

**Building Your Freedom Plan - Utilizing Your Practice
as the Economic Engine to Freedom (Part 2) -
Christopher Sands: Ep #427**



Full Episode Transcript

With Your Host

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: Alright, it's David here, this is week number two with my conversation with Mr. Chris Sands of Pro-Fi 20/20, the CPA firm that focuses on helping dentists build their freedom plan through optimization of their business.

This week, we'll jump into what Chris considers the most underutilized business metric. Also, why it's important for you to understand taxes at least at a high level, and why the traditional financial model of investing for retirement just does not work.

Chris, on his own behalf is building his freedom plan, plan B through multiple streams of income in real estate (my favorite asset class).

I think you'll really enjoy this conversation. If you missed last week's conversation with Chris, go back and pick up that podcast anytime. Enjoy this one, take care.

Christopher Sands: I think the most underutilized business metric or business tool or business action in private practice is marketing. The DSOs, they're going to run a real business plan and they're

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going to reinvest at a high rate in marketing to attract patients to the practice because they have less of a retention rate.

Your job is to cultivate a great culture and a great patient experience and connect with people and you will have great retention if you're diagnosing ethically and you're following the golden rule, taking care of people. But you got to invite enough people to the party, or you may not financially make it.

So, I think any startup or any first-time practice buyer, and if you like the story that I told with buying a practice doing 600,000 of collections, I think you have to map out and plan a consistent monthly marketing effort, invest a healthy amount. I like to see 3 to 5% of your revenue goal, it should be what you invest in marketing.

And then from there, make sure you get great case acceptance. So, once you've got that going, now you really need to learn your biggest expense in life, at least in this country, is taxes. Learn how you get taxed, learn the different deductions, first learn how you generate tax, then do your own tax.

Here's another piece of advice — without working with Pro-Fi or any other CPA firm, you can do tax planning just like me, without a CPA. Let's say just for your dental practice, for simplicity's sake, let's say you're an S corporation.

There's only two things you owe taxes on. The wage (salary that you take) and the profit, whether you took it home or not. Profit's that bottom line number, net income. I never say net income, I always say profit or loss, but the profit and the wage live by the 40% tax rule.

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You have 40% taxes on it, whether you took it home or not. Learn to carve that out aside and you won't get tax surprises. Then allow the CPA to come in and educate you and tell you about the additional deductions that you can apply, and that number may come down.

But never use the net number that a CPA tells you. Learn the gross tax first. I would tell people that one of the most impactful books for me in practice and in my business was *Profit First*, it's a great book. I think any young business owner in dentistry, you need more than one bank account. You should probably have at least five bank accounts.

One of them should be profit, one of them should be taxes, and learn a little bit from that book. And cash flow management is one of the fundamental skillsets that you have to develop personally for your business and for your personal finances in order to be successful financially.

David Phelps: So, working with you, not only am I getting managerial accounting, but I'm getting your advice, your CPA's looking over my shoulder and helping me look at the different metrics that you provide and with your skillsets and your eyes and experience, can look for those areas in the practice, which could give a major pop to revenue.

And helping that doctor determine which avenue, which pathway to follow, whether they're thinking about expanding or adding more services to be more diversified in the ability to provide those services. Or maybe, it's time to bring an associate, maybe it's not right. I mean, that's the kind of advice you're going to give and it's so valuable.

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And I think too often, we can be so frugal that we step over the dimes and miss the dollars (so to speak), we've heard that before. And I think this is a case in point that there's so many opportunities within the business to optimize that, certainly for more revenue and greater profit.

But also, you said earlier, less stress, less of the physical burden on the body, more longevity, longer potential duration in practice, enjoying it more, and not struggling after a couple of decades because the back and the neck are hurting.

And we see this, I know you do with practitioners all the time. It can be a relatively short run of being healthy as a dentist and then those later years can be tortuous if you haven't figured out how to take some time off.

One of the things you mentioned earlier, Chris, was the fact that when you were helping some of your clients and you were dealing with their CPAs and just could not get reporting on a timely basis, you have a guarantee that you provide your clients in Pro-Fi 20/20. Do you want to talk about what that is?

Christopher Sands: Absolutely. There are two, I think, major difference makers that we've tried to create as a unique offering in our space. One of the first pillars was I had to have those financials every single month on time.

So, we created a monthly guarantee that our clients get their financials by the 15th of the following month, or they're free, and they come in a really nice reporting format and all that. But that is the first key fundamental piece that keeps the accountants internally accountable.

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And I can tell you they didn't always love that, it's an extra deadline for them. But I told them that is the difference maker. For people to make proactive business decisions, they need the most real-time financials they can get.

And the second one is that managerial accounting component, we offer quarterly coaching calls from the accounting managers where they interpret the financials to you.

And I coach them, I coach the accountants on the business of dentistry so they can interpret the financials as symptoms going on in the business, and then point to some things in the practice management side that may be the causes of those or the solutions to improve those symptoms.

David Phelps: Chris, I assume that you're doing the bookkeeping work for your clients. How does that work?

Christopher Sands: Yeah, so in our model, in order to be able to deliver on that guarantee delivered by the 15th, we do the bookkeeping. Our choice of lab, if you will, is QuickBooks online, everything's downloaded directly.

We download transactions weekly and send you a list of questions that things that can't be coded at the end of the month. You get that list back to us by the 10th and it's included in your report on the 15th.

So, another thing David that came to mind for me just now, that I think is something that resonates with you as well. There was just never enough focus from my accounting relationships on the debt that I had. The debt was reported to me, but we never went over what's the compounding effect?

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I think another important tip for any young doctor out there or doctor of any phase is understand your debt and learn how to use an amortization calculator. And this country is in an immense amount of debt, everything from the student loans, but even in business.

And we go over that very frequently and talk to people about not your debt balances, here's your cash flows you're paying for them. There's a byproduct of business debt, it creates what I call a phantom tax. It's more than just the monthly payment, it's the monthly payment plus 40% tax on the principal portion.

David Phelps: Exactly.

Christopher Sands: So, once you eliminate debt, cash flow gets unchained, and you see things really start to compound further. And then the other piece relating to the real estate, it's not for everybody and it depends on where you are geographically, but your business, you have the ability, if you own the business, your business can buy real estate, buy a home for your business, and pay for it with tax-free dollars and pay the loan off.

And that can be left over as a personal asset for you, just because you sell your dental practice does not mean you have to sell the real estate. And that can be a great part of your passive income in retirement. It totally supercharges the business, the dental practice.

And I keep saying practice in business, last thing I'll say is there is a difference, a practice can run without you. I think in that first phase, it's all about what you can produce and what you can generate. But the next phase that a lot of people enters as they

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either get tired or they come to the realization they can do more with others.

The difference between a practice and a business, the business can run without you, and that means it requires other doctors to be there. So, as you enter that phase of scaling to add more producers, you diversify the risk of your business.

David Phelps: Absolutely. So, one of the things that as you alluded to, the real estate side and you're building wealth outside the business and having diversification, having another stream of income.

You talked about the fact that when you were graduating, that that was a time when the market was in a turn and in your classes, you could not pencil things out that would work. And you were all wondering how are we going to pass this course here? What's wrong here?

Well, you saw it because your family comes from a background of investing in real estate. So, you already had some of that aspect along with your studies and you knew there was a market change and maybe other people didn't, had never been through one before, just you brought that to their attention.

And we're in that kind of turn right now where not everything's penciling out like it did a year ago, two years ago, five years ago, seven or eight years ago, it's a different time right now.

But that being the case, during that time, you were very able and I guess skilled as a family member to find some properties that were reasonably priced near school or college, was it right?

Christopher Sands: Correct.

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David So, tell us that story, I think it's a good one.

Christopher Sands: So, the dental practice that I did that experiment in was located near a little college town called Carrollton, Georgia, the University of West Georgia. And this voluntary experiment, I drove two hours each way to go work in this dental practice for this experiment, I thought it was that valuable.

And on that two-hour drive, the economy ... this is like 2010, the economy was kind of in the tank, everybody's still kind of depressed. And on that two-hour drive, I would either hear on the radio, "Go west, come to the University of West Georgia," I would see billboards, go west.

And as I drove into town, I saw that they were doing construction. I thought, "Wow, this little college town is trying to reinvent itself from being a small college to being more of a staple college."

And I decided to look at the real estate values in the area and they had a lot of 1970s built-brick ranch style homes. Not necessarily things that I want to live in today, but that's the kind of stuff we lived in in college, right?

Christopher Sands: Right.

David Phelps: And they could fit three to four college students in them, and they were priced at between 60 to 70,000 a piece, because everything was in the tank. And I didn't have any money really, I was still kind of getting started.

And basically, went to my parents with a business plan and said, "Let's buy these and mortgage them, and we'll take all the rents, throw all the rents back at them and I will work hard, and

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I'll take the money that I make working and throw extra to them, and we'll get them paid off." And I got them paid off in about five years.

So, 190,000 was my initial investment roughly, and we collected just over 4,000 a month in total rents from these three properties with three to four college kids in each of them.

If you do the math, 48,000 rental income divided by 190,000 investment, it was like a 25.3% return, so it looked so sexy, it looked great. That I didn't care about, what I cared about was the 4,000 a month, and getting it unchained as quickly as I could.

And I learned right then — I think the part that I left out, David, that you alluded to in the beginning, when I went to go work for the insurance company doing the disability insurance, they said, "Well, we want you to be a full financial advisor too. We want you to do investment and get licensed for all of that," and I did. And I kind of started my way tiptoeing into that path.

In the first week when I got some training, they taught me about the 4% retirement rule. And I learned, I said, "You're telling me that somebody, if they save up a million dollars, they're supposed to only be able to draw down 40,000 a year, and that's all they get, and that still may not work out because their principal balance goes up and down in the market. Here I put in 190,000, I get 48,000 a year of cash flow, I'm done with the 4% retirement rule in that accumulate and deplete strategy."

And that began my real commitment to — real estate was the path for me. And then I parlayed that into once I got a bigger business, we owned the commercial real estate for our business, learning through the tax code, cost segregation, and

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accelerated depreciation. Our real estate is one of the most powerful things that we have.

And then I believe so much in the dental business and the stickiness of the space and the expensive plumbing that I think dental buildings, dental practice, real estate is also one of the best components in the real estate market as well.

They don't really move, they have to have a storefront, they're internet resistant, and they can't just relocate overnight because they need the plumbing and they've got a patient-base in the area.

So, I own some dental real estate as well, which I'm proud to say is one of my most — that excites me the most out of everything I have.

David Phelps: Well, we have similar stories in that regard. The first property that I bought was when I was in my first year of dental school, and to your point, I didn't have any money or any credit, but I got my father to be my joint venture partner.

And this was 1980, interest rates were up to 17%. People say, “Oh my gosh, rates are high today, how do you do it?” Well, there's an equilibrium that happens and prices had come down because the affordability factor with high interest rates, forced prices down.

So, similar to you, found a property that I managed, and same thing as we poured everything we could into paying it down. We didn't get paid off in the years I was in dental school, but we got paid down substantially.

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But to your point, when you pay down debt, pay off debt, then the cash flow takes off. I tell my docs, “When you're thinking about retirement or taking time off or buying time back, even if you're not ‘retired,’ you want to buy time back, it's all about the income.”

Now, you could either produce the income, which is what we do, and we're working hard and building our practices, that's what you have to do. You trade time for dollars.

But how quickly can you transfer your work into assets, whether it's your business asset to your point, a business where you don't have to be there 100% of the time, or if you do, that's great, choose your path. But what can I provide for myself as a plan B?

An additional insurance policy that can let me have more choices earlier in life and not wait until this magical retirement age when hopefully my 401(k) is built up to this point. But then where do you put it?

Typically, the traditional financial advisor says, “Well, if you're out of active income, we can't take any more chances.” “What do you mean taking chances? What have we been doing all this time?” “Well, we've been playing the stock market roulette wheel.” “Oh, I thought we were investing money.”

No, we're just kind of keeping our fingers crossed, doc, and hopefully, when you retire, we won't have a drop in the market within the first couple years because then all bets are off. That's what they always tell people.

“Well, I think you're okay if or if ...” It's like, “I don't want to hear these ifs, I've worked too hard in my life, too long, put too many

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things off, taking all this risk and you're telling me cross your fingers and hope? No, that's not a plan, it's not a plan.”

Christopher Sands: No, we're in complete alignment with that. I think one of the most important or two of the most important things in finance, as you read in, I think it was Kiyosaki, OPM, *Other People's Money*.

But then control, I always assess anything I do, what element of control do I have over this?

David Phelps: Exactly.

Christopher Sands: And you can control your business, to an extent, you can control something that has a contract, like a lease agreement. You cannot control fear and manipulation and anything else that goes on in the market, and that's not just in this country, but globally.

David Phelps: Yeah, having as much proximity, closeness to your capital, certainly in your business, that's really direct proximity. And that's where we get to have that control and do the things that you help your doctors do because we can dial the numbers, do the metrics, we can make those changes.

But now, if I'm going more passively, again, how close can I be or the converse is how separated in life from my money? And again, the closer I can be without having to control it all, but having some level of control, it's where you want to be.

It's like you said, it's not for everybody, but I think more and more today, particularly in the economy, geopolitically today, Chris, I believe we're in for not just a few years, but probably a

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decade, maybe some decades to come where there's going to be more volatility in the economic cycles, if you will.

I don't think we're going to have these long runs of bull market like we've had in the last few years. And what does that mean for the hardworking doctor, business owner professional?

I think it means number one, as you said, invest in yourself, invest in your business. Get the help, get the guidance, don't just rely on your technical skills, that's a piece of it. But you've got to have a board of advisors around you. Choose those people wisely and they will pay for themselves over and over and over again.

You will hit your goals: revenue goals, profit goals, lifestyle goals, time-off goals, which is a big one for me. How much time-off can I have and still maintain a lifestyle with a peace of mind. But doing that, you're going to get to a point in life where you can really enjoy that ride.

And you don't have to like probably pinpoint, "Boy, if I could only 'retire' at age 57 or 62 or 63," why retire if you enjoy the ride? Why not find a pathway so you can keep doing certain things that you really love and not doing some of the things that you had to do when you were younger?

This is, I think, part of the evolution that so many people miss. They just have to think, I have to drive the same things same way and hopefully I get to a point where I can get off the treadmill, and I think that's a wrong approach.

I think today, you've got to be more focused on not only your business as long as you're in the business, but also, on your wealth management, your wealth attainment, your wealth

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maintenance, and really, what's the cash flow I can expect when I want to draw that cash flow to give me that freedom that I've been looking for.

Christopher Sands: I couldn't agree more, and I just think that it's so tough to overcome the financial indoctrination that this country has and that the financial institutions are extremely powerful institutions.

And it's, "Why do I do things like the 401(k)? Oh, because everybody else does it. That's what I was told to do, that's what my parents did." And I think you and I are maybe cut from a similar cloth where what everyone else is doing, I run the other way.

David Phelps: That's right.

Christopher Sands: I guess if there is a 1%, that means the other, they're doing the opposite of the other 99%. So, they're being a contrarian, there's a lot of power there, and sometimes that's scary. Sometimes that's really scary to behave that way.

I agree with you, David, I think there's going to be — there's a lot of debt that I don't how painful that's going to be and the deleveraging of that. But the advice I would give to you, looking back at my experience in those years, everyone else around us was still in that slump of we're in a down economy.

We focused on the inside of our four walls, and we had incredible growth in that three-year run that I was there. And we focused on what we could control, our process, and we invested in the business when everybody else wasn't.

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And that's the piece of advice I would give to the practice owners right now today for what's to come. When we go over that second cliff when it really happens, and everyone's scared, and the real layoffs happen and all your patient bases you're worrying about, they may not have a job or can they afford the dentistry that we do?

That is the time to double down on the growth and the marketing. You know, more millionaires are made during recession periods now than any other time, and everyone else, most private practices, I think, they're going to retract, they're going to get scared, and they're going to say, "Let me hold onto my dollars and wait this out and see what happens."

Those DSOs, they may go through some deleveraging, they may have to offload some smaller practices, which that's a whole other conversation, it creates opportunity in the marketplace.

But I tell you one thing they're going to do, they're going to invest in the marketing at that point and try to buy up market share of your patient base around you. So, you have to behave like them.

And that's our battle cry this year, last year and this year to all of our clients, is prepare now, save up and invest more in marketing and growth during that recession than you've done in the past.

David Phelps: Couldn't agree more, Chris. Either be a contrarian or be a victim, but you can't do both. Well, Chris people can find you at Pro-Fi20/20.com. We're going to put the links to your other media, Facebook, Instagram, LinkedIn, YouTube, it's all there in the show notes for folks.

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I really appreciate the conversation. Again, I love the complimentary aspects. You know, we come from a very similar philosophy, you do things in your business sector helping our mutual clients and we do have mutual clients, that's a fun thing too. We have mutual clients, we do things and we just compliment.

But I think, again, you gave some great advice. I would give advice in a similar fashion that wherever you are on your pathway, in your career, your business, find those key people that are part of your team, part of your board of advisors, but you, the business owner, the doctor, you have to know enough.

Not everything, you can't know everything, but you have to know enough to bring the right people around you. Bring people around you who are not just "yes men" or "yes women," but people who will challenge you, but you know that they're giving you good advice because you've seen what they've done for others.

You have a similar philosophy and core values. And if you establish those people around you, that's what's going to help drive you through the difficult times. Which as you said, can be a real opportunity for more market share, better investments. It's a time to make hay while other people are retracting, you said it well, Chris.

Christopher Sands: You said it better, David.

David Phelps: I don't know, we just seem to tee off of each other and I think we could go on like this for quite a while. Well, you're going to be at one of our next Freedom Founders meetings and I'm really excited to have you there because again, this is a message I think so many people need to have.

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And it's easy when you're alone and isolated to get that fearful mindset because you read all the headlines and there's pressures as a business owner, entrepreneur, there's always challenges, always pressures.

And when the media's also playing up the negativity of the interest rates and the recession and all this, it's not a time to tuck your head under, you've got to pop out of the hole, so to speak.

And surround yourself with other people well-intentioned and also that have already gone down a path, that have gone through market cycles, that have that expertise that maybe you don't have yet, but buy your faith from them, take faith from them and that's what's going to help drive you.

So, I'm excited you're coming because you're going to add to the conversations we're going to have, which are going to be very, very solid this year.

Christopher Sands: I'm stoked, I'm super excited. So, can't wait to see you in person very soon, David.

David Phelps: Alright, Chris Sands, thank you, sir, it's been a pleasure.

Christopher Sands: Thank you.

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more about how we help high income earners create the freedom to buy
back their time and create more impact.