Ep #220: David Monologue - State of the Union

Full Episode Transcript

With Your Host

Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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David Phelps: Good day, everyone. This is David Phelps of the Freedom Founders Mastermind community and the Dentist Freedom Blueprint podcast, here with you solo today. Yep, that's right. I'm going solo. Why am I doing that? Well, it's time for me to give you a state of the union, just from me, just from me from my perspective, from my years of experience.

I love having guests on the podcast because it's fun for me to pull gems out of them, it's fun for me to get into their genius zone and their perspective and knowledge base, but sometimes I've just got to bring it to you straight. So that's what I'm going to do today. I'll probably go not the usual length today 'cause I don't need it, but give me 15 or 20 minutes here. What I'm going to give you today is the lay of the land in terms of what I see as far as investments, particularly alternative investments, also my look at the economy, where things are going. I'll tie it to your practices, your businesses as well. So whether you're doing anything in capital investments, you have a business, or you're thinking about going into business, this will still pertain to you. So hang on, let's get this thing going.

All right. So I talk to my Freedom Founders members on a regular basis, on regular Zoom calls, at live events. I have elite members come to my house where my wife Candace, who has a financial background, we spend a full day outlining their freedom blueprint. So I do that on a ... I do probably three or four of those a month. I have fast access members who get to have access to me on a very regular basis. I do calls with them at least once a month. And so I know what's in their heads. This is Freedom Founders members. These are people who have been with us for some people as little as a month, a quarter, and some have been with us as long as five years.

And here's what I know. If you haven't been investing, orchestrating your own future investments up until recently or maybe not at all, you just don't have perspective on what the market's doing. You don't really understand market cycles. In fact, you've probably been battered in them like many people have, people that have gotten battered in the dot com blowup back in 2001, in the last recession, which was a pretty deep one in 2008, 2009, 2010, 2011, before things started coming back out in 2012. If you were part of those in any respect, you probably got beat up in your investments and your business.

There's ways to hedge your bets in these market cycles. And the market cycles are there. They're historically always going to be there. We're in a very long bull run right now. In fact, we're close to setting a record for the longest bull run after a reset right now. We may be there, I haven't looked at the stats in the last week or so, but we are getting close. Does that mean we're not going to have a reset? No, it just means there's things in the marketplace that we can't all predict, there's things that the Federal Reserve do to manipulate the cycles. They push the can down the road as far as they can, but eventually they can only do so much and eventually we still have the same kind of resets.

What's going to happen next? Well, we're going to have a reset. When's that going to be? I can't tell you, but I would bet ... in fact, I've been betting, just to be quite honest. I've been betting that we would have had one before now. In fact, I bet we would've had one sooner had the Democrats been elected into the presidential office and not Trump. Trump brought some confidence to the marketplace, he's anti-regulatory, he's pro-business, he past along with Congress a tax reform bill that also produced additional confidence. So they've done some things that have been positive for the economy. I still believe that we've got a lot of problems in our marketplace and economy because of the massive debt. No one's dealing with the debt.

All right. I won't say a whole lot about that. Just remember that the major debt that we have, both on a government basis, corporate debt, consumer debt, student loan debt, auto debt, credit card debt, entitlement spending, which is not going down, and also lack of work ethic. There's a major lack of work ethic overall. Not everybody. I'm not pointing a finger at you. You're probably one of the hardest working ones if you're listening to this podcast. But you know what I'm saying. There's rank-and-file ... there's a lack of work ethic. You put all those three things together, the debt, lack of work ethic, and the entitlement spending, and we've got problems in our economy. They can't keep this hot air balloon pumped up forever. So you've got to hedge, you've got to know what you're looking at it.

So in business, I think we're going to be given a window of low interest rates for the near team, near term another year, two years, maybe more. Well, the Federal Reserve is already backing off of what they tried to do last year.

They bumped up interest rates a few times last year from the historically low levels, they dropped them after the 2008 downturn. They bumped them up a little bit, they also started pulling back quantitative easing, which was the digital printing of money, buying bonds in the marketplace. So they did after the 2008 downturn. They had on their balance sheet about four trillion dollars. That's made up money, folks, made up money. Where'd that money go? Well, it went into Wall Street, went into capital investments like real estate. Most of it went that direction.

Now last year, they tried to start tightening that back up, selling off those bonds. So they tried to raise interest rates and do quantitative tightening at the same time. Too much, too fast, we hit the inverted yield curve in early April, which historically means, eight out of nine times that that's happened, that within six months we've seen the Wall Street, the stock market, start to do a downturn, go into a bear market. And 12 months after the inverted yield curve, we've historically seen ... 12 months thereabouts, we've seen the economy go into a full-blown recession, at least some kind of a drop. Whether that happens or not, we don't know. But it looks like the fed is trying to backpedal quickly because they realize, in trying to turn the big Titanic, they oversteered and now they're trying to turn it back the other way. If you're trying to turn the Titanic, you know it's not an easy thing, it takes time, and they miss a lot. So you've just go to hedge.

All right. So we've got low interest rates, which is opportunistic if you have debt that you're paying off, if you take an onboard debt to expand your business, which I'm not saying is a bad thing. There's times when you should use debt. Good debt's good to use. And if you're utilizing low interest rates today to do that, either in your business or in capital assets, making good and solid investments, long-term debt, that's good. Be care of short-term debt. Just be careful of short-term debt in a marketplace where we're having a recession. The credit markets tighten up and short-term credit gets taken away, lines of credit, credit's that got two or three years in a reset. You want to be careful of that stuff because the banks, when they have a capital call because the fed requires it, they'll take it from you, they'll take it from their best borrower. So just don't get stuck with short-term financing. Turn it into long-term if at all possible as soon as you can. Be working on that.

But that's good news. Short-term, next couple years at least, lower interest rates. That helps most people. Who does it hurt? Well, it hurts people that are out of business, out of active employment, that are on, quote, we call the "fixed income." They typically have to be very conservative in their investments. They can't afford to be in the stock market and take a major hit. They don't know how to invest in alternative investments. It's a place they never learned how to do. So what are they stuck with? Bonds, CDs, savings accounts, low-interest money markets, T-bills, very, very low interest rates. They're the ones that are getting creamed today and have been getting creamed in the last decade because we've had such artificially low interest rates. You can't be one of those people.

If you are getting ready to exit your practice in the next year, two years, three years, four years, you've got to take your capital investment nest egg, wherever you've built it up over the years, whether it's in the stock market, 401K, the equity form the sale of your practice after you pay taxes. Your job is to be able to put that into long-term, relatively stable, relatively low risk, sustainable lifetime income that is also indexed to inflation. You think we're not going to have inflation in the coming years? You betcha we're going to have inflation. You can't not have inflation with all of the debt that this country's piled up. It's unnatural. It's going to happen.

So where do you go? Well, the stock market's way too volatile. It's just way too volatile. Yeah, we've had a great bull run. But when the stock market drops, it takes its typical 30, 40, 50% drop, it takes at least five or six years for people to bring back their portfolio back to just even, just even. So you lose five, six years and your overall returns are terrible. You can't ride that rollercoaster and come out ahead on the end. The financial advisors on Wall Street will play games and talk about average rate of return. You can't go on that because it's false. You've got to look at the compounded average rate of return, which will give you real numbers. I'm not going to go deep into that. Just realize that you're getting faked out many times with your Wall Street returns. Be very, very careful there. You can't rely on Wall Street.

So what do you rely on? Business first. Business is a place where you can keep up with inflation, you can live to fight another day. But again, if you're leaving your business sector and you're going to stop trading time for dollars, then you've got to be able to work your money, have your money work for you, and do it in a way that doesn't have the volatility. Where do you go? Alternative investments.

Real estate, that's what I love, that's what I've done for 40 years, that's what we do in Freedom Founders. How do you do it? Well, I'll give you a little bit of the lay of the land as concisely as I can here in just a few more minutes. And then we'll keep this segment short.

There's all kinds of asset classes you can invest in in real estate. The key thing in real estate is you don't want to do it yourself because it's an area where, unless you are dug in, you have an actual business in real estate, you're not going to know what you're doing. The marketplace right now is top-heavy because of all the money from the Federal Reserve has gone into real estate and Wall Street. So it's top-heavy right now. If you're out there trying to do it on your own, you're going to buy retail, you're going to get slaughtered, you're going to be buying at the height of the market, you don't know what you're doing, you're going to get into syndications that are loaded with fees commissions and don't have an infrastructure behind them. Again, there's just tons of crappy deals out there today. You've got to be careful. It's really who you know in real estate. It's an inefficient marketplace, which makes it an opportunity for us as individual investors, but you've got to know people. It is an insiders game.

I'm not trying to sell you on Freedom Founders. It's just what we do, what we do very, very well. We have an investment underwriting committee, we get tons of deal flow to look at, and we kick back a lot of it because it doesn't have a good infrastructure, it's not with good deal sponsors. Single family houses have been the bread and butter of my career. I've sold off a lot of my equities there 'cause we're at the top end of a market.

Where do I put my money? I put it into lending deals. I'm a big lender today. Knowing how to lend, who to lend to.

Great returns in lending even today in double digits, in various real estate funds. Again, who do you know? You've got to have access to the people who have access to the deal flow. Syndications, which means you're pooling your money with other people into single investment opportunities like multi-families, self-storage, mobile home parks, non-performing notes. Lots of syndications, and we can actually get leverage in those syndications, which can kick our yields up way into the double digits without us doing any work, can be very passive. Again, the key is who do you know, do you know how to evaluate these deals, do you know how to evaluate a deal sponsor.

I get people in Freedom Founders that still want to go outside the group, and I have to caution them they can do that, but they don't know what they're looking at, they haven't been through a downturn, they don't know what it looks like, they don't know how to evaluate the basis of the deals that are out there today, and you can lose your shirt if you don't know what you're doing.

So those are some of the keys that we're looking at right now in preparing as we go into a potential reset in the next 12, 24 months. Again, that's a guess, but we're going to hit one. Preparing in advance defensively, so getting your ducks in a row. As I said earlier, get your business lined up. I would slow down any major expansion, don't speculate in your business, don't speculate in your investments. You've got to be putting your money in rock solid opportunities. Using long-term, fixed rate financing in the right investments, business, or capital investments in real estate, sure, it's a good thing to do, again if you know what you're doing. The right asset classes, the right geography, stay out of the volatile markets. If you don't know what those are, you need to learn. It's again just being in the right place, right time, right people.

That's really my state of the union for you right now. I want to give that to you pretty quickly. I did that in a little bit less than 15 minutes, which was my goal. I know I talk fast, but listen to it again, put it at half speed, take some notes. I gave you some of the keys. I've been doing this for almost 40 years, 40 years next year. I've been through major cycles, I know what works, I know how to keep ahead of those head winds so you don't get blown off course. It's really the key to everything. You've got to stay invested, you've got to know what you're doing, but you can't speculate. You've got to be a real investor.

All right. That's my rant. That's my state of the union for this month. This is just to give you a base point. This is April 22nd, 2019. Remember, always stay focused on your freedom. I look forward to seeing you on the next Dentist Freedom Blueprint podcast. Take care everybody.

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