David's Response to Objections of Certified Financial Planner - David Phelps: Ep #403

Full Episode Transcript

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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: Good day, everyone. This is Dr. David Phelps of the Freedom Founder's Mastermind community and the Dentist Freedom Blueprint Podcast.

Today, you'll get to hear my direct responses to a certified financial planner who was giving his client some feedback on one of my most recently published books, *Inflation: The Silent Retirement Killer*.

Listen in while I pretty much destroy everything that the financial markets talk about Wall Street in training their clients into taking advocation of their financial future into the marketplace, and hoping for the best.

Alex Lerma: Well, David, earlier this year you published a book on inflation, *Inflation: The Silent Retirement Killer*, and it is a real deep dive into the inflation that we've seen, really, over the last year and a half, growing here and some historical perspective on that and some analysis of what we can do moving forward.

And recently, we received an email from someone who read the book and actually shared it with their financial advisor, their CFP, and asked their financial advisor for some perspective on some of what you've taught in the book.

And the financial advisor replied with a lengthy email, and we thought it'd be a lot of fun just to get your perspective on some of the answers that this CFP gave to some of the topics that you covered in the book.

And obviously, in a lot of ways, David, you're a maverick. You're a free thinker and not necessarily in line with a lot of the conventional financial wisdom out there. And so, I think it'll be a lot of fun today, really insightful, to get some of your perspective and hear your response to some of these thoughts that were shared by this certified financial planner.

David Phelps: Alex, let me just make a general comment about financial advisors or financial planners; these are not bad people. Certainly, there's probably people that are not good in every industry. These are not bad people, are not giving unintentional advice. They're doing the best they can do with their training, their education, and their background, I get that.

Look, I don't do things without advice from certain people, but I choose that very carefully. I typically get advice from different types of people when I'm trying to make a decision.

I think the problem with general financial planning is that they try to put everything in a box. And I've found in my life that if I try to go to a one-size-fits-all of any anything, that I'm probably getting more generalized cookie cutter, “Here's what everybody does, here's how everybody does it around here.”

And you're right, that's not who I am. I've never been that way. I've always been on the forefront of figuring things out for myself. Again, not just blindly, but finding the right people. And I think that's the key as we go into some of the feedback that this particular financial advisor gave to his client.

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Alex Lerma: The first note from this CFP was in response to some of your thoughts about being at a 40-year low in the interest rate cycle. You talk about this in the book, David, that we've experienced a generational low in the interest rate cycle.

And his response is that, “We hear almost daily it's different this time. It’s usually not different, and even if it is different, how do rising interest rates help the real estate market?” What's your response to that?

David Phelps: Well, again, unfortunately, this person is missing the point; first and foremost, when he says it's rarely ever different, to me, that just shows someone who really hasn't studied the cycles.

It is different. It's very different. Just to give you one big change over where we are today versus 40 years ago, is we have sovereign debt, national debt, and unfunded liabilities like the world's never seen.

So, that's a big, big headwind that changes this. 40 years ago, the government, the Federal Reserve, was able to tamp down on inflation by raising interest rates way up and causing a couple recessions.

And with the debt the way we have it today, that's the headwinds. And we've seen even over the last number of months while they've been claiming to reduce inflation, they're having a very hard time doing. So, this time is different on a number of fronts, so, I'll say that first.

Just making the comment about, well, does interest rates affect real estate? Well, yes, yes. I've talked about that many, many times before that interest rates affect every asset, every business, affects those values. But when you understand how

we utilize real estate, we don't look at it from the standpoint of we're trying to buy, sell, trading, trading, trading.

We buy as investment. We buy at the time based on the cash flows. The cash flows are always, and the values are always going to be in a balance with interest rates. So, we use long-term interest rates, so we don't have the volatility so we know when we make an asset investment in equities, that we know if the cash flow is going to be relative to interest rate, relative to the price point we paid.

There's some rebalancing that goes on in the marketplace, and it doesn't happen as quickly in real estate by a long shot because of the inefficiencies there.

In the stock market, you can't catch a falling knife. That's what people talk about, and that's why I think financial advisors have very much of a disadvantage in serving their clients because they don't have the advantages we have and alternatives.

Alex Lerma: Well, this CFP, as with most CFPs, I would imagine, is certainly a ban of Wall Street. He's advocating for the conventional Wall Street model here, David, and I think that's particularly relevant in the context of this next response from him.

He says … so, in the book, you note that rising interest rates and inflation are going to have a dramatic impact on fixed income investments and that the stock market will likely experience a lot of upheaval as rates rise and with the possibility of a pending recession. And his response to that is that that's very possible, and I'm going to read a quote from him here.

He says, “Also, to be very clear, we welcome UPHEAVAL, and actually, need it in the stock market. That is what makes it risky. Risk is the only thing providing return on owning stocks. No risk, no gain.”

And then he uses an example here. He says, “Was it riskier to purchase a dental practice versus working as an associate for someone else? That's a rhetorical question. Has the reward been commensurate with the risk?”

David Phelps: He's unfortunately, totally misconstrued the fundamentals of what we talk about. Let me just take the last one first.

To go buy and invest in a business, we’ve talked about this before, that’s the entrepreneurial mindset. That's the capitalist, that's who a lot of us are. Is there a risk in doing that?

Well, yes, there's risk in everything, but that's where you have no separation of your money going and buying and working a business with your hands, your brain, your time, your ability to make decisions and management decisions, that's completely different than investing on Wall Street or in some “passive investments,” is completely different.

So, he missed the whole point there. In terms of looking at the desire, the need for risk and volatility in a marketplace, the only people I know that like that Alex, are in volatile markets for example, like crypto or day trading or options where you're in that market on a day-to-day, hour-to-hour basis, and you're trading, you're trading, you're trading. Those people love that volatility. That has a lot of risk as well, but we're talking about investing here.

I honestly cannot believe a financial advisor is talking to his client about we like risk and volatility. How well has that worked

out for his or her clients in the last six or eight months? When we have people coming to us from Freedom Founders and saying, “Our financial advisor says just to hang on.”

Well, why weren't they giving you advice back in December of this last year and saying, “Maybe you ought to go out and getting cash on the sidelines?” Were they tell them that? No, they missed the whole mark.

So, if you're just playing the game where you got the volatility and you have money every market cycle, your principle, your principle drops by 30, 40, 50%. Now, you just go in and buy more at that point, but you've lost all that principle.

You actually have to get much greater returns to even come back to equal again. And that typically takes six to eight years of time. That to me, is really an abdication of financial constructs there from that financial advisor to give that kind of feedback. I don't know where that comes from at all, but I would run from somebody who says they want risk to help their clients.

Alex Lerma: Also in the book, David, you talk about the conventional retirement model being an accumulation model, and then at some point, at a distant retirement age in the future, you draw down a small percentage, 3 or 4% per year and hope that those funds outlast your lifetime.

And David, you made the comment that in this scenario, if the stock market takes a hit in the first few years of retirement, oftentimes, that you'd be in big trouble.

And his response to that here is in response to his client directly, he says, “If you stay the course, you'll still be in great shape to maintain your lifestyle. Also, remember, we're going to

have two or three years of cash on hand for your lifestyle when you retire so that we don't have to pull out funds during down markets.”

And he calls this the Montecarlo scenario where essentially, he's advocating for this scenario for his client where he's saying, “Yes, you're going to have enough to be able to draw down 3 or 4% per year and trust me, it will be enough to last for the rest of your life.”

David Phelps: This is the model that financial advisors know and they have to somehow prepare their clients for it because they know their accumulation model is about depletion. They know that when their clients “retire” that they have to take them out of the risky volatile stock market because, well, that would really be bad if they took a big loss.

So, they'll typically put them in T bills and bonds and instruments that don't take big hits, but unfortunately, they don't get very good returns. I don't know the specifics of this person's financial plan with this financial advisor. I don't know what the timeline is to tell that person that it's going to be okay because we're going to have plenty of cash on the sidelines for you.

Well, that sounds great, but how are you going to get that cash? How much cash? Could you not have that cash invested? Apparently, they don't have any place to put that cash except just keeping cash. That's a problem there, but what's the timeline to get there? We don't have that context here.

I would say that most financial advisors that we've heard from our members in Freedom Founders tell our members that they're going to need 8, 10, $15 million dollars before the

financial advisor feels comfortable telling their client they can retire.

Well, most people today, unless they've just been the benefactor of a trust fund or some mighty big home run hit that they made, aren't going to be exiting anytime soon with 8, 10 or $15 million.

Most are trying to get out with maybe 2, 3, 4, 5. And at that point, the financial advisors say, “Well, hopefully, your back and neck are not hurting too much because it'd be a good thing for you to keep on working.” We're not there yet.

Alex Lerma: David, also, in the book you talked about the effect that inflation has on a nest egg, and you actually ran the numbers on this in the math and how a million-dollar retirement nest egg will only buy $500,000 of lifestyle in six years with a 12% rate of inflation.

And his response to that is, “Well, can we control this? And what are the alternatives? What gives you the confidence that any alternatives will be insulated from inflation?”

David, in your experience, with real estate, the alternative investing that you do with our members, how does that hedge against inflation in this scenario?

David Phelps: Real estate historically, and I don't mean just in my lifetime, I mean going back decades beyond, millennia, beyond historically hundreds of years; real estate is an excellent inflation hedge on two fronts. Not only does the value of real estate keep up with inflation, but also, the cash flows will keep up.

So, you've got both, and again, as I said earlier, the cash flow is the most important. The value, what I want to exit, it's nice to have that also keeping pace with inflation. The problem I see with most financial advisors, financial planners, money managers today, unless they're my age or older, they've never seen inflation before.

They maybe read about it, maybe in their theory books, they've heard about it, but making that comment as so many do "Well, how can we control it?" See, they don't know. They don't know. No, we can't control inflation, I can't control the government, I can't control interest rates, but what I can control are my investments.

And we can make very specific investments in real estate on either the equity or debt side that allow us to navigate these market cycles. A financial planner has really not many tools at hand other than just tell a client, "Hang on, it's going to be a bumpy ride, but eventually, the market will come back up again." That's not very much to hang your hat on.

And as stated as most people really hang on in those first few years after they have exited their practice and just hope, fingers crossed that they don't have a major down cycle.

I can't tell you how many times Alex, that in 2000 dot com burst, the 2008 great recession, when business owners had exited their practice right before that time, and saw that deep plunge in their principle investments mostly on Wall Street.

They had to go back to work because it was going to completely destroy all these fancy computer algorithms that their financial advisor had given them saying, "Hey, it's all good. It's all good."

And then bum, it takes a hit. And now, they're back to going, “Well, I can't survive this. Either that or I'm going to have to greatly downsize my lifestyle.” And that really wasn't the plan.

Alex Lerma: David, later in this message, the CFP makes the case that through investing in stocks, that you actually are investing in real estate by doing so, through investing in various stock portfolios.

And he gives an example, he says that “Applebee's, the restaurant, owns their locations, and if you own shares of Applebee's, therefore, you would directly own real estate by owning those shares.” And he's making the case that by investing in stocks, you do have exposure to the benefits of the real estate market.

What would be your response to that and how is that different from the type of real estate that you advocate for, and that our members invest in?

David Phelps: Well, I don't want to invest in real estate that is correlated to the stock market. So, in that case, Applebee's owning their own real estate and having a business on top of it. Yeah, you could say I'm getting the business and the real estate together, but it's all correlated.

The stock market as we have seen, experienced over the last six eight months, is very volatile based on the emotional and behaviors of how investors look at it. And there's so many retail investors that are in the market and getting crushed and they pull their money out. Again, the efficiency that market causes these great upheavals.

So, I think it's a bad construct to say that you're investing in real estate if you invest in stocks, because a lot of companies own

real estate. I love to be disconnected from all of that and actually, own the real estate.

If I want to own companies, then I'd rather be a Warren Buffet where I actually go in and look at specific companies, and the question I would have to most people is; do you have that expertise? I certainly do not. Could it be learned? Probably over 30 or 40, 50 years like Warren Buffet.

See, real estate to me, is a lot easier to understand the fundamentals, and I want to understand the fundamentals, I want to understand the core. If I just buy stocks based on what some technical charts show me, that's really not giving me what I need to know because the stock market is way too volatile.

I want the fundamentals of the assets to be driven not by behaviors, not by emotions, but by the actual data that we get from the cash flows that provide the value that tells me I've got sustainability.

Alex Lerma: When it comes to real estate, this CFP also lists a number of cons to real estate investing, and I'll read this quote to you here.

He says, "Large fees, closing costs, selling costs, management costs, repair costs, et cetera. Real estate is illiquid. How do you get your money out of the investment? It is undiversified, it's the exact opposite of owning thousands of companies with many more properties around the world. And it also, is a side job. You are in one of the most profitable industries on the planet (speaking to a dentist here). Why take a side job of owning real estate and get much smaller return on your time?"

David Phelps: I agree completely with his last premise. He's absolutely right. A great business is owning a business, and owning a

dental practice is a great business, but you're in there working it. The idea here is to invest and not be taking a side job that I think is a mistake.

And again, unless you're in your twenties and you're not too busy with a family and your practice at this point, but if you've got the time. And see that's the great, a misnomer that many people have about real estate investing, particularly financial advisors because they probably have clients that have tried it that way. And so, to tell someone you don't want to do it that way, I think that's smart. That's good advice.

In terms of the real estate being illiquid, well again, this financial advisor just doesn't understand real estate. Typically, certain types of equities, you own a building, you own a rental property, those assets can be illiquid if you're relying on the conventional markets.

In Freedom Founders, we actually have an economy within Freedom Founders. We have several hundred millions of dollars that are being invested and deployed through various portals and niche access points and freedom founders. It means money's always moving different directions.

So, in Freedom Founders, I know that I could sell or even borrow equity out of my real estate any moment because I've got people in that group that would like to loan money, get interest rates, interest off my money, they'd even buy the assets because the assets are so good. So, we take away a lot of that illiquidity.

The other side that this financial advisor doesn't understand, and most people do not (not just me and him), is that you don't have to always invest in real estate equities. We have a whole division in our tribe and our community called “being the bank.”

If you think about being the bank, if you lend money, in this case secured by real estate, you can get very sustainable returns without all of the management aspects of owning real estate.

There's also a place for that type of investment when the markets aren't a little bit more of a disarray, and parking some money there where we can get still easily double digits, but be an arm's length or two away from the ownership in liabilities and also, any kind of volatility, that's another place to go.

So, again, it's just simply not understanding by this financial advisor, just he sees real estate the way most people do from the outside as people go out and try to buy rental properties. And if that's the way people understand it, then I understand why he would say that, but he just doesn't have an understanding of what we do and how we do it.

Alex Lerma: David, the last note here from this certified financial planner is with regards to bonds, and I think it really sums up a lot of the conventional approach when it comes to retirement planning, stocks versus bonds and how to manage risk.

So, in the book you talk about how oftentimes when someone reaches retirement age that a lot of financial planners will shift their portfolio toward more stable assets or investments, and oftentimes, that's in the bond market.

And you gave some perspective on that, some historical perspective on the returns that folks have seen in the bond market and noted that that is oftentimes next to nothing.

So, you said “Trying to live on fixed income paying 2 to 4% with inflation at 7.9%, the real return on bonds is negative. In response to historically low interest rates, advisors have been

forced to chase yield and returns, which has forced investors into portfolios with greater stock exposure. And this is only amplified risk."

And his response to that is that he agrees; bonds may or may not be part of your long term strategy. He says "Bonds are mostly there to shorten the up and downs of the rollercoaster for investors that don't understand long-term investing. When people get "sick to their stomachs," when the stock market goes way down thinking they've actually lost something, then we add in some bonds to dampen the losses." David, what's your perspective on that strategy?

David Phelps: Well, first I just, again, I have to say, he says when people get sick to their stomachs with the ups and downs and what they think they've lost, so he's almost making a statement that they really haven't lost anything. And then he comes right back and says, well, we use bonds of dampen loss. So, did they take a loss or not?

Well, you never take a loss until you sell, I guess, is maybe what he is saying in this case. And he also just goes right back to the point of the sick to your stomach when the market is up and down and up and down.

Some people just don't like to ride a rollercoaster maybe at a certain age. Maybe even for me today, I used to ride it when I was a kid, it does get my stomach a little upset these days. Do I really want to do that when I'm in my fifties or sixties or seventies? I probably don't want to ride anymore. I probably want something safer.

So, the bond market has historically been that place to go. It does because bonds that is getting like being the bank; bonds

are debt. You're not investing in the equities that have most of the up and downs

The bonds are a safer place to be, and you would call it the capital stack. The problem is the bond market's dead. Go right back to my premise of this poor CFP, he doesn't understand, is we've gone through a 40-year cycle of high interest rates coming all the way down

The bond market's done very well over the years as interest rates have come down. Well, we're at a low point now. Bonds are not going to be a good play for probably the rest of our lifetime. So, now, they have no place to go. They have no place to go in the financial markets to try to soften that blow.

So, now what do they do? Well, they got to put you back into equities again and again, that’s the up and down. I don't know anybody that's exited their business, their practice that wants to be reading the financial tape, the paper, watching the tape across the screen and watch the volatility of the markets.

It's been happening big time this last six months, and I think it's a huge wake up call to people who got complacent and thought we could only go up and up and up, and now, they're seeing it's time.

If you've never thought before to take control of your financial assets, learn to do it. These are skill sets that everybody who's run a business can learn. It's not that hard. And alternatives in real estate is much more fun and a whole lot easier to do than the roller coaster and the efficiency, high-speed algorithms of the stock market that we have no control over as retail individual investors.

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Alex Lerma: David, thanks for sharing those thoughts and I think it's so helpful to hear a really thoughtful and respectful conversation about these topics. And I think for a lot of practitioners, this is really complicated.

This creates a lot of uncertainty, hearing different voices and different perspectives and trying to discern what the right move is and just really trying to steward the funds that they have, and do that in a way that doesn't take over their lives or require a second job as a day trader or as a real estate investor.

And so, your perspective on that, being able to contrast that with a lot of the conventional wisdom here, which as you stated, is well-intentioned. It's coming from folks that really probably desire the best for their clients. It's just a question of expertise.

You don't know what you don't know. And so, thank you for taking some time to share some additional perspective and answer some of these questions today.

David Phelps: Well, Alex, I've done it in my life, and I've seen the same results with hundreds of other people that we've been able to help through Freedom Founders. So, I know it's a pathway that has merit to it.

It may not be the only pathway, but I know this one works because I've lived it, and I've watched other people go down the same path that we helped them with.

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