

Ep #77: 18 Months to Freedom - A Case Study



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

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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.

Evan: Good day, everybody. This is Evan Harris and I am here with my friend and co-conspirator of wealth building, Dr. David Phelps. Dr. Phelps, are you on the line today?

David: Hey, Evan. Yes, I'm here. I'm here and ready to conspire with you. What plans do you have for us today? What would you like to dive into?

Evan: Today I'd like to talk about real life people that have actual success. I think many times we can talk about what we theoretically believe is possible, what we think we've seen. But when there's actually someone that's been in our life that we can be able to see before and after, be able to that they had fears, that that they had reservations, and they took action.

The action wasn't like massive action, that other people could say would just be impossible, but rather action that they could think would be logical, like baby step action, but that it turned into massive life change and massive life enhancement. I think that's what I've been hearing from listeners and from others, that they want to hear from other people in their position what they did. How did they do it?

I believe you've got a gentleman here, Dr. J we'll call him—not the basketball player, but an actual doctor. We'll call him Dr. J. That has experienced, I would say, a life transformative path of progress that you could be able to kind of take us through so the listeners can be able to see

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how they did it and then they can be able to find their version of it.

David: Evan, I'm with you. I think theory is one thing but actually putting something, putting information into application, into implementation, that's where the rubber meets the road. That's what we all need. I know that I am no different than probably any of our listeners in that I love information. I love to take in new information. But sometimes that fear factor of, well, do I take some steps on this? Do I act on this information? What if I make a mistake? What if I do it wrong? Holds us back oftentimes.

So, yes, you're right. I think looking through the eyes of others, other people that have gone ahead of us who are very much like us in character and nature and background and all those things can make a big difference. So, yeah, let's talk about Dr. J. As you said, Dr. J. is not the basketball player but Dr. J is a good golfer. He loves to golf. In fact, he and his wife travel a lot. He's around 60 years old. Been in general private practice for 30, 35 plus years. Nice solo practice.

Came down to Freedom Founders in Dallas, Evan, about 18 to 20 months ago. I'll tell you that when Dr. J and his wife came, they were sitting in the room and I noticed that he had his arms folded across his chest. What does that indicate to you?

Evan: Well, I would say a couple things. It could be reservation, or maybe some healthy skepticism, or maybe the air conditioning was just a little bit too strong.

David: Probably a little of all three actually to be truthful. But yeah, I think healthy skepticism is the right way to put it. Evan, it's important for all of us to be skeptical. I'm a big skeptic. I have to—not that I have to be sold on

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something—but I have to be given enough information or feel like I can ask the right questions to do what we both know is called due diligence. How do you underwrite taking action on anything? Whether it's an investment or expanding your practice, a new practice location, taking on a new coach or mentor.

How does one ask the right questions to give you the best chance of making a good decision? There's risk in everything we do but taking no risk at all, taking that position, I think is the worst. So how do we go forward? Well, we look at what other people have done. We look at the questions they ask and maybe any of the revelations that they had.

The big fear factor that Dr. J had, and his wife, were that they had been investors in real estate back in the 2005-2006 era. They got involved with another group, I will leave them nameless, but a group that was promoting real estate investment. I think it was actually promoting real estate investment to doctors, to dentists, to high-income professionals because, well, back then, as it is today somewhat, real estate was kind of the place to go to because of stock market volatility. People want to run away from that because there's no control. Putting your money in very conservative investments like CDs or T-bills or just in savings, we know that's not going to get it done for us.

So what are the alternatives? This doctor and his wife had been involved in this other group right at the height of the last bubble. They got involved in some commercial projects. I think they pooled their money and did some things like that, when it looked like nothing could go down. And of course it did. They bought at the top of the market, probably got caught up in the hype. Maybe the people

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that were selling it were more promoters than real investors. I don't know.

Long story short, they lost money. Yet they came to Freedom Founders because they know that I am a big proponent, as you are, in investing in real estate but doing it what we call “the right way.” We’ve talked about that on previous podcasts and we’ll continue to talk about it. But the topic today is how did this doctor, who was not unlike all the other colleagues that we know in dentistry and professional practice, Evan. How’d this doctor overcome that previous loss and decide to come to a meeting where he knew we were going to be talking about real estate again.

What made him think this was going to be different? I don’t think he knew. I don’t think he knew for a fact so he had his healthy skepticism. I’ll say that it took him probably—and he’ll say today, he said he was a little bit slow to get started, which is okay, especially when you’ve had a loss before. I think you want to take a little bit more time to say, okay, am I stepping off with the right foot this time? What’s different this time?

Then of course, I’m very much like you are, Evan, I think getting started in real estate investing for new people, the easiest way and probably the safest way, is through lending models. Being the bank. What I also call control without the ownership. Being a bank can be a very strong position. You can lend money to others who have what I call the boots on the ground investing operations, like you do. Like you do in the San Diego to L.A. market.

You’ve got a lot of borrowers, I should say, you’re a borrower for others who want to invest money with you. They lend money to you on your projects. They get to

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know you and you give them a nice return on their money, correct?

Evan: Yeah, that's true. I would say a lot of people that when they're building their business or when they're really active in their business, most of our clients are looking for active income with passive involvement. Meaning they may have busy family lives, they have busy practices, or busy businesses. They really just want mailbox money. That's really where we fit in. We were able to pay 10 percent plus returns secured by one property. They're not comingled with 50 other people.

But I do think that as someone is getting out of their practice, they're selling their practice or they have a whole lot more time on their hands, as they're able to go and shadow our team, they're able to see how properties are purchased and rehabbed and resold that if they want to then do them on their own, I think that's a great path. I do believe that the profits are higher that way. I think that their time allotment potentially can be higher too, but that they'll learn a ton. They can learn a ton through what they're doing with us, seeing already systems in place. They can adapt those systems.

I'm fine to share with them and they can be able to really make some huge profits as well as set themselves up for financial freedom through assets that pay them rent reoccurring. That's an annuity over and over. It can be just on maybe five properties that each pay a certain healthy amount of cash flow rent that they can essentially just retire on or have even more freedom to make decisions with that stream.

David: Exactly what Dr. J and his wife did, Evan. They started lending money on typically some shorter-term deals,

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shorter team meaning 12 months or under. They had a security instrument, a lien position, just like a bank against the property. So that gives them, again, what I call the control without ownership, which is rarely needed but if something goes awry, you have that security position.

What I told them was, I said, “When you decide who you want to invest with,” and that’s why they came to Freedom Founders, to meet some of the people who have the boots on the groups opportunities: to meet them, find out a little bit more about them, learn through our group how to do the due diligence, how to look at making the right decisions. Then to go and actually visit the geographic location, meet the team, go look at some of the projects, see how they're run. Just to see what the culture is of that particular person and their business to see if that’s someone you’d like to do business with.

Now a nice thing too, Evan, when you're lending money in real estate, one of the rules is you typically don’t lend more than 70, 75 percent of the after-repaired market value, which you can't do in the stock market. When you buy stocks or bonds, you pay par, you pay 100 percent of what that asset is selling for that day. Well in real estate, you don’t have to that if you have access through people who do what they do like you do very, very well. That’s the whole premise here.

You can buy real estate at wholesale if you have the right access. While doing so, you’ve got that margin of safety so that if the market does turn, which it will cycle at some time in the future. You’ve still got that margin there that will protect you and the person you're working with so that you're able to still have a performing asset that does well. That’s what Dr. J and his wife did. They started allocating quite a bit of their funds out of the stock market and into

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these lending deals. Got comfortable with them, were getting nice returns.

Within maybe nine to twelve months, then they started also diversifying out into some turnkey rental properties, which is the equity side, it's the ownership side. But again, Evan, passively because they're investing outside of their geographic area, which is not necessarily the best area right now for investing in real estate. So they can invest in other areas of the country that have a higher economic base and a better cash flow market relative to price points.

They have, again, the professional property management behind them so they don't deal with what I call the brain damage, the moving parts of real estate, but they're getting those nice returns both in lending and also in ownership positions.

Evan: Your mastermind group I find is such a connection point for our listeners. We try to connect people here in the southern California region with other people that are doing what other people are considering doing so that they can actually have mentors. They can be able to not only have mentors but mentees.

I think the most powerful thing that I do is show others what I do because I'm able to learn it that much more because they ask me questions. How do I do that or what forms do I use. I think, man, I've never had to explain it to somebody else. I've just kind of done it. But once I start explaining it, I discover new ways to do it that are more efficient.

David: Exactly right. The other thing that I think a lot of doctors have concerns about, Evan, is that they can't think about leaving their practice. They can't think about selling their

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practice or transitioning out or going to part time because they haven't developed the confidence or the ability to invest their capital or invest the equity from the sale of their practice in investments that they have confidence will give them stable, consistent returns better than what the stock market returns, better than what CDs, T-bills, or other very conservative investments will do. They don't have that confidence.

What happened over the last 18 to 20 months with Dr. J and his wife is that as they little by little started allocating more of their capital and seeing the returns that by March of this past year we had our one-to-one coaching days and we went through their entire portfolio. Now, let me also say that over 18 to 20 months, they have done over 60, that's 6-0 transactions through our group.

That's a person who came in with healthy skepticism, sat back for probably the first two or three meetings, did very little. But that's okay because they were really doing what I say is part of the due diligence. That is building the trust and relationship and understanding the details on how deals are structured. But 60 deals and we went through their entire portfolio and their big aha moment was when we had tallied up their total monthly passive income. It exceeded what he makes working in his practice. That made it a done deal.

Evan: Wow.

David: So what they immediately did, I'm talking about immediately, went back home, listed the practice with a broker, like the next week. Dr. J told me, Evan, that they don't have to hold out for top dollar on their practice. You know so many doctors are in such a squeeze, I think they feel this huge stress that when they do go to finally sell,

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it's like "I've got to get every last penny that the market says I should be able to get" or the practice broker or the appraiser says I should get.

So what they do is they hold out for that last dollar and they keep working and working and working. In the meantime, life goes by. Dr. J said, "David, we don't have to get 'top dollar,' we can sell at a discount to market." They both smiled at each other, he and his wife smiled. They said, "We could take the keys to the practice and throw them in the bush tomorrow if we needed to."

Now, because they care about their patients and the legacy of their practice, they're not going to do that. But they can sell to the best probable successor at a good price and not hold out for top dollar and feel good about the whole thing. That's what I think that peace of mind comes from when you finally feel like you're in control.

You're in charge of your future just like you were in control or charge of your practice. Now they're in control of their future and they know how to invest their capital and do it safely, securely through the relationships and the knowledgebase that they have obtained through Freedom Founders.

Evan: David, I would call that absolute freedom. A doctor just recently—and in the opposite situation—had to sell the practice because of health issues and was not financially free, and decided to hold out for the highest offer. But unfortunately, the highest offer was probably the least cultural fit. What has happened as a result is that patients have left in droves.

Team members have been either fired or let go. They've carried resentment to the senior doctor. Senior doctor feels like he's let down people. Doctor feels like friends

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and family are looking to him like why did he do this to them. Now of course, I believe he has freedom to sell to anybody but it didn't feel so free when he was getting phone calls that were slightly angry.

Team members that had been with him for 15, 20 years that felt like he just kind of went for the highest offer but sacrificed relationships. What turned out, I believe the offer difference was about \$9,000, between someone that I felt was a much better cultural fit and so did the team. \$9,000.

I'm not saying \$9,000 is nothing but my guess is that if this person had a little more cushion, a little more freedom, they could have sold to somebody that would have given him such a long legacy of gratitude for the practice. A practice was over 30 years of investment—for \$9,000. I don't know exactly what 30 years going into \$9,000 would be, but I'm thinking it's a lot less than a Starbucks a day. A lot less.

David: That's sad that it comes down to that. That's what I don't want to see our colleagues getting into when they're facing some of these what should be happy life decisions, Evan. The other thing I think that also factors into whether or not a doctor is ready, willing, capable of transitioning out, selling their practice, is what they do once they take the hat off.

What do they do once they are no longer in practice? They no longer have the practice. They're no longer the doctor. They no longer have a staff and patients who come and respect them and look to them for advice and great oral health care every day. What does that do to a person when there's nothing beyond the practice?

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Here's what Dr. J has quickly found. He loves what he's learned to do. He and his wife love what they've learned to do with their assets in real estate. What I've seen them do very quickly in our group is become mentors to the other doctors who are like they were when they came in: getting started, stepping out, having that healthy skepticism.

They've become great mentors and beyond that, Dr. J and his wife's two adult, call them millennials, but they're 28 and 30 years old, they have them come to our meetings because they want them to have the same opportunity to learn how to invest their money no matter what career they're going into. So I see them as creating that significance in their life now because he sees the next phase of his life. You know, post practice is now how he gives back to not only his kids but other colleagues. He's really passionate about that.

So in a nutshell, it's changed their lives immensely and I'm just glad to be a part of it. I'm just a part of it, maybe a facilitator. They had to take the action, Evan. They had to make the trip to Dallas, take the steps away from home. Come somewhere where they've been burned in the asset class before in real estate. Come with that healthy skepticism but still knowing and having the resolve, Evan, to say in their hearts, "We have got to figure this out." You know what? They've done it.

Now they are on a crusade. They are on a mission like we are to help others get through those obstacles, those barriers, those self-limiting beliefs that so typically hold all of us back from those fear factors that reside within each one of us.

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Evan: Boy, you are right, David. I hope that our listeners, as they listen, they know what's possible. That they know that they can reach out to us. They can reach out to clubs. They can attend a mastermind. That there's not going to be any strong-arming. That it's truly just no pressure. No desire to do anything but to inform. Then if people are really captivated by the possibility of being free, that they can take the next step. That they can take the next step with us or someone else.

We can give a blueprint to them of what we've done and if they feel that that's something they want to do, great. Follow it. It will probably work. If they want to take a different path, we probably know people that can help them take that path.

So for us, listeners here, please, you like what you're hearing, like it. Subscribe it. You have questions? You want us to go in a special direction? You feel like your situation is unique? Share it with us. My belief is that it's probably unique to you but others as well, that others would get a lot out of it. So let us know. We'd love to be able to custom-tailor this podcast to your needs.

This is Evan Harris, Dr. David Phelps, the *Dentist Freedom Blueprint*, two guys on a mission to make a difference to show you how to create more freedom in your life just like Dr. J.

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