Ep #295: Kevin Fechtmeyer - Business and Investment Strategies in the New (Post-Election) Economy - Part 1

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Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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David Phelps: Good day everyone. This is Dr. David Phelps of the Freedom Founders mastermind community and Dentist Freedom Blueprint podcast. Today going to have a really interesting discussion, not just for you our listeners, but also for me because this is an area of interest that I have on a regular basis, but it's an area that I am not totally familiar with. As you all know I spent a lot of time in real estate, alternative investments, but the world of private equity is still somewhat an amorphous, it's not even an asset class. We'll talk to our guest today about what it is. Let me jump right in and introduce our guest today, Mr. Kevin Fechtmeyer. Kevin, how are you doing sir?

Kevin Fechtmeyer: Very good, thank you.

David Phelps: Well thanks for being here. Just a little bit of background on Kevin. Kevin's the founder and managing partner of Cave Creek Capital, has over 25 years of experience in the private equity business. Prior to establishing Cave Creek Capital in 2004, Kevin was a founder and managing director of the Shattan Group, the leading independent investment bank focused on private equity placements where he managed over a billion dollars of transactions. Mr. Fechtmeyer was also a director of TSG Co-Investors LLC, an affiliated private equity fund which made investments of up to $3 million per transaction, alongside major institutional investors. He was also a founding member of the private equity groups at Prudential Securities, Inc., and Kidder, Peabody & Co., Inc. Mr. Fechtmeyer began his investment banking career in Merrill Lynch Capital Markets Merchant Banking department.

He's invested in over 30 platform companies in several industries since 1990, he has extensive experience in mergers and acquisitions and debt and equity financings in several industries including business and financial services, consumer, and telecom. Kevin is well known in the private equity industry, often quoted in industry publications, a frequent speaker at conferences including Inc. 500, SRI, Southwest CEO summit, private investing in public companies, and Digital Detroit. Kevin graduated from the University of Arizona in 1985 as a National Dean's List Scholar with a degree in accounting and entrepreneurship, received his MBA from Columbia University's Graduate School of Business in 1989. From 1985 through 1987 he was an auditor with Touche Ross & Company, and is a certified public accountant. Currently serves on the board of directors at Vastec Inc., and Liberty Distribution Company LLC.

Quite a resume. Obviously you're very well entrenched in experience, 25 years certainly speaks well to your knowledge Kevin about business cycles. We certainly are in another one now. I'm going to reference a little bit today some articles that you sent to me recently, which I appreciate, which really was the impetus for our discussion today. You were kind enough to send me over an article from... I assume that they're a private equity firm, large practice sale company that put out a piece about the potential effect of a Biden administration tax policies. We'll dig into that in a minute. And then the other article you sent me was your own Cave Creek Capital newsletter that you put out and the title was The Investor Manifesto 2020, How Did We Get Here? Before we dig into some of the specific pieces that I want to ask you about today, let's just get to basics here.

Again, some of my questions Kevin may be very novice and I may be using incorrect terminology. Please correct me or help us out with definitions because again, this is not my world. The reason I'm doing this interview with you today is because I think we all, as listeners of this podcast, we can all benefit from your scope of experience and the way you look at markets and what you're investing in, and then we'll take it more specifically to my niche, which is dentistry, and get some feel for the past decade where we have certainly seen, in our industry, a lot more consolidation, the roll-ups of practices, and I want to ask you a few questions about that. Because I don't know exactly how all that works and you'll provide some benefit there. That being said Kevin, give me a layman's definition of private equity, what do you people do, where's your play in the market, and it seems to me that over the years we, on the outside, hear more and more about private equity. How has that built up? What's been this trend?

Kevin Fechtmeyer: Well sure, I'll try to keep it real simple, but we invest in companies, we buy common stock or preferred stock in middle market companies. So we define that as anyone with $10 million or more in revenues on up to several hundred million, and our average business is about $50 million, so we're right smack dab in the middle market investing alongside typically founders who have built up these companies and are looking for liquidity for their retirement and they want to partner with somebody who can help them grow and help them move the management team to the next generation, and also provide opportunities for ownership for that next layer of management. And they bring hoops like us in and we put in... Everyone's different but at least $3 million on up to $20 million of investment in each company, and the goal is to grow those companies and grow that investment. So private equity in our sense is working with one of 150,000 companies in the US that fits that definition.

We spend all day looking at these companies who are generally coming to us since we've been out in the market for a long time and they'll be a book that someone produced, either their accountant or investment banker, and they'll send it to us and we look at it and determine if we can invest in it, and if so under what terms. We do maybe a couple deals a year out of the 500 that we see, so I call it the kissing frog business. It's never easy to pick the right ones, it's tricky. Not every deal works out perfectly, but you're working as a partner with the management and the owner of the company to grow it and achieve our objectives and their objectives.

David Phelps: So as a partner with these mid-market companies, the founders, the existing management team who have taken that company and brought it to their run rate, $10 million on up. As a partner, partnerships are tricky and obviously you have a ton of experience doing that so you know how to set those up. Going back to the world I know in dentistry, I hear stories of good "partnerships" with private equity, I hear of course the horror stories, and there's everything in between. Just give me a few pieces of insight into what makes for a partnership in this regard where you're partnering with these founders that makes them work, and what are some areas where they don't work, just in general?

Kevin Fechtmeyer: Okay, well the good question I can even relate, in one case, to a dental practice management transaction we did over 20 years ago and it had elements of both, but typically where something works is where there's good communication and alignment of interest. When you buy a company and you've got a goal to grow it from $40 million to $100 million of revenues, and the founder looks to you to help hire additional people who have experience growing companies. They look to you to structure a board that helps give strategic guidance. Those are things that aligned hopefully successfully with the expectations of both parties being met. Where they don't work is when there's not good communication and there's not good clarity on objectives and expectations going forward.

In an extreme example we had to walk away from a deal in the insurance industry when the owner was very surprised we would not let him keep his million dollar salary and private jet at the expense of the company and we said, "That's not going to work. We need to generate profits for shareholders. If you choose to keep your private jet you're really going to need to pay for that yourself." And so that was one where we nipped it in the bud and we never closed that deal, but you'd be surprised... And by the way, it goes both ways.

Well known Wall Street Journal article came out years back with a pretty famous billion dollar private equity fund in Chicago where the founder sued the private equity firm because one of the partners... And this private equity industry's gotten hugely bloated, by the way, which is another story. When you start getting into these billion dollar funds they're socking off tons of fees, and the guy didn't think twice about charging his private jet to the company. So you had a little bit of a tit for tat where neither frankly were communicating and they were trying to sneak expenses in, which probably weren't appropriate to charge to the company.

David Phelps: So you said one of the functions you provide, certainly and we've seen this in dentistry, is liquidity. There are dental practices... The typical mom and pop dental practice or solo practice, Kevin, is not going to be your direct customer because they're going to do anywhere from $600,000, $700,000 in gross revenue per year to maybe $1.2, maybe $1.5, and then there's other practices that are group practices in our industry that maybe push that limit up to $3, $4, $5 million, and again, short of where you would directly work with them.

So I'm going to make up a term here and you can correct me, there's organizations that are doing the roll-up before they come to someone like you, private equity. They're taking these mom and pop practices, doing their due diligence, and then they're rolling them up, and when they get to a certain run rate with an aggregate. So I call them an aggregator, aggregate number of practices, then they might go to a private equity company firm like your and say, "Hey, here's what we've got." So what do you call the middle market there where they're doing these roll-ups? In our world it's called a dental service organization, that's just a DSO. I mean is that common throughout the different markets where you enter and work with a group like that that's already done some aggregation?

Kevin Fechtmeyer: Yes, as a matter of fact, we were very early on in that. In the late 90s we funded a recap of a company called ConsoliDent in Florida, which was run by a very eminent dentist in the industry, Dr. Brody. We initially started I think with 18 practices in central Florida and ultimately got to 30 some practices, and then sold it to a group called Bright Smile. That was a case where individual dentists were being purchased, put onto the platform ostensibly for all the things that you're aware of that they will try to bring. They try to improve density in a market, improve occupancy, utilization of a chair, trying to figure out additional services you can sell. You've got maybe a periodontist that goes around and can ultimately add service revenue, higher margin service revenue, so theoretically you have a better practice if it's working well and a more profitable practice.

David Phelps: When you are providing the liquidity and partnership to a founder who wants that liquidity at that point in their career, in their life, they want the opportunity to see the company grow to a greater extent than what they can do themselves, it's important that the founder stays on for a period of time, correct? Is that critical or how do you look at that?

Kevin Fechtmeyer: 90% of the time that's very important, and 10% of the time it's very important to get that person out of there because they're a disaster. We had one company in the chemical business that had a situation where the prior owner had a long history of issues with product quality and environmental violation. I mean it was very important that we showed that there was a new law abiding team coming in to run the company, and fortunately that worked out well and the company grew from $12 million to $50 million in sales and that was a success story. But that was a rare case where somebody had kind of long since been out-moted, the world has changed a lot in terms of expectations of safety, environmental procedures, and it's a very different world and a lot of the old time managers who grew up in the 50s and 60s, at the time, were not really as cognizant of compliance with those and it wasn't particularly well enforced.

So there's certain industries where you really do have to clean house for everyone's safety and happiness. But at the end of the day it worked out well. That turned into a resounding success with the new team.

David Phelps: So in dentistry what I know in the world of roll-ups and consolidation is virtually every aggregator wants that founder dentist to stay on because in a dental practice most of them are really not run as real businesses, in other words the founder is a very active component, participant in that practice. Now larger group practices yeah, a little bit more business run. But private equities is entering and taking on these practices where the founder really was a key aspect of that practice. Losing that person and trying to replace them with another off the street dentist who's just licensed and has credentials, may not be a fit. So typically they're tying the dentist up for three, four, or five years to stay on.

What we're seeing is the initial play is they'll tell the dentist if they meet the criteria and they've certainly done the accounting due diligence on the books and established what the profit margins are, what's the EBIDA, is they've been paying historically in the last year or few years, five to seven times EBIDA, which is at least two to even three times what the private buyer, the private dentist who wants to come and buy the practice would pay. So liquidity and increasing the multiple significantly through private equity and then some companies will, instead of buying the entire practice, will buy a majority, 60% perhaps. First bite of the apple, we'll buy 60% of the practice and we'll pay you a five to seven times multiple off of that. Then we'll have a second bite of the apple in two or three years when we have another recap, and then they're promising, in quotes I say promising, there's no guarantees of course, maybe a 13X on that second bite of the apple.

From my knowledge base again in dentistry, private equity is able to... Or these aggregators, I should say, selling to private equity are able to monetize that EBIDA up to 18X. To me going from the private market... When I sold my practice some 10 years ago, I sold it to a private practitioner, I think my multiple was probably about two and a half. And here we're talking about these multiples going all the way up to 18X. See I don't personally understand how that works and how private equity firms are able to monetize and take something from a 2.5 to an 18X and it's still, in my mind, a very technical process of being a dentist and a practice. So can you enlighten me and my listeners a little bit to how that works? It seems magical to me.

Kevin Fechtmeyer: It's very interesting, there's probably two factors at play. One is there is a greater fool theory that happens during market bubbles. So you have people who think that they can flip a company or a house or whatever that asset is, really quickly before people figure out what's really going on. And so there's a lot of the greater fool theory going on, particularly acute today in this low interest rate environment, which was as you know, the subject of part of my investor letter, which is I call it the fed sugar high. You get artificially reduced rates, you have significantly enhanced speculation and significantly enhanced multiples, but those can be very volatile, those can go up or down dramatically in short periods of time as we've seen.

So I'm not a trader, I don't play that game. Very rarely do I try to do that. I'm much more risk averse personally, but some people just love it and some people are on their Robinhood app everyday and some people love to play the market, and just like Vegas, they'll figure out eventually and over the long run the house wins and you're not the house. I tend to be a little more conservative. I know that when we sold our business it was a four times practice profit, so EBIDA was something lower, but they looked at the practice profit and then they applied their own overhead to it, we don't know what that is but the standard at the time, if it's gone up I know that there are practices that are sold for more the bigger they are. And so 18 times is pretty extraordinary. I've seen some of that and close to that in areas like vet hospitals, but again is it sustainable, why are they paying that multiple, you'll never know.

I call it you're not really buying equity, you're buying options because you're betting on the option for growth and you better be really, really, really confident that you're going to grow really fast for the next several years if you're paying that kind of multiple. So is that a form of gambling? Yes it is, but that's what the market has become and I'm curious what you're seeing in the dental market too. We have one of our partners is helping a chain, it's a periodontist chain that's been very successful and they are similarly looking at ways to monetize. What do you pay for that? You're deep in this market, I don't know what you'd pay for that.

David Phelps: Well I mean what I would pay versus what you said the gamblers, with other people's money, would pay are going to be two different things. I don't see how you pay those kind of multiples going on up into the high teens myself, but as you said, it's very speculative and I think for those who take the liquidity event but don't get a full buyout, leaving some equity on the table for this promise of higher I think that would be seller beware, I mean right? I mean beware. Along that same point, and I'll get to your newsletter because I marked that up all over the place, there were so many good things in here, but one of the things that you mention in some of your lessons over the last 25 years and there's a number here, but one of them was... Well there's two that kind of together here. One is take money off the table when you can. I'm a big believe.

I mean because the next one after that was one strategy never lasts forever, right? I kind of tie those two together.

In other words, when you've had a good run rate with something, you've had growth. I don't care what it's in, if it's real estate or whatever, but the business there's time to take equity off the table because the game, the window doesn't stay open in that one strategy or model forever. Eventually it's going to turn. So dig into that a little bit more.

Kevin Fechtmeyer: Sure, sure I can't remember if it was Warren Buffett or some other famous investor said they made a lot of money selling too early and that's fine with me. We always look at ways to reduce risk by selling part of an investment, and it can be a debt recap, it can be anything that allows you to take money off the table through distribution or sale, return of capital. And every company's different, every industry's different, so you need to be opportunistic at that level. But again, we had a candy company and I remember had grown it by five times the value of the equity and said, "Good, let's take up and let's just leave the fifth turn in."

David Phelps: Mm-hmm (affirmative).

Kevin Fechtmeyer: It turned out that that... We got four times our money back plus return on stock, great deal. And then sure enough, the next turn was a double, so we ended up... People who stayed in the deal made an 8X, we made a double. And so that was a great deal, but we made 5.4 times our money instead of eight times our money. Do I feel bad we got most of our money off early? We didn't take any risk, we came up slightly short of where people who stayed in the deal, but no one's going to complain about 5.4 times your money. I'm happy to do those kinds of deals because I have many other examples where I sold half and I think I referenced one and the stock went all the way back down to zero, so thank God I sold half.

David Phelps: Let's jump ahead a little bit to the potential of the election and focusing primarily on tax proposals that have been laid out. I think there's no question, irregardless of the result of the election, some form or fashion taxes will be going up. On the Democratic side proposals are out to what that means and one of the big ones was the elimination of long-term capital gains, which as we know is about half of what ordinary income tax is. And so by potentially eliminating those that has a massive effect on the markets and valuation. You want to speak a little bit about that? It doesn't have to be just about dentistry, I mean dentistry will be included in that but that article that you sent me spoke to that in terms of... In fact I think what they said was, "The proposal that Biden has is he will eliminate the long-term capital gains tax preference on investments and increase the top rate on ordinary income from the current 37 to 39.6, call it 40%, versus the long-term capital gains rate today of 20%, add Obamacare another 3.8," it's still it's about a double taxation.

He says, "This could take your Federal tax bill on a sale of all or part of your practice to 43.4% in 2021." And he made the point here that somewhere in there well obviously then you have to add state taxes to that, so talk about New York or California paying taxes up to 60% plus on the sale of the equity and the gain in your business or your practice. How are you looking at current deal of flow, how are you advising people that you're working with that might be looking for a liquidity event? Is the pressure on to do something now or how should people consider that if they're in a position where they could sell and gain some liquidity from their business?

Kevin Fechtmeyer: You know it's a very good question and everyone's asking it, particularly with Biden leading in the polls. Unfortunately it's too late.

David Phelps: It is, isn't it?

Kevin Fechtmeyer: For a big company to initiate and close a deal before the end of the year, I mean maybe a small practice or smaller company could expedite things but it would be very tricky and particularly would put you at a negotiated disadvantage on all the other terms of the deal. You have to be careful what you're willing to trade for speed of closing a deal. Yeah, I think you and I have talked. I don't think you can underestimate how destructive that would be to the capital base of the country. I mean taking a marginal rate of 23% to what in many states would be 50% or more would be extraordinarily destructive to capital. You're working more for the government than you are for yourself.

David Phelps: Right.

Kevin Fechtmeyer: I don't think it's ever really happened, and so I don't know if he would get that entire packaged passed, depends on a lot of other factors, but it would probably lead a lot of people... It would lock up capital tremendously or basically create what occurred for many decades in the land of the 60s and 70s with high marginal rates, which is enormous tax dodges and tax shelters being pedaled because nobody wanted to pay a 60% tax rate. So there would be all sorts of tricks. So I think what happens is would be a whole new industry of tax dodges, which would test the courts for years, there'd be a lot of non-compliance, and there would be a lot of companies that would just say I'm not selling if I'm paying most of my money to the government. I don't know what's really going to happen at the end of the day where political rhetoric turns into actual tax policy, it's hard to say, but clearly a lot of people just wouldn't sell.

If they don't sell then what happens? Are there other ways to extract liquidity like debt lit recapped? They would figure stuff out at some point, there will be some consensus around what's fair and what will get business owners to transact. It's just we're in such uncharted territory that you have to look back decades and decades to find any precedent for that and so you're in the middle of a tremendous bubble, public market bubble, real estate bubble in certain markets. So will enough people say, "Hey, I don't care, I've got enough gains, I'll pay this tax." There may be some of those but I think a large majority just won't transact or they'll do some alternative transaction to avoid that level of taxation.

David Phelps: Yeah, very good. I want to take some of your experience and knowledge and turn it a little bit more towards what I tend to focus on just in my world and my experiences, which has been real estate. One of the things you said in your newsletter, who are your investors? What's an ideal investor? What are the qualifications to invest with Cave Creek Capital, for instance? What does that look like?

Kevin Fechtmeyer: Well that's a good question. I mean they're long time friends and CEOs and members of our past boards of directors. They would be all generally reg deep, high net worth qualified individuals, almost every single one.

There are 58 of them right now. And again everyone's different, whether you invest $50,000 or $5 million, everyone's got a different financial profile, but they all are really A, they're helpful in the sense that they show us deals and they think about us and they're very smart people that are plugged into the network of businesses that allow us to see new deals and learn about new deals and that's been very helpful. We've got everything from former governors to former senators to former groups that were very visible, private equity groups where the managing partners are looking to do smaller transactions personally and then there's mostly CEOs, mostly executives that bring a skillset that help us. No offense, but it's not 100 dentists who are passive investors. We're generally looking for other business owners and executives who can bring our intelligence level up on certain industries.

David Phelps: No I get it, and that's why I wanted to get some clarity because access to the network that you have is not something you can just write a check to have, you want some participation. You said raise your level of intelligence and your access points, that's what gives you the firepower, along with the capital you have, to vet the number of deals you have, to bring it down to the best of the best. You want to be able to cherry pick, in any environment, the more deals you have to look at, the more access points you have, makes sense.

Kevin Fechtmeyer: That is correct in theory, in practice let's just say every week is different and you never know what deal is going to end up happening. When you think it's all lined up and then other times things come out of the blue where we don't have any experience or relationships and we end up doing it.

David Phelps: So in your newsletter you talked about the best approach today is to have an opportunity... As an investor, to be able to target specific investments versus blind pool funds. So I need some help with that because I look at blind pool funds and I think specifically talk about real estate, my area, is with a "good fund manager", which is critical to the conversation, the diversification the blind pool fund allows seems to be a positive, certainly I also invest in targeted deals, specifically syndication's in our world that are facility specific. So help me with that a little bit. Why targeted specific investments versus the blind pool?

Kevin Fechtmeyer: Well it's really what our investors like. I don't necessarily think it's the best way every time for everybody, but people like to look at things and make their own decisions. I encourage people not to second guess. We've had people that they've got a couple kids going to college and they can't invest quite as much. So if they had say committed a million or $5 million to a private equity fund over a 10 year period, I don't know many people who can predict their liquidity over the next 10 years, that's not easy. So what our method allows people to do is to say, "Hey, really like this area, so I'm going to... Let's say I put $500,000 in this deal. He's very excited about this area, and it's a typical high net worth person, we encourage never to put more than 2% to 5% in any one deal. So they may say, "You know what? I'm not as thrilled about this area but I trust you that it's got some merit to it so I'm going to put $100,000 into this one."

Essentially we encourage everyone to invest at least a certain amount that they're comfortable with and to go up from there, and usually there's a couple large investors that are leading it, and historically me and my two or three partners, depending on the deal, will put in one-third of the capital, the equity capital ourselves. We generally, in all cases, are the largest individual investors. So it's really not necessarily you trying to supersede another investment managers judgment. It's a very good question because I couldn't second guess a tech investor. They tell me that cloud based software company is better than another cloud based software, I would have to trust their judgment, so part of it is picking the manager, but part of it is just understanding where you personally are comfortable in size and timing and all that. A lot of people then, they commit to a 10 year fund then they get divorced or there's a terrible event, they can't continue to fund it, they're stuck. They forfeit a lot of value because of that.

David Phelps: Is there a secondary market in private equity for buying those interests of people who need liquidity but are tied up? Is there a play there?

Kevin Fechtmeyer: There is an LP, an active LP secondary market for the funds themselves. A fund may have 10 positions in different companies and there are people who buy those LP interests. The area we want to get into and are more interested in is actually buying individual companies out of the LP portfolio. We think that's the next phase of private equity, which ultimately gives it more liquidity and more credibility and more transparency over time.

David Phelps: Going back to what you said earlier about the fed sugar high central bank policies have taken interest rates down to historic lows, close to zero, in some cases negative interest rates. And the fact that that's going to reduce the expectations for yield, both in the public markets for sure, and also in private equity. You believe that we really become kind of embedded or addicted to these low interest rates. What could potentially, in your opinion Kevin, move interest rates? I mean how could they move and head back up again? What factors could lead to that, if any, that you see?

Kevin Fechtmeyer: This is venturing into an area of economics that really smart people still don't have answers to, but I do know that the very worst case is if we continue to screw up our own budget deficit and the dollar ceases to become a reserve currency then we become like any other developing nation who's balanced payments are out of whack and we have inflation, depreciation, and all the rest. I mean a lot would have to happen for that to occur but my long-term concern is that the dollar loses credibility in the international markets. We've got the rare case where the US can control a lot of its own interest rates, a lot of the world's trade, and debts denominated in dollars, and the Federal Reserve has unprecedented power to set rates.

Very few entities in the world that have that power, the EU, the ECB, and us and I think we're in the world now of managing these rates independent of real market forces and I think there's more risk and more volatility that we don't see, that is embedded in this and that's concerning to me. Rates to up that's a good thing or a bad thing depending on whether you're a borrower or a lender, but if you're trying to run a business I've been in countries where you don't know what the currency's going to do next year and it's very hard to have long-term contracts, to play, to get long-term capital. So I hope to God the US never gets there but we're running some risks here that are really much bigger than what people realize.

David Phelps: With those risk, again in your newsletter, you mention that general partners are forced to focus on return of capital today more so than growth, which is what private equity typically is looking for in the past, the growth, which diminishes their value as an entrepreneurial partner, that's changed the character of a vast majority of private equity funding groups from capital gains driven principles seeking to multiple money to fee driven asset managers seeking to grow assets. I think I see the exact same thing in real estate with the bubble right now is where's the value play? When you have a bubble here where do you find it? So there's a tendency in many cases for people just to be driving the fee base of acquisition. Is that what we're talking about here?

Kevin Fechtmeyer: Yeah, unfortunately it is and the more zeros, the more temptation there is to do that, the less you have an alignment of interest with the investor and the manager. It just snowballs, not because they're doing anything illegal but just the incentives become misaligned when you're... This can happen anytime, but it just gets much more acute in a low interest rate environment where you suddenly are... You're getting most of the capital and the manager's extracting most of the gain. That's never long-term a good thing, and again it doesn't mean that you have to restructure how managers manage investments probably over time but it's happening very, very slowly. I don't ultimately know how quickly how this alignment will get back into gear. We just unfortunately have to be ready for lower rates, we're in a lower return world, and either you save more or you accept that you're going to have to work longer, or a combination of both.

David Phelps: Lower yield environment combined with a potentially higher taxes in some form or fashion, yeah it does bode for having to work longer and harder. It's harder to grow your equity and potentially harder to keep it, which-

Kevin Fechtmeyer: Yeah, that's another way to look at it, absolutely.

David Phelps: A couple other points you made in your newsletter which I think people miss, but you said... Again, this is lessons from your 25 years of experience. What lessons have you learned that you're looking at for the future and number one was boring can be beautiful. It's really my mantra in real estate. I'm not a speculator, it's more of a trading position, the short-term arbitrage in markets that are more volatile. East Coast, West Coast in real estate. I tend to stay more Midwest in investments and really focus on the boring. The cash flow, if there's going to be appreciation or inflation in the marketplace then yes, I'd like to capture that, but again give me a little bit more on that, that statement of boring can be beautiful.

Kevin Fechtmeyer: Well in the business world just having long-term relationships becomes an incredible asset, because that becomes a more dependable source of revenue. And if you have reasonably predictable margins you can plan your business. I don't know about real estate, I mean I'm not an expert in real estate, but you generally have a sanity check of where a property is overvalued or undervalued and so you want to go down right in the middle of the plate. If you're going to speculate, know when you're speculating, I think a lot of people don't know when they're speculating. I can't tell you how many people, you know the hard money lenders, they want me to participate in these loans and, "Oh Kevin it's 20% loan to value." And I say, "Is the property occupied? Is there a rent?" "No, but the appraisal has it." You're like, "Oh my God." That to me is they don't know their risk. They have assumed a level of risk that may be far, far different than what the reality is.

David Phelps: Yeah, no well said. We had a discussion early on when the COVID shutdowns were happening, I think back in March, and we were talking about some things there. We're not through with COVID, we don't know what to expect for the fall, we'd had massive stimulation to unemployment sector and loans, CARES Act loans to many business sectors. I think to a degree artificially pump things up. In a general, general speak, I know every sector's different. There's sectors that are killing it right now, there's sectors that are climb through the last five months and seem to be back on a run rate, and there's other that obviously are not doing well at all. But in general Kevin, what do you think? I mean is there going to still be more aftershocks from COVID that we need to look for for the next several quarters based on whatever sectors we're looking at?

Kevin Fechtmeyer: Yes, I think the way some of my smarter friends on Wall Street described it, well they call it the 80% economy. I call it the 90% economy because we bounced back fairly quickly, but there's a significant segment of the economy that's not bouncing back, that the rigidity of this sector and the unemployment, I don't know who's going to hire all these pilots that are unfortunately laid off. There's a lot of talent now that was dislocated in less than a year that would have been a five or 10 year shift. So how quickly that last 10% of the economy bounces back is going to be a big question mark. So right now the market is bouncing all over, it's overvaluing some of the tech plays, and I think they're underestimating the rigidity or the structural unemployment that's been created by the pandemic, and the resulting shortfall in consumer demand and so forth.

I do think that there's going to be little shock waves for a period of time and we did not... As you know, my view, did not handle this well for many, many dimensions. It's going to be at least a year before we know even where the last 10% is coming back. The hope is that some of these growth areas will compensate for the 10% of dislocated employees and that that is a functioning adjustment that we can help either with government assistance or with just being there with the capital markets and funding good companies. We're looking at two companies. Interestingly one in cleaning solutions, which is an innovative way to ship cleaning products, and then there's another one, believe it or not, in e-cannabis space, which is now gotten a lot of attention and adjacent to that area. So there are sectors that are hiring and there are sectors that are going to grow, so I'm not totally negative but a lot of the valuation of assets today assumes a perfect recovery in a short period of time and that will not happen.

David Phelps: Great insights Kevin. Last question before you... And I'm going to take this again down to the niche of the people that are primarily listening to this, small business owners, doctors, dentists. Anytime there's disruption in the marketplace, any sector, there are business owners, founders that decide, for various reasons, they're done. I've seen this already happen in our industry. Dentists in their 50s and 60s, after the COVID shutdown they say, "I'm done," and hopefully financially they're in a place where they could do that but the decisions been made I'm out, it's over. Then there's others that financially won't come back, can't come back, too much debt, too much leverage, can't make it through, never had those operations in place in the margin in the first place. So my question to you, in any sector, including medicine and dentistry, there's opportunity for those that are strong and positioned well to take more market share. Would that be a fair statement?

Kevin Fechtmeyer: Very much so, yes. We see that in all of our companies.

David Phelps: So basically whoever you are, whatever your strategies are going forward, where you are in your career or your financial position, there's opportunities ahead, but you've got to have a network, you have to have your eyes open, you need to have the capital base, ability to take advantage of it. But if you can do that there's opportunities coming out of this.

Kevin Fechtmeyer: Yeah, I definitely believe that and it's happening, as you well know, in many sectors already. Meal delivery, online delivery, replaces what was a traditional grocery shopping trip or a restaurant visit. As you well know the fitness industry is rapidly going online, so there are all these hybrid consumer models evolving and people who are smart and quick witted and satisfy a customer demand, they're going to make it work and we're going to see some real success stories out of this.

David Phelps: Innovation is the key to solving current problems, that's what makes this country as strong as its always been. Entrepreneur on the street, figuring out the solutions, reducing friction for consumers in any way they can is where markets grow.

Kevin Fechtmeyer: Absolutely and we're seeing it, we'll continue to go. As you know, I worry if you end up with a swing politically in the extreme direction the other way, just don't ever make over $400,000 or sell your business for more than $400,000 or you're screwed. You got to be careful.

David Phelps: Yeah, yeah, well as you said, these policies, tax policies are in place in other countries currently in the past, we can learn lessons from them. That's a discussion for another day. But Kevin Fechtmeyer I appreciate your time today. A lot of great insights. I think our discussion today will be very valuable to our listeners so I appreciate your time.

Kevin Fechtmeyer: Great, well thank you very much. Buh-bye.

David Phelps: See you Kevin.

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