Ep #377: Inflation Webinar (Part 2)

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: Hi, I'm Dr. David Phelps, the CEO and founder of the Freedom Founders Mastermind community and the Dentist Freedom Blueprint Podcast. Back for the second part, the second half of my podcast I started last week, based on my new book, Inflation: The Silent Retirement Killer. Now, if you missed last week's, you'll probably want to go back and catch that first and then do this week's podcast recording because they obviously tie together.

As I said last week, this is some of the most important, most timely information that I could possibly provide you with the volatility of the marketplace. I think like never before, you've got to look at your future, your financial future, your business future, your investment future in a totally different lens. That's hard to do.

It's hard to do when we've known one thing, one way, one model that has worked for specific reasons, but for very specific reasons, it's not going to work going forward. And you need to know what that looks like and how you can better position yourself against the volatility and against being a victim of what I will call the greatest wealth transfer we'll probably see in our lifetime. Enjoy.

I began my investing career in real estate in 1980, 42 years ago, when I was but 22 years old. I was just getting ready to start in dental school, but I had been reading books about investing money when I was in college and I want to get started doing something. I read books about the stock market. Mutual funds had just come into play back then in the late '70s and early '80s. And there was a lot of buzz about mutual funds, so I read books about that. Didn't make any sense to me, at all. Real estate, tangible asset, made a lot of sense. I realized that it was something that, if I was willing to do the work and learn about it, that it gave me more control.

What real estate or other alternative investments provide for is that they are part of an inefficient market. An inefficient market. Inefficiency means that big money and large indices can't manipulate the market overall. There's always going to be cracks and niches where we or I as the individual investor, can plant my foot, whether it's locally or through other people I know. We can spot opportunities with inside information, because inside information is A-okay. It's legal in alternative markets.

In Wall Street, no. Inside information is totally illegal but people still do it all the time. But you don't have a chance on Wall Street. I mean, you're just buying the market. And again, the market's been good, whether you've been in equity, stocks, equities or bonds. For the last 10 years, it's been good. Why? Low interest rates, right? Low cost of capital. The Fed has been stimulating everything.

Those days are over. Those days are changing quickly and you can't keep playing that old game. I started back in 1980, knowing just a few basics about what I learned about real estate just basically from reading books. There was no online forums. There was no internet back then. You had to look through books and find people.

I did. I ferreted out some of the best people I could find. It took me a few years but I learned from the best mentors. People that could help me speed my way to my goals, to learn what I could do by having more control over my financial future, instead of just abdicating it and putting it on Wall Street, as most people do. Because you're told, "It's too complicated a world. You can't do it yourself. You need to go to work and trade your time for dollars, but you let us take care of the investments."

I think it's backwards. I think what you should be doing is trading time for dollars for as short a period of time as you can. That's the sacrifice period.

Now, it's okay to trade time for dollars. It's okay, but you should be doing it on your terms. It's really about where are you most effective with your time? And if you are earning a relatively high income per hour doing what you do, that's fine. That's your seed money.

But you've got to take that seed money and as quickly as possible, get that transferred over into assets that will actually work for you and can navigate the volatility of the markets. Again, I believe fully, that's got to be in alternatives, whatever you choose. Alternatives can be in businesses or a business that's not dependent upon you.

I don't have a problem with people that like to do businesses. I personally like the passivity of real estate, because I can do it without really taking much of my time. It's more about relationships for me, which is what we've done in Freedom Founders is create relationships where the ability to implement the strategies that fit for each one of us are right there in front of us. We're doing background checks and we do underwriting of all the funds and syndications. It's not a perfect world, but we mitigate a lot of the issues.

I get questions from people on the dental forums and the investment forums all the time about, "Gee, David, I could just go do this myself, couldn't I? I could just go out there and I could start investing in some kind of real estate myself." I say, "Well, yeah, you could. Do you think it's a smart thing to do? Is that going to get you where you want to go?"

Right now, most people that are in their mid-career, 40s, 50s, 60s are trying to buy back time, not give it up. Now, when I started my investing back in the early '80s, I was in my 20s. I wasn't married. I was a student. I had time. I had time. I had time outside of studying for school, which took a lot of time. I waited tables at night. I paid my way through, but I was investing in real estate.

I started in 1980 with a first investment property. Inflation rate, 1980 was 14.8%. Yeah. 14.8%. Now, that was actually the right way to measure. Today, again, they manipulate the numbers. So really, today's inflation rate is higher than it was back in 1980. I think it's like 17% to 20% today, back then it was 14.8%.

And Paul Volcker, the Fed chair back then had a mandate to take down inflation. And he did. Now, we don't have the political will to do that today. We do not. That's why I say, it's going to be short term. Whatever they do to stave off inflation, it's going to be relatively short term. Then we're going to be back to inflation again. So understand how these dynamics work.

But he took the federal funds rate, which right now in our country is 0.5%. He took it up to 20%. Had to take it over the current inflation rate to have a chance at knocking inflation down. What did I say our current inflation rate really is? 17% to 20%. To really knock it down and knock it out like Paul Volcker did, you'd have to take it up at least to the mid teens and higher.

We're not going to do that. This country can't do that. There's no way we can pay on $30 trillion of debt at 15%, 16%, 17%, 18%. No way. I mean, it just won't happen. That's why I say it won't happen. Short term, they'll do everything they can to make it look good for the country and then they're going to have to go right back to monetizing the debt.

This is not going to turn out well, as Charlie Munger said. Charlie Munger said that the stock market, he doesn't believe is going to have anything close to the returns that we've seen over the last 10 years, coming out of the great financial recession. We've seen double digits in most years. I think there was just one year of negative returns. That was 2018. That was that volatile year when Jay Powell tried to do some quantitative tightening and he tried to bump interest rates just a little bit, and he had to reverse course.

Because what happened in the market? Well, the market was down 4% for that year, but all the other years, mostly double digits. That has been very much an outlier decade. And hopefully, if you got to play in that decade with business investments, whatever they've been, you've done well. But do you know how to navigate going forward from here? It's not going to be the same.

Ep #377: Inflation Webinar (Part 2)

Hi, Dr. David Phelps here. I started my real estate investing portfolio back in 1980. Inflation was running at 14.8% and the federal funds rate was at a 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. It could be back to the '80s. I know how to navigate these times. I've done it. I 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 wealth 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 the 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.

Jack Bogle, who was the founder of Vanguard, who passed away just a few years ago, but he said, and this was just a couple years ago before he passed, he also said, and this is actually before we hit the Coronavirus pandemic. So even before we had all this stimulus money and adding to the Federal Reserve's balance sheet, Jack Bogle of Vanguard said, "We're not going to see anything close to returns we've had in the stock market going forward."

He was saying about 4%. So if you've got inflation of double digits and returns of 4%, then you're losing ground by again by 5%, 6%, 7%, 8% every year. You've got to be in assets that are going to at least keep up with inflation. That's why I like real estate. Real estate stays true to the inflation rate and also the cash flow stays true. It correlates. It correlates very, very well.

Now again, you've still got to understand how to do real estate, where to do it, how to do it. That's why I said, some people say, "David, can I do this by myself?" Do you want to really try that? Where's your time most valuable? Do you need to go out and try to reinvent the wheel and do it in a market, maybe it's your backyard market, your community? You think that's the right market? How do you know? What do you have to compare against? See, no one knows what to compare against.

You know about your business model and many of my colleagues are dentists, so your practice model of dentistry. Even though you don't have a MBA in finance, you still know really what makes a good practice run. I mean, you can go in and evaluate at least on a high level, does this practice that you may be wanting to buy, does this make sense? You could do that. Now, you might get some outside advisors and CPAs and people to help you look at it and do due diligence, but you could look at that, because that's what you do.

I mean, you go to conferences, you talk to people, but do you do that in real estate? Have you had the same opportunity to look at a lot of different asset classes over a period of time and see what they do and understand that? Of course not. That's not been your area of expertise.

Why would you think that right now, where the market is very volatile, interest rates are going up, that you could go out there and land the plane, investing in real estate of some kind? Single family houses or some people think, "I'll go do multi-family or I'll do self-storage." I think you're in very, very choppy waters. I think you're risking a lot.

I want to be with people who have already gone down the road that I want to go down. I want to be with people who have already paved that path and have gone through the tough times and gone through the corrections and can speak to those and how they are mitigating the offsets of what's happening going forward. That's who I want to be around.

Your local realtor, good person as they may be, they're about selling real estate for commissions. They're not looking at the long game. In fact, most of them don't even invest in real estate. Most of them don't invest. They're just trading time for dollars, just like you do in your practice. They're not investors.

They'd love to sell you some real estate. Brokers out there would love to sell you some multi-family. But just realize, if you don't know what you're doing, you don't know what you're looking at, you have no idea what interest rates are or what interest rates will do to the future, you're going to be in some big trouble.

I don't think this a time for you to be out there on your own. That's why I'm a guy that's about speed to goal. That's why I invest in myself and I invest in other people who have the skillsets and the experience in areas that I want to learn more about. I don't have to learn it all myself. I just have to know who the right people are and understand when to jump into something that I think is interesting or not.

This is what you've got to be doing going forward. This is how you've got to look at the future. If you put your head in the sand, keep your fingers crossed and just think that the Fed is going to continue to bail out Wall Street, it's all going to be good, I think you're going to be in for major disappointment, major frustration, and perhaps putting your freedom and the future of your families and finances in jeopardy.

I know that's not what you want to do. I know this is not what you want to hear. You want to hear it's all going to be good, that just doing what you've been doing is all going to work out. And I wish I could say that, but that's not the way the world is. I'm just being honest and letting you know that you've got to be the best advocate, your own advocate for your financial future.

Yes, use people with outside expertise in areas, but you can't rely on one person, one financial advisor, one CPA, one estate planning business attorney to lay out the plan for you. Well, if they could do that, why are they still trading time for dollars?

I've been through this. I'm a product of the product. I was able to exit my practice some 17 years ago, based on the real estate I had built up over the previous 15 years. I've now done it for countless other dentists. We're doing it right now. We have more members going free for life. That's when you have actually replaced your active income needs to pay for your lifestyle, with passive income from your investments, primarily through real estate, although I don't care what you invest in, whatever you like. But if you want to get out of the market, and the volatility alternatives is the way to go, we make that happen for more and more people.

If you're interested in doing that, certainly reach out to my team. You can do that at freedomfounders.com. I'll put links here in this webinar. I'll continue to bring you updates about what I see happening over the next months, as the Federal Open Market Committee meets again in May and June and several more times this year, as we see what the Federal Reserve and Jay Powell does with interest rates. If they continue to go hard over the next number of months, as I believe they will at least through the midterms, but then on the backside of that, I'd say, "Hold on." I think we're going to see a rush of them coming back to the rescue again, which is going to inflate things like crazy.

The problem is you've got to understand what that does to your customers, your clients. For us as real estate investors, to our tenants, do you know how to prepare yourself for these volatile times? Can you get through the gap? Do you have enough reserves? Are you locked into variable rate lines of credit? Could very much disappear or interest rates could take you out of the game.

I've put a lot in this book about how to protect yourself and ride through these. I hope you'll pick up a book and give me some feedback and comments about it. But as I said, I'll be bringing you constant updates as we go through the markets in the next several months, through the end of this year and give you my perception on the market. I'm very plugged in to what's going on in the economy. I study the politics and I also study the asset classes that we invest in. I understand where they're going. I understand where to mitigate risk. If you're looking for the same thing, I ask you to follow me. Remember, stay focused on your freedom because that's the most important thing.

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