Ep #376: Inflation Webinar (Part 1)

Full Episode Transcript

With Your Host

Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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: Good day, everyone. This is Dr. David Phelps of the Freedom Founders Mastermind community and The Dentist Freedom Blueprint Podcast. Today, I'm going to be talking about some excerpts and some ideation and some constructs that are coming out of my newest book, which is Inflation: The Silent Retirement Killer. This book is hitting the publishing houses right now, as we speak, I've got it available on PDF digital download. It'll be on Kindle and also Audible. And our print edition will be out subsequently.

But right now, this information is so important that I want to get it out to you right now. So, I'm going to split this podcast into two weeks, give you half this week and half next week. I'll also put the link for the PDF download, so you can get it right away. I think this is some of the most timely information that I could possibly give you right now based on the volatility of the marketplace, what the Federal Reserve is doing now, why they're doing it and where things are going to go. So, I'll let you jump in, listen to this week's podcast and the subsequent session will start in just about next week with the second half. See you then.

Hi, I'm Dr. David Phelps, the CEO and founder of the Freedom Founders Mastermind community. I'm adding some adjunct and ancillary material to the published work that my team and I just put out in this book right here, Inflation: The Silent Retirement Killer. This book is very, very timely. We put a lot of time and effort into it. In fact, I'll say, it's a great team effort. Having a great team is something that allows me to do what I love to do, which is about having freedom and being in a place that I want to be and I want you to be as well. The key aspects of this book are that the timeliness of the book is so important that I want to give some additional key constructs that go along with the book with this presentation.

This book is built on a lot of history and a lot of technical data we've put together. If you want to jump into it and really get the crux of the matter without having to read the whole book, I hate to tell you not to read the whole book, because it's very interesting historical data, that we've proven our points and where we believe the market's going. But if you don't want to get into that right away, I would suggest you read the introduction and then go to chapter six.

Now, after you do that, you'll get the essential premise of why I believe what I believe and what the research has told us and history has showed us and what my experience has been over being an investor, my own investor, being on the top of my own frontier for the last 42 years, what we see coming down the pipeline. And then, chapter six, which outlines what I believe what needs to do to position themselves from all three, a personal basis, a business standpoint, assuming you're still in business, if you're not, then that wouldn't apply. And then, your investments, which everybody, until the day you die, you're going to hopefully be invested somewhere, and what that looks like.

Got to realize that the last 40 years, really since 1982, we have been in a declining inflationary market, that's called disinflation, not deflation, but disinflation overall, but there's been some deflationary market cycles in between, certainly in... I've gone through all these cycles, so I can speak to them, 1986, after the Tax Reform Act was passed then, which took away a lot of the tax benefits of real estate. We went through the savings and loan crisis of all the late '80s, early '90s, which didn't affect the whole country, but affected a large part of the country. We certainly went through the dot-com crisis in the late '90s and 2000. We went through the great recession, 2008. We've gone through the COVID deflationary period of just the last two years. And of course, now what we're dealing with is the effects, the consequences of the last couple years. But also building back even coming out of the great recession in 2008.

What's different about our situation right now? Why are we dealing with inflation today when we didn't deal with inflation coming out of 2008, when certainly we had a rather heavy market correction, the great recession, which was built on the back of a lot of Wall Street buying subprime mortgages, and then rolling those out to investors with people who didn't have the wherewithal to pay. That was the basis of that downturn. I think the one we're having, going to have now, or going forward, it's not going to be the same thing, but still there are many factors in place.

The fact that we now have over $30 trillion in national debt. And if you add the other entitlements, Medicare, Social Security, all the additional promises that the government continues to make about just handing out money, we call it helicopter money, which we saw a lot of that in the last two years, I don't think that's over. I think that we're going to see more of that coming forward and that all that stimulus, not based on production, which is the GDP, if you're not producing anything, but you're throwing money into the marketplace, you're going to have inflation, which is devaluation of the dollar, which is exactly what we're seeing right now. And we haven't seen that in 40 years, but this time is different.

The Federal Reserve's balance sheet, which is the assets, which is all of the bonds and the mortgage backed securities that it's purchased over the last 12, 13 years, since 2008, doubled, doubled in the last two years, they were at about $4, $4.5 trillion, which is a lot, I mean, you can imagine $4.5 trillion, that's historically more than we've ever had. Well, they doubled that, we're at $9 trillion now, doubled that in just the last two years with the coronavirus.

Now that we've had all the stimulus and people have been kind of floated through the pandemic, which, again, I'm not going to look back at history and try to money morning quarterback all that was done. It was definitely a lot of variables in place. And I think government officials did what they thought they had to do. There was a lot of misinformation. But we can't go back on it. It is what it is today. And the fact that we had all this money that was parlayed into the marketplace to really keep the safety net under the economy from just going through an absolute depression, we can say maybe that's a good thing. We didn't want to go back to a '30s type depression, where people are in food lines and had nothing at all.

But on the other side, there's always a price to be paid. And that price is just now starting to be paid. I don't think we'd begun to see even the beginnings of what we're going to see coming down the pipeline. We're in a period right now, I'm recording this right now in April of 2022, we're in a period right now where we're just six months off from the 2022 midterm elections. And again, unfortunately, much of what is done today in our country from a political standpoint is based on politics. It's not based on what's good for the country. That's where we've gone. And it's both sides. It's both sides.

Both sides, there is really leaders group, both on the Republican and Democratic side, that really don't care. There are a few that care. But most don't care. Most are just in it to ride for themselves, even though they will speak to solving problems for the common person and the common man. I just think it's all to keep their position and they'll say one thing and do something else. It's absolutely 100% irresponsible what politicians on both sides of the aisle have allowed to happen.

Again, not just the last two years, but I mean, going back decades. I mean, George Bush caused a significant rise in the national debt with deficit spending. I mean, Ronald Reagan, who I think was an excellent president in so many ways, no one's perfect. No one's perfect. But also had a, relatively speaking, a smaller than today by a long shot, but still relatively speaking, back in the '80s, allowed the deficit spending to increase the national debt.

The Obama years, eight years, again, exploded it up. I think we were at 10 trillion at the end of Obama's period. Donald Trump in office, again, I think he was basically good for business and did some good things, but once again played the game of more deficit spending. And of course, had the onset of the coronavirus during his latter part of his term, which again, that's where the stimulus money came out, PPP loans, unemployment benefits on steroids, child tax credit was expanded. All of this money put into the marketplace without actual production to take place. So, people sitting around with a lot of money, and the money wasn't really allocated to where it needed to go. It's just the inefficiencies of the government.

That's what the problem is with the government. It's inefficient. It takes our taxpayer money and that's not enough for them. So, they have to expand credit and make more fiat currency, it's not backed by anything, and that's going to cause inflation. And here we are today. Also, we have the supply chain issues that are still on the backend of COVID. So, those are in place. We have the Russia-Ukraine invasion, which is, again, disrupting supply chains in wheat and commodities, and oil and gas in Europe, which trickles back and affects the entire globe.

We have in China, they're still dealing with COVID at a greater level. And they literally come in and just shut down their entire cities and port cities. And again, that's just going to disrupt and cause more inflationary pressure. So, a lot of these things combined, but the big one why this time is different is that we have such a huge hangover of fiscal and monetary policies that have led to all of this debt. Debt has to be paid back at some form or fashion. Either has to be paid back with actual hard money or soft money.

Now, you pay back with hard money means we'd have to go to an austerity mode here in this country, which no politician is going to do, because they'd be thrown out of office, because they've made this country think that everything's free. Or most people think things are free. That money's handed out, that things are handed out, services are handed out. Everything should be free. And that's not true. It can't be. There's always a price to be paid.

So, if you're not going to pay it back with hard money and actually write the checks, which would mean lifestyles and everything would have to be downsized. Then, you pay it back with soft money, which is monetization of the debt, which is what inflation's all about. Soft money is still kicking the can down the road. It's literally enslaving the future generations to this massive debt.

Oh, yes, the politicians and the administrations in office will all be gone and will not be dealing with this, but they are setting up their kids and grandkids in the next generations to be dealing with this. That's why I think where the crime is. If we had to pay currently for what is being done, well, people wouldn't stand for it, but these are the games that politicians play. So, understand, it's always a game.

You've got to figure out how you're going to play on this new board. Think of it as a board game, the rules have changed. Used to think it used to work one way, but they've come in and changed the rules. And now you have to reset how you think about playing this game.

Hi, Dr. David Phelps here. I started my real estate investing portfolio back in 1980, inflation was running at 14.8%. And the federal fund rate was at high of 20%. This after a decade of hyperinflation, along with a very anemic economy called stagflation. Now, look where we are today. We have hyperinflation again, interest rates going up, possibly triggering a recession. We could be back to the '80s. I know how to navigate these times. I've done it. I've built my whole portfolio during times of a lot of volatility.

I'm proud to announce the release of my newest book, Inflation: The Silent Retirement Killer. I've packed it full of information about how fiat currency can undermine the hard work and the wealth that you've tried to create. You've got to do things differently to protect that well going forward and the wealth generation you hope to pass onto your heirs. You can download a digital copy of my book for free at inflationbook.com. That's inflationbook.com. Author Venita VanCaspel once wrote, "Inflation takes from the ignorant and gives to the well-informed." You want to be well-informed in this case. This is what I call a great wealth transfer. Be sure you're on the receiving side, not the giving side. Download a free copy of my book at inflationbook.com.

Taking a conservative approach, which is where I come from. My background's being conservative in really all things I do in life. You might say that Dave Ramsey, who preaches against debt, almost debt of any kind, would be the smart, safe way to go. And for a lot of people, that is a good way to go. But if you want to stay ahead of the games the fed and the government are playing with our money and our futures, you can't do that. You can't keep doing what you've been doing. Even though today, you might say, "I'm pretty darn successful. I have a business. I have a practice. I'm paying off a lot of debt. I'm getting out of debt." You see things in the last decade or so working in your favor.

Well, again, because coming out of 2008 recession, it's been pretty much an upshot in the economy overall in all assets, businesses and investments, stock market, real estate. Everything's been good, because we've had this cheap money. We've had cheap money and a lot of stimulus, which if you've got any kind of assets, investments in assets, then those have done well. The problem is the middle class, lower middle class and those even below that level are the ones who really pay the price. They're the ones that can't take this inflation. Because they're living paycheck to paycheck. There is no room for these high prices. So, the government realizes that and thinking about, in general, progressives, more liberal people are in the middle class, lower middle class, because they're used to the freebies. They're used to entitlements. They're used to the government.

They're typically not... Again, I'm being general about this, but a lot of that group of people get the entitlements and many of them don't pay any taxes at all. So, where they are paying a tax today is with inflation. Inflation affects everybody, but it affects them more, because they don't, again, have the margin. So, they're the ones being affected, even though they're not writing a check, they're not paying taxes to the IRS, they feel it. And they're feeling it badly.

So, the current administration and the liberals on the Federal Open Market Committee, that meets six or eight times a year, are the ones who are, I believe, been given a mandate by the Biden administration, the politicians who kind of rule that arena for the Federal Reserve, Jerome Powell, to go hard on inflation right now. Because they want to look like they're in there supporting that class of people, the blue collar people, the people who are used to getting entitlements, the people who got a lot of entitlements and many don't want to go back to work. Many think it should continue to be free. If they're having hard times, then they're typically going to vote the other way. It's just how it goes.

So, I think there's going to be a hard press for Jerome Powell, the Fed, to do what they need to, to make the numbers of inflation go down, going into the midterms elections, which happen in early November of this year. That's going to be difficult for the Fed to do without causing a recession, potentially worse. It's all potential. I'm not making any grand statements. But I think the potential is going to be for them to try to go hard on inflation, which is going to cause corrections or deflation in some of the asset class bubbles, which is the stock market, Wall Street, and also in real estate.

Look, they're both going to cool off. Wall Street typically, when it comes down, it comes down like in an elevator shaft. It comes down hard and fast. Real estate, fortunately, because it's an inefficient market and you can't just liquidate real estate quickly, it's slower. It still will be affected. I can go back to all of the other recessions that I documented in my own life and show you that, yes, real estate is affected, but not in the same way that Wall Street is.

The inefficiency of real estate, alternative investments, and your own business as well, you have your own business. You have a much greater ability to navigate deflationary corrections in the market. When you're on Wall Street, you're just buying the market, whatever the market does. And when the market goes up, it's wonderful. When the market goes through its gyrations and does a drop, like it did in March of 2020, by 33% in 10 days, you got no way to catch that falling knife. You just can't. Yeah, the Federal Reserve came to the rescue once again, but I don't think they're going to do that this time. At least not until after the midterm elections.

Now, after the midterm elections, whatever happens there, I believe, again, irrespective of who wins the House and the Senate, and of course, Biden will still be in the presidential office. But irrespective of what happens, the politicians on both sides are not going to stay hard on inflation. They can't. They're just going to get through the midterms, and then I think they're going to open things back up again. They're going to drop interest rates. They'll go back to quantitative easing, which I haven't even touched on that yet. It's in the book. But the quantitative easing is going back and buying more bonds and mortgage backed securities. Right now,, besides raising interest rates, they're also tapering that back, that quantitative easing called now quantitative tightening.

Putting those two things together, that's why I see the perfect storm for a recession, a major correction. So, be prepared for that. Again, if you're a long player, you can ride through these things, but I've always found that the stability of real estate, even in down cycles, has been a lot easier for me to deal with, because it's not about the accumulation. It's not about the value per se. I mean, we want value. We want value that will stay, keep pace with inflation, but when there's a correction and there's actually deflation and values go down, I still want the dividend, which is rents or interest from real estate. That's what's taken me through every downturn, every correction, even if the assets themselves lost value, didn't matter to me, because I'm in it for the long game. I'm not a speculator.

I'm not a day trader. I'm not trying to flip houses in a market that is top heavy right now.

If you're a trader, these are kind of the markets that eats you up. If you're one that's got all your money in retirement asset accounts like 401(k)s or defined contribution plans or defined benefit plans. If your money's there and it's all in the market, in my opinion, you're very vulnerable. You're at great risk. Because if we have a big drop, it could be some time before we see market come back up again. Now, it does come back up again. But my point to most people is, depending upon where you are in your life cycle, what age you are, where you are in your business, do you have another six, eight, 10 years to ride it back up again?

What if you're right there towards the end game and you want to, in the next year, two years, three years, maybe even five years, you'd like to see yourself be able to retire out with the assets that you have, the investment assets, and we go through a correction? This could turn the tables on you. You're going to have to get back at it and probably go another 10 years. Do you want that to happen? Of course, you don't. Of course, you don't. That's a rhetorical question. Of course, you don't want that to happen.

But that's what will happen to many. I've seen it happen in all the past cycles. When people sold out their businesses at the top of the market, and the market corrected within the first two or three years. Guess what? They're back at it again. Have to. You can't take that kind of a hit in your investment assets and hope to have your money last you for another 20, 25, 30 years, particularly when I believe the long term is going to be inflation. I mean, inflation going up right now, I think the Fed and the administration is going to go hard and knock, chisel it back down in the next six months. After that, I think it's going to be back up again.

So, how are you going to play that game? What kind of assets do you invest in? See, the stock market generally does not do well. If you go back in history, go back to the '60s and '70s and see where the stock market return in real rates of return. Not nominal. Nominal means what they print and show you. You have to take inflation into account to get your real return. In other words, if you're saying, "I'm getting a 10% return on some asset or investment." But inflation's running at 8.5%, then your real rate of return is 1.5. Well, actually, it's much less than that, because you know the CPI are manipulated numbers. Read the book, read the book. This is why I say, get in the middle of the book, because this is where if you're not sure about where some of this comes from, we've got it all in the book.

So, in between the introduction and chapter six is where all of this comes together. To me, it's an interesting read. Again, you may not want to read it all, that's okay, but just realize that the real CPI in March, the numbers were 8.5%. You've got to at least double that. It's at least 17, probably 17 to 20% is the real numbers. And if you look at the real numbers being 17 to 20, let's just pick 18, because it's easy for me to do. If you take 18% inflation rate and you divide into the number 72, this is called the rule of 72, it's in the book. Divide 18 to 72, that comes out to four, what's that mean? That means every four years with an inflation rate of 18%, that your purchasing power of your dollars or your nest egg or your retirement plan have just been cut in half by 50%. I'll say it again. Your purchasing power of your dollars, your investments, wherever they are, have been cut in half, 50%, in four years.

So, if you thought in retiring with $4 million, which would be a pretty decent nest egg, as long as you can get cashflow returns from it, and you think that's going to carry you for another 25 years, if that's your life expectancy. But in four years, that 4 million turned into two. And then four years later, that two turned into one. And then four years later that 1 million turned into 500,000. Where are you going to be? That's just what one, two, three, go through three or four iterations of that. So, that's like 16 years, that's like halfway through. Your nest egg just got whittled down tremendously. See, that's not going to work.

You've got to understand that whatever got you to where you are today, again, as successful as you may be, whatever you've... With discipline piled up into your retirement accounts. Good for you. But if you don't have a game plan to ride out the next decades, which are going to be totally different than the last 40 years, they have to be, based on what I just told you about the federal balance sheet being at $9 trillion with the national debt at over $30 trillion, with the deficit spending that both administrations, either side, continue to go, the politicians are all behind it because they don't care.

See, it's a different world. We're not going to go back to what we had. I believe inflation's going to be with us. So, you've got to figure out how are you going to play this game? Both Charlie Munger, who's been Warren Buffett's sidekick for the last 40 or 50 years, at age, I think, Charlie's like 97 or 98, but just look at those cycles he's gone through. He made a comment that we're flirting with danger right now. He's got a pretty good context. He's got more years than I have at this. And I believe there's a lot of wisdom with Warren Buffett and Charlie Munger.

He said, "We're flirting with danger right now." He said that he truly believes that the next decade and probably longer of stock market returns, that's basically equities in stock market and bonds as well. I mean, the bull market run in bonds for the last four years, it's over, it's game over. Interest rates are as low as they're going to get. When interest rates go up, that's going to affect both the bonds and decrease the yields on bonds. And it will also... It'll decrease the equity returns in the stock market. Well, why? Because higher interest rates is a higher cost of capital, inflation causes higher wages, higher supply demands. It causes a negative return on profitability. With the exception of those few businesses or asset classes that are able to raise their prices in an inflationary market. I mean, you want to be able to raise your prices, but can you?

Well, I mean, most people in healthcare today, my friends, my colleagues in dentistry, veterinary medicine, physicians, MD, medical care. They're under the constraints of insurance. Insurance is locking things down. So, if you can't be raising your prices to stay in line with what I just said the inflation rate was, not 8.5%, it's like 17 to 20%. If you can't raise your prices and you can't, if you're locked down by insurance, if you're dictated by insurance or outside forces, then you're going downhill. That asset class, your cashflow, your profitability margins are going downhill. Not to say your investments, most of your investments in the stock market, just because they're probably very generalized and very diversified, which is what everybody tells you to do, "Diversify, diversify, diversify." Well, I think, again, Charlie Munger would say diversification beyond about four or five strong asset classes or investments is ridiculous.

See, I don't do that. I don't try to diversify over all the index funds and ETFs, even though that's what people have been doing and successful over the last six, eight, 10 years. Yes. But, going forward. No, it's different. You've got to be on guard for your own frontier. If you want to make it through the latter parts of your life, if you want to be able to pass something on to your kids, I don't think it's just about money. I think it's about also resources and wisdom. How are you teaching them to navigate going forward? I mean, it's all about college degrees today. Is it all about going to Harvard? Yale? I don't think so.

I think it's ridiculous. Is it going and having $700,000 of a student loan debt going to college and four years of some kind of professional school, which is what I see a lot of my dental colleagues' kids going through right now. Not saying you shouldn't, if you think that's what you want to do, but boy, I've helped my kids or the people I care about open their eyes, open your eyes. That's a ball and chain. That debt is a long chain that's not going to be easy to release. It's a huge drag on freedom, a huge drag on freedom.

You've been listening to the Dentist Freedom Blueprint Podcast. If you're tired of trading time for dollars and you want to create more freedom in your life, I encourage you to visit my week blog, freedomfounders.com/blog. I post weekly hard-hitting videos about creating more freedom in your life. Check out my latest book on Amazon, *What's Your Next?: The Blueprint for*

Creating Your Freedom Lifestyle, or visit freedomfounders.com to learn more about how we help high income earners create the freedom to buy back their time and create more impact.