

Ep #350: Daniel Marcos - Scaling Intentionally and Conquering Crisis (Part 1)



Full Episode Transcript

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Dr. David Phelps

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Welcome to the Dentist Freedom Blueprint, a podcast about freedom—freedom from expectations of society and the traditional path to success that has been ingrained in us from our early years, I'm joined by mavericks, renegades, and non-conformers to discuss an anti-traditional path to financial freedom, freedom of time, relationships, health, and ultimately freedom of purpose. My name is Dr. David Phelps. Let's get started.

David Phelps: Hi. David, here. On this week's podcast, I'm actually going to give you a breakdown of two sessions that I did with my good friend and mentor, Mr. Daniel Marcos. I'll give you the first week, and then the follow-up will be the second week. You're going to love this conversation. Now, just a little bit of background on Daniel.

Daniel is the cofounder and CEO of The Growth Institute. He also is a partner with Verne Harnish, the author of *Scaling Up*, who is also the founder of EO, the Entrepreneur Organization. Daniel and Verne are kind of the epitome of how to grow and scale businesses. But Daniel's going to take you back to his own life and his own entrepreneurial journey, which if you're an entrepreneur like I am, you can relate to this: there's twists and turns, there's ups and downs, there's lessons to be learned. The life of an entrepreneur can be exciting, but it's also challenging. It's not a straight shot. It's not rags to riches straightaway. We have to learn things, and what Daniel's going to give you is some insights into what he's learned.

He's very, very wise and has a lot of wisdom, but nonetheless, he's made mistakes. He's willing to share those with us. So his early mistakes that he made, and he talks about the difference between an employee and an

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entrepreneur, when is the right time to scale your business—if ever—and how fast should you go and where are the danger zones, the valley of death, we'll talk about in our next session next week, the stages of business. We'll get you ready for that in this session today. How will the U.S. economy with all of the national, global, geopolitical, the economic instability and accountability—how will the U.S. move forward from all that we've gone through this last year and all that we see ahead? It's a different time, it's a different decade than we had from 2010 to 2020. We are in a position in life that most of us have never seen before. Maybe we can go back some decades ago and look at similar times of volatility, similar and different times in the aspects of inflation, deflation, but nonetheless, we can't rely on the old models.

What about America as a superpower. I don't want to get political here, but we've just seen our withdrawal from Afghanistan—not necessarily against withdrawal—but how we did it. Are we conceding ourselves to the world? What kind of additional instability might occur if the U.S. no longer has the political willpower to police the world.

And again, you may be totally glad about that, but realize there's always a trade. Not taking a position that you need to take today, but there's always a trade between what we think is right and what we decide we don't want to do or be responsible for anymore. Daniel is going to go back to 2007, preceding the last great recession, the downturn we had that started in 2008. Daniel was in the mortgage business. He had a pulse on the market. He actually was shutting down his multi-million-dollar revenue business in

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2007—before the rest of the world, before Wall Street even had a hint of what was going on.

This is why it's so important for you to be connected to real people and real business sectors in different industries, because you're going to get the news first. When the news finally hits Wall Street, when it finally hits the internet, when it finally makes mainstream media, it's often too late. Daniel saw it coming, he shut it down, he went through a lot of pain, a lot of lessons. He had to kind of go back and start over again. He was in debt a million dollars. He'll tell the story, going through the difficulty of a reset.

Also, we'll talk about the irrational exuberance of the existing market, where a lot of the funny money, the helicopter money, has been pumped into the economy and now a lot of businesses, a lot of asset classes are in bubbles right now and many people are oblivious to the fact that those assets that go up in value, they will come down to a certain extent based on what asset classes they are, where you're invested. The fact that recessions have a typical cleansing effect, weeds out the underbrush from the forest and allows the strong trees to grow bigger, but it has to have that cleaning. We have pushed off this cleansing effect through COVID and now we're kicking the can further down the road. What's that going to mean for the next correction?

I think potentially, it means we have a bigger correction. Now, I'm not prognosticating that. I'm saying at least if you're an entrepreneur, you've got to beware of what could happen. And prepare in advance. Be able to get through the margin, be able to get through the correction.

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Daniel talks about the fact that it's better to, if you're going to scale or grow a business, to do it in small bite-size. Maybe growing 10, 15—maybe 20% per year. It's what Jim Collins talks about in his book, *Good To Great: The 20 Mile March*. I'd pick that book up and read at least that chapter. That's what Daniel believes is the right way to go. Those companies that scale big, that are growing massively from one year to the next, are the ones that have typically very bad contractions because growth sucks cash. It strips away margin, and if you get into a point where the market is going through a downturn, a resizing, a correction, and you've been growing immensely, that could be a trap, a big trap.

Figuring out what's your next after a reset. What do you do coming out of that if that happens to you or may happen to you? Also, testing your ideas on a small scale before you go all in. And we kind of finish the session on a couple of things: why many entrepreneurs actually hate their life. They may be making a lot of money right now, may have businesses that on the outside look highly successful, but what is the entrepreneur's life actually like? What kind of strain and stress does it put on the family and marriages? Where's security for our family, and particularly our spouses, is the main thing? and yet we're out there playing the Wild Wild West, just because we love the challenge, we love that, but is that good for our family?

Again, many thing to balance here. I'll let you jump into our discussion and see what you think. I'd love to get your feedback.

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It's always my pleasure, and really an honor for me to have the opportunity to bring people that are part of my circle of influence. And certainly every one of you and everybody who's here is part of that. There's certainly some special people that are really in my tight inner circle that I have so much respect for, because of the wisdom and experience that they share with me and certainly share with many other people. And it's that sharing of the wisdom, the collaborative work that we have the opportunity to do here, that we all can leverage, and having these people come that just, they say, "Yeah, we'll come David, because we love your group, love your people."

And we have another opportunity today, as we had yesterday with Alistair, to have my good friend, Daniel Marcos, let me give you a little bit of history on Daniel, then we'll bring him up. Daniel is the co-founder and CEO of the Growth Institute. The leading online executive education company for C-level executives at fast growing firms. He's a keynote speaker, and CEO coach with a mission to help 1 million entrepreneurs scale their impact and reduce drama in the process. He's a member of YPO and EO. He's a certified coach in the Scaling-Up Methodology. He's a graduate of EO's premier CEO program, the Birthing of Giants. He holds a BS in Industrial Systems Engineering from Monterey Tech and an MBA from Babson College. Daniel was an early entrepreneur. He started a t-shirt business at the age of eight, then partnered in a car dealing franchise to provide cleaning services throughout his high school years. Kind of sounds like our friend of Alistair. I mean, just out the gate, figuring out how to arbitrage and make money.

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This is who we are. This is our DNA. In year 2000, he built an online trading business that was acquired within six months by what was Argentina's largest financial player at that time. Daniel's next business launched just before the untimely crash of the financial markets in 2008, his business was shut down, and Daniel took on a \$1 million in debt. Despite the recent setback, Daniel had an abundance of experience and successes under his belt and had recently been recognized in Expansion Magazine's, 30 Under 30. As a serial entrepreneur, Daniel quickly realized that CEOs are often the bottleneck of the company, in the same way that you can't solve a problem without first elevating yourself, your mindset, a business cannot evolve beyond what the CEO can handle. Daniel partnered with Verne Harish in 2012 to bring executive training to the masses. What was once reserved for a small niche of wealthy companies is now available to all CEOs and their executive firms. Less than a decade. Growth Institute has been recognized among the top 5,000 fastest growing companies in the USA with over 40,000 members across 64 countries.

Would you please give a warm standing Freedom Dentist welcome to Mr. Daniel Marcos.

You go right here. Good to see.

So you got a little hung up in Mexico.

Daniel Marcos: Yeah. Sorry guys. I came late. So interestingly, I became US taxpayer today. So it's kind of my birthday on the good side on the bad side.

David Phelps: Because I just turned 65 last month and I need all the freebies I can get. So I thank you for paying the taxes in

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the US so I can continue to get those freebies. I appreciate that.

Daniel Marcos: I was a taxpayer for 14 years and then left being a taxpayer in the US. But this time I'm entering already in an immigration visa. So supposedly it's going to be for life. So I'm going to be a for life taxpayer in the US.

David Phelps: Well...yeah, exactly. For life for life.

Daniel Marcos: Someone just told me, I don't know if I congratulate you or give you a blessing.

David Phelps: Yeah. Well, we just talked about taxes a minute ago. You got to see what's on the horizon. So welcome. Welcome to the wonderful world of taxation in the US. It's always a progress of moving here. So Daniel, I gave you a little bit of your history a moment ago, but what we all like to do is kind of get behind the scenes. So give us a little bit more of what's inside your DNA, your culture, and certainly mention, just very briefly, the last great recession, which everybody, I don't care where you are, who you are, felt that to some degree.

The iterations that everybody had to make to get back on top, you certainly were one of those who your business was doing extremely well back before the crash, and then bam, whatever you can share with us from some business lessons learned from there, picking back up the pieces, going forward, and maybe a little bit of what that felt like for you and your family, because we all know that whatever the CEO, the head bread winner, is dealing with also reflects back on one's family. And that's not also something we cannot disregard whatsoever.

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Daniel Marcos: Let me just a little background before that. I was a young entrepreneur. I did a lot of things when I was a kid. And then when I was in college, I was going to start my next business. And my father didn't want me to start the business because I usually did pretty poor in the business, and I was very distracted from school. So my father called my brother and said, "Hey, get your brother a job so he doesn't start other business." So my brother got me a job in a brokerage house. So my last three years of college, I was also a trader in the stock market. So I learned a lot about stocks and how the world of the big companies move. And that really gave me a big understanding of big corporations.

When I finished college, my first job was to work in Hong Kong. That's when Hong Kong was going from England to China, 1997, 1998. And I was hired as a Mexican, let's say liaison between the Mexican Government and the Chinese Government for that transition. So I was sent to Hong Kong for two years, and I was in a meeting with Alan Greenspan and all these very big dignitaries because I was taking all the Mexican government dignitaries to work with them. And after that, I was reading all the magazines of all these kids in the US making millions of dollars with internet. So one day I resigned to my job after 18 months, called my parents and said, "I'm going back." And they say, "Why, are you sick?" And I was like, "No, I just resigned. I'm going to be an entrepreneur." And my father was like, "No, again." My father was really worried because he thought I was already going to get the working bug.

So just as a background, my father has a PhD in Economics and has worked for government all his life. So

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it was a big shock that his son want to be entrepreneur. But here's why it happened, and all of you are entrepreneurs and you'll understand this very well, when I was eight or nine, I was in Christmas morning in a ranch of an uncle here in Texas, in San Benito, Texas. And I remember we're opening the presents and playing with all the cousins and the things in Christmas Day in the morning, and I see my father coming out of the room dressed in a suit, and I was like, "Why are you in a suit?" He said, "Well, my boss called me, there's a problem in Mexico, I need to fly back, and I'm need to go." And I was like, "What do you mean? It's Christmas." He said, "Yeah, there's an issue. So we need to go back. So you will stay with your mom, I'm going to go back."

And I remember I was really sad. I cried with my mom that day, and I told her, "Hey, why my father had to go and my uncles are here?" And he said, "Well, your uncles are business owners, and they could choose their time." And I was like, "What's the difference?" That was the first time I realized what it was to be an employee or entrepreneur. And it was really, really big in my mind. And that's when I said "I need to be an entrepreneur." And that's kind of when everything started.

And then I go back to Mexico after Hong Kong, back in Mexico there was very few internet companies, because I knew finance I opened the first trading company in Mexico. We were the first one to put the stock ticker of the Mexican Market online, back in 1998. And whenever you had a .com last name, you raise your hand and ask for money and you get all the money in the world. So we raised like \$70 billion, Goldman Sachs, JP Morgan, Telmex, Carlos Slim, the rich guy in the world, Chase,

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Microsoft, Intel. We got the best investors we could have. And we end up merging with this Argentinian company and a Brazilian company, and long story short, in two years, we end up building a company with 1200 employees, operation in nine countries, we opened three banks, six brokerage houses in Latin America, and sold it to Santander, the Spanish biggest bank. The day of the transaction was May, June, 2000. Indeed, we signed with Santander two days before the peak of the Nasdaq. So you have to imagine we, we did pretty well.

The day of the transaction. It was worth \$705 million. And I was 25. And the guy who acquired me was 24. So it was a little bit crazy story, but at that time, first, we saw a lot of how to scale companies very, very fast and very, very young. Just having a due diligence with JP Morgan, they send 10 analysts to my office for three months, just to dig into every rock. And that's an experience you never live, or very few people live. I lived it when I was 24. So it was pretty rough. Indeed, one of the stories, they put me a CFO in October, in December he was driving for Christmas, he crashed and he died. So when I was 24, they put me this adult to check on me, and he had an accident and died, and then dealing with the wife and the kids and all these kind of issues.

So at my 24, 25, we had seen how companies scale and all the drama that that creates. My wife, remember I got married around that age, used to call me and said, "Where are you?" And I was like, "I'm in the office." "It's five o'clock in the morning." And I was like, "Come home, come to the office if you want, I'm here." I used to sleep in the office probably one or twice a week, for two or three years, it was pretty rough. But we got very early learning

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experience and I was in the magazines in Mexico in the cover and all that, like a whiz kid, because I had sold my company first to the Argentinians and then to Santander. And that's when I begin getting a lot of calls from entrepreneurs, and that's kind of everything started.

And then I got married, my wife had studied in the US, high school and college, and she said, "You know what? I prefer to live in US. Do you mind if we go to US?" And I was like, "Ha, I'm a great entrepreneur. I could do it anywhere." So I moved to the US, did my MBA in Babson, and then we started a mortgage company. So we opened a mortgage bank in Austin to finance undocumented Hispanics in the US. Through a friend of mine in San Diego, we got a line of credit, \$500 million, to finance mortgages for undocumented Hispanics. And that's what we did. So we were the only ones in Texas at that moment, giving loans to undocumented Hispanics. And we just begin growing really fast. In two years, we had 120 employees, offices in Dallas, Houston, San Antonio, and Austin. And we've raised four, \$5 million. We were doing great.

And one day we got a call from Goldman and said, "No more," like, "What do you mean no more? I have 120 employees. I have a hundred loans on the pipeline." He said "No more. And by the way, the one you put in yesterday go and get them out."

David Phelps: About what date? When was that?

Daniel Marcos: This was 2007. So we got the call around June or July, summer 2007. Indeed, I end up shutting everything down in August, 2007. And when I went to my investors and said, "Hey, this time to shut down, we lost all the money."

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Everyone's like, "What do you mean? The economy's doing great." And I was like, "Oh no, the subprime got destroyed." But no one had a sense of what was happening on the subprime, on the prime market. And then when everything happened 2008, they come and said like, "Why you didn't told us?" Like "I went under, of course I told you." It was really rough.

But coming to the US, I really realized, first, I have become an undisciplined entrepreneur. I was so lucky on the first one, and it was la-la land working on the internet, it was not the real economy. And of course, you could make a lot of mistakes and you could throw money to fix mistakes. So I became a very lazy entrepreneur, very undisciplined entrepreneur. And that bite me really, really bad, 2008. And second, in Mexico, I had a really, really high social capital that I did not have in the US. In Mexico if I could get to anyone in the country, it takes me a week. And I could sit down with almost anyone, through friends or colleagues or whatever. In the US I have no idea who to call, and not even how to open a door. And that really, was very hard.

I discounted how easy it was for me in Mexico compared to do it in the US. And that's when one day I called my investors said, "Hey, I think we shut down. We need to shut down. Everyone's going to lose all their capital." I did a meeting, I told everyone, "Hey, the five or so million we've raised, it's gone." I explained the situation. And there was a lot of questions and discussion, everyone said, "Okay, great." And I said, "But wait, we have offices and loans and all these kind of things. First, to shut everything down, it's around \$ 1 million." And everyone

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said like, "I'm not putting the money. Are you? No, no, it's your problem."

David Phelps: Oh, you mean they were all your buddies when the things were going up, but when things are going down everybody runs for the hills.

Daniel Marcos: And as investors said, "Hey, I put my money. That's what I was willing to risk. I lost it, fine. But the operation was your responsibility." So I remember going back home to my wife and said, "I lost all my money. I'm a million dollars in debt, because I have to pay all the list and everything back. And by the way, our visa was tied to the company, so we shut down the company, we need to go back." And in a couple of weeks time, we were back in Mexico and had to get a job just to pay for my kids' school. But it was pretty rough. I remember I woke up many nights, sweating cold, crying at 2, 3 in the morning, it was rough. After you've been successful, I had a couple of million dollars in the bank and all that, at that age. And then at 32 or so, I went completely under. And then you see the other part of entrepreneurship, that it's really tough, the other part of entrepreneurship.

David Phelps: Daniel, you talk about being undisciplined and kind of riding high, riding the markets high, everything was going well. Feel like everything you touched was turning to gold. The complacency that sets in, I think, it's easy to have happened, when particularly markets are running hot, similar to where we are right now. Market's running hot for various reasons. Your company had to full shut down, not because of your lack of operations, but the market turned. So, in hindsight, what discipline would've helped you to deal with that in a better way?

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Daniel Marcos: So, because it was a lot of money, I took a lot of debt. I was undisciplined on a lot of the metrics and the KPIs of the business. And the way I see, a crisis is like a fire in a forest. There's a forest and has all these really big, strong trees. And there's all these weeds, and all the weeds are taking all the water and the nutrients. And you need to get these fire often, and the fire just gets all the weeds out. And some of the trees, the trees that are weak, they go under. And some of the trees, they come out, a little burned or whatever, they come out. Those are the ones that get all the water, all the nutrients, and everything back. So I was one of the weeds. I did had a very strong business and I went under, because I was not disciplined and I had not take the right precautions.

So the other day I was talking with an entrepreneur and he told me, "You're the most pessimist entrepreneur I've ever talked with." And I was like, "Yeah, but my company's been operation for 10 years growing 30, 40% every year." And you sometimes go 50 and then lower 20, and it's just a part of survive. So, I think that whenever you're a disciplined entrepreneur, you are way more focused on your KPIs and you always try to see where the company could be hit and be protected by that. I prefer to grow 20 a year, stable, that one year growing 40 and then five and then 10, that's a lot of drama. And usually if you're like that, and you're in a weak moment and you got a crisis, you're completely gone under.

David Phelps: You're gone. You're wiped out.

Daniel Marcos: Correct.

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David Phelps: You made a promise to your wife after going through this major downturn and having move back to Mexico and get a job. What promises did you make?

Daniel Marcos: So, I come to her and said, "Hey, we have \$1 million in debt." Well, I had to pay \$1 million between leases and all these kind of things. In the US is very common to go bankrupt, and then you go with companies and said, "Hey, the company went bankrupt, go to court or whatever." Under Mexican law and culture, we're not used to that. So I call an uncle. Everyone has a rich uncle. So I called my rich uncle and said, "I did a loan," and he lend me half a million dollars. I called my dad, he lend me the other half million dollars. I paid everything. I've never been late, even in one credit card in the US. They gave me the money, I paid everything. And then when I got back to Mexico, I had \$1 million in debt at 10% interest rate.

And that's when I kind of restart. And, going back to my wife. So first I couldn't do another business at that moment, I was not comfortable with myself. Indeed, I got a lot of calls when I went under, but three were very important. First one, was a letter from my parents. And my parents said, "There's very few moments in life, that life allows you to learn fast. And today you have an amazing opportunity to learn fast, but because you're not even willing to talk about it, because it's so painful, you're not learning. I think we have to put everything on the table and learn." So we hired a moderator, a consultant, and I go into a room with my parents, my wife, the moderator and myself for two days. And it was rough. It was pretty rough, but we put everything on the table. They helped

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me analyze my life, and why I put myself in danger the way I did. And that was a very important moment.

Then the second call that I got, that was important, was a good friend of high school was the CEO of Google in Mexico, Google open operations in Mexico for the first time in Latin America. And a friend of mine was the CEO. And then they asked him or promoted him to be head of Latin America. And he called me and said, "Hey, I just be promoted to be the head of Latin America. Why don't you become the CEO of Google Mexico?" And I was like, "I can't do that." And the guy says like, "Why not?" And I said, "Because I'll be terrible." And I did not accept the job. And my friend was like, "Are you crazy? You're one of the best entrepreneurs in the country. How can you not be the CEO of Google?" And I say, "I'm sorry, I'm not ready. I don't believe in myself so I could not do it." Hang the phone.

He called me the next day and he said, "I don't care if you don't like it, I'm going to put your name on the hat." And then I begin getting calls. I'm going through the process. By the way, at the end, I did not get a job. I got offer the number two position, because I did not understood the core values of Google. So they said, "We're going to put someone that has the core values of Google and you to be the head of operations for you to run the company. But we don't want to give you the high position because you don't run with the core values." And I said, "If you don't give you the number one position, I don't take it." And they said, "Sorry, we're not." And that was it. So I did not go the job.

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And then the third call was Verne Harnish, that is my partner today and mentor. Verne is the founder of EO Entrepreneurs Organization, he wrote a book called Scaling Up, and he called me and said, "Hey, how are you?" And I remember I blame everyone for half hour, and I complained, and it was a rough call, and at the end, he said, "What's next?" And I was like, "What do you mean what's next? I'm going to go to Mexico, get a job, I need to pay my kids' school. And that's it." And he's like, "No, you have to become a coach. You have to help entrepreneurs." And I was like, "I don't trust myself to be entrepreneur, how can I coach anyone else?" And he said, "That's precisely why, because what happened to you, you have to make sure it does happen again." And I said, "Hey, everything sounds really nice, but I need to pay for my kids' school. So I just cannot be a coach and try to make money." He said, "Okay, great, go and get a job. And then on the weekends, you'll start coaching."

Oh, because he asked me a question, he said, "How are you going to pay the \$1 million that you owe?" And I said, "I have no idea." I was not caring about that. I was just caring how to pay for my kids' school. And he said, "Why don't you coach on the weekends? And with that you pay your debt." So I said, "Fine." Six months after it, I was making more money on the weekends than during the week. And I resigned to my job and then stay as a consultant.

And here's when I come back to my wife, my wife we discuss divorce many times. And by the way, when an entrepreneur goes under, a lot of them discuss divorce, not because the love ends, but because the strain you put on your family. Today I coach a lot entrepreneurs, and

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I've heard this many times. An entrepreneur goes under and their house is mortgage, their cars are on the lease, and all the money goes to the business. And the family feels unprotected by the entrepreneur. And then when the business goes under, then puts a lot of strain on the family. So I had really big discussions with my wife about that. I was overweight, whatever. So it took me five years to pay the debt. And one day I came to my wife and said, "I'm going to be an entrepreneur again." And she was like, "Wait." We had a really long discussion, and the agreement was, until you don't put six months of cash in the bank for the family, you could not start a company. Because I teach entrepreneurs that they didn't have six months on the bank.

And she has heard me teach this and have these conversations with entrepreneurs. And said, "Why are you doing it with your clients, and you don't do it with the family?" And I was like, "Okay." So it took me another three or four months, and I put six months on the bank by then. So my wife said, "Whenever you're having issues and you don't bring money, no problem. Your kids are going to go to school. There going to be food on the table. We're going to be a happy family." Today, we have like three or four years in that account.

And by the way, that account, I could not touch it. It's under my wife's name. I put money on the bank, I could not touch the money on the bank. And believe me, my family relationship is way better today than it was then.

David Phelps: Well, you've got something to fight for.

Daniel Marcos: Yeah. So every year we put more money, but I cannot touch it. And by the way, I had times that I was not able to

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get money off my business for one or two months. And I came home with stress and everything, and my wife said, "No problem. That's what this fund is for, fine." So that was a big agreement with the wife, and that still stays up today.

David Phelps: It's kind of what my friend told me, Jack Miller, many years ago when he told me, "David, when you just go get your money, your funding from the bank, just because you have access to credit, you have a good credit score, you've shown you pay your bills, that's a lazy way to do it or accessing the lines of credit or just..." Because the money's out there. It's easy to get. In this case, you made a promise.

Daniel Marcos: Yep.

David Phelps: "I will not touch that money" Because of that, it forced you to be more creative in your approach to figure out the problem.

Daniel Marcos: Correct. Indeed. Stage one and stage two are companies up to, let's say 20, 25 employees. We believe it's a big mistake to raise any money. If you raise money to buy an asset a 100%, I don't have a problem with that. That's the way it should be done. But to fund operations, I think it's a lazy way, because instead of doing the right thing and figure out how to give value to the world, and the world pay you for the value, it's easier to convince one bank or one investor to give you money and be lazy.

David Phelps: Be lazy. Yep.

Ep #350: Daniel Marcos - Scaling Intentionally and Conquering Crisis (Part 1)

Daniel Marcos: The best way to do it is figure out how to give value to the world, and the world will give you money, if you provide the value. So a 100%,

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