Ep #23: Why Savers are Losers

Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

Ep #23: Why Savers are Losers

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: This is Evan Harris and Dr. David Phillips and we are two men on a mission to help practice professionals thrive and not just merely survive. David, are you there?

David: Evan, I'm here and I am ready to roll.

Evan: David, I'd like to talk about an article that you sent to me with a title that definitely got my attention. The title is, "Why savers are losers?" David, I've got to say with a financial planner father, money manager guy that was all about saving and investing. That's definitely on the saving side, I have to say that. That crinkled my nose a bit. I thought, how can savers be losers? Having read the article, now I see it through a whole new light. My hope is you could be able to shed some light of your own for our listeners here why do you feel this article is sharing "Savers are Losers"?

David: Absolutely, Evan. This does go against the grain of traditional thought and we've always been taught growing up, kids, our adulthood that we should be savers. I think that has been good advice up until probably recent years. I think the problem that we have today is that we really live in new times altogether. There are really are what I would call new rules of money. Here's the issue, if you think about the last gosh probably seven, eight, nine years, we had really low interest rates.

Going back into my lifetime I'm getting to close to 60 years old already but we have interest rates in our country from probably

5 or 6% and gone up as high as 18% back in the 80's, in the Carter era and back down to lower or mid-range single digits. The last seven or eight years after we had the credit crisis, the financial crisis in the marketplace back in 2008, the Federal reserve with all their wisdom trying to keep the economy afloat, not let things just totally crater have dropped the interest rates so that they could keep the economy stimulated. At the same time while they drop the interest rates they are also very heavy on buying bonds.

Maybe you've heard of quantitative easing. Quantitative easing is a term that the Federal Reserve uses for printing money and they don't actually physically print money anymore, Evan. They digitally print it but the point is by reducing interest rates to next to zero and then printing a lot of money, circulating a lot of money in the economy a couple of things happen. The pan out is not produced by anybody. It's actually what we have today as a fiat currency. Richard Nixon back in 1971 took us off the gold standard which means there's no real basis for money anymore. It's not really worth what it says it is.

It's worth whatever the marketplace will say it's worth today and we don't really know what that is but we know that with printing more money the more that money turns the economy, goes circulates around and around the more that will push up prices. At the same time, people who have been told to save their money, to save it, save it, save it, save it and put it away. Saving that money is not a good idea anymore because that money is losing value. It's a problem that a lot of our dentists have today when they want to think about retirement. As long as one is working actively in the business, in the practice, for the most part we can raise fees right, Evan?

We can raise fees to accommodate for increase in inflation, increase in prices of all the things that we have to deal with be it through the grocery store or utilities, energy, things of that nature, price goes up. As soon as we stop actively working now whatever we have amassed in terms of our savings somehow that has to last us the next 20, 25, 30 years of our life. A time that we really thought we're going to enjoy life, sit back and enjoy your retirement, whatever that is. The big problem is that with inflation, the earning power, the buying power of that savings is going to go down unless we do some things to help offset it. Does that make sense?

Evan: It does and that's where I like to come in. Next would be in the article they talked about the best and only defense is a good offense. Could you share to our listeners some of the areas that you feel are the good offense to be able to hedge that inflation, hedge some of the issues that are intrinsically attacking just the stagnant capital that maybe we're holding on to that are just eroding our net worth.

David: Yeah, what I'm saying today is that there is a lot of concern, that's probably using the word lightly but a lot of concern about how does one deploy or invest one's assets, the assets that have been saved up, the assets that one maybe gains from the sale of a business, a practice. Maybe they practice real estate so that's all what we call the investment net stake, whatever we have when we stop actively working. The best offense is not to gamble that money and where might that be. Unfortunately, that's really where most people had put their money in the past has been the stock market, on Wall Street.

Wall Street in my opinion is a top place for the individual what I call the retail investor to be. I don't see much control there at all. I see a marketplace that's easily manipulated. I don't really like investments that are backed by what I call paper that is the stocks or the bonds of companies because I have no control over those companies, Evan. The other side of the coin is well then do we just stay very conservative? Do we just keep our money in CDs and T-bills?

Again, the problem there is there's no real return on the money because the Federal Reserve is artificially subsidizing the interest rates today and so those people who took the road of saving their money are having a tough time today. Seniors today are having a hard time because they can't purchase the prescription drugs they need or pay their utilities. The same thing comes into mind for our dentists who are thinking about retirement, they don't want to see that happen to themselves so the offense in my opinion and you and I both have the same bias here, that's for hard assets.

That's tangible assets, that's in my opinion a real estate because real estate over all the years and even though the markets will cycle when real estate is well one can purchase still today very easily good solid cash flow producing real estate. The right market, the right price point, the right returns on investment. Even when the markets do cycle that good real estate is not going to go away. You're not going to lose 50% of your principal or more like you might do in the stock market. That's the offense that I see there.

Evan: Okay, for the person that's listening to this right now thinking, "Okay, great. I hear stock market much more of a gambling type method, putting it into a CD, safety deposit box was going to get eroded away. Yeah, I hear real estate, I believe in real estate, I believe it's the best way but I'm busy. I'm drilling on teeth, fixing people's limbs, I got kids, I got a wife, I got all these things I've got to deal with." They are used to going on let's say a website, they buy a stock.

It's couple clicks they can buy it, sell it, done. How do you respond if someone says, "David, it's easy for you. You've been in real estate all these years and you and Evan buy these houses and it's something that's natural to you." How do you respond to someone that is already busy that may not feel like they have an option to have a good offense?

David: Yeah, that's a great question you post, Evan because I think that is the conundrum. A lot of people do understand that real estates are great place to invest but the problem is how do I do that as an individual. I've heard too many horror stories about people who have had renters and dealt with tenants and tried to be a landlord or they have thought they could get into the fixing and flipping of houses. That's not something that the professional practice owner should do. What you have to do is you need to connect with people who are in that business, in that investment business.

Evan, that's something you do on a side but you didn't just start yesterday you've also built up a network of people. You have relationships with other people that are I call an on your team. They are not employees but you have people such as contractors that you vetted out, that you have relationships with. You have attorneys that help you with closing documents, you have title companies, you have people that are also very, very good at sourcing opportunities.

These were all things that anybody can do and learn to do but if your time is more valuable which it should be as a dentist in your practice then why not leverage your time where it should be and utilize the experience and connections, relationships of other people to allow you to invest, safely securely but without taking all your time. Without having to go through that learning curve because there's a learning curve with everything.

Evan: Absolutely. What I'm hearing you say David is they don't have to do it themselves. There are a lot of people that they can collaborate with to be able to be a team and many times they are the ones that's providing the capital. That may be a significant component of contribution. Someone else may have the full team, the full know-how but maybe they are already into another job or a couple different deals. That capital may be the difference between them walking away from an opportunity or saying yes to it and sharing the win.

David: There's four parts to every real estate investment transaction that I look at Evan and those four parts are as follows. Number one, somebody has to be able to find and identify the opportunity. What's the opportunity? Where's the asset that can be acquired? Under what price or terms? Number two, somebody has to be able to negotiate the price or terms and actually close, actually take title control that asset. Number three, somebody has got to be able to manage that investment to the exit and that could be a short term where someone is doing fix and flipping and I invest in those, that model quite a bit.

It could be a longer term what we call buy and hold or rental, I invest in that model as well but somebody has to be the manager on that. Then lastly but not of least importance of course is as you just said the capital. Somebody has to provide capital and that can be in all cash, someone may have a retirement account that they want to use in the lending mode for example or somebody might be able to today lock into the long term fix interest rates. Put 20% down on a good capital asset real estate producing asset and get 80% leverage through the low interest rates today and actually acquired a property but again having someone else manage it.

Somebody is going to have to bring one of those four parts to the table if you will, the four parts of a deal and one person can do all four which is what I used to do in my younger years when

I had more time than I had money and I would leverage through existing financing. Today and what I really recommend and coach other dentist to do is don't try to do all those things unless you have time and you freed yourself up from your practice, maybe you're not practicing or maybe you have a son and daughter whose entrepreneurial and can bring some of the other parts. If you have neither those, the time or the other people that can help you with that then certainly leverage to other people's businesses.

You've got to create and find those relationships, I mean that's what we do with freedom founders, we create those relationships but on the local basis there are real estate groups all around the country. Evan, you have to go out and make those relationships, you have to build the relationships first, don't blindly invest, don't blindly get into something that you haven't really vetted out. This is the way that most of the wealth has built this country, it's not done on a solo basis, it's not done by just being self-reliant, you and I both know that we do things together.

I've got a number of people that I joint venture with and it's a pleasure to do business with other people, I guess more the diversity. It also gives you more security and stability because not everything is dependent upon me.

Evan: David, I'm looking at the article of thinking we really focus a lot of investing but we may have an audience here thinking, "What about saving? Do I invest every nickel that I've got? How much do I save? What about emergencies? What about if something goes wrong how much do I need to have?" Then that can answer the question of what they can be able to invest. How would you answer what would they want to have as emergency fund or they want to have as a goal of a savings rate so that they know that they're taking care of the essentials, the emergencies and then they can be able to know that the rest of the money can be working hard for them?

David: Absolutely, that's a great, great question. I think having some liquidity either cash on hand or access to cash, what do I mean by that? Certainly if you just save up three or six months' worth of living expenses and you keep that in cash, that's one way to do it but then again that cash isn't working. You can either do that or you can have access to cash that could be through lines of credit. Now, I don't really like to be dependent upon the banks because the banks can change. My lines of credit if you will, Evan, are again based on what I just talked about, relationships.

I have real people, just like you do that I do real business with and through those relationships I've truly do have access to liquidity. I have enough assets that I could liquidate with a number of my private lenders and gain access. Either way having access to cash I think is important because there are going to be times when cash is important. You need to have a margin of safety and also, Evan, another point is that in the roller coaster cycles we have in the marketplace and again I'm not predicting anything here.

Let's not say if we have but when we have another reset in the financial markets and it may happen also in the housing markets. When there is a reset that again creates opportunity and if you have access to or you have cash, some amount of cash, maybe it's 20% of your portfolio ready to go and you have built the relationships connections so that you can participate in the opportunities, that's when you can go into the market and get into assets and opportunities at the low point in the market. For dentist that might be the ability to expand ones practice, their office building for instance or equipment or merge another practice.

For people who are investing in real estate like we do that can be again a place to buy into the market or land into a marketplace that again it's in a low. These are opportunities you want to have access to some cash because going into a low point in the marketplace is a time when you can really make up for some lost time. We just did that in 2008, 09, 10 and 11. We're back in a little bit of a bubble again but trust me there's going to be a reset, I don't know how much and when it's going to happen but be prepared to take advantage of the opportunity when it does occur.

Evan: When people have certain targets of their income to save. Let's say they have a certain wage and then they have their … All of their expenses, they take care of those. What would you say would be a goal of the investment amount ... What percent would you like to see actually going into one of these investment type vehicles?

David: People used to say a good rule of thumb was 10% and, Evan, I don't think that that's a good enough amount today particularly for the audience that we're talking about. 10% is just not going to make it happen, even 15%. I think what happens to too many people is they use those old rule of thumb and I think I'm doing okay if I'm putting back 10%. With the higher regulation, the taxation, the oncoming inflation, I think we've got to better. What that might mean for some people, there might be a little bit of pain and having to cut back on the consumer lifestyle a little bit but that's not a bad thing to do, that discipline is not a bad thing and learning to invest as much as 25%.

That may seem like a big number but 25% is a number I would tell most people if you're still building toward that investment portfolio, if you're still estate building and trying to reach that point where you have enough of that in estate. Do 25% and get your whole family on board, that's another key point here, you can't do it by yourself, you got to get your family on board. As you hit those milestones, as you make that happen, as you invest periodically and use 25% of your income to do so. Reward your family, small rewards go along ways towards making that discipline happen.

Again, I'll just speak from our buyer standpoint but real estate is a place to go, the neat thing about a real estate is you put real estate because it's not as liquid as other investments you're not likely to go liquidate that asset and take that money out and go maybe spend it on things that you should spend. There's some discipline involved in real estate, it works for me, it set me up so that all the time that I was investing in real estate I was gaining value because of the leverage, I was increasing my equity through appreciation and also through amortization of loans that the tenants were paying off.

I have the cash flow and typically what I did with the cash flow, the excess cash flow from real estate is I use that to pay down the debt, leverage that I use so that those assets will go free and clear faster. You have preferred taxation with real estate; you also have depreciation and 10/31 exchanging. Lots of benefits to real estate that allow one to really estate build faster and without the high taxation that are earned income unfortunately is subject to.

Evan: David, I appreciate that. When I think I just wrapping up the show here I think of when I was a little boy I had, my father coaching me and I had three jars, I had my save jar, I had my give jar and I had my spend jar and of course I look forward to that spend jar. Then the save jar was exciting and I was saving up for a bike or whatever it might have been. The give jar is going to a good cause, whatever cause, I felt pulled toward. David, I believe I was missing a jar and I believe that jar would have been the invest jar and I hope our listeners here that they can see that that invest jar really can be the vehicle to really fund all of the giving.

It can fund all of the living and it can fund all of the saving when done in a way that really is congruent with all of your goals. Both of your life goals, your dreams, even the needs, immediate needs of you and your family. David, it's been an honor to have you on the call today, much appreciated. For those listeners if you would like to find out more about investing check out our websites, check out our podcast. If you like what you're hearing like it, if you want to add more information, you want to have some suggestions for us, please leave it on there, we will get to it, we want to make it relevant to you.

David: Thanks, Evan. It's been great. See you next time.

Evan: Thanks, David. Bye.

You've been listening to another episode of the *Dentist Freedom Blueprint* podcast with David Phelps and Evan Harris. The place to be to create your freedom lifestyle with more time off, security and peace of mind. Please subscribe, download the podcast, and share it with others who want to create real freedom in their lives and practices.