Ep #355: Alastair Macdonald – Dropping Fences on Possibility (Part 2)

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Dr. David Phelps

[Dentist Freedom Blueprint](#) with 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, it's David here. Back to you with week number two, with my conversation with Mr. Alastair McDonald. This is inside a Freedom Founders' recent meeting where we had a great conversation from the stage and you're getting a chance to listen into it. We did week one, the first segment last week. So if you missed that one, go back and catch it because you want to tie these two together. On this week, we moving into the economy. Again, certainly the fact that you are the nexus for your own sovereignty, that is, people are always looking for someone else to plug into, someone else to carry the weight and the fact that even though there's uncertainty in the world today, we have to realize that we have our own experiences and we have to learn how to mine those experiences and realize there is never absolute certainty, nobody has it.

We can certainly gain wisdom and a pathway from other people, but we, in the end have to depend upon ourself and trust ourselves. Wayne Gretzky, one of the greatest hockey players of all time never skated to the puck, he always skated to where he knew the puck was going. He avoided a lot of drag, a lot of collisions, a lot of hitting on the boards by understanding that principle. How can we do the same thing in our lives, in our businesses and with the economy? Where's that puck going? Are we going to have deflation? Inflation? Maybe stagflation like we had back in the seventies. Realize that your business, as long as you have a business, is going to be your best hedge against a volatile economy, better than any other investment you can make. So as long as you have that business, realize that it's going to help carry you through, but there's certain things you have to do to maintain the viability of that business.

In the end, it's all about having cash flow, revenue streams. That's what a business is about, that's what investments are about. So when you learn to focus on that aspect, revenue streams, yes, growth is great, but it's the revenue streams from that equity, from that value that actually pays the bills and carries us on into our later years when we maybe don't want to have to continue to trade time for dollars in a particular business. We also talked about what we call or term the advocation models. Advocating your money, your capital, your investments, outside of your business to other people, that's no longer a model that can work if it ever did. And finally, we touched on the fact that there's tons of information out there, so much information that no one can curate all of it, but it's really not information unless there's some surprise attached to it. I think you'll really enjoy this session with Mr. Alastair McDonald. Let me know what you think. See you next time.

Alastair Macdonald: Inflation is the problem that we have, that's the real problem. Regular consumer price inflation, speaking from experience, is relatively easy to hedge against and everyone in this room is actively doing it. The problem that we have is ongoing asset price inflation. We find ourself with that there's no alternative psychology. "I'm going to get left behind." This is exactly the battle cry before the correction. "I have to get involved. If I don't do it now, I'll be left behind." I can't tell you how many cycles of that I've watched, friends. How many people I've seen throw themselves on that grenade. So over the larger term, for sure, I'm confident that I think the COVID spike is transitory, but that does not mean that the larger trend hasn't turned up. So I expect some retracement here, the fourth quarter of this year where the data starts to show us softening in this, but the larger trend I believe has turned up.

The largest risk. Why am I not worried about inflation? I'm worried about inflation, but not quite as much, it's a little easier to manage. The real risk is the opposite, which is deflation. No one is talking about this. One of the reasons why I'm not that concerned about inflation, everyone is talking about inflation, the increasing. Just in the last couple weeks, you see a spike of it. So again, I've never seen the herd say, "Hey, look out for this thing." And I say, "Oh, we all got beautifully prepared for it." It just hasn't had happened in my life. So the real risk, I think is deflation. Again, we have to ask ourself of what, by how much, and by when. Asset deflation.

Asset deflation is the largest risk to the average investor in the United States, I believe, and even around the world and that will be signaled by the credit markets. Watching the spread between high quality and low quality bonds is going to be the canary in the coal mine. While much has been made about the amount of money that's being printed, most of it is not printed, very little of it is printed. I don't really care if 10 new dollars have been created of actual greenbacks if a thousand dollars of credit has been levered off of it, that's what worries me, that's a big problem.

So asset deflation, I think is the largest risk that we face. I'm not so concerned about consumer price deflation, that's great. And I can tell you that central banks around the world are also worried about deflation, that's why they're doing what they're doing. People say, "This is crazy. They're causing..." Why are they not raising rates? Why are they not tightening up credit? Because they know that deflation is a beast with no master. Deflation is where money actually becomes worth something and perversely, paradoxically, we're not ready for that. In case you think that credit is money, which it's not, credit is not money. And if you don't believe me, try paying your taxes with your credit card, they want the real stuff. Credit is not money and the gap between money and the explosion of credit is what has my attention right now.

David Phelps: So one of the best hedges, I think against uncertainty of the markets, inflation, deflation is to have a solid business of some kind or business sense because well, I have control of that, outside of that, then we can have our investments that maybe we're not actively involved in, but as we do have alternatives. We talk about the fact that when we're looking at asset valuation, just as you sold your veteran hospital or others are exiting certain business assets, there's an even number, but it's based on revenue, profit, cashflow. We have the opportunity being involved as we do in our businesses and our investments to look at that and to, for ourselves ascertain what's the sustainability of the revenue in different situations. Where am I at risk? Running a SWOT analysis. But where am I at risk? You managing those assets.

So can you tie in what you just said to what I know everybody else is thinking about? Well, many still have their practices, many have exited and are not looking to go back into business per se, but they want to be better orchestrators of their financial future through relationships, collaborations, which I know you're a big fan of, right people, right place. So how could they look at hedging through the eyes of a business owner or an active passive investor in what they're learning how to do?

Alastair Macdonald: Yeah. In my case, the decision to sell my veteran hospital, I know what it's worth to me and I know that replicating that income is going to be very difficult to do just like it is for some of us selling our dental practices, it's going to be very hard to do. But it's not that hard to do the math and say to myself, "Okay, given the demographics in this particular town, I've got a practice that is one doctor away from being the largest in the city I live in. And certainly there's other things we could do, there's ancillary services and so forth, there's stuff we deliberately don't do and I could see further income growth by holding onto it." But that income growth would top at about eight times what it currently is, maybe six to eight times. These people want to pay me 15 times that. So basically 15 years of future income, they'll give to me now, plus participation at 10 and 11 times in the EBITDA growth over the next couple of years.

So what I've done is, not me, but what this perspective can do, some of it it's just the idea. I can get an advanced check today of 15 years of future labor, and have a floor underneath those assets, and still participate at 10 and 11 times the EBITDA growth over the next couple of years, which is greater than the calculated known by the person that built it, six to eight times that I would get. It makes no sense for me to continue to own this business. It's worth more sold than it is held, my much like Bitcoin in my opinion.

So what is it that we do? Well, the difference in the dental space? Why am I not trying to sell my dental practice? Because those multiples are only coming in at about five, 5.5 right now, five times EBITDA, that's not really that compelling. At that premium, we could do better off just getting that predictability of known income. That's where everything ends, everything ends at income and this is one of the things that nobody does better than you. It has to come down to income. You could sell your practice for 10 million and it's currently making you one and a half in income. Where you can going to go to get that? So you don't know your own situation, but paying attention to cashflow, then what do we do? So we want this income. Well then I would encourage you to think about how you can build the business that you can't jump in and do the dentistry. If I had to jump in and do a surgery on the vet hospital, just euthanize it, just euthanize it. Finished.

David Phelps: That's a one treatment plan only.

Alastair Macdonald: Yeah, yeah, yeah. This is the most American thing I've ever seen in my life. The euthanasia medication that's used in a vet hospital, and my condolences for those of you who have lost a pet, it's not to make a gist of that. We call it blue juice. It's this blue bottle of stuff and it's called FATAL-PLUS. And we not just have models, we have super models. It's not just enough that it's fatal, but it's fatal plus. It'll kill the goodness out of you. And so for short, it would just be Alastair is scrubbing in for surgery and one of the text will yell out, "Get the blue juice."

But the point that I'm bringing that up is to think about how it is that you can move into the real role that you have in your practice. You want to accelerate your value. And what is acceleration? Acceleration is the elimination of drag. If you are a practicing doc, the drag on your income is actually the physical dentistry that you do. You think that you're a dentist, but you're actually in the information business. You're in the information business and the information you have is that this person says they need this, but I know they need that. And the drag that you add is in the delivery of thinking that it has to done with your hands. You want to speed up your progress? Eliminate drag.

For me, there was never an option. And yeah, there were some bed sweat nights early on with the practice when a doc is sick and can't come in, and I have to stitch together the reputation and the patient's need because we can't see you tomorrow, because the hippie vet is, I don't know, taken a big bong hit last night and can't come in. Not an option. So if you can free yourself and that requires huge discipline, it requires real discipline to do, but anything that really takes discipline, it's worth doing. So it's all about income. And to the extent that you are able to replicate, even replicate 70% of your income and simultaneously build out exactly as we work on doing here, a supplemental income that replaces it. I mean, that's the holy grail. That's—

David Phelps: And those are skillsets that we are not taught or shown to focus on, those outside skillsets outside of our technical abilities, which is what we spend all the time going to school for, and training, and licensure, and credentialing. And then the CEO on top of that so we can become more efficient and do higher level procedures. Well, it's like the artist. I mean, there's a part of that, that if it satiates a need to provide that service, that's great, right? But separating that from the drag, I've been there, that way. Well, same thing with my investment portfolio. Again, I did it myself for many years and I mean nothing wrong with that, nothing wrong with that. Building my rental portfolio while I had to practice, but I don't want the drag anymore.

So exit the practice for reasons other than drag, my daughter's situation. But my investments, I don't go out, and hunt and chase my own properties. I have experts here that I reduce that drag by building the relationships. And I mean, there's a lot that goes into that. You talk a lot about that with your group. I mean, you don't just walk into a relationship with a new staff member, or an associate or potential partner. There's a lot to be done on the front end, but that's why we're here, to build that. So I think your point about reducing drag is a big one and for a lot of us that were trained the opposite way, "It's all about us," it's a hard one to break.

Alastair Macdonald: Yeah.

David Phelps: Our trusted advisors here on our guests are way ahead of us on that path, but that's why I love having them here. And all of us can follow the lead and start to give ourselves permission to think differently, and therefore when we think differently then we can start to act differently without the fear of failure.

Alastair Macdonald: Yeah.

David Phelps: Would you say?

Alastair Macdonald: Absolutely. And this is an important thing. Transitions such as the one I'm going through, such as the ones that a lot of us here are going through need to be framed correctly. This is when you go from being in the chair to selling the practice or escaping the chair, this is a reinvestment phase. This is important. There are people here that are free for life, they reinvested in themselves, they reinvested in the next phase. We understand this in our practice, you add a hygienist, you pay for a new chair. That's a reinvestment in the practice. But the interesting happens with dentists which is when they go to reinvest in the next phase for them, in this case, setting up an income stream that is not reliant on your hand, they don't really see that this is a reinvestment phase.

That's what Freedom Founders is, is it's a reinvestment in the next iteration of you. And some people want to know like, "Oh, maybe I'll just do it myself." Okay, you can do that, it's expensive. I've done that, I got the scar tissue. We can do that. You can do any of these, whatever you choose is right for you, but it's important that you earn, that you are now making a reinvestment in the you of you instead of just another chair. Now this is where most of us we're on the ground. Why? Because we don't trust ourselves. We don't trust ourselves. The reason that you don't buy that new P90 X program is because you don't trust yourself to actually do it. And so what do you do?

Well, you question the results. "Oh, well I don't know, that person's six pack doesn't look like the six pack that I want to have." Or you explain to me the program, or...

That's not the question. The question is not whether or not it's a good investment, it is, is it a good investment in your hands? It's important. Same for me. I'm in a situation now of reinvesting in whatever's next for me with more capital to do so. I have never been more dangerous to myself than right now, and if I can look at this next phase as a reinvestment in what's next for me, it's really helpful. Because I look back on my track record I'm like, "Ah, it's been a clumsy stumbling route, but so far so great."

David Phelps: Yeah, we certainly have this tendency to put all of our investment on the front end of our education and doing what we've learned to do best, lots of investment there, time, capital. Yet when we think about our future, we just advocate that, tend to general advocate that to others who say, "I have the plan for you." Well, how do they have my plan? How do they have my plan? Have they spent time with me? No, they have products. "Well, we have these products of the day and if you buy this product, or you do this or this, then well somewhere down the road..." "Well, can you give me certainty?" We all want the certainty? "Well no, there's no certainty, but we have a plan for you." It just...

Alastair Macdonald: This is so important. We were just talking about this a couple weeks ago. The embedded assumption inside the standard 401k retirement model is so bold that nobody really pauses to say, "What is the nugget of assumption inside this beautiful algorithm that needs to be verified?" As we were saying, I'm a fan of history. I have yet to see two generations. Can we just get two generations of Americans that have retired off of their 401k? Because I don't want to be the first and I'll follow the second, but show me one person you know who saved their way through 401Ks, IRAs to a stable retirement without factoring and needing social security or a pension. Just two generations. I mean, we're all in on this bet, we've been a few, right? You don't get to be 65 several times. You hit that point and you say, "You're all in." And until I can see a couple of generations of data, I'm going to continue to do exactly what you advocate for and what everyone here is doing, which is to back myself, to invest in myself.

David Phelps: We've got very major cultural societal shifts happening in our country, you've been through those. Could you give us a sense of what you foresee or what we should be looking at in terms of trends? We've spoken about them in general a little bit last night, I mean, we talked about a lot. But you lived through major volatility. What are you seeing in our country from cultural generational shifts? What should we be putting our focus on?

Alastair Macdonald: Yeah, there's definitely a lot of reason to be aware of or concerned about further divisions in the social fabric. The red flag for me is polarity, polarity of parties. I will not yield my philosophical, intellectual, ethical or moral sovereignty to any party. I just don't, I don't. When I am presented with a red or blue, black or white option, I know that I have either yielded my sovereignty somewhere early on or the creativity has died somewhere upstream. This is hard to do because sometimes we find ourself very, very alone in our thinking and our philosophy, or at least with a group of weirdos like we are. It's very, very tempting.

I had an unfortunate experience last night, which was to turn on the news, it's something that I typically avoid. And what's interesting is to jump between these channels and it's just outrage, everybody is outraged. "Can you believe?" Or, "Can you believe?" Or if you're a student of history, the answer is yep and uh-huh (affirmative), absolutely. That division that starts externally, gets manifested internally and we end up doing things against someone or for someone, but not for ourselves. So I think we need to be really cautious of how quickly we take sides.

One of the most brutal manifestations of this division was watching my parents who had built their business through a violent, horrific civil war which I grew up in, out of the post war recession, which was rough and watch employees that over 30 years, Rogers worked for my dad for 31 years. Rogers was almost a babysitter for me. He ran this little store that my dad had on his business and I would do inventory count with Rogers when I was eight or nine years old.

And by the time my parents fled under the cover of darkness with nothing but the shirt on backs, having built one of the largest businesses in their industry, in the country, they were run off of their own property at club point, beating on the vehicle. My mother was driving the family station wagon and Rogers was the one who ran them off the property. To this day, my dad will say, "I don't know about Rogers. How did that happen?" My dad had been the same boss he ever was for 31 years, what changed? The narrative. Rogers fell into the trap of, those guys have what I want and I'm coming to get it.

And so that's what it shows up as. It's a sadness and it begins with yielding our intellectual sovereignty or our responsibility, which an increasing part of the US population apparently feels quite entitled to others paying for their needs. I have very strong sense of social cohesion and support those that need it, well if there are many, many people that do need... If we're going to be the nation, we owe it to ourselves, those that can't take care of themselves.

That is our, as we say in Zulu, that is our privilege. In Zimbabwe, there is a saying the oldest son as I am, has the privilege. There's a term and it translates as privilege of taking care of his parents, that's my current privilege. I enjoy this, taking care. In the United States, it's a responsibility, it's an obligation. And I believe it's our privilege to take care of those that don't have what we have. But at the same time, we need to think about how to police the qualifications for those benefits in a way that is respectful to the very recipients. But can I share a thought about something completely unrelated?

David Phelps: Should I let him? I think it's okay.

Alastair Macdonald: I know I don't have much time, but I-

David Phelps: No. Go, go.

Alastair Macdonald: This is just something that I'm just sharing because I hope that it frees up any sort of what I call entrepreneurial brain damage that you're likely to have right now. Back in the fifties and sixties, there was a gentleman, an engineer whose last name was Shannon, Claude Shannon. And Shannon was working very hard then at Bell Labs and ultimately at Qualcomm on trying to understand how to separate signals with what is now CDMA cell phone technology and so forth. And what they were struggling to separate was the signal from the noise. And they figured it out, Qualcomm was on the front lines of it and this is where cell phone technology comes from. How can we communicate signal and it be us be able to discern it from the noise that we're in? This is what we're struggling with right now.

So I thought back on George Gilder's information theory of capitalism, it's a very, very powerful point that he talks about information. What I'm going to tell you I hope detonates in your mind the same way that it did for me when I learnt this years ago. Information is and can only be surprise. Surprise is the only thing that qualifies as information. Why does this matter? If I tell you it's hot today in Phoenix, that's information, but it's not. It is of no valuable utility or application in your life, it's not. If I tell you that a plane has just hit a building in New York City, that's a surprise, that's information. It is not information unless it has an element of surprise. This is crucial. This is axiomatic to the whole premise of the information theory of capital.

An information system is an economy. The transfer of information is what we're constantly doing. The decisions about whether or not to extend my crop into the neighboring acre of land or not is information that will then be transferred to those that will work for me, et cetera, this is at the root of our entrepreneurial system. Why does this matter? It matters because of the growing metastasizing influence and control that government has inside the marketplace. Interest rates are the most valuable signal in an entrepreneur's or in investor's dashboard, they are.

Now what happens when interest rates, a signal of risk? Interest rates are the flashing red, yellow, or green light on the dashboard of your investment portfolio, they indicate risk. That's what they do. They tell you risk. If I say, "David, pretty sketchy character, I'm going to lend to him for 10%. But Brian, super reliable, I'll lend to him for 3%." What am I doing? I'm quantifying risk, that's what I'm doing. So what happens when a central bank turns to a privileged few institutions, as you don't have access to this, and control a very mechanism of interest rates. They break the light on the dashboard and investors are left flying without any indications of whether there's a mountain ahead or a valley. What has this got to do with information?

The vast bulk of the bilge that gets pumped out of financial news networks, that comes out of federal reserve, meetings and so forth is just bilge. There's no information. In fact, there is a field in economics where people call themselves fed watches. Has anyone ever heard of these fed watches? And they pass out the minutes of, what did the feds say this week? Are we ever surprised? No. Why? Because their influence in the interest rate marketplace has completely distorted the ability to separate signal from noise. There is no signal coming across the investor's dashboard. Interest rates are broken, they are manipulated. And what this does is it gives us the impression of safety, and how do we know? We get into relative comparison conversations. We say, "Oh, interest rates are only at 2%. They were at two and a half." They were at two and a half a year ago. Well, great. I'll just go back a year ago and take that two and a half percent rate. This is not information, there is no surprise.

When you run a business, you are constantly building structures, and protocols, and so forth in place to try to eliminate surprise. This is a huge mistake. It is the surprise of that patient giving you a one star review, that is information. Something in the plumbing system of your patient's experience, there's a leak. You jump on that, you solve it. There's information in the surprise. But we try to build a portfolio, build a life, build a business that separates us from surprise, but that is actually what we need.

Arbitrage is the pre-discovery of surprise, that's what we're all trying to do, but the thought of it terrifies us. This really matters. This really matters because interest rates, there is a complete perversion in the original sense of the word, a perversion of understanding about what interest rates mean. And we get excited because there are at 2%, 3% assuming that they won't go to minus five, that'll be a surprise, not in some countries. So the ongoing increase of governmental influence, where they will tell you how to clean, how you need to clean the instruments in your dental practice as an example, what the actual flooring needs to be in a medical facility, is to homogenize diversity. Economic systems require diversity, not racial diversity, not ethnic, not religious diversity, diversity of opportunity, and thoughts and ideas. But we are fighting an army who is using our money, and I'm not anti-government, that is trying to flatten the curve, try to put gutters in the way. And all that that does is take what would otherwise be isolated risk and make it systemic.

You know what it was that made me question whether or not this was actually the America I thought I was coming to, was in 2003, my daughter was one. And I took her to a playground and it was rubberized. We've rubberized our playgrounds. The federal reserve has rubberized the playground of your portfolio. What happens to a rubberized playground? The end of consequence. My daughter is trying to figure out how to do the monkey bars, she falls, lands on some nasty piece of wood because it was it wasn't rubberized, consequence. Risk reward. I made it, I didn't fall and hurt myself. We've rubberized the playgrounds of America's situation and we are nurturing multiple generations of people that will now expect the world to be rubberized for them. In my experience, having watched governmental influence and infiltration into the marketplace of Zimbabwe, you know that it's happening and you know that the actual risk is getting more and more systemic because suddenly we have more and more rules.

Entrepreneurs are constantly trying to be out there on the frontiers of discovery and diversity and it's like whackamole. "Well wait, you can't do this." "Hold on, you can't do that." "No, no. You need to hire these sorts of people." "You need to..." As we see an explosion in the legislative outpouring from DC, this is evidence of deeper and more systemic risk in the actual financial system. These are very large trends, no one is going to be talking about it because you won't necessarily walk away this afternoon and say, "Perfect, I'll buy that storage unit in Tampa then." It's hard to connect it to our day to day experience but it's very important that we do this. And so I'll shut up with this, as you pay attention to, "Oh, there's so much information out there." No, there isn't. In fact there's an absence of it if information is surprise, there's so little of it. And in my experience, the longer we go without surprise, the bigger the surprise is. Sorry about that. Thank you for that.

David Phelps: That's a want to write down right there. Well, you got a little bit of a taste of what Candice and I are privileged to do every week. And a big part of it for me is learning to ask better questions. I've got a guide here who has massive experience, way beyond my experience in my relatively small world, and having someone who has seen the world and continues to see the world and explores it is someone I want to hook myself to because well, we're on our frontier, we all are. Would it be helpful if we had some additional conversations with Alastair because I touched this much of what I wanted to touch today honestly. I didn't know it would be that way.

Alastair Macdonald: That was my fault.

David Phelps: No it wasn't. No, no, no, no, no. I will never interrupt somebody who is speaking the wisdom like you do, it's my job to get out of your way. So hopefully I did that this morning. Would you like to have more of these discussions of this level? Would that be helpful? All right? You're going to be around today and tomorrow, and I guess you've got your dance card ready because I think you're going to be asked to dance a little bit here.

Alastair Macdonald: My disco bowl?

David Phelps: Your disco. Best fine mate. That's fine, bring that. Give it up for my friend, our friend, Mr. Alastair McDonald.

Alastair Macdonald: Thank you. Thank you so much. I appreciate it.

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