Ep #304: Alastair MacDonald - Economic Analysis in a Highly Volatile Market (Part 1)

Full Episode Transcript

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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 I've got the first part of a two-part conversation that I had recently with a good friend of mine, Mr. Alastair MacDonald. Now you'll learn a little bit more about Alastair's background and why I had this conversation with him in just a moment when I begin the actual recording. This was a session that I had with Alastair back at our recent Freedom Founders meeting. So you'll get some context about that during the conversation. Here's why it's important to listen to this. We are in the middle of a change in our economic environment, political and economic. We were the benefactors of a eight year bull run economic uptick in the marketplace after the great recession in 2008, '09, '10, and '11. And we're at a place now where there's a lot of speculation.

The coronavirus pandemic has caused the Federal Reserve to pump trillions of dollars into the economy. And we are back in what I would call the height of an asset bubble in both Wall Street, the stock market, and also in real estate. Many businesses and people that are more essential workers are doing actually quite well here in the latter part of the year 2020.

Other people, nonessential people on the lower end of the pay scale are not doing well at all and they are barely getting by. In fact, the coronavirus pandemic has yet to run its full course. What Alastair talks about in this conversation is many people are only half cycle entrepreneurs. They understand one side of the market and that's usually the upmarket. People forget or they haven't been involved in, or they don't have experience in the downside of markets. And that's where we are right now, boom to bust market cycles.

Business cycles that have happened over and over again for the last 200 years since these cycles have been documented. Understanding what these cycles look like, how to prepare for them, how to deal with them, and how to go forward in them is about being your own economic forecaster to becoming your own orchestrator of your financial future. You can't rely on pundits or people who give advice and only extrapolate from recent data because everybody has experience with recent data and they believe just because of what the trends have been in the last five, six, seven years, that this will continue. On the other hand, I say that we're going to have more volatility, much more volatility in the decade of the 2020s. And understanding how this works and how to position yourself is absolutely critical for your own financial future, well-being of your family, and generational wealth and wealth transfer.

This is a time if ever before, you need to think about being contrarian to walk away or take a different path than the majority. The majority is almost always wrong, and that foretells a very ominous future for those who don't understand how these economic cycles work. Listen in and enjoy this conversation with Alastair MacDonald. I'll have some updates for you on the back end of this, and then I'll get you set for part two which will take place next week.

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My next guest is a gentleman that I've had really the sincere privilege of having recent conversations. I've known about Alastair MacDonald probably for the last, I don't know, year, year and a half here and there but have not met him and really reached out. I guess all things happen at the right time. And for whatever reason, I reached out a few months ago and he was so willing to engage and have some conversations. And I will tell you, I hope it's the same for Alastair as it has been on my end, but the conversations we've been able to have have been so significant to me. He brings such a world of experience and perspective to me, to us, to the people that he touches. He'll tell us his story for you to get the idea, but he has world experience from growing up as a young boy, that most of us, not all, but most of us really have no clue.

We can hear about it. We can sort of try to appreciate what it means, but what I gathered from someone the likes of Alastair MacDonald is that he brings a perspective that I can't get on my own. There's no way. And particularly in the times we are in right now, uncertain times, high volatility, unprecedented in so many ways, Alastair has a background that he's been through a lot of this stuff. And let me just give you a little more of his bio and then we'll jump right into it. Alastair MacDonald is a private advisor to established entrepreneurs, investors and business owners. He's a TEDx speaker. Hopefully some of you found some of his TEDx talks on YouTube. He lectures and presents his economic, social, market, and financial forecasts to private equity, hedge funds, endowments, and large investors across the US and internationally.

He has served as the advisor to state governors, legislators on social and economic policy, as well as public policy, think tanks. As an ex safari guide and national geographic expedition leader, he is the chairman of the board of Wildlife International

and Elephant Conversation, conversation, how about conservation? Elephant conservation. Well, you have conversations with elephants, but you also conserved them, anti-poaching organization with operations throughout West and Central Africa. His market and economic analysis has predicted every major turn in the global financial markets for the last 15 years, including the rise of China, the bottom of gold, the US housing bubble and bust, the global financial crisis, the current post-crisis boom, the exact day of the bottom in US interest rates on the 8th of July 2016, and the peak and subsequent implosion of Bitcoin in December of 2017.

When he's not traveling, writing, working with clients or wrestling with his two boys, he's an active black belt competitor and instructor in the sport of Brazilian Jujitsu. It's my privilege and honor to welcome my friend, our guest today, Mr. Alastair MacDonald. Alastair, thanks for being here sir.

Alastair MacDonald: David, it is an absolute delight. Thanks for having me and everybody, thanks for your patience and welcoming there. I had some tech issues, but it's a delight to be here.

David Phelps: I'm so glad you are. What you're going to find is Alastair is the kind of gentleman who not only speaks with so much wisdom, authority and credibility, but his tonality, his voice, I can listen to him all day. That's why I gave you this big block of time because no one's going to get bored or worn out. There's no abrasiveness in your tone. So I thought we just make this a fun session. So I'm going to let you start out of the gate and run for whatever is comfortable for you, 20, 25 minutes, whatever is good for you. And we talked a little bit about Alastair, about starting with how we got to where we are today. So I'm going to let you just roll with it. After you kind of get to that point, you're now jumping into a conversation and I've left good time for

some backend Q&A from our audience so we can have a fun engaging session here today.

Alastair MacDonald: Beautiful. Thank you. And if only I could convince my wife of an equivalent tolerance for my voice, life might look quite different. Needless to say that novelty has worn off sometime ago. So thank you everybody for having me here today. It's an absolute pleasure. I have the luxury of getting to work with and share time with and alongside some fascinating people and everything that I've seen of this group in the last few days has only added more evidence to that. So thank you for having me. Just I suppose it makes some sense to speak a little about, in getting to how we got to now, I want to spend a few moments on how I got to now and how I got to here in the hopes that my own journey may be able to extract some insights or value for you as we navigate these next five years that have been so perfectly framed in the setup of the last few days.

I'm originally from Zimbabwe in Africa. It was Rhodesia when I was born. And I was born and raised in a very violent time of great social distortion and civil war. So mine was a childhood of armed convoys, of sleeping with guns under our beds and learning to lie down in certain parts of the road to the farm in the back of the station wagon while my mom flawed it because of known ambush areas and so forth. So this was very much the experience. People say, "What is it like growing up there?" Well, of course I have no relative comparison is the entirety of my experience. So I can't compare it to anything, but it was a magical experience as my life continues to be amazingly. And so it was coming out of this horrific civil war that I grew up and became an aspiring entrepreneur.

I was raised by entrepreneurs as far back as my family goes to their moving to Africa back in the 1860s, everybody has worked for themself. And it's such a strong theme in my family's bloodline on my mother's and father's side that it was never really... The notion of working for anybody was like growing a second head. How would you do this? It doesn't make any sense. And so that was how I grew up is sitting around the dining table, listening to my dad talking about lines of credit that he was running in his businesses and whether or not to expand into this arena or so on and so forth, it's the soundtrack of my life. And that was for him too as a little guy with his father. And so I left school and started a safari business and I enjoyed rapid and significant success completely unearned. I became convinced of my own magic pretty quickly.

By the age of just 21, 22 years of age, I was living in a five-bedroom home with maids, and a tennis court, and a swimming pool. And I became convinced that I was amazing. That obviously this was what the heavens above had bestowed upon me. And so that success with the arrogance that tends to attend it, I moved into a number of different industries. I started a venture capital firm, specifically starting funding startup safari companies. That's worked very well for me. I got involved in expeditions and did some incredible expeditions with amazing organizations. I did a source to sea trip for National Geographic that spent six months out in the darkest folds of the continent. And so everything in my life just moved between magic to paid invoices it seemed.

And so buoyed with that optimism, I came to the United States and that's where I got taken to the metaphorical woodshed. I arrived in the late '90s only to discover that my magic kind of ran out and had ran out in the form of getting completely wrapped up around the axle of the tech bubble. I was a perfect

room for it. I came here thinking, well, of course, this is the United States. It's amazing. I'm so lucky to be here. All of that remains true, but I had overlooked a huge flaw in my preparation, which was first of all, a couple of them. The first one was my, as I said, my insistence that surely it was because I was magical. And I had overlooked one of the most important lessons, which is context. Our industry of dentistry, our industries of investing and so forth is laden with experts, and consultants, and advisors and so forth who have incredible track records.

But I had failed to pay attention to, and hadn't yet truly discovered as a functioning adult what it meant to develop a full cycle entrepreneur approach. Everybody is an expert at something. Most people are on what I call the half cycle of the economy, but I didn't know this at the time. So I ran headlong into the tech bubble, got my butt kicked and had some very, very difficult experiences. I had loaded up on residential real estate and tech stocks, and using one to fund the other and so forth. And I found myself in quite a tight spot. I was in a business partnership when the tech bubble burst. That business partnership did not survive that recession. So in the August of 2002, I found myself in a grocery store with my daughter, my then eight month old daughter sitting on my wife's hip. And we were buying groceries to go spend time with some friends, very wealthy friends at their beautiful home.

And we had insisted that we would buy dinner. And so we went to the grocery store and loaded up on all the fancy things. And when I went to pay the at the counter, my card was declined. Now I could sit here and retroactively justify all of how it is that it happened. Well, a deposit hadn't come through, it doesn't matter. The bottom line is I was not prepared for the full market cycle together with millions of other Americans at the time. And

the shame that I felt in that experience was so catalytic and had I have waited 12 more hours, it wouldn't have been an issue. But that had occurred because the deposits would have come in, et cetera, et cetera. I'm sharing all of this obviously to try to protect my fragile ego. It was such a catalyst that as I walked out of that grocery store and watched my wife with the scant few groceries we could gather walk out to the car, the shame just washed over me.

And I remember looking up at the mountains of Colorado, the front range and thinking to myself two things. The first is, how the hell did this happen? How did this happen? I was actively managing money for others. I was purporting to be an expert. How could this have happened? And that was followed instantly with a commitment I made to myself and anybody that would ever work with me again. This will never happen again. What followed over those next few years was an aggressive deep dive into 350 years of market finance and economic history to try to understand what it is that I was not paying attention to. And what I wasn't paying attention to is that the market moves in full cycles. Now I knew this. I had seen the boom bust cycle in my own childhood, watching my father's business expand and contract. Watching society turn on itself where literally brother kills brother in a civil war.

I had seen all of these manifestations, but I had naively thought that these preponderances, this instinct to behave in a certain way in a certain time in the economic cycle was something that was limited to Zimbabweans, thinking, of course, well, this is a third world country, what would you expect? Only to realize that this is a function of human behavior, not some barbarian behavior. That shift changed everything for me. I began to understand that it's not that rising stocks make people optimistic. After all, it doesn't make sense. If that were true,

which everybody takes to be self-evident. If you were driving down the road and you hear NPR or whatever your new sources say, the market was up to date, making investors optimistic. We don't stop for a second to ask them ourself, if that was true, what made them rise in the first place? They didn't just magically rise.

The markets, whether it's real estate market, the bond market, or the dental market is an auction system. And auctions are built of buyers and sellers. It takes an optimistic person to buy and a fearful person to sell. This understanding reflected the broader experience that I had had and changed everything for me forever. Over the next several years, as we approached the financial crisis, that became the most profitable time in my life. The housing bubble and burst, and the good fortune that I had to call the bubble in real time was something that as I continue to eat my own cooking, I sold my own residential real estate holdings, including a house that I was closing on and a penthouse apartment overlooking the old port of Portland Maine at the time.

Now, I don't have any sort of ethical conundrum here because there were five buyers behind me that wanted it. All the evidence that I needed that we were inside, not just a bubble, but a bubble of generational and historic proportions. Given my wife's incredible pain tolerance, she was willing to move back to rent again based on this ridiculous theory I had, which I could find nobody to agree with me. In fact, I'll share something because this is going to come to a point that I want to make very clear to everybody if I can leave you with anything. By the time that you are in this group, you are acutely aware of the danger of a saturation of opinion. So as I sat there in my home in 2005 watching prices just reach ridiculous levels, people borrow going from the standard old rule of thumb of three times

gross household income to four times, five times, and finally with unstated land docs, infinity leverage and calculations.

It occurred to me that we have to have been inside something historic. So as I scoured the world for anybody that could help me frame this as a bubble, I found one person. I reached out to somebody I've subsequently got to meet and spend a lot of time with, I won't mention their name, but this person is a very famous permanent bear. They are known as Dr. Doom and I wrote to them, and I said, "It seems to me that this is a massive bubble." Now, bear in mind, everybody was convinced that real estate could only ever go up. After all, nobody was making any more homes. Everyone was moving here for the lifestyle. You don't understand, property, et cetera, et cetera, all possibly true. None of those assumptions justify ridiculous valuations. Excessive valuations is how you eat the future, and too many people were doing that.

So I finally heard back from this man about a week later, and he said, "Well, it's entirely true that the bubble appears to be real, but given that the dollar is going to be worthless, you should continue to hold that real estate because it's going to appreciate over time." Now, if you take a second to think about the second order decision-making behind that recommendation, you will realize that here is somebody that is considered one of the finest and most obvious contrarians on the planet. Even he was recommending to continue to hold real estate. When I received that email, I realized that the saturation of opinion had reached 100%. There was nobody left to buy. So in late 2005, early 2006, I divested myself about real estate, chose to rent. And as I told my wife at the time, "If this is what I think it is, we will be renting a mansion for pennies on the dollar within the next two years."

Well, it actually took eight months and we soon found ourself in a four bedroom home on the ocean with a private beach and views of the water from every room in the house and I paid less than the property taxes to be there. Less than the property taxes. Now I say this, this is not about me. This is about the power of seeing a full market cycle for what it is, how it manifests in art, design, culture, politics, economics, valuations, and mostly social narrative. A conviction of opinion that is so strongly held, nobody is left to take the other side of the trade. The housing implosion was at the time the most profitable experience of my life. That then rolled over into of course, a financial and CDO and CLO bubble, which precipitated the great financial crisis, which itself became an even more profitable experience for me.

By February, March of 2009, it was clear that we had reached another point of a saturation of opinion and conviction that as dark as things were, they were only going to get worse. I have a short anecdote to share with you about that, but maybe we'll get time for that. And an experience that captures the entirety of the kind of ethos that I've subsequently developed and shared. But I'll move on. Of course, what followed was the largest point rally in US stock market history and a powerful resurgence in real estate prices. So how do we become full cycle entrepreneurs? Well, it's tricky because we are hard wired to extrapolate recent trends. As far as I know, everybody here is a business owner. Here's the hard truth. And some of you, most of you will know this already, but I want to put a fine point on this.

If you are in business ownership, you are in the business of forecasting. If you own a business, you are a forecaster. My recommendation is to get good at that. Nobody is teaching that. It doesn't show up in dental school. Heck, it doesn't even show up in economics class. Our instinct is to extrapolate our most

recent experience into the future and call it a forecast. This seems to be genetically bound up in our DNA. And don't feel bad, everybody does this. Even the most famous economists on earth, famous mostly for their ability to extrapolate all trends at all degrees of scale all the time. Now, when the trend is clearly in your favor as it has been for the last nine or 10 years, you look really smart and you can make a lot of money capitalizing on that extrapolation. But what this instinct does is it betrays us at the most crucial time.

Linear extrapolation allows for participation when you're correct and this trend is strong, but it will betray you when the trend turns. We're terrible at it and nobody is rushing to help us. How do we avoid this? We pay attention to crafting and cultivating a couple of key skills. The first is to look out for that extrapolation. If you hear somebody say, "You will leave this a black belt in forecasting even more advanced than you were if you simply look out for this one thing." Next time you hear a bubble head on TV telling you that stock ABC or individual sector XYZ is expected to continue or is going to give us returns of 10% a year for the next 10 years, whatever it might be, go back and look at the data and dial it back. And I'm here to tell you that 99% of the time, all they're doing is telling you what has already happened.

Now, this works and economists remain hired despite seeming to... There are some famous economists, and forecasters, and advisors out there that seem to only ever open their mouth to show that they can be more incorrect than they were last time. It seems to be. They show up every day and they do their best and they're really good at that. They themselves do not have that instinct. And here's why they get away with it and stay employed, because that is what we want to hear. That's what we want to hear right then. If you are all in on Apple stock and

somebody says, "It's going to $5,000," that's exactly what you want to hear. And so you take it and you talk about how smart they are. I would encourage you to surround yourself as you have and continue to with people that might slaughter your sacred cows, that might poke the squishy bits and say, "You've got a couple more lbs over the top of that belt."

People that might ask more of you than your previous extrapolated standards and expectations. Their timing of what they're telling us overwhelms the accuracy of it and it makes us incredibly forgiving when we shouldn't be. We shouldn't be forgiving for this. If an expert is being hired to guide us, I have to believe that they will have insights I don't have, or at least be willing to ask questions that I'm willing to ask or those that I work with. So look out, first of all, for extrapolation. The second thing to account for is probably harder in dentistry right now than it ever has been, exceptionalism. Look out for exceptionalism. Somewhere in your plan is the nugget, the stone in the fly in the ointment, the stone in the shoe of your plan that absolutely includes some element of exceptionalism.

Now, I use the example just now as we see in housing, exceptionalism during the bubble, nobody is making any more land, everybody is moving here for the lifestyle. The irony is I was hearing that from clients all over the country, apparently everybody was moving everywhere for the lifestyle. Real estate only ever goes up, et cetera, et cetera. Now, these things might be true, but it is none of this speaks to a justification of stratospheric valuations. The most recent example that we are living through right now, dentistry and EBITDA. Dentistry and EBITDA. EBITDA is one of the greatest accounting hoaxes in history. And if we look at it, and if you don't believe me, run your business looking purely at EBITDA for the next six months and watch what happens.

We need to pay attention to the history of EBITDA and I'll avoid that. EBITDA was originally created to figure out how we can strip assets away based on the heavily skewed depreciation of the balance sheet. That depreciation schedule suggested that there were dead assets, assets that were not being utilized for essentially a smash and grab, what we now think of as corporate rating. Yet, here we are today, 27 years later using, excuse me, 32 years later using it for the exact opposite, to justify nosebleed valuations in dentistry. And what shows up? All of the claims of exceptionalism. Everybody needs the dentist. Nobody wants to live in pain. This can't be outsourced. True, true, true. 16 times EBITDA, false. This gets very dangerous.

This gets very dangerous because what looks like a logically simple and obvious formulation of a strategy is largely just data selection to support and justify a plan we're already following, or even more dangerously, something that makes us feel good about what we've already done. We know this. In psychology, it's referred to as framing. We come up with an emotional response, I want to sell this or buy that because this friend gave me this hot tip, but we feel really stupid saying, "I'm just feeling the sense of wanting to hurt." No one's going to say that. So instead we frame out a logical justification for why exactly outcome ABC is eminent any day now. So that's the second thing, exceptionalism.

And the third, as I say is context. Look at the context. I have in my group of private clients, docs who've been in the industry for 30 years. I just have to call them up and say, "What were the multiples of EBITDA that you could have sold your practice for back in 1995?" … said, "I don't know what you're talking about. We were handing books of business to each other when we retired. We walked away from empty assets." Yet here we are,

conversation with my friend, previously looking at deals of 14, 15, the high watermark I've seen, maybe you've seen a higher one of 16 times EBITDA. These people are eating the future. They're eating the future. Their future gains will not look like they do had you have paid less. Now we know this, we know this in the group.

The return you make is preset essentially, or at least of high probability at the time of purchase not at the time of sale. Where does this all come from? This comes from something that has happened in the background that we have a skewed perspective toward. And I'm going to show this to you right now. In one chart, this image captures the dilemma. Now, I'm going to show this to you in a completely unprofessional format because well, probably because I'm completely unprofessional, whatever that means. What I'm going to show you is the track that has fueled all of this craziness. This is the interest rate on 30 year US government bonds. Back in 1980, '81, '82, some of us here today were around for this. So mortgages are 15 and 16% and yet here we are today at 1.45 on the 30 year bond.

Just anecdotally because there's something here that everybody, I want to bring some attention to when David and I get to speak in a few minutes, one of the points that I hope to share with you is looking for indicators in four domains as you build out and strategize, as you own your role as a forecaster, and I encourage you to own it is this. Here we saw interest rates absolutely implode. This has led to the largest bull market in bond history while everybody is excited about equity markets and so forth, it is in fact the US 30 years are a coupon that has given the highest risk adjusted or even gross return for the last 40 years as interest rates imploded. What happened here? Oh, what a beautiful story. What happened here was buoyed by the

arrogance of ongoing increased capital gains and the revenues that the treasury in the United States was receiving from it.

They decided that they were so flush with cash that we wouldn't have to borrow money on 30 year notes anymore. Let's think about that for a moment. If we let that idea just kind of detonate in your mind, that is one of the most powerful, systemic, social and political extrapolations of a trend that we'll ever see. The first notion of discontinuing the 30 year treasury was during the Clinton administration when we reached a budget surplus largely by rating social security, but we won't talk about that. But nonetheless, there was an appearance that we had this great budget surplus. And given all these capital gains from tech stocks and so on and so forth, we're fine. We don't need to borrow the money. This is much like somebody suddenly being given a huge amount of money and deciding to cancel all their credit cards because having cash suggests that I'll know how to spend it in the future. Of course the government doesn't.

Government doesn't know how to spend money because it spends other people's money. This is difficult. How could they possibly be qualified to know where the best allocation of capital is if they're using someone else's money? So what does this note have to... We look at this rate and we say yes, as real estate investors, this has been an absolute panacea for us. All that we've seen is falling mortgage rates and of course, heightened property evaluations. So if you're an owner, it's great. If you're in this business, it just looks great. But what nobody is paying attention to is the other side of the trade, the need for yield. We cost our mind back to say 1980 when this data set that I chose to share with you is capturing the entirety of the US bond bull market. Let's imagine Jim and Jane, Jim is a dentist and he runs a practice and he's looked around and he's decided that if he could save a million dollars, he will be

able to put that million dollars. He is now sitting there in 1981, 30 year bonds are paying 15%.

He's going to save that million dollars. And in 20 years time, he'll retire on his income of 150,000. Maybe he'll save a bit to allow it to compound and take out 12% or 120,000. That's going to cover his needs. His family is going to live beautifully. Now his spouse, Jane is a teacher and Jane doesn't have the flexibility or options of a 401(k). The switch from defined benefit to defined contribution in 1978 was one of the largest, most invisible hoodwinkings of the American investor in history, but let's move on. So Jane has this pension fund and the pension is taking care of her needs and is going to secure her a passive income of her current New York teacher salary of 60,000 a year, what have you. What's happened is two different parties have to run out with their savings, in the case of the pension fund, someone else's money to create the return that they have promised to their pensioners.

Of course, in this case, Jim is backing himself. He's going to sell his practice for a million dollars and that's all dialed in. Fast forward to 2000. Jim's ready to retire. Jane is ready. Jane goes back and turns on the spigots with her pension fund. Jim picks up his million dollars, goes to the market and discovers that that $150,000 with a 15% guaranteed no risk return is now $60,000 a year. Not just that, but as he moves into retirement, that 60,000 becomes 50, 30, 20, and now $14,000 a year. Jim's in a crisis. It's obvious to him as it is obvious to everybody in this group because we sign our checks on the front. We have chosen, as we say in Zulu, mkhonto wesizwe. We have chosen to live on the sharp end of the spear as entrepreneurs. Jane doesn't feel any of this, but believe me, her pension fund does.

By law, pension funds are required to spin off a yield that will both satisfy the current income of their current users and retirees, and of course allow capital accumulation over the longterm. This means that many pension funds such as CalPERS and so-forth, and I've advised many of these poor people are now finding themself in a situation where the mandate is for them to find a yield of five or 6%. Well, that's tricky. How are we going to do that? Government bonds are paying 1.4. Well, hey, maybe I can pick up some of those Apple bonds at three. Still not there. So what do we do? We move further and further out onto the frontier. We start buying bonds in Greece, and then Iceland, and then New Zealand and everywhere that this hot money swells around, it spikes up asset prices and drives down interest rates.

Because of course, the more people buying these bonds in Greece, the less the Greeks could ask, excuse me, as an interest rate. And this goes on and on. Suddenly, the hot money, the interest rate falls below their threshold of what they need on an off detach return. They don't care and care about the Greek social welfare system that they're helping to fund, well, that new highway in Reykjavik, Iceland, they care about that stuff. They're going to pick up their hot money and they're going to trundle off to wherever they need to go. And as they do, the Greek government bond goes from 7% to 44% in just seven months, decimating the Greek economy. This hot money swells around the world and finally comes back to the United States panting, both its hands on its knees and it says, "This is not going to work. What else can we do? What's safe?"

Healthcare. Well, we've got certificates of need for hospitals. We can't get in on that business because that is too heavily regulated. What about dentistry? What about podiatry? And most recently, what about the veterinary industry? So this hot

money starts chasing yield and it says, "Hey, a well-run practice should spin off about 10% in profit a year." Perfect. We'll buy a bunch of these, turns out these dental service organizations are rolling practices up and selling them. Now we have to bear in mind one of the byproducts of imploding interest rates not only is to punish savers like Jim, but it rewards speculators, haven't we noticed? That speculation becomes systemic and gets absorbed into giant pension funds and very large deep pools of capital.

They are literally forced to use leverage to capture the yield they need to satisfy their current obligations. Dentistry is perfect. We'll buy these practices that are running at 10%. We'll kick back a 3% management fee for somebody and we'll walk with the 7% that we need. Very soon, this turns out to be a very popular trade. And now instead of paying 80% of a practice's collections, maybe a historically average narrative, we've now got groups paying 90%, 100, 110. I've seen deals at 120% of collections, eating the future. There is no version of those returns ever justifying these valuations. How do we know? Because though hot money is new to dentistry, it's not new at all. One of the most important drums that I could beat over the last couple of years is that this money might be new to you in dentistry, but it's not new.

And the danger that we have in this industry is falling in love with our own framed out justification of exceptionalism. Does this mean that all valuations implode and it's the end of dentistry? Absolutely not. Any more than it means that nobody needs a house to live in after the housing bubble. It's absolutely not the case. We don't need to be dire and apocalyptic. But if your plans were to roll up practices, and we've already seen the rollback, we've already seen EBITDA multiples drop from that high water in February of 2018 when I was jumping up and

down on the stage of my friend, Mark Costa's summit, they're saying, you're not paying attention to where this is going. Now down to multiples, I've got clients that are closing out large exits at a high watermark of about six. That's a big deflation in multiples and it's inevitable.

And as I think, it was that genius, Yogi Berra who said, "Something that is unsustainable cannot continue."

David Phelps: Okay. That will conclude the first part of our conversation with Alastair. Next week we'll jump into the forthcoming inflation and what that portends and how you can protect yourself from the devastation of the devaluation of the currency. Look forward to seeing you next week same place, same station.

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