Ep #51: America at the Tipping Point

Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Good day everyone, this is Dr. David Phelps with my good friend, Mr. Evan Harris. Here are two guys on a mission to help more of our colleagues with not only surviving but thriving in the current chaos and turbulent marketplace. Evan, how are you doing today, sir?

Evan: I am doing really well. I’m glad to be on the call. I've got a couple experiences from the field that I think will fit real well in our talk today.

David: Awesome, bring them on.

Evan: I’m finding that there’s kind of two groups of my docs. There’s my young docs that are super busy with building their practices and building their families. Then I've got the doctors that have their families already grown. They already have their systems in place, at least enough in their practices that the practice is kind of on autopilot. Then there’s some that are even looking at those retirement years.

I’m finding that that second sector, they're watching a lot of news and they're taking in a lot of media. What I mean by that, why that’s important is they awaken to checking CNN or they have the TV on. They're looking at the latest news. Right now, we’re dealing with, as you know, a lot of political candidates. There’s the big presidential election coming up and it seems like they are awakening with it, even at lunch they're checking it out online while they eat their lunch. Or even going to bed with it.

It's kind of seeping into their focus. Where I understand their focus is still their practice, but what I'm getting is a lot of people that are concerned that once they cut off their active income—what I mean by the active income is that once they sell that practice, that they no longer feel like they have that buffer. Where if all of a sudden the political arena changes and their tax rates change or their savings is being depleted, they can't quite recover.

They're on that "fixed income" and now they're feeling vulnerable. So I'd like it if you could speak to some of these people that are in that situation where they're looking outside their practice, way outside their practice and wondering really what is that political arena going to do to them. For those who are considering selling their practice in five years, what could they do today to prepare for that environment?

David: That's a good question, Evan. I think a tough one to answer concretely but I think the best thing we can all do is kind of understand what the arena looks like today. I don't mean just the political arena but I think the marketplace as a whole. But let's talk for a minute about the political arena.

Yeah, I think it's kind of entertaining to watch the debates or see the different posts on social media. People are pushing for this candidate, that candidate, whether they have a more liberal or conservative philosophy. People will have their pick and think their candidate is the one who's going to solve the issues of the day for this country. Be it domestic, be it foreign policy, economic, all the things that we all have concern about because let's face it, we live in much more turbulent times than I can remember in my five or six decades of life, Evan.

Things are unsettled. We typically don't like that. We want things that we can depend on, we can count on, when we work hard during our lives and in our practices. We try to save money, invest it wisely, and have something so we can retire to a desired lifestyle. What can we really count on? That's the problem. I think the thing we have to realize is that whatever happens in the presidential race this year, whatever we're left with to run the country, be it a liberal or a conservative or whatever the mix is in Congress, there's an elephant in the room.

That elephant is this: this country is amassing very very heavily a huge debt. We're at 18 trillion going on 19 trillion dollars in just our national debt. Then there are unfunded liabilities. That's the Social Security and the Medicare promises or entitlements that are sitting out there that our government has said it will be there. Well, they're not there. Those entitlements have to be paid for by current workers in the marketplace through payroll taxes and through taxation. There's only so much of that can go around.

So I think what we have to do is we have to acknowledge the fact that our government is heavily in debt and no one is really addressing that. I watch the debates and I see no one really addressing it. No one wants to touch it, it's very volatile to touch that because when you talk about reducing the debt, there's all these special interests that are going to come into play and start crying foul because they deserve this, they deserve that. They were promised this or that. It's something that no one wants to touch, Evan.

I think we've got to look at that and say, "Well what does that mean?" If this country has this debt, what does that mean? I think a lot of people think, “It doesn’t really affect me now.” Or, “It’s going to affect future generations but it’s not really affecting me.” I’m going to say this, Evan, that’s not true. It’s affecting everybody right now. Certainly in taxes, Evan. We know that taxes are not going to go down. A lot of people think that well when I retire, when I stop my active income, that traditionally financial advisors say we can plan on lower taxes, lower tax rates. So therefore, you don’t have to have as much saved.

I’m going to take an opposite position because the money’s got to come from somewhere. I think that the government is going to find new ways, new means testing to extract more wealth, more hard-earned capital from those of us who have worked hard, put ourselves on the line, risked it all and worked hard to amass some capital. I think with this whole new era of income inequality that there’s going to been more of this socialist movement to take it.

So we’ve got to be more proactive about how we orchestrate our future. We cannot rely on the traditional markets anymore, traditional or conventional investing of our money. Because if we do, let’s look from a conservative standpoint, Evan. What does it take to get a return on one’s money today? Well, you could be in the stock market which is very volatile and risk losing most of your principal or half of it maybe every six to seven years. So to me, that’s not a strategy that works.

Or you can put your money in more conservative investments. So let’s take people who are prudent like retirees who want to be safe and secure. If they put it out there in money markets today, they earn very little. In fact, I've got some stats here, Evan. Do you mind if I share those?

Evan: Bring it on. I like stats. Most of our docs like stats.

David: Let's just say that there's a saver who invests at a seven percent interest rate for 30 years. Whatever their vehicle is, whether that's stock market or bonds or maybe it's real estate. So seven percent for 30 years, they can expect to turn a $10,000 initial investment into a $76,000 investment over 30 years. Then you have total earnings over that period of time was $66,000 or a little there over.

Now let's say that the same saver is able to bump their rate of return up to ten percent. Their earnings would then soar dramatically to $164,000. That was versus the $76,000. So that's a huge increase. That's actually more than double with only a three percent increase in interest rates.

Evan: Wow.

David: So that's huge. Now let's go to the other side, Evan. Let's say if we don't know how to get seven percent because we don't like the stock market or the stock market never returns that because it's up and down. We want to go with something conservative so we go, "I don't want to risk my principal, let's put it in a CD or a money market." If our interest rate then on those savings goes down to one percent, then the profits on that $10,000 at one percent over 30 years goes down from $66,000 at that seven percent rate or down from $164,000 at a ten percent rate, down to only $3,478.

Let me say that again, one percent over 30 years, $3,478 in profits. That's a reduction, Evan, of 95 percent. It's huge. It's absolutely huge. So you cannot sit back and take the conservative route. But you can't be risky either so it comes back, what's the answer, Evan? How do we be more proactive? I know this is an area that you have over the years put a lot of time, a lot of effort because your father was a financial advisor.

You got to watch what he did with his clients. You are today like I am, invest in real estate for I think some very right reasons. Talk a little bit about that and how you see, how we both see that doctors are going to be more financially savvy and proactive about their investments and make sure they have something concrete that they can rely on and retire on when they're ready to do so.

Evan: Sure. I got to see firsthand how a lot of the clients of my dad as they transitioned from active income to passive income, their lifestyles actually got a lot more expensive. They had more time to have more fun. They'd been wanting to travel. They'd been wanting to buy the sports car, the boat, or the Harley, whatever it was. They had time and as they had time, they looked around for fun stuff to do. That fun stuff oftentimes required some capital.

What they did was they created a plan before they retired. Those are the ones that I see as the most successful. Is they created a plan of the things they wanted to do and they found out the costs involved to do it. Then they looked at the investments that could achieve that result and could be able to continually bring gains, bring interest. Just like you were saying, David, as we go from six percent to seven percent, it's significant. Seven to ten, significant.

What we didn't kind of touch on sometimes is when we have a fluctuation like if we go from someone having ten percent then all of a sudden there's a loss of ten percent, well that requires twenty percent to even get forty or fifty percent to even get back. There's such a movement that is required to go forward to make up for losses that for those that are entering into that stage, they've got to have something consistent.

What I've liked about real estate is that it's delivered consistent results, when done conservatively. I'm not talking about someone just speculating and buying a house down the street. I'm looking for some really planned out purchases and methodologies of being able to get the best results. That's why we've done it as a team. We know the properties we're investing in just as you do, David. We work with a mastermind just like you do. So we're able to know things coming before they arrive.

With real estate, there's rarely a surprise. We rarely have a situation where all of a sudden a neighborhood, a sector, an environment is—we look at the numbers so far in advance that there is usually well-timed moves, either in or out or just adjusting our ratios. So my encouragement to people who are looking down the road and wanting to make sure that they're going to have the return that they need, number one, finding out what you do need. And what you have, really looking at what you have, even if it's ugly. Just being real with yourself.

Two, how are you going to get there or who do you know that has the methodologies? Really looking at what could erode that. It's not so much just the interest but also what could take away? What will your tax situation be? How can you plan for it now? Do you have an IRA or a 401K? Is it self-directed? Do have freedom to invest it however you wish? What kind of tax advantages can you have then? Because we're not going to be living in a tax-free state, David. I think you can touch on more of that too.

We look at the 18 trillion dollar in debt, my guess is somebody's going to have to pay that. My guess is that two of those people are going to be myself and you. But we're going to do the very best to be as efficient as we can be. Can you touch on some things along the lines that can help people in that area?

David: Well, Evan, I'm going to say this. You and I can't carry the whole weight so I want to bring some other investors on board to help us with that because it's too much for two people. But, yeah, here's the thing, Evan, is that traditional financial planning doesn't take into effect these massive debts we have, the unfunded liabilities. It doesn't take into effect the fact that the Federal Reserve can create or print money digitally. It's done so in the last five years, what's known as quantitative easing. It's done to the extent of trillions of dollars flooding the marketplace.

Well, what does that mean? It means that there's a lot of money out there that can as soon as it starts moving again, whenever that is, that's going to create more push on inflation. So we both know that inflation is like a hidden tax. It's not a check that you write to the IRS to pay taxes. It's when the government because of its debt creates a devaluing of the dollar so that the debt that the government has to pay is paid with devalued dollars. What that does, it benefits people who are borrowing money.

I'm not one to say you should load up on debt, but you know the right kind of debt is a great way to go because the government's going to be right there working with you and creating policies and regulations that will in this case, it will reward the debtor. On the other hand, it definitely devastates the prudent person who has saved their money. Again, because with inflation, it erodes the purchasing power. So if you're not at least keeping pace with inflation with your investments, you're losing every day.

Secondly, the interest rates, I believe, that they're going to have to be kept low, again because of the massive debt the government has. So every time the interest rate would go up one percent, it takes a bigger chunk of the gross domestic product to pay for that. That's huge. Right now interest rates are at all-time lows so our government is seemingly floating along just fine with all this debt. It seems like it's not really causing distress.

The Federal Reserve just raised interest rates recently by a quarter of a percent. I think they're trying to act like, "You know, we can raise rates and we're going to go back to market." Well, trust me, they're not going to go back to market. They can float the rates a little bit, Evan, within a few fractions of a percentage point and look like we're going to go back to market adjustments. I don't believe it's going to happen. I think we're going to stay in a low interest rate environment for some time.

In fact, we saw all this back in from like WWII up until about the 70s, the mid-70s, we really had these repressive regulations by the Federal Reserve that controls really everything. I think we're going to see that again. So people that need to borrow money, hey, it's a great time. Want to start a business or lock into a long-term interest rate on your home? Perfect. Awesome. Go do it. But if you're on the other side and you're now having to make your money work for you, if you don’t know how to work it, you’ve got to learn how to do that.

So again, do you stay conservative in CDs or money markets? Do you risk it on Wall Street? Or you learn how to do like Evan and I have done and how so many other people have learned to do and do it the right way in real estate? Back to the model that we both love, Evan, just lending money. Being the bank. Safe. Secure. It’s drop-dead easy to get ten percent return on first mortgage positions, first trust deeds, all day long with the right partners because they can use that money in their business and turn it. It’s not out of the question for them to pay ten percent or more.

You’ve just got to be hooked up with the right people. Easy to do. In fact, let me just tell you a quick aside, Evan. I’ve got a doctor who’s recently become a member of Freedom Founders and like so many, is concerned about, “Can I really get the returns that would make sense for me to be a part of the group? Can I take my nest egg and really make it work?” I would say this doctor fits the category of many. He’s sixty years old. He’s worked hard.

He just recently sold his practice to a consolidator who paid him a nice figure but he’s going to stay on for a couple of years and do the … He’s got to produce some numbers for two years. But he got a nice addition to his nest egg. He saved money on the side. But he and his wife are concerned. How do we take this, what’s going to probably be a million and a half dollars and make it last us for the next twenty-five, thirty years and not have to really cut back our lifestyle?

Well he’s very interested in what real estate can do but from the outside looking in, it’s like, “How do you make this happen?" I mean, can you really get ten percent on your money because I'm not—it sounds foreign, doesn't it? It sounds foreign. But Evan, speak a little bit to that because you do a lot of connecting of money to deal flow as I help people do. How hard is it to get ten percent on your money today?

Evan: Really, blindfolded. I had someone just recently when they asked me what I could pay out, I said, "We're currently paying ten percent plus." The person says, "No way. That's impossible." He said, "That sounds too risky."

David: Right.

Evan: I said, "I haven't even told you what we're doing. Why is it risky?" He said currently he's losing about three percent based upon the market move. But I said, "If you'd be more comfortable, I could pay you eight percent." He looks at me, David, he says, "Yeah, that would feel better."

David: Right.

Evan: I was stunned. I was joking, I really wasn't meaning I would pay him eight percent. I truly—I want to be fair to my clients. I'm paying ten percent. He just, he couldn't wrap his brain around that. I think it's just because we're not seeing that anywhere else in the marketplace. But I think sometimes a negative can bring a positive.

That negative is that banks are so inefficient right now and so ill-run that they are not lending. They're not lending to people who are needing cash to fix and resell a property. That niche has opened up. This is not a secret. I'm not giving away our business and all of a sudden people are going to rush into getting their licensing and start lending money. They certainly can, I don't feel any competition there. But there is a huge opportunity because there's a problem.

People can buy properties way below market right now through their networks but they don't have the capital to do it. They may have the capital for their first deal. They may have the capital for the second deal. We have one customer that is a rehab company. He calls us "deal three." When I asked him, I said, "Why do you call me deal three?" He says because they currently have about a million dollars banked in their company and where I live, that's about two and a half houses. So he can do two properties but then the third property comes up, he has to just walk away from it. He doesn't have the capital to do it.

A bank is not going to be fast enough. So that's where we get the call. We are able to charge above ten percent because they're going to make so much more than that on the deal that it's worth it to them. They actually lose money when they don't borrow the money. That's how we're able to pay the interest.

David: Evan, I'm happy to get ten percent on my money all day long. I know what the opportunities are. As you said, the opportunities in the marketplace have been created by government regulations in response to what I think the government caused in the first place which is a long story.

[Laughter]

But you know this is what government does. Government creates crisis by doing social engineering, creates a crisis. The market, you cannot come in and distort the markets as the government always tries to do without some consequence. So the consequence is there's great opportunities in the marketplace where in the real estate sector, there's this huge void in financing.

So the opportunity is we've got boots on the ground, people who run great businesses who can utilize the money. They can easily pay ten percent because the profit margin is much greater than that. It's the ease and access to private money, not having to go to the bank, not having to get lines of credit and have a bank committee rule over every dime you want to take out and take sometimes three weeks, four weeks to do it. That doesn't work. So government, by the fact they put heavy regulations and capital requirements on the banks, have created this opportunity.

Now, the key is for those who want to learn how to be proactive, don't do it yourself. Connect with others who have done it. Piggyback on their deals. Learn what makes a good deal. In Freedom Founders, we are very transparent. I like to do what I call "beat up the deals," Evan, where we take deals and we really beat them up from all sides. We take all the negatives, because I am a skeptic at heart. Someone's going to show me something, yeah, prove it to me and let me see other people that have done it. Don't just sell me on something that seems peripheral and that can't happen.

So yeah, you want to connect with people that are really doing it and find out how it works but it's a great opportunity. You've got to learn to be proactive in this marketplace and going forward. It's there. The opportunities are there. Just don't go the traditional route, the traditional route will, in my opinion, Evan, no longer work.

And Evan, I think with that, we've pretty much come to a conclusion today. Great conversation with you. I love to get in these conversations because we both see it through our eyes but we have both come from different experiences and backgrounds. Yet, we've come to the same conclusions and we both love helping our fellow dental colleagues because that's first and foremost what's in our hearts.

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I want to just say thank you very much for being a part of this. We'll see you on the next podcast.

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