Ep #307: David Phelps - Where Do We Go From Here? Navigating an Uncertain Future

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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 my subject is, so where do we go from here? 2020, we are almost at the end of the year. It's been a year of unprecedented disruption.

In our lifetimes, anyone listening to this has not gone through the volatility that we've had, both economically and from a virus pandemic, that we've had this year. And to top it off, we are still in the middle of, depending upon who you listen to and what you believe, perhaps an election result outcome that we're not sure of. This is where we stand right now toward the end of the 2020 year.

If we look back at March of this year, right at the middle of March, we had the virus was really starting to encroach and run rampage across the country. At that point, we went into government-mandated lockdown. At the same time, or right before that moment, the stock market started to do a major drop—dropped like 33% over the ensuing week.

The federal reserve stepped in and, again, beginning with an unprecedented amount of federal stimulus, unprecedented in the amount being many times more than what was done back in 2008 during the Great Recession. This time, it was all hands down.

And to this point, about three trillion some dollars have been injected in the economy. It's fiat currency, folks. It is our future. Future generations will have to deal with this, but the government didn't want to have a complete fallout of the economy, so they sold out the future of our kids and grandkids to save the day.

I'm not taking a point of view here saying what's right or wrong. I have my personal opinion. That's not my point on this particular podcast today.

I'd rather focus on what's next. What's next for you as a business owner, as a principal breadwinner for your family, providing the security, the financial basis, and also thinking about your long-term future. And that may be, depending upon your age, you may be looking out 35, 40, 45, 50, 50 plus years.

But still you've got to understand that creating wealth the way we have known it in generations past, really up until this point. Creating wealth in relative decades, with relatively low interest rates, and a relatively vibrant economy overall, again, much of it stimulated by debt.

Creating that wealth has been something that's been still very viable for most people, most entrepreneurs, most people who want to get out and hustle. Because tax rates were not as high, and we have been able to muster up quite a bit of wealth overall in the areas of capital wealth basis.

Going forward, I believe is going to be a different story, and here's why. The debt that this country is piling up, both in current debt... Deficits were way over $3 trillion for this year. Our national debt will be near $30 trillion at the end of this year. $30 trillion by the end of this year. And our unfunded liabilities, which is Social Security and Medicare, is way, way, way over $100 trillion. I don't even know if someone has the accurate number, but it's way over $100 trillion.

Folks, that is going to cause major problems. We can't keep printing money. The only thing that's our saving grace right now is the fact that the Federal Reserve... Because the US dollar is the reserve currency, we have the, I guess the luxury, if you will, but it's an irresponsible luxury, of printing dollars without major repercussions, because we are controlling the interest rates. That can't go on forever.

Eventually the other countries that fund much of our debt, that buys a lot of our treasury bonds and T-bills, they will want more interest on those because they realize that the dollar will go down a value. That's going to be the inflation that I believe we're going to see towards the mid to latter part of this decade. And as that happens, interest rates are going to have to go up.

That's when you're going to see a great amount of additional disruption in our private sector. The private sector, which needs credit, which needs some money flow. The problem is, the government is going to be sucking away so much of the capital base that we, as entrepreneurs and business owners and consumers, need to use to keep a vibrant economy, that it's going to slow things down greatly.

That's why I believe we're going to have stagflation, go back to the '70s and Google it. But stagflation was a time when the economy was very much in malaise, a very anemic economy. Yet we had a lot of inflation pressure.

Creating wealth is going to be difficult, so I believe that this is a time when most people need to really be getting their houses in order and taking advantage of the opportunities to come. Because with all this change and disruption, there are going to be massive opportunities for those who are positioned well.

Both in business acquisitions, mergers and acquisitions. Buying up companies from owners that are not going to make it through this pandemic crisis. Even with all the money stimulus, there are going to be many owners of businesses, might be in your own sector.

I speak to a lot of business owners, professional practice owners. There's going to be opportunities in your class. You've got to be positioned. You've got to have your network built out to be able to take advantage of those areas.

If you are looking at more passive wealth preservation and recurrent cash flow, which is my model, which we greatly provide in Freedom Founders Mastermind Community. That is a recurring cash flow model from owning tangible assets. That being real estate.

Again, you can do that in business. You can do it as an active business owner, you can do it with participations in business if you want. The models work. Real estate, for me, has just been what I've learned for four decades, and what we do extremely well in Freedom Founders.

It's that recurring cash flow based on a tangible asset. Once it's acquired, once it's built, once it's invested in, that recurring cash flow continues on. And the actual asset itself, the real estate in this case, acts as an inflation hedge against the devaluation of the dollar, what I've been talking about all along here.

So you've got the recurring cash flow, and an asset which will grow in value. Well, it doesn't really grow, but it keeps pace with inflation, as does the revenue streams coming from that asset. Rents, or homeowner interest, or, in this case, from the actual asset.

The other thing to bear in mind is that this recovery that we've had from the earlier shutdown, lockdown, from the pandemic, this recovery... Even though for a lot of people, it feels like it's pretty vibrant. In fact, I know many business owners in my arena, professional practice arena, their practices are in a heavy, heavy demand right now. I mean, they're backed up. Some people, even with two months lockdown, are going to have equal or better their 2019 productivity in revenue. That's the same for some other business sectors.

Of course, there's another group that haven't done very well, and that's restaurants and gyms and bars and hospitality and tourism and hotels. They haven't done well at all. As have not done well, would be people who are in minimum wage jobs, people who live paycheck-to-paycheck, and perhaps even got hit by the virus itself and put them out of that minimum paycheck job for a while. Those people, and those industries, are not doing well, and they're going to have a struggle to come back.

So we call it a K-shaped recovery, because there's a upper tier, probably two-thirds of the businesses are doing well. Their balance sheets are actually better and much stronger than they were earlier in the year. And then there's those consumers and business owners who have the opposite, where their balance sheets, or, in other words, their debt and their liabilities are much greater. And they're the ones that are suffering the most right now.

We have a situation, which is been going on for decades, where we don't have real capital markets. The federal government has interfered in the past, and continues to interfere in a very, very, very big way right now to prop things up. So you can't really look at true economics or true capital markets when you assess where you are, where things are going, where things are headed, and where your opportunities are.

You have to really have an understanding of the movement of money, and have some feeling of, or finger on the pulse of, what's happening in the economy, where the money's going. Because the money's always moving.

And even though a lot of this money is fiat currency money, it's still money that's on the move. The question for you is, how do you position yourself to gain more access to the money, or the assets that are best suited to capture that money flow?

That's the key for you today. You've got to be in that position. If you're not, if you're just playing the game that we've been taught, to be conservative and work hard in your business, trading time for dollars, saving money, put it in the stock market, putting it in the 401k, thinking that's going to do it for you. It's not.

That's my point from my earlier mention, is that creating wealth, preserving wealth, building wealth, keeping up with inflation, is going to be a much, much harder task than it has been in the last several decades.

At some point, the federal government, Congress, will stop pushing as much money into the economy. It can't go on. They will stop. They're going to have to have a pullback. And when that happens, when that money runs out, when people who haven't been prudent about positioning themselves, or people who have taken all this extra money, the PPP loans to businesses and the extra unemployment stimulus, $600 per week.

People have a lot of money, and businesses have a lot of money in their accounts right now, at least those sectors that have done well. And some are going to be probably a little bit complacent, meaning that they will probably spend that money on things that don't make sense, consumers and business owners.

And then when the money's pulled back, or there's no more stimulus, that's when I think real angst is going to happen in a lot of areas. That's where the economy is going to probably go anemic.

So you have to look at your business and say, "Who are my customers?" Are your customers the kind that do rely a lot on paycheck-to-paycheck? Do they rely a lot on insurance or other outside payment streams to make what they buy from you, services or products, to make them affordable for them so they can buy them? That's a change that's going to happen.

So my best advice to you, number one is, be defensive. Whatever capital you have, keep that aside. Don't go on major expansion plans right now. Be very careful about where you allocate your funds. Certainly if there's an opportunity to gain a great return on investment, and you know how to measure that, you've got a good CPA or CFO helps you look at those things, then by all means. By all means. But don't be cavalier about it, is my point.

You need to keep that margin of capital and a profitability margin rate, as strong as it may be right now, you need to maintain that. Be really hard on yourself. Look hard at your business. Look hard at your consumer lifestyle spending, and make sure that you're not letting it expand.

Because, again, there's a feeling of, "Oh, there's all this money." And the stock market continues to go up, and people feel really rich. These people who invest in the stock market, again, that's not everybody, but those who do feel very, very wealthy right now.

I think there's some really irrational exuberance that happens in every up-cycle like this. And particularly when it's artificially produced, in this case, by the government, and by the Federal Reserve.

If you're looking to gain more freedom, flexibility, financial, or economic freedom in your life, meaning that you don't have to go to work every day to produce the same amount of income week by week, month by month, year by year to sustain your family's lifestyle, the security, what you want to provide for them. If you want to start changing that model, now would be a good time.

Because as I said, the trading time for dollars model, which is the highest taxed form of income, that's ordinary income. It's the highest taxed form. Then you've got to start investing in assets. Whether, again, that may be in other businesses you have an opportunity to buy. If that's your game, and you know how to do it well, then I would say go there.

Most technicians, most people that are very highly trained and educated in a technical aspect, like medicine, or like dentistry, or like engineering, or anything that takes their time, that model is going to be suspect. In other words, I would say transferring and gaining some additional skill sets and assets outside of your domain of trading time for dollars, would be a smart move. And there's going to be huge opportunities to do that.

As the market turns, sometime, maybe this next year, or certainly by 2022, I believe we're going to see some major corrections in both Wall Street and Main Street. You're positioning there to take advantage of that wealth transfer, a great wealth transfer that happens at every major economic cycle.

That's an opportunity to really hit what I call an inflection point, and take what your capital base, your amount of money you're willing to put into these assets, and multiply it two, three, four, five times in the next, say, half a dozen years or more. It's a real opportunity for you.

But again, you've got to have the margin. You've got to have that capital base ready to go, and you've got to have access points to where these opportunities come up. They aren't just going to be brought to you by a broker, whether that's a Wall Street broker, a business broker, or a real estate broker. They're not the ones that have the access.

It's really what I call an under-the-retail market that you've got to be involved in. That's what we do at Freedom Founders for real estate.

The recurring cash flow that comes from the assets we buy, are what begin to replace the active income, the trading time for dollars, that our doctors are involved in. And as they start to build towards their freedom number, which means replacing that active income with those passive income dollars, that moves them towards that freedom point in which everything expands.

In other words, when you hit freedom point, everything changes in your life. You start to be able to work and trade time for dollars if you still wish to, on your terms. Seeing the patients you want to see on the hours you want to see, doing the services you want to do, and not dealing with insurance companies. You're not under that constraint.

That's where things change. That's where it's happening with our group over and over again, is the inflection point multiplies now everything they've done. They've got assets now that are working for them. Taking that money, that hard-earned money, and turning it into assets that are producing 24/7, working as hard for the investor, the capital saver, working as hard for that person as he worked to gain those dollars.

That's the key. You've got to make your dollars work hard for you. And if you aren't evaluating that, if you're just blindly putting your money on Wall Street into 401ks, or cash balance plans, or defined benefit plans, because you believe that's the thing to do, because it saves you on taxes. I say big mistake.

I've got other podcasts where we talk about the whole tax deferment model, which I believe is game-over. Because tax rates are only going to go up, and you're locking your money up until you're 59 and a half where you can't touch it. You can't manage it. You can't take advantage of opportunities.

You've got to learn to put it in assets that you control, that can actually build momentum and steam. I believe the stock market is going to become also anemic in the years to come. It may have a little bit more gas from the federal stimulus this year and into next year, but I think we're going to see a big wave of correction coming, because stocks and bonds are way, way overpriced today.

There's certainly real estate that is overpriced, but the cash flow run rate is what we look at with real estate. And when you measure that against the value, that ratio is what we can measure, and we can be specific and invest in certain locales, certain markets, certain asset classes that give us diversification, but also give us that hedge against inflation and a hedge against a downside risk.

Look at today, where people are moving right now. People that loved the urban density area, because it was close to things they liked to do, maybe close to work, and people who lived in higher density, multi-family apartments, that are getting out. Why? Because there's a whole work-from-home model that's occurring now because of the COVID.

Many companies are allowing remote workers to continue on, even when there's been an opportunity to come back to work. They're changing the models, and people love that. But in loving that, they want more space. They don't want to live in crowded areas, because they're working from home now.

They're not going to an office. Many people are not going into an office, so they're moving out into homes. Either they're renting homes, or they're buying homes today. There's a great resurgence there.

And I see the government and the Federal Reserve wanting to keep housing strong, because housing is one of the bedrocks of the economy. If they keep housing strong, because it creates a lot of jobs for the labor force to produce the additional housing that's needed. There's a lot of build-to-rent models happening right now. There's a rash of building in all the strong markets except for California, New York, Vegas right now is down. Those are isolated markets.

If you are investing in the strong economies, and particularly where I live in Dallas, Texas, or Austin. Or you could look at Salt Lake City or Phoenix, or many of the Midwest Rust Belt, Southeast markets, they're very, very strong. Because people are leaving those blue democratic states with high taxes and democratic governors who are wreaking havoc on people's lives.

People want out. I mean, they're leaving in droves. And all you have to do is position yourself in where the money's moving, where people are moving to and have access to those assets. So you can acquire those, and have great managers that manage those.

Today, I invest in both direct ownership assets, which would be single family houses. I lend money to a lot of our trusted advisors in Freedom Founders, who are awesome in acquiring undervalued properties, and then rebuilding them to renovate them to either sell them or rent them. I can lend money to them.

I can invest in funds that also are amassed by extremely well-known track-record people in our group, that allow me to be really hands-off and be diversified at the same time. There are so many opportunities right now, and the rates of return that are available are double-digit on a very conservative basis.

So if you've been wondering where to go, how you're going to take your foot off the pedal, how you're going to take the assets that you have built up... The assets being the equity in your practice when you decide to sell that, or other assets you have put away in retirement plans, or taxable income accounts you have in stocks and bonds. Or maybe you've played in the real estate market a little bit, but you don't really know how it works. And maybe you've been lucky, or maybe you've had some bad fortune because you didn't know what you were doing.

Look, this is the time to really be in a network where people know what they're doing. If you like the alternative asset space, there's no better place than Freedom Founders.

Now we're not for everybody. I'm trying to give some overall general advice to people, but if you believe you are, and you have $1 million or more of capital base that you want to get invested in alternative assets, then I invite you to get on a call with Alex, who is one of our membership concierge. And he will, in 10 or 15 minutes, give you a quick insight into Freedom Founders and whether or not it's a great place for you to come.

We invite people from all business sectors. We even recently had a business owner in the financial services sector, been in that arena for some 35 years, who is now one of our members. Because he realizes, while he still keeps some money on the stock market, he realized that the real estate asset classes can provide greater returns, more sustainability overall, and have that inflation hedge that's so necessary today as costs are going to go up because the devaluation of the dollar.

So we invite people to check us out. And we'll be very transparent whether or not the time is right for you, help you along the way, or give you resources that can help you get in position to perhaps be a member at some point in time.

All right, that's my subject for today, where do we go from here? I hope that's been helpful to you, and I'll see you next time. Remember, always stay focused on your freedom.

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