totally life-changing.

But the point is that what I remember is not so much the dollar amount.

What I remember is it was heralded as the most successful real estate project in metropolitan history in terms of financial return.

But it took me a couple of years to kind of find myself again because I went from being one of the top 100 developers in the country, I also had the advantage, I had a partner.

The project was my idea, but selling was his idea.

And he never would have got into that project if he hadn't been my partner.

And I never would have sold it if I hadn't been his partner.

And we sold at that point 100%, 99% of what we were worth was tied up in that project.

And if somebody had got hurt or killed in construction, it could have wiped us out.

And so we sold and we closed in January of 87.

And in October of 87, the market crashed.

And real estate followed after that.

And we had been one of the top 100 developers, and we might have been one of five developers in the whole country that had lots of capital and no buildings to weigh us down with the problems from the market crash.

So that gave us an extraordinary opportunity to get back in at the bottom.

And I did that by creating a company that bought distressed real estate from banks and went on to buy close to a billion dollars, what became a billion dollars of assets.

When people, one of the surprising things when I kind of started, when I sold was, I had never heard of this thing called an asset backed loan, which is like basically one example of that is when rich people buy a home, you'll hear that they bought like a five or \$10 million home in cash, and oftentimes what that really means is they're using this thing called an asset backed loan.

So basically, if you have a stock portfolio of \$10 million and it's like in a Vanguard

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index fund or some basic thing like that, you can borrow like 60 or 75% of that at a given a very, very low interest rate as low as 1%.

What are some surprising things that people who come into money after selling their company that they see and you're like, when my banker told me about that, I was like, are you kidding me?

This is how people do it.

This is amazing.

What are some other things that kind of fit in that category?

So I'm sorry, but I would never do that.

Most Tiger members, most Tiger members wouldn't for two reasons.

One, I don't have any debt.

I wouldn't want any debt.

Debt can be very corrosive at exactly the wrong time.

The market has just gone down.

For people who are levered, they could have been wiped out.

If you want to be here for the long term and preserve wealth, I would argue you want as little debt as possible.

I'm not suggesting that's a good idea.

No, no, no, I understand.

It's an interesting option that people have.

For sure.

They can use to pay taxes.

Sure.

But the other part of it is that 1% can be illusory because the rate can go up if it's a floating rate.

And if you have a spike in interest rates and you made assumptions that you were borrowing at that low interest rate and then it goes up, you can really wreak havoc with your balance sheet.

So one of the things that most Tiger members enjoy when they reach a level of wealth is the ability not to have debt hanging over them.

Now, having said that, who are the best managers of debt, well, private equity firms and real estate is the place where most debt is.

So people who've spent a career managing debt understand the power of it, but they just understand that at some point you want to reduce risk and take chips off the table.

I think the other thing is something you said before.

Not everybody fully appreciates why they became successful because for every person who had a plan, somebody else was lucky, let's say.

It doesn't mean that they didn't have a plan, but fundamentally they're lucky.

And it's just a statistical thing.

The number of people who've had two successes is dramatically smaller than the number of people.

It's a bell curve of who's had one success.

And for people to have three and four successes gets down into the one in a thousand entrepreneurs

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or something.

And I think that many people systematically overestimate their own skills when they've been successful.

And there's a real comeuppance that after they sell their first successful business, they assume they'll be successful in the next one, and they get their clock handed to them as I did when I was 30, was a very painful lesson, but it was the most valuable lesson.

Wow.

Well, I sold this amazing project.

When I was 30, and then I started a business in the real estate information.

This is before the internet.

Pretty much what Zillow is today where you can look up any house and get a price on it.

We created a business that was a precursor to Zillow before there was an internet.

How much of your net worth from the previous thing did you invest into this new thing?

I probably risked somewhere between, in the order of 25%, something like that.

And so one of the biggest learnings is when you sell a business, many people think they're great investors because when they own a business, if they make an investment, they have to talk about it at a cocktail party, and if they lose money on investment, it gets swept under the carpet because the business itself is profitable, so it covers up those losses.

So many people who've been successful entrepreneurs don't realize how poorly they are as investors because they've never been battle tested without the benefit of the company providing the fill if you make a mistake.

So I think one of the biggest mistakes that people who sell business make, and it's what you said before, is that they assume they can do it again and again, and only a portion of people who've been successful once are going to be successful twice.

We're talking about earning money.

What about spending money?

Something that I ask myself is, I'm quite frugal, and I say, I don't want to buy this, this, and this because it costs too much money, and some stuff like owning a lot of like objects in my home, it kind of just stresses me out because I feel like I've got to take care of it, but then there's other things like flying nicely or staying at fancy hotels where I was like, I don't want to spend money on that, and then I was like, well, you know what, that actually makes me happier.

This is fun for me.

I should spend because that...

You know about the Marshmallow test?

Yeah, about...

Delayed gratification.

Yeah, delayed gratification.

So should I tell it for your listeners?

Yeah, go for it.

It's a very famous test that was done at Stanford in the, I think, 50s or early 60s, and they put a table of 12 three-year-olds or four-year-olds out, and they put one Marshmallow in front of each of the kids, and they said, look, I'm going to step out of the room.

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If you don't touch the Marshmallow while I'm gone, when I come back, I'm going to give you another Marshmallow, and only one or two of the kids could wait for the person 20 minutes to come back.

They just had to eat the Marshmallow in front of them.

Those one or two could handle delayed gratification, and it turns out that they tracked many kids who went through this, and the very few who could delay gratification were more successful in school, more successful in life, and more successful in business by various measures over the next 30 to 50 years of their life.

It's a remarkable study, and it has to do with what I was saying before.

When you're an entrepreneur, as apparently you were, you had to delay gratification because you were putting money into your business.

You couldn't do all the things others who were making a lot less but didn't have a business we're doing, and the discipline of delayed gratification is at the core of entrepreneurial success.

But frankly, when you're a movie star or a rock star or a baseball pitcher or a basketball player, delayed gratification isn't so much at the core of your success because you don't need to scrimp and save.

You need to practice and be well.

When people sell, there's a syndrome where somebody's been very successful, but they've been delaying gratification so long that they only open up one step at a time.

They still are driving a Chevy, they still are wearing a certain kind of suit, they're wearing a Timex watch, but they go on a gratification, or they go on a mediocre vacation, but they're wearing a really expensive watch.

You find when people have sold their business, they open up slowly because they want to be smart and they don't want to waste and they have to find that new balance.

We have a rule at Tiger which I think is the most important rule, it's called the 2% rule.

If you've been lucky enough to sell a business, one gauge you can think about is if you're solely living on the investments in your portfolio, if you can live on 2% of your assets or less then you're in a safety zone and obviously some people have the good fortune to earn a lot more than 2% or 3% or 4% on their assets so they can live on a little more, but once you start living on more than 2%, you're actually starting to stress the ability to preserve capital and my guess is if you went to a whole bunch of 25-year-old kids and said, if you inherited a million dollars, how much could you spend a year and preserve the money? You'd be shocked.

A lot of kids would say, I don't know, 100,000 or 200,000 a year, it's 20,000 a year and that learning is really fabulous.

There's this funny, cool, subreddit, a forum that I go to and it's called Fat Fire.

You know what Fire is?

Fire is financially independent, retired early and typically fires people who want to save a million dollars and live off 50,000 a year.

Fat Fire is people who want to earn a much larger amount and live somewhat lavishly and on that subreddit, the number is 3% so it's a little bit higher than 2% but 3%.

I think there was this thing called the Trinity Study and they said like 4%, frankly I think

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that sometimes is too high but I kind of buy in the 3% range and anyway, there's this one book.

Have you ever heard of this guy named Felix Dennis?

No, I don't think so.

He's amazing.

He's dead now but he's kind of like a combination of Mick Jagger and Richard Branson. So he was this British entrepreneur and he was kind of flamboyant like Richard Branson and did a bunch of stuff but he was like Mick Jagger in that he was kind of a degenerate. He loved drugs and hookers and he wrote about his escapades when he got older. He was like, I had a drug problem and I was never married so I was just sleeping around and so he's kind of like a fun guy to read about but he's got this book called How to Get Rich.

It's kind of poorly titled in a way that it's embarrassing to talk about but it's quite a good book and he eventually founded Micro Warehouse which was a publicly traded company but he also started Maxim Magazine.

He was a publisher so he made all of his money in magazines and he was like, so I'm going to die soon because I've got cancer and I'll die with like a \$600 million net worth but if I could do it all over again, my goal would have been to make \$20 or \$30 million by the age of 35 and not focus on money making ever again and only focus on like the people I cared about but like a boxer who's punched drunk, I went back into the ring every time because I was addicted to it even though it didn't always bring me the most amount of fulfillment and happiness.

I just want to share three reactions to that.

The first is there was a band leader from the late 60s or early 70s who was being interviewed a few years ago and the announcer said, you know, you were the first band to make a million dollars a month.

No band had ever made that much money.

What did you do with all that money?

You guys must be rich.

He said, well, we spent about 70% on wine, women, and drugs and wasted all the rest.

The thing with Mick Jagger is what you don't see is he like works out six hours a day.

He eats a food regimen that's like second to none and here's a guy who's-

Maybe Keith was a better example.

Yeah, well, that's important because even with Richard Branson with his whatever your persona is, you know, he knows how to lever from a marketing point of view.

He puts like nothing into a business and others invest around his name.

So his risk is very low.

These are people who are real geniuses at what they do.

But the thing that you didn't mention is philanthropy.

Like how does people create meaning?

I think that people who've created a certain amount of wealth and then say a higher percentage of what I'm going to make, I'm going to give back to causes that I believe in and try and make the world a better place.

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I think that's a really important way to get meaning.

So that guy who made 600 and said, I should have just made 30, maybe he should have just been a little more philanthropic and looked around the world and said, I can make an impact in a positive way.

Have you heard of this book called you got a ton of books behind you.

So maybe you have, it looks like you read a lot.

There's this book called Dying with Zero.

It's by this hedge fund guy named Bill Perkins, and I've just started reading it, but it sounds like the premise of the book is basically like spend like if you're going to give instead of giving away money when you're dead, like give your kids the money now.

So if they want to buy a home or do something, like maybe you can enjoy it together.

If you want to leave money to a certain cause, just give it now because you'll be able to see it and you can all get a little more joy out of that.

That was the biggest debate.

For many years, Warren Buffett said, I'm leaving a big foundation when I die.

And he said, because I'm growing my capital so quickly that by leaving it in my portfolio, I'll leave so much more.

And Bill Gates made the argument with him, yes, but what's the value of a life saved today versus a life only saved 30 years from now when you die?

And some things aren't financial calculations.

So the point that you're making is there's a lot of value to being philanthropic, both with your time and your money earlier on and not just later on.

And I think one of the things that is really important is many entrepreneurs have a lot more than money.

They have skills and insights and contacts that they can lever philanthropically.

So I do believe in being as active as possible to make climate is my number one issue.

And so I'm involved in climate both politically, philanthropically, and in the way I invest.

And that's given me a lot of feeling at least of I'm doing as much as I can.

Good.

Well, last two questions.

First, the interesting thing about this, your business, Tiger 21 is from an outside, it seems like the vast majority of the value is your like eight or 10 person or 15 person with your group, which means I would think that there's a lot of pressure or not a pressure, but there's a lot of faith that the facilitator like you need that facilitator to be good.

And if your facilitator stinks, then that could potentially ruin the experience, which almost is like your business is almost decentralized or like, you know, different customers will have drastically different experiences potentially regardless of what's happening at HQ.

How are you?

How do you make sure your facilitators are good and are providing a valuable experience?

So I think what you're searching for is kind of a classic example of would you rather own 300 gas stations or one oil refinery if they're both worth the same amount of money?

Well, the answer is obvious on that one, I think.

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Which is what?

Multiple.

I mean, it's like you don't want you don't want you don't want all your you don't want one big ass customer.

You would be nice to have 100 equal.

But the fact is, if you have 300 gas stations that have all the same label on them, the same name, you have a brand exposure that if something bad happens in one of them, it could affect people's demand for the other.

So our only asset is our people, both our team, our chairs that facilitate the groups and our members.

And we spend we have like a private university.

We spend fortunes of time screening the facilitators and then providing lots of opportunities for the facilitators to learn from one another.

Our facilitators come in from all we call them chairs of the groups.

They come in from all over the world to learn best practices from each other.

And we track all of the relevant metrics to see which groups are performing well, which groups are not performing well.

And of course, the most important thing is that we have zero tolerance for anything less than high integrity and maintenance of confidence.

If somebody, if a member or a chair ever violated that, they would be out in a second.

So I'd say that maybe besides the core asset being our team and our members, the thing we protect the most is our brand by being really true to what it stands for.

And I don't think we've ever compromised on trying to put members first.

That's kind of what we're about.

I'm a member first.

Most of the value that I've gotten out of being a member of Tiger has been being a member.

The fact that I've owned today a little more than half the business is almost irrelevant to the value that I've gotten by being a member and all the opportunities that I share with all the other members that come my way as a member.

Well, you're awesome.

The reason I wanted to talk to you was because I know of Tiger, I've thought about joining, I've got friends that are part of it, and I love the business model.

My business was tangentially related, but not quite the same thing.

It was community-based, and I hadn't read or seen too many interviews with you.

And so I'm happy that we got to talk because I wanted to kind of explore this, but you're cool as hell.

I appreciate you taking the time.

This is awesome.

Thanks so much for having me.

And if people want to, do you use Twitter or anything?

If people want to find you, do you want to point them anywhere?

I'm on LinkedIn.

I don't use Twitter, I don't use Facebook, but I'm available through LinkedIn, and it's

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kind of easy.

It's michael.sonnenfeld at Tiger21.com.

Oh yeah, thank you, man.

I appreciate it.

Thank you.

I feel like I can rule the world, I know I could be what I want to.

I put my all in it like no days off on a road, let's travel, never looking back.