

**Ep #342: Alastair J. Macdonald - Understanding The
Full Market Cycle (Part 2)**



Full Episode Transcript

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Dr. David Phelps

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David Phelps: Alistair, the movement that we have been witnessing for decades and probably for most people is becoming more prominent in maybe the last decade or two, and we see it in what's being taught in the public schools, but it seems to me to be government, which is government that is responsive to the people, and really responsive to the people, the majority of the voters and what the sentiment of the voters are. I mean, that's what politicians do. That's the game. If I want to be a politician and have tenure there, then I have to pretend at least that I'm going to give the people what they say they want. It is what it is, I won't go any further than that, but that being the case, we're seeing and we saw really, I mean, going back, well decades and decades, but really coming out of the Great Recession of 2008, the bailout, the big bailout of the banks. We thought that was unprecedented and then we've seen that be quadrupled or more, and we're not through with what happened last year in COVID.

We see the current administration picking up where the last administration was, just no end to the amount of infrastructure and stimulus that we can put out there. Yet I see a lot of that Alastair, as being big government, not all but the majority feeling, that government knows better, that the government

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would like to have more control over the private sector. Well, we've seen that happen through various crises. It's happening, whether it's by intent or not, it's happening.

So with this movement, again, with an entrepreneur who wants to remain sovereign, have choices and options in an environment where it seems like the government wants more and more to have workers independence on the government for all kinds of benefits, which become permanent. You can't take those away without mass chaos in the streets. Positioning wise, would you say, is this a binary option? Which I know you don't like, but I'll just throw it at you. Would this be, should one look to stay relatively small and nimble and adaptable in whatever environment they enjoy, whatever it looks like? Or does one need to collaborate and build a larger mass where you could potentially ... I don't want to use the words take but be more equal footing with the government that likes to work with consolidated industries? Does that question make sense to you? Do you see where I'm coming from?

Alastair Macdonald Yeah, I think so. I think that this is exactly as you've captured, just one more reason for us to start paying attention to this intellectual, and I would make the case political sovereignty. You joked I hate binary options, binary choices. I do, largely because I've used them on others and I've had them used on me. I always use the example of taking ... I heard my wife do it one night and it just cracked me up. "Do you want to walk to the bath or get carried to the bath?" Here we are, the kids thinking, "Well, we're going to walk because we've got our sovereignty." You're still getting in the bath. So this is why I do, I have an instinct to catch myself when there's only two options in front of me. I know that some where upstream, creativity died or I was not paying enough attention.

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I think you're exactly right. It's my sense that Washington DC is Instagram, which is basically something that is a physical manifestation of a popularity contest. What we see on Instagram and TikTok and so forth is the depths and extent to which people will go to try to stay in the public eye. They will do anything. I mean, literally. I mean, remember that TV show Jackass, they will do anything to get your attention and they will tell you anything you want to hear. They will caution you against your very own brother or sister. They will create division so that narratives can be spun off.

Being aware of that, the most useful filter for me is to say, "If nobody is good or bad, if no one is right or wrong, what then?" Well, then we are thrust into the thing that most of us work so hard at we don't even realize, which is having to take responsibility for our actual opinions, not the regurgitation of somebody else's, but to discover what we really think and pay attention to the results that certain policies, ideas, philosophies will create, have created in the past, and the commensurate price that society will pay for them. That's really what it is.

When I say, do you want to pick red or blue, I've leaped over this chasm of intellectual gold, just in the service of snagging your attention to move on. These people are bad, these people are good, let's take from them, or let's get more from them, or what have you. I think this is what we're really doing.

Unfortunately, we're really good at it, which is avoiding thinking for ourselves, myself included. It's so much easier just someone to be good or bad, right or wrong.

David Phelps: You mentioned the recent Case-Shiller Home Price Index numbers and the month over month being up greater than they were back in March of 2005, before we hit that recession period. So, we've seen this great move towards higher prices

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across the board. Some of the commodities have come back down again, but overall we're seeing a trend towards inflation. So a lot of people would say, "Well, we're into this inflationary period like we had back in the '70s." Others would say, "It's transitory." That's what Jerome Powell would have us think and those in the Federal Reserve. Do you fall in one camp or the other, or again, is it too early to stake a claim as to what this trend looks like going forward, the next half a dozen or through the decade?

Alastair Macdonald Yeah. In my mind, I'll frame it as what, what is the risk. Which of these are the risks, and they're always a risk, both are always a risk, deflation or inflation. It's a matter of which one is most dangerous right now. So which one is the higher probability and which one of them has the greatest negative outcome? And then which has the greatest opportunities? And what are the positive outcomes that could be created? When we see it that way, we realize that all asset classes at all times around the world are experiencing, it's what the cycle is, periods of inflation and deflation, rising and falling.

If we define deflation or inflation as the dilution of the power of money, so money buys you less in inflation, of course deflation means money buys you more. Now, more of what? And this is important because we've got to be very clear in the language we use about inflation in particular, inflation of what? And the one question nobody will ever tell or try to answer is by when? Inflation of what, by how much, by when? That's really what we're struggling with.

We have already seen the greatest asset inflation in world history, eclipsing even our prior peak in '07, in 2000 prior to that, Japan in '89. So it strikes me that while I am very personally familiar with inflation and its mechanisms and so

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forth, having successfully thankfully, navigated it myself, watched my parents do the same in Zimbabwe, again greatest hyperinflation in history. I'm less concerned about the insidious or even year over year, entirely predictable, we talked about it, uptick in inflation post-COVID. Predictable, understandable can be framed, excused, understood. Is it sustainable? And is that a risk?

I am personally less concerned about the protracted increased uptick in inflation in the United States right now. Why? Because the greater risk for sure, you just have to do the math, is asset deflation. We're all paying attention to how much money is being printed, but if I print 10 new dollars and 1,000 new dollars of credit are hinged off of that, what's the risk? The risk is to the \$1,000 in credit that has been expanded, not the \$10. And that's what's happened.

The scale of growth of debt, over and above actual greenbacks has eclipsed the growth of greenbacks. That's dangerous, a credit deflationary environment, and no one can believe it right now. They all say, "it hasn't happened, therefore it won't," et cetera. So that, it has my attention, not as a forecast, but just as a risk assessment.

The beauty of it is that inflation's, again speaking from personal experience, a heck of a lot easier to navigate than deflation. Asset deflation is ... it's a beast with no master. That is what the Federal Reserve is terrified of. They fear that more than anything.

David Phelps: Well, they've made it virtually a mandate that they will do everything they can to protect asset prices. I mean, that's what they've shown so far. How far can they go with that? Well, I guess time will tell, but no I agree with you. Another conversation that we've been having is again, looking at the

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generations and the fact that I'm coming out of the '40s and '50s that people would retire from their careers, after long tenured careers, with defined benefit pension plans that would take care of them. The employer invested for them and would provide solid benefits to take care of them, taking the pressure off of the worker to have to figure this out for themselves. Just go to work, put in the time and we'll grant you this.

Now, that moved in the late '70s to what we have today, the defined contribution plans, which we typically know as the 401(k)s, the IRAs and whatnot. You made a comment the other day, which I thought was very, very relevant, and that is that we're entering a period where more Americans than ever before are going to need money, revenue. We're speaking in large part not exclusively, but to my generation, the baby boomers. I'm right smack in the middle. And thinking about is there a generation from the past that we could look at that has actually successfully retired as a class, as a generation based on their own investments in the stock market, the financial products? Talk a little bit about that and how you foresee that as being one of the major obstacles that our country, our economy's going to have to deal with in the near term.

Alastair Macdonald Yeah. So demographically, absolutely. We've got, what is it? 10,000 Americans a day turning 65 or older, and that'll be the case through 2038, I believe it is, thereabouts, 2040 perhaps. A monstrous wave of people moving from production to consumption, from taxpayers to tax recipients, essentially, beneficiaries of those taxes being paid. This is creating a long-term demographic, slow -burn time bomb for the United States and we just need to look at Japan as an example of that. Of course, Japan, culturally has a very, very different perspective about their elders and where individual responsibility for one's wellbeing sits with the family, not with

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the social security office. So culturally, even that data is heavily skewed to make it look better than it really is, based on our cultural preferences about how we treat retirees.

In our conversation, as I was saying, we've got a good couple of generations out of the pension era that post-World War II period with a ton of pent-up demand. But most importantly, pent-up savings. Pent-up reserves. One of the things about the Great Depression and every recession is there is an increase in savings, of capital that once accumulated, can then be redistributed. Again, it's part of the cycle.

So, we moved into this period, the late '70s really, where we made the shift, this incredible slight of hand, where David, you used to have a defined benefit, but now we're going to define your contribution. We used to define what I would give you, but now we're defining what you're going to do for yourself. I'm not against it, but it was just fascinating how, because of the amount of money that could be made by money managing firms, just grabbed this and ran with it and sold America on this vision, that this is even better than a pension.

Fast forward, here we are, 20, 30 years later, show me one American who wouldn't take a pension over a 401(k). Any one of us would. Why? Because it doesn't matter what you accumulate if you cannot create income from it. So, here we have these record amounts of money. You got people like Harry Dent saying all of this monstrous, billions and trillions of dollars, that's great. How are we going to turn on an income stream in an era of 3% corporate bonds? This is not going to happen. So we've got more people, with more capital hitting more age, as to use the moors, a greater age, greater capital, greater need and interest rates that do not support sustainable long-term income.

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We are now trying to jump into that second generation of people that have been sold on this idea and quite literally sold on it. You go back to all of the early mutual fund companies that exploded post-'60s into the '70s and '80s, that now turn into hedge funds, it's all the same thing. I would feel a little more comfortable if I had just two generations of data where I could say, "Okay, I know Jill and I know Jack and they're 20 years apart and they both retired on their 401(k)s." Entirely. Not because of thank goodness for social security. Not because, "Oh, well, I inherited." Nope, nope, nope, nope. Purely because of their defined contribution plans. Until I see it robustly, not, "Oh, this person made out well as an entrepreneur." No, robustly, the average American saver, the average American investor, color me a little cautious.

David Phelps: Yeah. Let's finish with this Alastair. You're an entrepreneur, you're a father, a husband. You have two young adults that are getting close to entering the world as you did a generation ago, as you began your safari business and really, truly what you are today, you are a guide. What kind of guidance, wisdom, advice are you providing for your children that would be perhaps advice that others thinking the same way? How do I preserve not only my autonomy, but help the generations to come preserve theirs? How are you helping your people with thinking their way through and building the resourcefulness that you obviously had to generate, from your years of growing up?

Alastair Macdonald Yeah. What a beautiful question and I can't think of more important work that a parent could do, really. I love, as always, your thinking about it. Speaking for myself, this is just my version, but becoming a parent has really been a case study for me in the temptation to disconnect behavior from consequences, the temptation to rubberize a playground. That's

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what we've done, we've raised two generations of children that grew up with rubberized playgrounds. The temptation we have as parents to step in and say, "Let me undo the sippy cup for you. I'll help you. I will wait for hours in the lineup of cars to pick you up and drop you off." Every single one of these things, coming to it as we all do from a position of love and wanting the best for our children, but I don't know that we always want to do the best for our children. We want the best for them, but are we doing the best to them?

I think the disconnection between inputs and outcomes, the inherent mechanism, the importance of that feedback loop of labor and reward, contribution and reward, is one of the richest sources of individual self-esteem, personal wealth, dignity, mutual respect, it all lies in keeping the clarity of connection between input and outcome. And we break that. We break it with welfare programs. Now, again, there are some that I would love. I love to help support with welfare that is perfectly appropriate for them. We do it when we bail out large companies, because they're too big, apparently, so big they can't stand on their own legs. That's how you describe a gorged parasite.

So, connecting my children to that is a daily task. As you know, we've spent some time together and talked about leadership and culture and practices and businesses and so forth. This is the core principle of one of my trainings called matador leadership. We break that mechanism with our employees all the time. I'll call that angry patient back and take care of it, whatever it is, or nobody here is creative enough, we break the creativity. We do this all the time. So, that to me is the most important thing.

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Once we do that, and if we do it well, we don't just harness the best of these people we love, but we open a road and hold up a mirror and shine a light for the best possible version of them for them. That's the first thing, which is really to say, learn to respect your labors by experiencing the fruits of them.

And then the second thing that I've bothered my kids with since they could first even understand my words is the most important thing that my children can do in my opinion, is live an interested life. Not interesting, not interesting for other people to go gawk at, or read about, or follow on Twitter, an interested life. I want to provoke and inspire interest in whatever it is that gets their attention. So far, so good. So far, so great. I'll tell you a personal story. This summer, I came back from Puerto Rico. I was living with my son. We did a little eight, nine months dad and son experiment, which my wife amazingly was responsible in large part for supporting. He and I got back. He got back into town, immediately started, couldn't wait ... What he wanted for his birthday, his birthday was in May and he wanted two jobs. He wanted help from me for his birthday, finding a job, ideally he could get two.

So he came back, he started pooling all of his mates and he discovered that Panda Express is paying the most. As we speak right now, my son is slinging MSG at Panda Express because they're paying \$16 an hour. I could play a message for you right now, I won't, but the voicemail I got from him a couple of weeks ago, he was on a break and he was calling to celebrate how good it felt to be working again and saying, "They're going to train me to do back of the house. I've already done cashiering. This means I'll be due for it." Just so engaged, interested. Now, it's not that he wants to work for Panda Express, it's that he wants his own sovereignty, his autonomy. He's told me he can't wait to graduate.

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And then my daughter, same thing. Interested in becoming an epidemiologist. She just finished her first year of college and she fell in love with Arabic. So, she's now doing Arabic and microbiology. 4.0 student, straight As and studying as we speak, stayed all the way through, doing summer school because she's interested. My money's on them. So far, so great. It's kind of Catcher In The Rye type situation. I just get out of the way. I think that's the hardest thing to do. It's the hardest thing to do as a parent.

David Phelps: It really is, but Alistair, such great wisdom and insights. I always love the conversations that we are able to have.

Thank you for sharing to a larger audience today, some of the things that we talk about. I know people that are having the opportunity to listen to what you've talked about today will be very much indebted to the wisdom you've provided, and hopefully will take some interested action on what you provide today. Thank you so much.

Alastair Macdonald Thank you David, it's always a pleasure to spend time with you. Yours is an intellect I love rubbing up against, and this is just more evidence of that.

David Phelps: Have a great day.

Alastair Macdonald Cheers.

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