

WAYS TO REDUCE RISK

One of the facts about investing is that there's no such thing as a sure thing, and eventually, you're going to lose money. However, when you apply the principles and commandments of being a Lifestyle Investor and understand how to stack the strategies, you'll dramatically decrease risk and your downside. Here's a list of strategies to reduce risk.

- Educate yourself on investing and in the particular investments you decide to do
- Collateralize the loan (ideally at least two to three times the loan amount, just to play it safe)
- Be creative with all the different ways you can collateralize a loan such as using real estate, accounts receivable, inventory, equipment, intellectual property, stock, and notes receivable)
- Have strong legal documents that protect your risk and secure the terms
- Make sure you have a Senior Secured position or first lien position on the asset (this means you are first in line to get paid back and are in the safest position in an investment)
- Improve proposed terms to be favorable to you and reduce some risk right out of the gates
- Find a way to get points or fees paid upfront
- If lending, limit how much of the loan someone has access to by using performance metrics that need to be hit first in order to release portions of the total loan amount
- Put covenants in place that act as a guardrail to prevent deterioration of value, so if the business starts to slip, you can change the terms of the agreement for immediate repayment of your loan
- Personal guarantees are a great way to secure an investment where if they default, you have the right to go after other assets they have to get your investment back
- Stock pledges are another great way to secure an investment and increase the likelihood the contract terms are honored
- Add a default interest rate provision into your contract so that if someone defaults, there is an automatic increase to the interest rate
- Utilize non-recourse debt so, in the event of a default, no one can come after any of your assets besides taking back the asset associated with the default
- Accelerated distribution schedule is a great way to increase the speed with which an investment or loan is paid back to get your money out of an investment in a much quicker time frame