

Ep #76: Investing in a Volatile Economy with Frank Cava and Fred Lewis



Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

[Dentist Freedom Blueprint](http://www.DentistFreedomBlueprint.com) with Dr. David Phelps and Evan Harris

Ep #76: Investing in a Volatile Economy with Frank Cava and Fred Lewis

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, founder and CEO of the Freedom Founders mastermind community and host of today's *Dentist Freedom Blueprint* podcast show.

Today's topic is going to be on the subject of as an investor, how do I anticipate and deal with the volatile market conditions? What does a savvy investor do? Now this is going to be dealing with real estate, we're not going to talk about Wall Street because I don't know what you do about Wall Street. That's a different game altogether.

Today with me I'm really pleased and honored to have two veteran real estate business operators. I say business operators, they're investors, but also business operators in a big way. They come to me through relationships that we have through a mastermind community called The Collective Genius. This is a group of very high caliber, veteran, seasoned business investors in real estate all across the country. It's through this group that I met these two gentlemen.

I feel like they have probably the best feel of the market, the best finger on the pulse. They've done probably the most through the different market cycles we've had. Let me just introduce the two gentlemen. First is Mr. Frank Cava. Frank, good day sir, how are you?

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Frank: I'm doing well, David, how are you?

David: Good, good, and Mr. Fred Lewis. Fred, how are you, sir?

Fred: Great. Thank you, David.

David: So I've got some bio information on both of you but it's probably more helpful if you guys just give a brief background on who you are, what you have been doing at least since like 2000. I know both of you go back in real estate well before the last downturn, so you've gone through that period of time.

Maybe if you care to, give a personal indication as to what that downturn in 2008, 2009, and 2010 did for your thinking and your business and what's that doing. So take a few minutes to do that. Frank, why don't you go first? Just talk a little bit about where you came from and your history. I know you and your dad go back into the electrician world, right? That's how you kind of got your entrée into real estate and construction.

Frank: I started going to work with my dad when I was a little kid and I'd work for about ten minutes and then go hunt frogs and just wait for lunch. I went to the University of Florida and got a degree in construction management and I delved into the home building world in 1998. From 1998 to 2005, it was basically the best part of the rollercoaster because we were going straight up. One of the cool things about working for a publically traded home building company is you have access to amazing amounts of data. If you pay attention to the data, you can actually see what's coming.

So one of the things that we talked about David, Fred and I have talked about this as well, is if you are paying

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attention to the right indicators, you get a huge lead on the market. For me, I literally remember it was June of 2005 when the metric started to change. If you talk to most non-savvy investors, they usually will tell you it was 2008 when the market slowed down.

David: Right.

Frank: It was two and a half to three years before I felt it. In my business, I worked for a publically traded company and they dictated a lot of what we did but we shrank from 55 divisions down to under 30. So our manpower went from like 5,000 to 2,900. Personally, what I did is I had, I was in my really low 30s and I had all of my net worth in real estate and I sold everything. Everybody thought I was a moron.

By like the beginning of 2006, I was remarkably cash strong. All my friends we're like, "What are you doing? Just sticking your money under a mattress?" I went from being an idiot to being brilliant in about twelve months. Then everyone was like, "How did you capitalize on that? How did you see it?"

So what I've been super passionate about since I left the company and working on my own is being able to create my own indicators to see where the market is. I think it's better to keep a dollar than to make a dollar. So if you can be smart in how you invest and you can see some of the trends, you can not only protect yourself, but you can really capitalize when the market shifts and that's what I've really started to focus on inside of my business by how I've set it up. And then being cash strong going into the next cycle so we can really, really expand and grow.

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- David: That's good, so we will definitely get into some of those indicators and trends here in a few minutes. Just briefly, what does your business look like today? Can you give us just an overview of what that looks like?
- Frank: Absolutely. We are full time real estate investors. I have a staff of just under ten people. We are a direct mail based business that brings leads in the door. We convert those leads and we do three things with them. We take them, we fix them, we flip them. We take them, we get them under contract and we sell the option on that as a wholesale deal. Or, we take them, we fix them, and we keep them as rentals. So we have a pretty balanced portfolio of all three of those types of assets.
- David: What kind of volume are you doing last year, projected for this year? Just again, so people kind of know what you are all about.
- Frank: If you'd backend both purchases and sales, we do just north of 100 deals a year.
- David: Got it. That's in the Richmond, Charlottesville area of Virginia correct?
- Frank: That is correct.
- David: Good deal. All right, Fred Lewis with the Dominion Group. You're in Baltimore, Maryland, started back around 2001 is that correct, sir?
- Fred: Yeah, that's correct.
- David: Same thing, kind of what's your story, how did the Dominion Group start? From where was that nurtured? And then what's going on with Dominion Group today? Give us that same kind of story that Frank did.

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Fred: Absolutely, so I've always been a product guy. I actually started an apparel company in college putting together some product. I learned early the importance of putting together a better product than your competition. When I got into real estate in 2001—there has always been opportunity in real estate, I think there is always going to be opportunity in real estate.

2001 was one of those markets where nothing was really hyped. Things were kind of calm. The foreclosure markets were rather quiet. I saw a lot of small investors buying real estate, fixing it up, getting reasonably decent deals, and I felt that I could put out a better product. I got into the market actually as a private lender.

I had sold out of my apparel company, had a few dollars and got into the business of supporting small investors by lending them money, not too dissimilar than to today. But when I saw what the investors were doing and how unsophisticated their processes were and their product was, I thought then that I could put out a better product and compete.

So it kind of put me into the real estate business not just from a lending prospective but as an investor buying houses to hold and buying houses to sell. What I learned early on is that to buy and hold real estate, there is a lot of cycle time associated with that process. There is actually a lot of negative cash flow when you're trying to build rental portfolios. So I ended up creating a fix and flip side and a wholesale side because when you're trying to build off of the base, you have to have cash flow and income from multiple areas, otherwise you can drive yourself out of business by growing your business.

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We bought and held quite a few properties from 2001 forward. In 2006, I think exactly how Frank kind of alludes, 2005 and 2006, we saw the metrics changing. We saw the numbers changing. When you are in the trenches, like most of us are, it's whether you are listening or not. It depends on if you know how to listen. Understanding your numbers, understanding the macroeconomics of the city, the state, the real estate you're in, is really, really critical.

These were, again, real frothy in 2005 and 2006. Unlike Frank, we kept buying with that in mind and we figured we could time it a little bit better. I would say in 2007 and 2008 we got much more cautious. We stopped buying real estate, in late 2007 we stopped buying altogether.

Then in 2008, obviously the wheels fall off the caravan. But we learned a hell of a lot from 2007 through 2009, the downturn crushed, I mean literally crushed, a lot of people. In the private lending business, which is a business we are still in today, I would say 80 percent of the people that were in the business that had been in the business for quite a while, went out of business. You know, there are some parallels today. There's things brewing today that I'm sure we'll get into further that I think are consistent with what was occurring in 2007.

From the real estate side, we actually took a pause all the way to 2010 when we saw the numbers really change. We saw the graph and the numbers, the real estate value drops substantially off the cliff in 2009. Banks started to be incented to get rid of inventory, of prices well below value and below the mean.

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We stepped back into the market in the Baltimore area in 2010 and we bought houses in 2010 that we could never have bought from 2001 to 2009. It didn't exist at the prices, they were homeowner houses that had dropped just low enough for us to buy and hold. I think there's certainly a lesson there in markets that says real estate is cyclical and goes up and down.

David: Yeah, perfect, go ahead, add to that.

Fred: Back to what we really learned from the whole period was to really understand not just our numbers, it's really critical you understand your numbers, but how your numbers compare to how the product is supposed to act.

Real estate is like a type of animal. It acts a certain way. It walks a certain way. It eats a certain way. And not every type of real estate in every market is the same. There's different animals in different markets. You really need to understand how your animal is supposed to operate and you've got to be able to drill down into the metrics.

We really dug in hard in 2010 forward and became a student of our numbers, what we projected, what our budgets were, what did we think the real estate was going to do, how's it supposed to act, how are our loans supposed to act, how's our property management company supposed to manage and act? I think that that's carried forward from 2010 to now and we're a very data-driven company, very metric-oriented company, and we've been able to put in the tools that complement what we're looking to go do.

David: Yeah, good, thanks for that background. We're speaking today to primarily what I would call a lot of passive investors, Frank and Fred, professional practice owners,

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business owners, people who have either been doing a substantial amount of investing in either turnkey assets, or as you both mentioned in some private lending. Since the last four or five years, that's been a pretty good model, as you said, as long as one is investing in the right markets. And as passive investors, investing with the right people, which is one of the key characteristics that I espouse to these investors.

In speaking to them today, as everything we talk about, let's talk a little bit about then what's going on today. Because I feel like—and I think you guys do too—there's again some of that euphoria back in the market. There's a lot of dollars chasing a lot of investment assets, whether that's on Wall Street or on Main Street with real estate.

You said it well, Fred, you can keep buying, you can keep investing, but you've got to know the data. You've got to know the local markets. You've got to know how the real estate should act. So let's each of you talk a little bit about some of the signs, the indicators, the trends that you saw back in 2005, 2006, 2007 as both of your companies were going into that kind of pause period. What did you see and then and take it to today a little bit.

So let's go back to Frank. Frank, why don't you take that a little bit. What was going on back in 2005 and 2006 that let you and your company decide, hey, now is the time to cut back and slow down?

Frank: My perspective on the market kind of looks a little bit like this: We were entering into a recession but we were real close to the foothills of a recession in 2001, if you remember the September 11th acts happened. Now there was deregulation that happened in the 70s, but if you look

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specifically at September of 2001, interest rates because of the uncertainty in the market went through the floor and what ended up happening is about a 45-day period when literally the dust was settling and smoke was stopping in New York, interest rates just tanked. Because of that, it created a bounce.

Now, what should have probably been a soft edge instead turned into a huge rise. If you have ever been to an amusement park and you've been over the crest of the hill and you think you're going to go down but you don't, you keep ticking up, that's exactly what happened in the fourth quarter of 2001. That run up went from 2001 to about 2006 or 2007.

What we started to notice is the market had a euphoric, frothy feeling, kind of what Fred just said, from about 2001 to about 2006. 2007, most people really started to feel it, but it was a tick straight up. So to that end, as a builder and as a company, we had enormous years of profit between 2001 and really 2006. So five or six good years. If you asked me to draw parallels, I feel like we are kind of in that upward tick now, that really reflects back to somewhere around 2001.

Fred talked about fundamentals and knowing what the animal looks like. The animal is different this time around for this very reason, there were factors outside of traditional measuring factors that went into pushing the market forward in 2001. Now supply and demand are in line that give rise to appreciation, back then it was tinkered with.

So if you really look at what we have in front of us, there are some healthier indicators. I know Fred is going to talk

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about some of the ones that aren't as healthy, but there's healthy indicators on the supply and demand side that are going to help I think for a period of several years into the future of continuing to grow. Based on the people who we're talking to on this podcast, David, you're talking about passive investors or people who are investing their money with others that are good in this business.

I see there to be a little bit of a run unless something crazy happens. I would say two things: look at the fundamentals and look at them pretty deeply. If you are going to be someone who is a buy and hold investor, if you buy and hold today prices are pretty well in line. Affordability index is in good shape, and interest rates are at all-time lows. If we get much lower, I don't know how we are going to. So if you're locking in inventory at those factors and you're going to hold for a period of 5 to 20 years, I think there's a lot of safety in that. I'll be curious to hear what Fred says.

On the side of lending, what I'll tell you is this, from 2001 to 2007 greater than 90 percent of builders' profits were attributed to appreciation and not performance. So that is really, really scary. For big companies, you can weather storms, for small investors it's a ton harder because it's really who you are in bed with and who you're partnered with on those investments.

If you are lending money, I would say the fundamentals are know the market that you're in, have a real clear idea of what you're lending for, have tight parameters in line. And in addition to that, making sure that you're with the right people who can help you get in and out and have the right strategies.

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David: Very good. Fred, same thing, why don't you take it from your perspective.

Fred: Sure, I think there was a lot of factors from 2001 through 2007 during that run up as Frank alludes to, but a couple of the real specifics, one being the evaluation methodology of how banks and third parties valued rental property and valued really fix and flip inventory.

On the rental side, you had banks valuing real estate at retail values on an increasing market, where there's a question as to really the true value of the retail product. But the rental product was being valued at the retail rates. So what got unhinged were typical, very direct rental metrics like coverage. You have to have a certain amount of rental income to cover your debt and cover the operating expenses of that rental property.

Today, and what has always actually been typical is that coverage needs to be at least 1.2 or above in a healthy rental scenario. But somewhere in 2005 and 2006 and 2007, that got unhinged. What occurred is you could a property across the street selling for \$200,000 but the rental property is not renovated nearly as well. The bank then sends an appraiser out and uses that as a comp and uses that comp to provide to the rental investor. At that point, the income didn't even cover their debt service. So those are some of the factors that occurred in 2005 and 2006.

There is a number of other things that were as equally as undisciplined that came from the banking side and came from the institutional side. Ultimately, what that does is it creates an unhealthy competition because you have investors believing that they need to actually pay more for

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inventory because the guy who's getting his real estate overvalued by the bank, by the local community bank, wants to compete as well.

I think the parallel to today, the economics of the country were different in 2001 and 2002 and 2003, the supply and demand equation was a bit different. You'd actually didn't have as many investors jump into the market until probably 2005 or 2006. So in 2001 until then, the supply and demand equation was pretty equal. The issue was the unhooking of the valuation methodology and many other disciplines kind of just broke down. As well as we all understand what occurred really in 2008 and 2009 with the mortgage markets.

Today, the supply and demand equations, it's different. The animal is actually very different. I'm optimistic about rental real estate period. There is an absolute shortage of affordable housing across the country. Interest rates have been managed to be very low. They shouldn't be as low as they are.

We haven't seen the kind of inflation that this country probably will see in the next decade that's been predicted to already have occurred but it didn't occur because of lots of kind of government management of the cost of capital in our economy. So there is pressure for interest rates to go higher. There's pressure for costs to go higher in an environment where we need more affordable housing for the people that need to live in them. To be an owner of good, decent quality, affordable housing rental units is a great place to be. So I think there's a real positive there.

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I think the negative in the supply and demand equation is we're heading back to, in the supply curve, we're heading back to kind of a normalized amount of inventory. That's really not the problem. The problem that I see right now is that we have an unnormalized amount of demand for distressed inventory, for rental product, for fix and flip product.

I believe it's that way because in any significant run up, and we've had a significant run up from 2011, 2012, particularly to now, to 2015. Early-2015 to maybe mid-2015, we saw a significant three-year rise from values that were well below the mean, what we call disjointed valuation, where the real estate is certainly worth a lot more than it is. Which is one of the reasons why we had a lot of institutional guys that you hear about when you're reading the paper get into the markets because they felt that they didn't need to understand how to operate the real estate.

David: Right.

Fred: There's a fair argument that they are correct, as much as I didn't want them to be correct. You hate for people with suits and cuff links sitting up in New York with their feet on their desk to be able to say, "To hell with you professional investors and value investors because we know the real estate's worth," it's disjointed valuation. That's why Wall Street got big into the investment real estate game, because they didn't need to know how to operate it. They just needed to know that it was 30 percent off. Everything was 30, 40, 50, 60 percent off, that's all they needed to know.

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Today, those numbers have come back to mean value so the real estate you could argue is worth what it's being sold for. It's not on a deep, deep discount, which is one of the reasons why Wall Street has now gotten out of the acquisition strategy and now we've kind of moved to instead of an age of acquisitions, we had a very short period of the age of consolidation.

We're moving quickly now into the age of operations, the way we see it, where operations will drive everything. If you're a better operator than the guy next to you, you'll succeed. You're competing now in operations because valuation has come back to the mean.

David:

Yeah, that makes a lot of sense. So let me toss this question out to you guys. When the media talks about the recovery—and we certainly have seen that Wall Street and then you just alluded to with real estate values—supply and demand what they are, low interest rates, I feel gentlemen that a lot of this so-called recovery has to deal with the fed with QE1, QE2, QE3 quantitative easing. The digital pumping of dollars back into the economy.

It's like giving a family who was in the recession a credit card with an unlimited line of credit and all of a sudden they say, "Hey, life is good again," right? So I have some fears about that also. Also, what about the employment rate or the unemployment rate, whichever way you want to look at it, again, the media, the government stats would say everything is all good. I don't feel that it is today.

My question to you, gentlemen, is that with the supply and demand right now with, as you said, Fred, the valuation coming more into line with real values, with rental rates that have been increasing because there's less home

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ownership today because of the boomers not wanting to buy back in if they lost equity in the downturn, millennials not really being big homeowners today.

How high can rents go in an economy where employment is not as strong as I think it should be and then what about this recovery? Is it really that strong? Do you guys see some flaws there that could cause something to upset? Frank, I'm going to go back to you and get your opinion on some of that.

Frank:

I feel like there are factors at work here that are a lot bigger than us. What is up to us to do is be cognizant of what is in fact happening. Fred and I both talked about we feel like interest rates have been manipulated and we feel like we have a humongous bill due in debt. There is going to have to be some things that are going to change, are going to have to shift.

David, we've spoken about this offline about what I've spent a lot of time kind of reading and researching and getting better at understanding, is really kind of the global picture. Being like, okay, if this is a global puppet show, what strings are getting pulled? Who's manipulating what?

The only thing I know for sure is nobody really knows who's pulling what. What you have to look at is there are some mitigating factors, there are some things that are certainly cause for future pause. But if you're buying with the right fundamentals and you're buying things and looking at them from the right type of a strategy, I think there is an ability to weather this type of a storm.

As Fred alluded to, the speculation time is now more or less gone. I think people have rushed into the market. In

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most economies, in most real estate curves, there's four phases: there's a recovery, there's an expansion, there's a hyper supply, and then there's a recession. 2006 through 2009 was the downtick, the real downtick. Fred even says all the way to 2011 was the real downtick in the market.

From 2011 to 2016, we have gone through recovery and probably expansion. I feel like there is probably some room for expansion before we get the hyper supply. But when you start getting into hyper supply, I think that's what you're talking about, David, where right now rents are still affordable, however you measure unemployment we're better than where we were seven or eight years ago in unemployment, but there is going to be a stress test as things start getting higher in price.

The way that I view it is there's going to be some run but you'll start to bounce when prices do go up even higher than they are now. Then the backside of that is even in a great market you're going to start to see vacancy rates tick up. As you start seeing vacancy rates start to tick up, what you'll notice pretty quickly is that will be the point where the pendulum is going to swing and then we're going to hit the bottom end of that.

David: Define for me, in your market, what is affordable housing? Where do you think in your market right now you would start to hit that bounce, price point, and/or rents? What would that look like to you today if you were trying to project that?

Frank: Sure, I'll get really, really specific. In our market right now a three bedroom, two bath house rents for somewhere between \$850 and \$1,250 depending on the market. I

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have a handful of rentals and a handful of Section 8s. Fred is an encyclopedia compared to my handful of knowledge here. What you will notice is right now that's the range and it seems to work and the government backing it with Section 8 housing fits in now. They're starting to tick up what they're willing to pay with their vouchers.

We just got \$1,300 for something we were getting at under \$1,000 for because of a Section 8 voucher. So you're starting to see some of those things tick up already because I think they're anticipating—I don't know how far they usually are ahead but they're starting to tick up some of their values, which I think means there's a little bit of room to run.

When you start looking at it, David, this is how I look at it. I say, okay, does it make more sense for me to own this and continue to collect the check? Or does it make more sense for me to just sell this asset and get the cash? We're starting to get to points now where I can break even in less than 30 months by renting it versus flipping it. If it's under three years, I'm holding.

Those metrics have shifted drastically from where they used to be. So it comes down a little bit to what your market is going to bear, but at the same time, what your goals are. I'm in my low 40s, I kind of want to build a portfolio and I look at how profitable some of these are, it makes sense. Plus, my opinion is I think there is going to be more run on price so the time to unload inventory is maybe a little bit later. Or now is the time to unload inventory you just really don't want to have anymore and kind of pick a better class of real estate.

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David: Yeah, perfect, agree. Fred, same thing, pick up on any of that and give us what your feelings are.

Fred: Sure. I think there's two distinctive points I want to get to. One is where I see the market and the commentary we were just going through. Also the other being where you can make money in the market and where you should be concerned. Because it's really where your entry point is, what class of real estate, what style of investing are you in, because certain styles are good places to be right now and others are areas to be very concerned about. You can't paint the same picture for everything.

On the market side, I think real earnings are going to be stagnate as far as typical people in the economy. I think unemployment is understated, real unemployment is understated. I'm not one that thinks we're headed back into a recession but I think that we're going to see some inflation and prices are going to rise due to inflation. I think that the quantitative easing is over. You can't go any lower. You can't manipulate interest rates any further. I don't view it as a credit card actually, I view it as a drug.

I think what the government has done is they put a drug in the veins of the economy and the drugged economy doesn't know how to get off of it. It's really that scenario in our view. And as a result, there's no more drugs you can put into the economy. So what's going to come on the other side of that is going to be inflation. We're going to see some rise in rates, we're going to see stagnation. I think in real earnings and real quality of living is not going to necessary increase. We also don't think that prices are going to go any higher necessarily.

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So on the retail side, on the homeowner out sale side, we think we've kind of crested over the top of that mountain. I think—the growth rate of prices—matter of fact, this is statistical now, we've actually looked at these numbers over the last 12, 24, and 36 months. That the growth rate of retail out sale pricing has not only slowed in almost every state but is now decreasing in certain municipalities. Certain areas you're still seeing some higher prices, but the trajectory of the increasing has gone down, if you understand that part of it.

Then on the rental side, it's really honing down on buying the right product with the right renovation, with the right quality tenant. It's all about the operating of the real estate. To give you use some reference points, we own 560 houses in Baltimore, in the Baltimore area. We manage over 700 because we manage for a number our turnkey clients. So we have a great cross-section of how the real estate operates and why our real estate is operated differently and better than others, and why that is a difference. We think that in a market that is tightening, where we are today, that's really going to play very importantly.

Back to the entry point where you can make money, I think if you are a buying whole guy, you have to have real estate that's renovated in a way where it is going to be good for twenty years plus. The type of renovation, the commercial aspect, we actually call it "battleship ready." When we hand a house through our construction system to our property management folks, and we own our property management company, that handoff is a battleship-ready handoff. We literally have a checklist that speaks to kind of the sturdiness and the quality of what's in the house and are we good for that twenty-year period.

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So if you're a buyer of that real estate, you want to make sure you buy from folks who are producing battleship-ready product. Problem in a frothy market that we're in today with a lot of entrance of people who are novices, who enter the market to make a quick buck, who are finding inventory and fixing it and then flipping it, turnkeying I should say, to private investors and passive investors—is the passive investor needs to have people like yourself, Dave, and others who are kind of that gatekeeper who can delineate the difference of value between the guy who doesn't have a platform, who is just turnkeying a house, but they don't really have a lot of experience in the rehab side.

Versus guys like Frank and ourselves and others, who we have platforms to not just build for ourselves, but the way we look at it is we view our business like a factory. Our properties come off the end of the factory line in a battleship-ready mode. Then our customer gets the same thing. Our construction folks don't know the difference between a Dominion property and one sold to a third party. I think there's a big delineation there. So I'm bullish on buying affordable housing product around the country. I think obviously different markets are a bit different but I think that's the key.

On the private lending side, just to quickly switch there, I think there's a lot of pitfalls now that didn't exist even six months and twelve months ago. Our view of that is it's not because the customer who's buying a product and then selling it to a retail homeowner isn't going to be able to do that. We don't see necessarily a recession on the horizon, where our sale pricing is going to go down or there's going to be a slowdown on the purchase side.

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What we see are investors overpaying. They're overpaying because they were taught by classes. They were taught by gurus. They were taught by the successes in the past to get into a market that have now created an over demand for the supply that exists. So now you have people chasing in markets, overpaying for inventory, working off of growth rate numbers or working off of fictitious numbers taught to them by somebody else—thinking that they're going to make a profit, when they don't.

So I think the pitfall on entering a market, investing on the private lending side, such as ourselves and I believe others, is to be incredibly cautious as to the client that you're lending the money to and being sure that the client actually has staying power and has an ability to be stress tested.

David: Man, really, really good advice. I can't emphasize enough what both of you gentlemen have alluded to but very humbly. That is, as a passive investor, which is what I do more than anything today—and I was a boots-on-the-ground guy—but nothing anywhere close to what you guys have done.

But I know from both sides of my experience that what I tried to do on my own, without having robust operations as you gentlemen have built over the years, I had a lot less margin and didn't run it like a real business. Today, as a more passive investor but certainly finding the best avenue for me and the people that I help, is through clients, vendors, that have the real operations. As you said, have been tested, have the track record. That's the way to do it.

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I appreciate your feedback on the private lending because a lot of people love to do that as you both know. But I think you're right, I think there's the tendency right now to be chasing deals in a lot of markets with a lot of people who that's their mode of operation, that's what puts food on their table, right? The next deal has got to come. The next deal has got to come and they're pushing those price points up.

All right, I'd like to wind this down a little bit with maybe a couple last comments from both of you, and I don't know if there's anything else to add here, but you've both done a really great job. Let me go back to you, Frank. Any other final comments that you would give to the professional passive investor that we haven't already laid on the table as far as going forward?

You both have said right now that in difference to the 2007, 2008, 2009, 2010 downturn, where both of you put things on pause, you're not putting things on pause, but you're going forward with the fundamentals. So with that in mind, any last words, Frank?

Frank: From what I know of who's listening to this podcast based on what I've talked to David about, you're a smart group of people. You've made good, fundamental decisions that have gotten you to this point. Fred has given you a lot of great data on the buy and hold side and on the financing side.

What I would tell you is if you think you have a long-term trajectory, you have the right asset, and your goal is to have it for wealth building purposes into the future, now is still a good time to buy if you do it right and you don't participate in the euphoria of the market. If you're not

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desperate but you pick good properties and you bring good property to the market with staying power, it's a good time to invest.

Fred was gracious enough to invite me to Miami to be at a banking conference and I've been up to his office, we've implemented some of the changes that he's talked about in our business. We've gotten rid of some of our lipstick flips because I think now is a good time to sell and we're going back to stud and redoing for a long staying power with houses.

If you have the right mindset and you have the right investment strategy, it will help. If you can keep tenants in your properties and continue to have them produce income for you, it's still a good thing to be in, but you just have to cautious how you enter.

David: Frank, how can people find out more about you? What's the best contact point?

Frank: They can either go to www.becava.com or xperiencedinvestor.com—it's experienced with no "e" at the front.

David: Very good. Fred, final comments from you, sir?

Fred: Sure. Yeah, I think this is a really interesting time in real estate because I think that the last five years have kind of erased the memory of the downturn for too many people. This country has kind of a short memory to its own fault. I think that the issue today is portfolio management and risk management and a real need to diversify.

Make sure that when you have a portfolio, and as Frank alluded, I think the folks on this call, passive investors, are really seeking diversification. They want to know that

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there's risk management in place. Five years ago, you didn't need risk management. If you think you had it, maybe you didn't have it because the market didn't point to it. The market is going to have fractures and fissures in different places in the next 18 months.

So having the right authority figure that can manage the portal of investment opportunities to come through that portal, from an eye of portfolio management or risk management, I think it seems like, Dave, you're very well positioned for that. I think that's really a very critical point because what you need to be able to focus on are operators that are professional at what they're doing.

You'll need to know to ask the right questions as far as property management. What are the right metrics for a property manager? Are they answering the questions correctly? Are the turnkey providers providing the inventory in a battleship ready fashion? I think that's the risk management and the portal management that I think is really important.

We are bullish in a sense. We are still acquiring 40, 50, 60 rental properties a year to add to our portfolio, but we're doing it in a very honed down, tough, looking at the metrics and the numbers, and I just think that your group should do the same.

David: Yeah, your network is your net worth. Fred, how can people find you and the Dominion Group? Best way?

Fred: Sure, you can go to www.thedominiongroup.com. Everything is there. If anyone has a specific investment question, you can email me at fred@thedominiongroup.com.

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David: Well, very good. Once again, gentlemen, I want to thank you so much. For those of you who are listening with us today or on a replay, you've just heard from two very high integrity, veteran business investors in the real estate arena. I think the advice that was provided today is sage advice. I know I picked up some nuggets.

I thank you both for your friendship, your relationship, and the collaboration we're able to do through our mutual relationships. So thanks and have a great day.

Fred: Absolutely, thanks for having us.

Frank: Thanks, David.

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