

**Ep #153: The Freedom Journey - Insights From Dr.
David Phelps**



Full Episode Transcript

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Dr. David Phelps

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Ep #153: The Freedom Journey - Insights From Dr. David Phelps

Dr. David P.: So I was able to take that 25,000, and over the next 15 years I accumulated about 35 houses. Now, they were, again, all leveraged, but over time the tenants pay down that debt if you manage it well, if you have a good property, if you buy it right so the cash flows. In about 15 years I had around \$15,000 of net passive income coming in.

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps. 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.

Alex Lerma: Welcome to the Dentist Freedom Blueprint podcast. I'm Alex Lerma joining our host, Dr. David Phelps. Dr. Phelps, over the last few years, you've given us the opportunity to listen in on strategy sessions with your most trusted advisors in your network on a variety of subjects, ranging from the field of dentistry and practice management, to alternative investing, safe and steady wealth building, tax strategies, legacy cleaning and hassle-free real estate. But some of us who are long-term listeners to the podcast would like to hear from you directly, Dr. Phelps, how you learned these principles, how you built your network, and what you've learned through that process.

Dr. David P.: Absolutely, Alex. Love to share that. I'll let you take it wherever you want to go.

Alex Lerma: Excellent, excellent, very good. Well, I'd love to ... Let's start back at the beginning. So you left your clinical practice in your early 40s, which I'm sure sounds like a pipe dream to many listeners. So talk to us about how

[Dentist Freedom Blueprint](#) with Dr. David Phelps and Evan Harris

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

that became possible for you. What led up to that transition in your early 40s out of practice management.

Dr. David P.: Yeah, that's actually a question that some of my colleagues in dentistry and medicine asked me, Alex, when I did leave clinical practice about 15 years ago, so I was in my mid-40s, you're right. And no, that's not the norm, right? Usually when you get into a career or a profession where you have spent years of your life and today you spend a lot of education debt or investment into that education. One would think that you would want to stay the course until your late 50s, 60s, some actually into their 70s, because you put you so much time and effort into it. And so that was the question that was asked of me, and I told some of my colleagues who asked that question, I said, "Well, what you don't know about me is that all the years I was a dentist I was also investing in real estate."

In fact, I started investing in real estate in my first year of dental school, and I'll tell you a little bit about that story. But I think what's relevant here that I want to just kind of hit off the top is some of this was accidental, I think, in some ways, but also it was a little bit intentional. Now, let me be clear, Alex. I did not have a design in my life back when I was in my 20s that I would be leaving clinical practice after 20, 21 years. I had no design on that. I didn't know that was going to be the case. But I think what I did have in my mind back then in my earlier years, even before I got into formal education, college and graduate school and dental school, Alex, is that there was always this piece of me ... and it's still there today ... there was always this entrepreneurial side of me.

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

When I was a kid I was always trying to figure out how to make money, how to ... Kind of what we call a side hustle today, except my main hustle was going to school, right? So my side hustle was, you know, how do I make money on the side? Because my parents were really good. They were good and they taught myself and my sisters lessons about hard work and stewardship and they didn't just hand us anything, we had to always earn it and the amount of allowance that I got growing up was, I think, pretty minimal but, you know what? That was okay, because it wasn't about making money with my family, it was doing the chores and responsibility. What I learned was there was a way to make money, so I sold greeting cards, I had lemonade stands, I had the paper route, I mowed lawns in the summer and employed other kids under me. I was always doing that stuff because you know what? I wanted to learn how to make money. It wasn't because I needed to have the fanciest bicycle or car or anything like that, it was just it was part of me.

So that was always within me and I think, you know, then I went down the path to dental school which was kind of meant to be that staid, that calm, that pathway to freedom, having your own business, you're prepped for your profession, people respect you because you're a leader in the community or you're a doctor, lawyer, CP, whatever you might be doing, we've always thought about the respect et cetera, but what I found was, Alex, is that that didn't actually lead to freedom.

Yeah, it gave me the opportunity to provide for my family, which is definitely important for all of us, about security, the financial point of stability, but what happened was my daughter, my only child, had a host of health issues from the time she was two and a half years old, all the way up

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

through age 18, she had a host of issues. She had high risk leukemia when she was very young and then she had a period of years where she had breakthrough epileptic seizures and then finally the one that broke the camel's back for me was when she had to go through a liver transplant at age 12 because she had end stage liver failure, age 12.

That's what really knocked me off my game, if you will. That game was set, if I worked hard and tried to control my destiny then everything would be good and I learned some really good lessons back then and that is we can't control everything. There are points in life which are disruptive, as much as we try to do the right thing, there's going to be adversity and we're to accept those.

Now, it wasn't easy at first but I had to learn how to accept those and then the lessons that came out of those really became the epiphany and the foundation for really what I feel like I'm about today and that is, you know, what we do in Freedom Founders. So I kind of fast forwarded, your question was how did it all start and I led you a little bit to that first real estate investment back in 1980. Do you want to pick it up from there? Because I can steal this whole show from you, Alex, and you wouldn't get another word in so I better let you jump back in and I'll catch a breath.

Alex Lerma: Well, thank you, David. That's an extraordinary ... Extraordinary story. How were you able to build a plan B so that when that wake up call came with Jenna, you had a back up option, you had a secondary route that you could take? Tell us about the story of building that plan B.

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

Dr. David P.: Yeah, when I was in college, probably my last couple of years in college and I was still working hard in all the clinical sciences and physiology, biochemistry, organic chemistry, doing all that stuff that we have to do to get through school, I was still, at night, finding a little bit of time to read about finance and investing and realized I didn't have any classes in school about that, I just knew that ... Something inside me told me because of my ... I think my entrepreneurial spirit said, "You know, David, you've got to always still stay abreast of what you're doing, no matter what your career or business is, you've got to learn how to be a good steward of your finances." And so even though I didn't have any money, I had debt, I didn't have assets at that point, except my education, that was the asset, but I read books on the stock market and I read books on real estate.

Those were the two different asset classes that I found that I felt like people would talk about or I could read about in the library, we didn't have the internet back then, by the way, Alex, there was no internet so it was all library books or magazines, periodicals, and so as I looked between the two classes of investment, stock market, kind of paper assets and real estate being the tangible, hard assets, my conclusion was that the hard assets, the tangible assets, the real estate, or what we call a capital asset, made a whole lot more sense.

Now, it wasn't as easy as just going in and buying stocks online like we can today or even having a broker to buy stocks. Real estate's not as easy but what I found was there was ... What I saw was more control and that's what I want. I've always been someone who wants more control in my life, like you have to orchestrate your own future, so I found that control aspect and so when I got

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

out of college and started my first year in dental school, before I got started I told my dad, I said, "Hey dad, I'm going to be here for four years. I think this real estate thing could be a good thing." I had to kind of convince my dad, and say ... Because he wasn't involved in real estate, other than, you know, homes we lived in, so I had to convince him that this would be something that we could do together, meaning that I would be the manager and he would put up the credit and the down payment money, this would be the financing partner.

So we went together and he came down to Dallas, where I was going to school, and we looked at properties over a couple of weekends with a realtor and the one thing I knew, Alex, was it was ... Real estate was all about location, location, location, so we found the worst house in a really good area actually relatively close to Southern Methodist University, and so there was a lot of good dynamics but it was a house that needed updating, right? So that's kind of the first lesson. A bad property in a good location.

So long story short, I managed the property, had a couple of tenants during those three and a half years and then we decided to sell the property when I graduated from dental school and my dad and I split about \$50,000 in capital gains products. Now, that's the capital gains generated from ordinary income as we know ordinary income, W2 or self employment income is what we trade time for the dollars, is what we call active income and that's taxed at a high rate. Capital gain profit is taxed at a lower rate and I took my share, which ended up being around \$25,000 and I then parlayed that into multiple houses after I left dental school.

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

So I was with my dental practice by day, and I'd tell people I was this investor in real estate nights and weekends, and I continued to leverage, I had to leverage because I didn't have a lot of money, I had to make my money go as far as it could, so I had to leverage and I didn't really use the banks, I used a lot of seller financing, I negotiated sellers, some motivated sellers of property, to carry financing, or I took over existing debt, that's the way I leveraged so I was able to pay back 25,000 and over a period of the next 15 years I accumulated about 35 houses.

They were, again, all leveraged but over time, as we know, the tenants pay down that debt if you manage it well, if you have a good property, if you buy it right so the cash flows. Aside from the extra cashflow, the tenant's paying down the debt, so in about 15 years I had around \$15,000 of net passive income coming in and I thought, "Hey, you know what? I'm done." Because that's not what I was making in my dental practice. That's what it took to ... family and a lot of the extra money we would put back into investments, and so that's really how I got started, Alex, really kind of learning from the bootstraps, but I'll tell you, I couldn't have done it had I not found the right people that became, and still are to this very day, are my mentors, people that have already gone down the path, good people who had a track record that I could learn from, learn the principles and fast track that wealth building.

Alex Lerma: Wow. Fantastic story. So, Dr. Phelps, many of us have been taught that the American dream is work hard, pay taxes, save, then we'll be at the end of the rainbow, right? Retirement will be there for us if we just follow that formula. Tell us about how these experiences shaped

[Dentist Freedom Blueprint](#) with Dr. David Phelps and Evan Harris

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

your perspective on that traditional approach to retirement.

Dr. David P.: Yeah, good question, Alex. The traditional model's been around for, as we know, decades and decades and decades. I think it started back ... I mean, what I know it to be like a more modern portfolio theory of kind of a mix of 60/40 stocks to bonds, that came out of the 1950s and maybe back in the '50s that made sense, but I have to say, some 60 or 70 years later, where we're at now, things have changed drastically and that model of, you know, what I call work hard, scrimp, save, accumulate, turn over dollars to, in this case, a Wall Street type broker, I think that's really, really outdated.

In fact, you know, just from my own viewpoint, I see so many hardworking professionals in my dental colleagues, as a matter of fact, that are still struggling to kind of figure out how to get off that treadmill when they're in their 60s and approaching 70 years old and wondering, "How am I going to make this happen?" Because there's too much volatility and I think the worst thing is, Alex, is one never really learns how to orchestrate cashflow. You might learn how to be disciplined and save money, right? And after you pay your tax you have this money you put into a, let's say a 401k or a savings plan or whatever it might be every year and that's discipline and discipline's good, but the discipline only goes so far if your model is not set up to really build momentum and that's really what good leverage does and that's why real estate, I believe, is the best asset class because you can leverage into it if you do it the right way, there are so many tax preferences because taxes are eating up a bigger portion of the incomes today and will continue to do so, so we've got to do something to offset that.

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

But that traditional model, I just don't see it working out. Now, a lot of people default to it because that's all they know. I guess it's better than nothing but too many people, I think, still believe that model and if they would just take a little bit more time to investigate how they could orchestrate their plan, not do it all themselves, by the way, but finding the right people, the right advisers, and that's not easy to do but when you do it, Alex, I think that's true leverage in itself.

Alex Lerma: So tell us about some of the components of freedom, you know, maybe for a practicing dentist who is reaching their 40s and realizing, "Wow, retirement is still out on the horizon, it's still a ways out."

What are some of the components of freedom? Walk us through what that process might look like.

Dr. David P.: Sure. Well, the model that I believe in and that we really teach in Freedom Founders and with our Freedom Blueprint is that there's three components, or you could call it three legs of the stool, or three sides of the triangle, you know, you might draw a triangle if you're listening or imagine a triangle in your head and on the left bar of that triangle would be what I call the business or practice asset. If you're in business or you have a professional practice or a dental practice or a veterinary practice, whatever that might be, that is a huge asset and I think so much of the time today, Alex, it's not being optimized. That doesn't mean ... I'm not just talking about just dentists or professional practice owners, I mean businesses as a whole, entrepreneurial business owners really don't have the mindset or the skillset to take it to the next level and that is really make that asset into a real business and not just a job, maybe a decent paying job or

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

even a well paying job but that asset, I think, first and foremost needs to be optimized, before someone starts running for other investments or ... Whether it's real estate or other businesses or that crazy cryptocurrency world out there, whatever it is, I think you've got to stay in that lane of optimizing your practice first.

Once you get that rolling, well, and let's say you also have your debt managed, I don't mean paid off but managed, then you go to the right side of the triangle and imagine on that line would be your capital wealth building line. That's your passive income, whereas on the other side, with your practice, that's your active income. So now I'm talking about passive income, building wealth, network or equity outside of the practice, and that's where you start ... In this case, my favorite is real estate, a capital asset. Someone might be really good at building up multiple businesses or practices, that is another capital asset. If you're good at that, I'd roll with that. Passive income is what then gives us the ability to start getting freedom outside of our active income in the business, so all about freedoms.

So the bottom part of that triangle, the base of the triangle, if you will, is personal freedom. Personal sovereignty. How do we get that? Well, I believe we get that in multiple ways but the one way is just having more time, because time's something that we can't buy back, with all the money in the world we can't get that time back, so if we've got a capital asset in real estate that's producing cashflow, we've got a business or practice asset that's also producing both active and some passive cashflow because we've got that optimized, now we've got the bottom base of the triangle, which is starting to gain personal freedom.

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

If you imagine, in a clockwise fashion, this triangle, we keep circling this triangle so now we have more freedom, freedom means we can work more on the practice asset and continue to optimize that, which means we can put more discretionary income into the wealth building side of the triangle, and the cycle just builds on itself. We've got to get that thing turning. Once we do, it just starts to build on itself and that momentum carries forward.

Alex Lerma: So for a dentist or a practice professional that is approaching the latter half of their career, they might hear this story, and they might hear your story, Dr. Phelps, and say, "Wow, well, I didn't start this process in my 20s. I didn't start this back in dental school as you did. I'm behind the curve, right?" And with so many retirement professionals telling us that we need \$2 or \$3 or \$4 million in retirement principle in order to even think about retiring in today's market, what would you say to a practice professional who maybe feels like they're ... Feels like they're behind the curve?

Dr. David P.: That's a huge epiphany for a lot of people, Alex, and you're right, there are a lot of advisers today that are telling professional practice owners that they do need a minimum of 3, 4, 5, 6. There are some practice, professional practice owners, younger people saying they are shooting for \$11 million to be their ... Kind of their retirement number, if you will. I just ... Yeah, I just have to say that's crazy. That's crazy. I mean, good for you for having a goal but a crazy goal, most people doing what we do, in a professional practice, they're just not going to get there. I mean, that's going to be something you're going to be spinning your wheels all your life thinking, "Well, when I get there, I'll have a life." That's not going to happen.

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

The thing about this is, Alex, is that most people, again, because they don't know how to take that accumulative amount of capital, investment capital, wherever it's at, whether they've got the stocks, bonds, 41ks, whole life insurance, they might have dead equity in their personal residence, they may have dead equity in a practice or an office building, but where all their capital is, if they only know how to get 4, 5 or 6% on their money, if that's all they can get, maybe they do need to have \$3 or \$4 or \$5 million, but if you can double that, let's just say ... Let's say if someone's getting 6% overall, that's just ... With the ups and downs of the stock market, maybe they can still fish out 6% on average. If you can double that to 12%, then you have just now decreased the amount of capital investment that you thought you needed to have, or your broker thought you needed to have, by half.

So what if it was \$3 million, which I think is a lot of money today. Let's say it was \$3 million and someone said, as you said, Alex, maybe they're in their 40s or 50s, approaching their 60s, and they're saying, "I'm still a long stretch from \$3 million. Maybe, though, when I sell my practice and I sell my office building and I took the other savings I've got, maybe I've got a million and a half." Well, guess what? If you can orchestrate 12% on your money, you're there, you're done.

I think that's the epiphany I've seen to our members of Freedom Founders, is where they figured out how they can predictively and consistently orchestrate cashflow from their nest egg, that capital asset investment base, on a predictable basis, now they can go free. Until then, it's like they're telling their wives or their spouse, "I'm afraid to let go of this because I don't know what I don't know." The

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

fear of the unknown keeps many, many trapped, Alex, in staying in practice much longer than they have to.

Alex Lerma: So coming back to your story, Dr. Phelps. You left clinical practice in your early 40s and today you're financially free. Not just financially free but free in other areas too, in terms of your time and relationships, you could travel the world, you could up your tennis game, tell me a little bit about what you're doing today with the Freedom Founders Mastermind and why. Why are you doing this?

Dr. David P.: Well, Alex, I do try to up my tennis game but I think I've upped it as far as it's going to go so ... But I still try. I still try and I have a coach, I have a coach for tennis, it's always a thrill to try and hit that ball just a little better than I did before but, yeah, you're right. So that's something that kind of happened organically when I did let the practice go, made that conscious decision, made that commitment to be done with it, and then just start relying on passive cashflow from real estate and what I knew how to continue to build from that, there was still a void in me because I think when you have that entrepreneurial mindset, you want to continue to still be significant, you want to continue to still be active, you want to be able to produce something of value for the people.

I mean, that's why we went into dentistry or veterinary medicine or chiropractic or medicine, because we wanted to be significant, we want to help other people. I think once that's built in you, you never let that go and so for me it was like, well, then how do I translate what I used to be, which was a dentist who worked clinically chair side, to now this kind of free former dentist who knows how to do real estate but I didn't want to be a realtor, I didn't want to build houses. I knew how to do my own investments, I

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

just didn't ever really figure out there was a way I could help my colleagues until I was asked those questions back, you know, some 15 years ago, "David, how did you do it? How did you leave practice, you know, in your mid 40s?" And that's when I ... The light bulbs go off and I thought, "Well, you know what? I do have a formula, I do have a pathway, I've learned so much over those years that I could give back."

The cool thing about Freedom Founders, Alex, is what's evolved over the last six years, is that I can be the connector. I can ... To my dental colleagues, my professional practice colleagues, I can bring to them, through my network, all the people I've known over 30 plus years in real estate, I can bring the best of the best of the people in real estate and the investment opportunists and connect the dots.

I don't have to go out and find all the real estate deals, I can do that for myself, but my business model, or what I like to do, is not go out and build that bigger. My business model is to bring people together, bring the people who have the real estate investments, the, what I call the boots on the ground people, who are trusted advisers in Freedom Founders, and bring them together with our members and show them how they can connect and make it as easy and as safe as I can, and I love to do that because I love to teach, I love to teach these financial principles I've learned, and people who are open to hearing it, I love to see the changes in their lives.

We've seen that multiple times now in Freedom Founders, how lives are changed, and how these same doctors who were somewhat frustrated, and maybe even a little bit depressed at, you know, age 55 and 60 in their

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

practice, not seeing the end game, now they get free, guess what they're doing now, Alex? They're in the same place I was, they're saying to me, "Okay, I'm not going to go out to the golf course five days a week, I want to give back. I want to help other people because I've seen the light and you know what? This is too good to keep a secret. I want to share it."

So now we have this group of free for life members in Freedom Founders who are now increasing their leadership in the group and they're giving back and so what I love to do is I now have disciples that are preaching the same worth in a larger, a larger cast to many more people than I could by myself.

Alex Lerma: Wow. Wow, Dr. Phelps, one of my favorite topics to hear you share on, I mean, because you speak with such passion and energy, is the topic of legacy. So my question to you, as we come to a close in today's interview, is what do you want your legacy to be?

Dr. David P.: Well, you know, Alex, that's really good. You know, I think about that often and I ... You know, right now my own father, who I've had major respect for and has been a real mentor in my life, all my life of course, is fighting the end stages of terminal cancer and, you know, spending a lot of time with him just this last year and really having great conversations with him. He's so at peace at where he's at, and I just ... I think about what my father has left to me and my sisters and to all the people he's touched as an eye surgeon over the years, and in his community after he retired and how he's continued to be relevant and vibrant and significant and never quits learning, never quits giving back, and I just think about, you know,

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

everyone of us, Alex, has the opportunity to leave a footprint, our footprint.

It doesn't have to be a huge footprint that's cast over cities, states, nations or globally, but that footprint, as small as we might think it is, actually does have a multiplier effect, it's kind of like what they call the butterfly effect. By adding to someone else's life, one person, two people, three people in your own community that responsiveness goes out and so legacy, I believe, is being built by everyone of us each and everything day, whether we're thinking about it or not. In other words, we can do it by intent or we'll do it by default, and I think, if we're thinking about really how we can be significant and how we can give back, that really legacy ... Legacy's everything. That's what ... I want people to remember me for someone who went from a point of being kind of in a scarcity mindset when I was young, thinking I had to try to accumulate a lot for myself and my family, to more of an abundance mentality, knowing that really it's relationship and people that really make my life fulfilling and the more I can connect with other people that also want to give that, in that same spirit, giving ... That's what I want to be known for.

Alex Lerma: Wow, thank you for sharing, Dr. Phelps. Today we've been hearing from Dr. David Phelps, career dentist, pioneer of alternative investment strategies for practice professionals in today's economy and the founder of the Freedom Founders Mastermind community, a community of dentists and orthodontists committed to achieving true freedom in life and business.

If you'd like to learn more, check us out on Facebook at Freedom Founders Mastermind group, or our website,

[Dentist Freedom Blueprint](#) with Dr. David Phelps and Evan Harris

Ep #153: The Freedom Journey - Insights From Dr. David Phelps

freedomfounders.com to learn more about how doctors are achieving freedom and building their own freedom blueprint, as Dr. Phelps talked about today.

Dr. Phelps, thank you so much for sharing with us today.

Dr. David P.: Glad to be with you, Alex, thank you so much.

You've been listening to another episode of the *Dentist Freedom Blueprint* podcast with David Phelps. The place to be to create your freedom lifestyle with more time off, security and peace of mind. More at freedomfounders.com.