Ep #176: Dr. David Phelps - Building Your Portfolio

Full Episode Transcript

With Your Host

Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps and Evan Harris

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.

David Phelps: We're not dependent on the stock market. We're not dependent upon somebody else. We can actually ... because what we learned. Now is it easy, is it totally passive? No. It's not. No such thing as really passive income in my opinion, unless you just put your money in the bank or in CDs or T-bills, that's passive. So I talk more about recurring revenue or annuitized income, where you have to take some responsibility for it. In your business, for sure, you're taking responsibility outside the business, learning about how to put real estate into play and how to do that the right way, at the right time, with the right buckets of money. That's the frame work that I really, really want you all to get. And we have the opportunity to have so many of you that have been with us for now a number of years and have become very, very successful. Others of you jump in with both feet first, sometimes almost too quickly. And my goal there is to create some safety nets so that you don't get the cart before the horse in some areas. Because the zeal of wanting to invest in real estate and get that going so fast, I understand that. I did the same thing. I was investing in real estate before I was a dentist. So I understand that zeal. And believe me, I worked two jobs, essentially, for many, many years.

My real estate investment was not passive. I started out doing what I would tell you not to do today, but I was young and had time and I had energy, but no money. That's a great place to start and place your time into the effort, right. When you get to be middle age and you're in your 40s and you're firing with all cylinders, at that point, you still have energy hopefully, right? You have more money, but you have no time. No time. Because you're cranking. You're cranking. And then when you get to losing some hair or have some gray hair, at that point hopefully you have money, you have time, but then you got no energy, right. So, it's the circle of life. And we want to stop that circle so that we can have some of everything as we go along. So there's a right way to put these frameworks into place.

So as you know a little bit about my story, I got started in real estate because I was inquisitive, I was a seeker, I didn't have any money, but I knew I needed to set the course so that when I did have money, I could do the right things with it. I did not understand business. I just was a dentist. I became a dentist or a business owner like many of you have done and did my best there, but just thought real estate was going to be my avenue. And so I got involved with the active acquisition and management and did everything that one would learn to do when you're young. And I had time, or at least I created time to do that. And owning rental properties and dealing with contractors and learning how to manage them and deal with tenants. And I went to all the seminars and I learned how to do that better and better, but I was still doing all of that stuff. I didn't learn the power of the delegation and having a team. I thought that was only for my practice where I had staff people. For the real estate side, I just did it all for many, many years. And I learned through the process of, what are the right properties.

The first property, fortunately that my dad and I bought together as a joint venture was a very good property and attracted good tenants. So I didn't get tripped up on the management side. When I got out of school and I started wanting to buy more properties without my dad's help, I had to buy what was available to me or what I made available, because I had to go out and lead generate. I had to drive by vacant houses, stuff like Blake's doing right now, making a lot of offers. So I'm doing all that stuff. Didn't have a child yet, so I had this time. So I was doing all this stuff that I don't want you to do today. If I'm just saying, that's where I got started. And so acquiring the actual assets, the actual rental property, was what I understood. And I read the books and it made sense. I could buy these properties and if I bought the properties. And I leveraged them with the right kind of financing that tenants, the occupants, would over time, pay those notes down and then whatever there was as far as appreciation, that would be.

Realized that most of the properties that I bought, I bought at pretty much retail prices, but I got discounted terms. That's how I made it work. So there's price or terms. Many people on the marketplace today focus strictly on price, many of the people out there, they're banging on price, banging on price, banging on price. Because that's their model. That's their model. And there's a lot of opportunities on the term side to make things work. And you saw the curve, the curve was slow the first 10 years. I mean, that was just, I had no extra cash flow, but I wasn't building for cash flow. I was building for long term growth and equity. That was my goal. Because I had the income from the dental practice. So I wasn't trying to replace my dental income over night. That's just not going to happen. Real estate is a wealth building process system with strategies you put in place and you do it in the right way.

So people would ask me, well what would you do differently today knowing what you know? Well, I would go back again to exactly what I've said, what Mike Abernathy said. In order to be successful in life, in anything you do, you have to be successful in partnering and partnering with the right people. And that's a little bit scary. And we don't study that very well in school. And we go out and we bring business associates in, we bring all kinds of people in, because we just need to fill holes and we know more times than not, that creates more chaos and discomfort in our lives, so we push back and go, "I touched that stove. Burned me. I'm not going back there. I'm just going to go back to doing what I know, and that's do it all myself. Do it all myself." So, taking everything that Mike talked about today, which is exactly what I wanted him to talk about was, how do you build that sustainability? How do you build that culture, that staff and stakeholder company, practice, business, so that you do have some freedom and you can leverage who you are and then what you do into that business. Then you can have the wealth to build in real estate.

What I don't want you to do is think you can come here and learn enough about real estate to go back to your home town and do this yourself. Because I'll just tell you you're crazy. You're nuts. I'm just telling you, okay. If you're out of practice and you've got nothing to do at all and you've been studying this stuff like Randy and Emily pretty much, okay, that's a father, daughter team that can go out there and go boots on the ground and do this stuff. I'm okay with that. Because Randy, you're passing on something to the next generation. Emily has bought in and she understands what she's doing here. So that works for you guys. But for most of us, for most of us, that's not what you want to do, because that's the slow track, you're going to stub your toe time, time and again, because finding the right people who have the right deal flow is critical.

We created, I think a pretty much of a safe haven in this room, but nothing is for sure. I talked to the elites yesterday and they know what I'm talking about, is you still have to do your own due diligence in everything that you do. The good news is, when real estate is not perfect and when something doesn't work out right, we have had the trusted advisors in this room who step up to the plate and they take care of issues. But it doesn't mean they give you some guarantee on return on your money. You've got some risk in every deal. But mitigating that risk, understanding what that is and then working with the right people who have a track record, and this isn't their first rodeo. They didn't just come out of the woodwork in 2010, 11 and 12 as the market is going up like this and now they're out there.

There's tons of people like that out there right now that don't know what a down turn looks like. Have no clue. And their model is built on an up market. You need to work with the people who have been through it and survived it and know what that looks like, because one of the questions you should always ask is, "So what are you doing in your model in your marketplace right now to protect yourself and the people you work with, your family and the people, what are you doing to protect them from the next downturn? What do you see?" That should be a question you should ask everybody you invest with. Right. It should be a question you ask everyone. What do they see? What did they go through in the last downturn? How are they all studying that right now? How are they dealing with the current pressure on price points right now? It's so competitive. The neat thing is, these guys and gals that are here with us is, they run real businesses. They're experienced and they can still find good deals, but it doesn't mean we can't ... we still have to be very prudent in understanding how we do that.

So I would change my model and partner on everything I did today. And that's exactly what I do. I have been downsizing my own rental portfolio that I built up over 35 years, expanded it quite a bit more in 2010, 11 and 12 when it was really easy to buy more property because I just couldn't help myself. But today, I don't want any more stuff that I have to sell. I still have a contractor team, I still have assistants that work on that side, but I am very much minimizing that. Time is good right now to sell out of stuff that one doesn't want. It's a good time to sell. The market right now is pretty forgiving, but that doesn't mean you want to get caught in a place that you're buying the wrong thing at the wrong time.

So let's look at some models here. Just to give you some frameworks. So where most people start with real estate investment is on the equity side. Equity side meaning you have ownership of the property or at least in the property. Most of the time we think about, if it's a single off rental property, I'll just call that a single equity asset. Perfect example is a single family house or a mobile home on two acres. That's a single asset. And that's where most people look at real estate. That's what's all over HGTV today on Flip This House, right. You go buy the house, you buy the distressed house, you fix it up, you flip it and that's the business model that people show today, because it's all sexy and all fun. That's a single asset, so you have ownership in that house. What are the benefits of ownership of anything? What are the benefits? Just name one.

Speaker 2: Control.

David Phelps: Control. Okay, thank you. Good. Control. And in real estate, it's also a perfect vehicle to be able to utilize leverage to acquire it, because unlike a lot of assets you might want to buy, you have to save up all the money to go buy the asset. With real estate, historically, it's because of the tangible value that it brings, there are banks and lenders and people who will lend money against that real estate to let other people acquire it. So we have the aspect of leverage, if that's something you want or need to enhance your ability to build that portfolio.

We talked about control. What are some of the negatives of equity ownership in property?

Speaker 3: Significant risk.

David Phelps: There's always risk in that. Yes sir. Risk. Do you have to manage anything?

Speaker 3: Yeah.

David Phelps: Yeah. Yeah. The property is going to need some management, because it needs maintenance. It needs painting and stuff needs to be fixed. And there's, hopefully people are going to live in the property. Right. So there's tenant management. So you've got management as, for most people, that's a liability. That's a negative, but it comes with owning property. Yet that's where most people start.

What about liquidity? If I plunked down all cash or even 20% or 25% down Merv, how easy is it for me to get that money back out again if I own the property?

Merv: Pretty easy.

David Phelps: Pretty easy. And why? Why would you say that? I'm with you, but most people will take the other side. But I'm with you.

Merv: Well, bought it right.

David Phelps: You bought it right. So if you buy it right and you have the right network of people, there's liquidity. I mean, that's what you do. You take property that's illiquid, you make it liquid.

For most people, I would say, ownership in property, equity ownership, once you put the money in there, it's kind of hard to get it back out again. But yes, if you buy right so you can sell, you can get it back out.

So I'm just going to put down liquidity right there.

What other types of equity ownership might there be? Well, you could also get involved in what we call syndications. So a syndication is where a group of investors that might usually know each other, might go together and say, "We want to buy this apartment complex. It takes more cash in than any one of us have ourselves, but together, four or five of us or half a dozen, whatever, we might go together and form this syndication that would then go and buy this property" and a number of us have done some of those this year. So some of the benefits of a syndication would be, how much management do you have involved with there, if you're not the manager.

Speaker 4: Zero.

David Phelps: Zero. So a benefit would be typically no management there. What about leverage? Can you have leverage with a syndication?

Speaker 5: Yes.

David Phelps: Yeah. You can. You can. It depends on how the syndication is built. Some syndications might say we want to go all cash, others might say, we want to use the benefit of leverage. So there are some benefits there, so you can have the leverage aspect with syndications.

What about your control? How much control do you have if you're part of a member ...?

Speaker 6: Nothing.

David Phelps: None. Yeah. No real control. Okay. Control, X on that.

And then I would say there's another aspect to equity, and that could be in an equity fund. And equity fund like ... Bill. You and Wendy, you're carrying a lot of hard money as an equity fund. Right. Again, we have no leverage capabilities there. Whenever we want to invest, we have to invest that money. We can't go ... you can borrow from another asset, but you can't borrow against the fund. You have to put the money in the fund. How much control do you have over that?

Bill: None.

David Phelps: None. And how much management do you have to deal with?

Bill: None.

David Phelps: None. Okay. All right. So, no management. And no control.

So those are kind of three boxes of equity ownership that I would give you as frameworks to looking at real estate. Realize that there's pros and cons of all three. Right. And you have to weigh those. With the leverage, the management, the control. With less control, you're more dependent upon whom? The person who's running the fund or running the syndication. Or with your single asset real estate, you're dependent upon the manager to handle that property for you. It comes with some moving parts doesn't it John. It comes with some moving parts.

Let's look at the other side, and that would be, when I say debt, we're talking about investing in debt. Or let's just call it what it really is, it would be the bank. So this is where you can actually be the bank in real estate and I like to also call that control without ownership. So two different sides. Equity side where you do have ownership and you're going to have some responsibilities and liabilities and the benefits of ownership, because you've got leverage and you've also got the aspect of the growth that you can have when you own a property, but I'll show you some ways that you can also have growth as well, being on the lender side.

So what I'm getting to here is, I'm not telling you not to own equity properties. That's a perfectly legitimate way to get going and that's how I got started. I used a lot of leverage back in the day to get going. Because financial leverage in the right asset class is the fastest way for you to compound wealth, but it's got to be the right asset, right marketplace, right geography. Those things are critical. There are a lot of turn-key providers out there today, well meaning as they can be, that have a lot of money chasing them and they're paying higher and higher price points, which means you pay higher and higher price points. And in some cases, they're getting ridiculous in my opinion. Ridiculous. But, we're in that speculation bubble again.

Now I don't bring people in this room that have that mindset. Again, I bring people who have been through that down curve and respect the fact there is a cap on every market, depending on what you're going to do with that property. Whether you're going to flip it, or do a buy, hold and buy it as a turn key for people. Merv and Stephanie, you know for long term relationships, the product you provide, it's got to make sense. Because if you gave product out that, maybe it was rehabbed great, but it didn't make sense from a price point standpoint. You're not going to have investors going to come back and do more. So you understand that. There's a lot of people out there that just sell, sell, sell because they'll make the quick buck and then when the market tanks, they're gone. And watch them back out again.

So I'm just saying, I create a lot of safety in this room, but you still have to do your due diligence. I still want you to understand what you're doing and just don't go in blindly getting into deals that you're not ready for.

Let's continue down on the debt side. So control without ownership. So we also can have single asset on the debt side, be the bank. Those would be lending or loans secured by single family assets or double wides on mobile homes. What are some of the benefits there? How much control do I have over, if I'm the bank? How much control do I have over the asset?

Bill: None.

David Phelps: None. And I don't really want to have any control.

David Phelps: None, and I really don't wanna have any control. Well, I do have some control. The control I have is the only control I need. That is if I'm not getting paid back, I can take the asset, right. That's really all I wanna know, but the rest of it, if I'm lending money against an asset that I consider a good asset with a good partner, who is the boots on the ground partner. I've checked them out, I know what their market looks like, I know they're good managers, this isn't their first rodeo, it's pretty easy for me to invest 70, maybe 75% of the value of that property, leaving myself about 25% margin, and feel pretty darn safe if I'm not investing in a volatile market that goes like this.

Even with a downturn, when real estate does take a drop, it doesn't drop like the stock market like this over night. It does this. And in the boring markets, the non-volatile markets, it barely does this. There's lots of room there, and I make sure that the markets I invest in are markets that are good cash flowing markets, so that if we do have a down turn, if the banks stop lending money and the exit is not what it has been, but those properties are very rentable, and they'll still provide a very, very good return even if we have to go to a plan B. So that's how you hit yourself. So being the bank, in my opinion, is a great way to get started in real estate.

The other benefits of loaning money, we talked about we don't have control, but we do have control if we need to pull the trigger and get the asset back. What about liquidity? Murph talked about single asset ownership. Liquidity, if you buy right. If I have a loan secured by a property, and it's a good property and it's a performing loan, and it's not overpriced for the value of the asset, how liquid is that, Bob? How liquid would you think that asset is, my loan?

If I've got a loan, I'm lending money to Stephanie and to Murph, and it's one of their short term loans, typically I get paid off in six months, but we go out a year. But usually it's like six months or less I get paid off, I like it. In this room, if I just wanted to liquidate that, is that something that's paying me 12%? Is that something that you or someone else might take? In a heart beat, right? In a heart beat, okay.

My point there is, loans, again, secured by the right property with the right provider, right market, all those things, they're very liquid. They can be very, very liquid. There's a margin of safety there. I was talking to Mayan Chin right before lunch with MJ, and talking about for them, where's a good place for them to start investing? We're getting some buckets of money, but I said, until you optimize your practice, unless it's money you've already taken off the table and put it into a 401(k), or you've got it in some kind of qualified plan, which is money you've taken off the table, that money is strictly for your long term growth. Make sure you always keep enough tax paid money ready at any time to go in and build your practice, your business practice, or you need it for emergency.

You can still stay invested, you don't have to have it in CDs or a money market, or something crazy that's earning nothing, but there are vehicles available already in this room where you can put money in, and for that money to be pretty darn liquid. Pretty darn liquid. I mean, I can liquidate my secured notes receivable pretty quickly. If I put it out to you guys in an email, you guys will snatch them up, just like that. They'll be gone. I know they will, because it's happened before. It's happened before.

If I've got houses to sell, I'm not saying that I couldn't sell those as well. Again, if I bought them right, there's plenty of market in a room like this for good properties. But I just wanna keep these safe on the liquid side until you've built up enough margin, Chin, enough margin so that before you lock your money up in something that's a little bit harder to get it out, you still got some flexibility there.

Again, back to what Mike said, your best return on your investment until you've totally optimized your practice is gonna be in your practice. We can help you with some other money that you have available. Maybe keep it a little bit more liquid so that when you do need to move to something else, then you can do that, and still be earning money at the same time.

What about management? For if I have a loan? What kind of management am I involved with? None, none. Zero. That's the way you want it, whereas ... did Wayne leave already?

Speaker 7: He's out in the lobby.

David Phelps: Okay, all right. So MJ, when we do deals ... I love doing deals with you, I love doing them with Glenn. Many of these people, is when we do deals and I lend you money on a deal, you give me all the information that I need to assess the deal. You give me a great executive summary. You give me comps, you give the plan, you give me a plan B. This is our goal, but if we don't sell this property in 12 months, here's plan B. See, I love that. I love the, "What's your plan B?" So that I feel safe. Then once I look at that, I ask you any questions about it. If there's any other questions about the market, or something, you're always good about giving me that. Everybody here does the same thing. What's going on in that neighborhood? Why are you investing there? Why would it be a good investment for me?

Then, once we do the deal, the transaction is completed, through a third party escrow, the money's wired, the documents are done. How many times do I call you on that deal? Once a day, once a week, usually?

Speaker 7: Most, like, some of the folks are just surprised when their money comes back in.

David Phelps: When the money comes back in.

Speaker 7: When the money comes back in. That's about it.

David Phelps: So my point is, because I know who MJ is, he's vetted to me, that I put money with him on the deal I like, and I don't have to go chase him down to figure out what's going on with that deal. Same deal with Walter, I've got lots of deals in Jackson, Mississippi. Houses I've never seen, but because I know who's there, operating there, and the checks come in when they're supposed to come in, how much management do I have to get involved in?

Now, the disadvantage to single asset lending, is that I can't go to the bank to borrow money to lend money to

Walter, or to MJ. I do not have institutional leverage. I do have that with a house. I told you guys this yesterday, but I wanna tell the rest of the room. Cool thing about real estate is that you don't have to go borrow money from your practice, Bob and Doris, to get money to go buy real estate. Real estate itself will provide the means to get the money you need. P. Fortunado told me many, many years ago that you take what you want, in this case the real estate. So I want this real estate, I want this house, because I want this investment. I think it'll be a good investment. I don't have enough money to buy all cash, it's $100,000 on a house. So I take the house that I want to get what I need, which is the money. I can get that from a bank, or I can get that from a private lender. Price the right deal, search it right.

I take that money that I need to get what I wanted in the first place, which was the house. Real estate will let you do that. That's what's cool about real estate. Right deal, so I take what I want, the house, use that to get to what I need to get the house, which is the money, the loan to their own house. If I buy it right, the right property, it's managed well, then the cash flow, through the tenant occupying it, will pay that note down. I can't do that with a loan. If I wanna make a loan and it's a great loan to do with Murph and Stephanie, but I don't have the money. I can't go to the bank and ask my banker to, "Would you loan me the money so I can make a loan?" They don't work that way, they just don't work that way.

But there's private capital available all over the place. In fact, Quincy Long and Quest RA have tons of people who have accounts there, that are just sitting on their cash cause they have no clue as to how to get it going. And people like that, that have money in IRA accounts or money outside of IRA accounts, that have nowhere to fall and no connect to good deal flow, they can give you the leverage that you want if you wanna do some of these deals.

Now, this is a little more complex, I'm taking you down the road a little bit. Some of you are just getting started, it's not something you want to do tomorrow, all right? But just giving you some application here so you can see that there's equity side, and there's the debt side, both are good. And how I can literally stay away from the banks 100% and do all the deals that I wanna do. I don't need the banks. I'm not saying the banks aren't a place to go. I use the banks maybe less than half a dozen times over the years, mainly in my practice acquisition and for equipment, but for all the real estate deals I've done? I don't use banks. I don't use banks. I use the real estate to get what I need, which is the capital from private parties, who don't wanna do what I do.

They don't wanna take the time to make the connections and find the right people, but they trust me. They trust me, and they have a secured position in the deal. Whatever the deal is. Whatever the deals, they have a secured position, ahead of my position. Meaning they always would get first money out. They like that. I don't just put them in a deal and I'd walk away, no, we're going into a deal together. You're putting many times the bulk of the money up, and I may put a little of the money up. Sometimes I put none of the money up, and I just take an albatross of a position. You're position, or maybe I take an option position. Little bit of the weeds here, but I'm just giving you some parameters here, that real estate works well.

Now, all of putting these deals together takes time. Even when you're in a room like this and you've got the people here that have the deal flow, it's still is a lot of work, right Murph, Stephanie? You got all these documents you got to put together, so you have to have an understanding of it. So, if some of you that are relatively new to this, you gotta walk before you run. You're not gonna run in doing this, but I'm giving you a pathway to see what can happen down the road. And the fun thing is, when you start to have more freedom in your life, and your business is running well, or maybe you've exited your business, you guys can do all the deals you wanna do until the cows come home. And enjoy doing it because it's fun, because you're helping other people at the same time.

Helping other people, you continue to orchestrate growth, and you don't have to end up with this capital base when you sell your practice that day. You finally decide that, "I'm done," and say, "Well, that's all I got," because everybody in this room that has gone free or going free, see their capital base where it is today, which is sufficient, and they're just going to continue to grow it because it's fun to do. You have the ability and capacity to orchestrate your financial future now.

But don't get the cart before the horse. You're in your practice, you're building your practice, Phillip. These are mindset things that you're taking in all the time. Your way of thinking about your whole life, your practice, investing in your future. Every time you come to this meeting, every time you get on the calls, on the fit calls, you'll change the way you think in a positive way.

So even though this is something you're not gonna be doing like next week or next month, because your focus is on the practice right now, these are things you're getting in place right now. You're building in your mind what your future pathway's gonna be. As we evolve your blueprint. Which will be focused mostly on your practice right now. But not too far down the road, you'll start opening IRAs, Roth IRAs for your kids and stuff. And showing you how to make that happen.

So everything at the right time. Make sense?

All right, let's finish the be the bank side. There are also funds. There are also funds that invest in debt. Devan Horn who runs multiple hedge funds, what they do is they invest in secured real estate notes. And primarily those initially that have gone bad, defaulted. They built a whole business on buying the right notes at the right price, and then reworking the notes, making them perform again. And myself, or you, or anybody investing in those funds, I don't have to get involved in any of the management.

So again, I have no control. I have to trust the partner and their business. And again, I've gone back and I've been I the business. Anybody I invest with, I've been in the business. I see who the other partners are, if there's other partners. I know who they are. So I'm still betting a little bit, right, but I don't blindly do this stuff, right. Because I lose control. But happy to lose this control, because it gives me a chance to build this wealth and I don't have to do anything for it.

So I do a little of everything. I do a little of everything. There you are, Tom, I was talking about you earlier. You snuck in, good job. You've been in here? Someone said you we're ... Oh, I guess it was Wayne that was out of the room. That was Wayne, okay. All right, well thanks for being there. Come back and look over here. Thank you.

So what I do in my life today, is I have these different buckets. So let's look at the buckets. Oh, by the way, with the funds, there's hybrid funds. Hybrid funds that both provide you a yield return, could be 8%, could be 9%, 10%, 12%. Typically some kind of preferred return in a fund. But that can be a back end equity play. Meaning that whenever the fund is investing in, there's a back end participation that they'll also let you have. The mobile home park fund.

For those of you who are new, there's no one here representing that fund, but it's just a fund that I like a lot because of the principles of who run it. And I've known for many years. And they pay a 10% preferred return, and then there's a back end 50% participation. Typically pushes that fund on up into the high teens, on a total return. But your money's locked up for 17 years. That's one bucket of money, right?

So, single asset deals. Benefits are, more control. Downside, more time involved. You got more time involved. If you put your money into syndication, or you put your money into funds, less of your time. You lose some control, you gotta do a little more due diligence there to figure that out. Second use of frameworks a little bit, to kind of look at.

All right, let's talk a little bit about buckets of money.

So, I would just basically ... Did you bring your buckets of money? The more buckets the better, right? Right.

Okay. Two major buckets. Tax paying. Meaning you've earned the income, you pay the tax. You can take that money and go do what you want with it. You can spend it, you can invest it in your business. Invest it in any other kind of investment you want to. No rules, rhymes, regulation at all. There are ways to take tax paying money and grow it, compound it. Tax deferred through real estate. Long, long ways down the road. The other side would be qualified plans.

So 401(k)s if you have those, qualified IRA plans. HSAs, Ross, Coverdales, any of those that are qualified. I'm not gonna go into any of those benefits there. That's what Quincy does very well in his little team. The quests can take you down the road of any of those types of accounts and how to set them up and what the benefits are of each. On that side of the equation, there's definitely always tax deferral. And in a number of those accounts, the distribution's come out actually tax free.

Now, you have to work those accounts. Cool thing is about those accounts, is they can invest any, any of the asset classes, equity or debt, I talked about. Any of them, any of them. So it's different framework. There are rules and regulations, and that's what I call fettered money. Fettered money meaning you can't just go access it like it's your bank account, and take money out of a qualified plan. 'Oh, I think I'll put some in my practice today', or, 'I think I'll spend some on a vacation'. No, it's money that's taken off the table, and you're gonna grow it for your long term investment strategy.

So those are the two basic buckets. As I said earlier, I was talking to Chin, and mine is I don't wanna see them or anybody who is young and working on a business or practice to get too worked up and decide you're taking the money off the table. Cause once that money's off the table, you're not getting it back out again without penalty or tax til you're 59 and a half, typically.

Okay, now once you have maximized your tax paid money and put that into your business and your practice, and got that humming in. Now you've got excess money. That's what Mike said this morning. When you have excess money. Now you'll need for your lifestyle, or your business or your practice, now you can either continue to put that directly into real estate or you can move it over here into your qualified plans and do real estate that way. And I do both. I do both.

I can be as active as I wanna be in my real estate investing. Again, that takes time. It takes communicating with people. Sometimes I just like to put money and invest it, and forget it. I do like long term deals. I like deals where I've got a good partner and a good geography, but I might just put money in a good deal. Especially on the lending side, which I really love today. But I'll just put it there.

On the lending side you can create inflation hedges there. You can create growth participations by setting up your documents correctly. I'm not gonna go into detail there, but that's the one thing that most people say. Well, that's what you give up. And especially if you lend money long term, then what happens if inflation comes back in a big way, which I think it certainly could. Then it starts to devalue the person power of my money. If I'm lending money ten years down the road, and inflation starts eating that up then I'm losing value on that investment. Unless I've got some kind of equity participation that I can build into those investments. And you can do that. You can do that.

We talked ... The lead group, extensively issued about that. So again, for the rest of you, I'm painting a picture to let you know.

Liquidity in liquidity. Again, you have to decide, right. I've got money that I keep relatively liquid. Some modern liquid, and some money, like, in a longer term fund that's not liquid at all.

David Phelps: Liquid and some money, like in a longer term fund, that's not liquid at all. And that's what you have to look at when you're going down the road, how do I start to decide? How do I start investing, where do I put my money? Is this helpful?

Speaker 8: Yes.

David Phelps: Let's take about 15 minutes to get some Q and A. And some of our awesome trust advisors to add to this conversation. Any of you guys jump in right now, let's get the cash box out, Robert. Dave's got one. I gotta hear.

Speaker 9: Yeah, you've spoken before about the advantage of I can buy equities, can I buy properties? That if I recall correctly, you said, "Well. You're better off buying in taxed paid money." As opposed to retirement money. Could you elaborate on that?

David Phelps: Again, and anybody else here in the room can take a different opinion. I personally don't, and haven't had the need to buy equities in my retirement plans. Now, you can, it's perfectly legal. To me, there's a lot of moving parts there because you got the whole management issue, and again, you gotta make sure that any money that's being used to manage or maintain that property comes strictly from those IRA accounts. That means you gotta go back to the custodian, they can do it, they can do it all, they can do it all. I just gotta move faster, so I can't do that.

Now, if for some reason, somebody has gone down a path of conventional financial planner, and they did what they said, and said, "Gotta create this office 401-K, and build up all this money." And then the come and finance and go, "Man, I can't do anything with this money." So they terminate the plan but now it's rolled into a traditional IRA and that's really all the money they've got, and they need the leverage. Then I say yeah, and find the right properties and you can leverage through the IRAs. But, that's my opinion.

Quincy, you wanna add to that? I bet you would. Toss to Quincy.

Whoa! Bob the long throw.

Quincy: Well, self directed IRAs all are about investing in what you know best, and creating best opportunity. Of course, the downside to buying equity in the IRA is of course, all the tax benefits or loss, unless you happen to have leverage in that IRA. In which case, they got back to the IRA. So there is that factor, but David, I'm a bottom line kind of guy. And at the best result, your IRA has to invest in something, and if the best result you can get is by investing in real estate, because that's what you know best, I don't see a problem with it. I also like equities, I like equities in my account, I like equities a lot. But I like notes a lot. So it's really what should be the focus of your self directed funds, or what do you know best. And sometimes, for some people, real estate may be a good answer for example, I just give one quick easy example.

I know a lady that bought a house for 3,000 dollars, it was subject to 97,000 dollars in back taxes. But she sold it four months later for a profit of 30,000 dollars. Now to me, that's worth doing to me, even though that's equity, even though there's risk. She took a small amount and turned it into a large amount, and I would say that's a good result. And that's what I'm focused on more than the tax situation. That's kind of a way-

David Phelps: Yeah, that's good, that's good. Quincy's absolutely right, the thing I don't want anybody to get bright shiny objects in them. Those kind of of deals, those kind of profits are available in a market, but you, if you're going to make those things happen, you have to orchestrate them. You've gotta be connected, you've gotta be out there, find those deals and making that happen. That's not something that's just gonna float across your desk some days working at the office. It just doesn't happen. So I want you to be very careful, and while those deals are done, Quincy has tons of case studies, you can make more money doing more work in your practice and take nice, even steady yields across the line whether you're investing in equities or lending. They can try to find the needle in the haystack that give bragging rights all day long. Anybody disagree?

Thank you, thank you Quincy.

Go back to Phil.

Speaker 10: Do you or anybody in the room have any thoughts about using margin, instead of getting a mortgage, using margin on a stock portfolio?

David Phelps: I couldn't talk about that, probably wouldn't do it. I don't have a stock portfolio. Toss it to John, Phil.

Boom. Good duck.

John: Wasn't gonna dive for that one. David sometimes calls me the 2,000 year old man, maybe it's because I can't keep up with him. But the point is, I've looked over a whole lot of shoulders and I can't tell you how many people I've seen lose money on it. I've personally lost seven figures in the stock market. And when I'm counseling all these other guys how to do it, and I'm still doing it wrong. The thing is you have no control over it. I've seen real estate deals go bad with a lot of people in here, and they can scramble if the nice young ladies that you rented to, turn out to be Hell's Angel girlfriends. And the guys are keeping their bikes in the living room, and when you finally throw them out, they kick holes in the drywall and everything. You can fix that stuff, you can rehab it. But in the stock market, there's so much insider information, there's so much politics beyond the basics of the company that control the stuff. And the way we're hard wired for emotion, if it goes down a little bit, we're not following a hard and fast rule, we'll hold it because we know it's gonna recover. I just see everybody losing money.

There's a reason almost 90% of the people in the stock market lose money. And the ones that have a method can do it. But remember it's a different game and it's not something over which you have control. Basically, everything we do in this room is illegal in the stock market, ;cause we got serious insider information here. Don't ever forget it.

David Phelps: Bill Fairman?

Quincy: You ready?

Speaker 11: I saved ya!

Bill Fairman: That was really sad, sorry. Let me get my glasses back on. So I wanna bring up the longer term finance. David has mentioned that and he brought up something I hadn't heard in years in the mortgage business, is the call option. Most people that don't have a lot of deal flow are gonna be more comfortable in a longer term deal. If you have something working in your IRA, that's a loan, the highest yields are gonna be on the short term loans. But what happens when the loans pay off? You gotta go out and find another deal. And if you don't have the deal flow or the time to do that, it's better to be in a long term position.

Now, what most banks do on commercial loans, is they do a five to seven year terms. And why do they do that? They're protecting themselves, again, against inflation or rates going up. So that is something that we used to do back in the 80s in the mortgage businesses, and residential was doing a five or a seven year call option. That didn't mean you were calling the note due, but you're giving yourself kind of a pause to see where the market is and then you would renegotiate the terms if rates had gone up. And that's a nice little hedge note, I'm glad you brought that up.

David Phelps: Yup, you bet. Thanks for iterating.

Other questions, comments, insights up to Steve?

Pass it along, someone intermediary step in. Thank you, Cody.

Speaker 12: Hello, okay new guy. In the spirit that there are no dumb questions. When you were talking earlier about use the real estate to et cetera, et cetera, are you talking about 100% financing? Or am I missing something there?

David Phelps: I get 100% financing today, not from a bank, but from real people. I can do that. Again, as Murph said earlier, the right deal, I'm connected to people who can get me good deals. Even in this market place right now. But, yeah, I talked about a deal yesterday. I found a group that I have 100% financing in the deal from a real person, not a bank. So I don't have to go through all the brain damage of going through a bank, who wouldn't understand the deal anyway. But a real person who's happy with getting a really good secured first position, first money out return on that deal. Conservative person. And they know that they're riding along a deal with me where I'm taking a secondary position with a little more risk but more upside.

And os, yes. Real estate gives you that opportunity to leverage it, not just through the conventional banks, which is what everybody typically thinks. I go to the bank, and put my 20% down and buy the house, that's what we all do. Right? But in this arena, I love people not to do that. Again, this takes time, this takes network, this takes be on top of this. And that's why I didn't want people to get rose colored glasses and say "Well, I can go back and be doing these on the side." You can, but it takes a lot of time, doesn't it guys? Eric?

I mean you've got more time now, but this stuff takes time. It's fun, it's a lot of fun. So taking the long haul and getting a nice steady yield, I think is a better place for people that are getting started here and you're focusing on the right things. And don't start getting of fin the weeds too, too quickly. John?

John: There's a cushion in this as well. A lot of times you'll have the note that you're lending, and so there's a 100% note on maybe the purchase of a property and the rehab. That note is 70% of the actual value of that property, so if that deal did go bad and the house came back to you, you've got a margin to sell it at 30%. And you're not gonna get that in the stock market.

Speaker 13: What effect do you see with Dodd Frank being repealed?

David Phelps: Well, we don't know that it's gonna get fully repealed, I've rarely seen regulation, once passed, get full repealed. There's a lot of talk about that and I know that our current president is more business proactive and anti-regulation. So it may slow things down, but actually pushing back, just like we talked about pushing back Obamacare. That's yet to be seen. What's gonna happen with all the regulation that's been poured upon us? Not just the last eight years but just for decades now.

There is always opportunity anytime more regulation comes out. And that's the side I take, no matter what happens. When Dodd Prank was passed, gosh, back in 2010, you would've thought the sky was falling. You would've thought the sky was falling, and for a lot of people in their model, it did change things tremendously. A lot of mortgage brokers, private mortgage brokers, are gone now. Killed them off. Typically, it's the big banks now that where you go get those conventional loans.

But, Dodd Frank just opened up a whole other avenue of opportunity, in my opinion. For those who know how to work the market place and do it right. So, I'm not gonna conjecture on what it can mean. I don't think it'll be repealed, I think there could be some changed overtime. Just like there's gonna be changes in Obamacare, but regulation is regulation. And what's it gets passed, I don't care who's in charge, I don't think it's very easy to push it back out, again. So, it doesn't affect me personally, there's in fact, properties that I seel today to consumers, we just go through the steps and have a licensed mortgage loan originator do the application and the buyer-tenant pays for it. Runs him eight fifty, on top of the other closing costs, it makes them a better buyer in my opinion. So I don't care, I don't care. I think it's done some good for me, but I don't like regulation overall, though. Okay? Someone else had a question over here. Over this way. I'm coming your way.

Speaker 14: As a nother newbie, I keep hearing you need to walk before you run, don't get ahead of yourself. So for somebody that's just starting out, what kind of investments do you recommend? What does that look like as opposed to just general, little more specifically, what are we talking about?

David Phelps: Well, I don't wanna talk specifically about you, 'cause I know you wear a lot of hats right now. You got this development project going on, so if you've got funds that are not deployed, you've got funds that are in the stick market and you're a little skittish there, I would probably just have you connect you with some of the people that have some really good funds. Because everything else takes a lot more time and effort, and again, the whole points not to take you or anybody else off of your primary focus. Which right now, is this new practice, you know? Get that going. But, yes, you've got funds available, we can give you a blueprint that'll get you started. And then when the opportunity comes and you've got more time as you're learning more about this, yeah, then you can start getting involved. Like some of these guys like John, Ross, and Eric, and they've done like 85 deals in the last two years. They're already focused on that, right? And they're not building up their practices, there actually exiting right now.

So, yeah. That's the whole point today, is to give you structures, to show you the big picture. But also, I don't want people just running after the wrong thing, chasing the wrong goose right now, at the wrong time. It's a good question.

All right, I'll take one more. Anybody else have one more? Did you have one Bob? Ready to go.

That's a little complex, we'll catch that at a break, all right. What else? Anything else? All right, was this helpful?

Speaker 8: Yes.

David Phelps: On Sunday, the Freedom Blueprint day, we'll take some of this structure and I'll be helping you facilitate with a number of our trust advisors on building out your blueprint. So like the question you just asked Ron, we'll give you some more frameworks for that, and you'll have a chance in the afternoon that same day, to talk to people in this room that you've already heard from that can also give you some good perspective. We'll help you build something out that makes sense for where you are right now, that could change in three months, six months, in a year, when things have changed for you. But you'll kind of have the pathway to get started and to be doing things in a participative way that makes sense for you.

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