Navigating the Current Market Conditions – David Phelps (Part 1): Ep #448

Full Episode Transcript

With Your Host

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: I am going mono to mono today. That means I'm going solo, no guests, no interviews, it's just me. I do this from time to time when I've just got a lot on my mind that I think needs to be said. And you know, I enjoy having conversations with other people.

People I think bring great perspective because we all need that. I want that. And I have to be respectful when I bring people on because, well, I bring them on because I want you hear their opinion. I don't bring them on necessarily to debate other people.

I might ask questions of them sometimes, but not to put them on edge or in cumber mode where it's contentious at all. But I have my own convictions, I think you all know that. So, from time to time, I go solo where I can just spill it out the way I see it, the way I believe it to be.

Remember, nothing I give you at all can be considered to be legal tax investment advice. You know that but I'm just going to say it because I have my own opinions.

Everybody should have an opinion about something, and I have my opinions, I have my prognostications, I have my predictions, and they're just based on data that I collect from my own experience going back over 40 years as an investor in the investment world, as a business owner as well. And I think we all need to be in both realms to some extent.

Most of you listening to my podcast, I think do come from the business world, although I invite anybody who has an entrepreneurial mindset to listen in and be a part of what we talk about.

But if you've longed to be or you are or have been a business owner, then you know what it's like to have to make the decisions day-to-day in the business in every aspect of that particular business.

It's a lot of work, it's a lot of risk. It's challenging, but I don't think those of us who do it would do it any other way. I know I wouldn't.

What about our investments? Yes, the money we saved to put aside for the rainy day for ultimately retirement, or I just call it plan B.

Plan A is your business, your career, profession, whatever you do, basically trading time for dollars. And you could also build up equity inside of business you own, we know that. But what about outside of that business? What are we typically doing?

Most people, hardworking people who have taken the blessing to take their own business into their own hands and run with that, advocate their financial future outside of business to other people. Other well-meaning people, I think well-intentioned people, but our financial advisors, financial planners, money managers, on Wall Street, the people who administer and run the 401(k)s, for many people, those people are not bad people overall. That’s how they make a living.

But they don't produce anything like you do, like we do. They don't produce a product or even a service based on really what they do. They base what they earn off of our hard-earned money if we decide to give it to them.

Again, I'm not saying that they're bad people or you shouldn't take advice from some people, but what I'm saying to you is that if you are on the front edge of running and operating your own business or businesses, why would you ever think about abdicating? What I think becomes absolutely as

important and if not more important as you go through the ranks of building your business.

Yes, you have to be in the trenches, and it's focused on that business. But over time, as you build up the discretionary savings and you decide where to put it, there comes a time when you really need to start digging in and figuring out, “Well, how can I become a more sophisticated investor?” Anybody can do that.

The financial world, Wall Street wants to make you think like, “No, it's too complicated, doctor, dentist, electrician, whoever you might be, you need to just focus on what you do and let us take care of the rest.” And I think that's a big mistake. Again, not opposed to taking advice from different people, but you need to be the one who orchestrates it.

So, how do you do that? Well, you could read books. I mean, I guess you could go back and get a finance degree or an MBA — I don't say that's what you should do. I think there's faster ways to gain that knowledge, that base in.

And I'm not here to tell you that you should or need to be a part of. What I love to do with my Freedom Founders community, we do have a focus on a certain select group of high income, high net worth investors. But that may not be for you, and I'm not saying it should be, but you need to plug in somewhere and start educating yourself about how to become a better investor wherever you decide to invest.

Now, my bias is for alternative investments, that being primarily in real estate, I'm not a stocks and bonds annuity insurance guy. I rarely have been in my life. Yeah, a few times I forayed into that arena and just found that I could do so much better, but that's me. I started learning about being an investor when I was in college.

“Well, what do you mean, David? Did you take classes?” No. No, I was dead set on getting my degree in biology so I could go right into dental

school. So, I didn't take anything in economics or business. I had to learn on the street from other people. It really became my secondary education beyond my formal education.

Both educations have been important in my life, no question about it. But I'd say today the most important education was the one I got through the experience of learning to be a more sophisticated investor. You can do the same. In fact, there's ways you could fold that time.

I've been doing it for over four decades. So, I've been thinking about it, thinking about how to make my money work hard for me at least as hard. If not harder for me, then I worked for it. And that's where people miss the inflection point of not getting their money working as hard for them.

Yes, there could be certain bull run markets where the stock market, your 401(k)s and your cash balance plans, and your defined contribution plans can really do quite well. That's part of the business and market cycle, and it happens over and over again. Typically, every six to eight years, there's a high point and then there's a drop. There's a high point and a drop.

If you look over time to see what that looks like though, go over decades, very few people really end up with a whole lot of gain in the end over what they contributed over those years. That's the truth. I can look at what I've done in my life, and again, this is being more hands-on. So, again, there's a trade here. I'm not saying this is being passive.

To become your own best financial advocate, you have to be committed to do it. It does take some time, but again, there's faster ways to do it than doing it the way I did it. And again, I had more time than money when I was younger in my twenties and thirties. I could expend that additional time there.

Today, I do it completely differently. But I have experience, I have a network, I have access, I've got a community. I've got places I can go with

my money without having to be boots on the ground, doing the stuff I did as in my twenties and thirties.

So, again, it depends upon where you are in your pathway. If you are young, then yes, you probably should be more of a, what I call a do it yourselfer. You still have to be careful about doing it and particularly where we're on the market cycle right now, which I'm going to talk about a little bit more here in a moment.

But where we're in the market cycle really bodes for how risk mitigating you need to be. When the market has gone through a correction as we had after 2008, ‘09, and ‘10, then with some prudence, you can jump into about anything and ride the market back up.

Whether it's back to stocks and bonds or it's real estate, or even certain business sectors, you get to buy on the cheap and the market's generally going to take it back up to some extent.

And that's exactly what we saw coming out of the 2008, ‘09 and ‘10 downturn, which was considered to be the greatest downturn since the Great Depression of the thirties. So, it was no small slip.

Now, we've been really 14 years running since that time with a relatively small divot in 2020 with COVID. We actually were going into a recession. If you think back in 2019 — end of 2019, before COVID, pre-COVID, we were heading into a recession in this country. I totally believe we would've gotten to some level of recession in 2019, 2020.

But COVID came along and disrupted everything and gave permission, I guess, some kind of authorization to our government and the Federal Reserve to crank up the printing press into unprecedented amounts of money, trillions of dollars that were pumped down into the economy, really taking away from our future is what they did.

When you print money, as our government has done and been known to do, particularly in the last decade or so, it's stealing from our future. There

is no free lunch anywhere, and the price will be paid by primarily future generations.

Those who are in my age group, baby boomers, we've been fortunate to have the tailwinds of really a strong 40 plus years going back to 1980 of interest rates lowering over time down to virtually zero in the summer of 2020. Now, they're on the way back up.

Now, I'm not saying they're going to go back as high as they did in 1980, but we're in a different major, what I call a secular cycle. Not a business cycle, but a secular cycle. We've gone from these low, low interest rates where debt was cheap, really cheap, and it created a lot of room for speculation.

And speculation, we have seen big time in financial markets and in real estate, crypto, businesses, private equity, you name it. All these sectors have done well. If you've been plugged in into any of these sectors at all, you've been able to ride that.

I certainly had that opportunity. It's not because I'm such a genius and I had everything figured out, but I do watch the big waves of the market. You can't time it exactly, but I watch the big waves. So, I'm going to give you a little bit of that today from my insights on where I see us in the business cycle, but also the longer-term sector cycle, and what I think is prudent for us to look at.

Again, it's my opinion, you certainly are welcome to your own, but I studied this a lot and I've been involved myself on a very active basis for over four decades. I've got a pretty good handle, at least I think, on how to best hedge.

I can't predict exactly the markets or the timing, but I do know how to hedge. We'll dig into that here today, and maybe even go into a second week if I find there's enough here I want to get out. Let's see how it goes.

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I'm going to timestamp this podcast episode of today's date just for reference. Today, is August 3rd, 2023, and I'm making some prognostications on what I believe the marketplace is going to roll out for us in the next several quarters into 2024, actually into 2025.

As I said before, I have studied the markets, I've studied the investment cycles going back to 1980, and I've got a pretty good grip on not timing the market, but looking at the big waves, the larger forecasting, so I can feel like I can position my investment, whatever they may be.

I'm a real estate guy, but it doesn't mean you can't do something in stocks and bonds or whatever you like, but I think it's a time to really be prudent about what you believe and what your convictions are, and how you are going to protect and preserve the hard earned capital that you have worked so hard to place wherever you decide to place it for your investments for the future.

We have heard in the media just in this last week, so again, this is August 3rd, 2023. I'm talking about in the latter part of July, we have heard Jerome Powell, the Federal Reserve Chairman, has come out further out in the Wall Street Journal. He says, "No need to look at a recession, we've gone past it, we're going to be okay."

The soft landing they've been talking about if there even was a recession, he's saying, "Don't worry about it, we got it covered." That's an imprint in the Wall Street Journal in the last week. There's also been numerous articles saying that the housing sector, whatever correction or decrease, that that housing is bottomed out.

Meaning whatever we've gone through in the last six, eight months of some decreases in valuations, that that sector is now bottomed out. Now, we'll start rising back up and we go forward. Well, certainly we see that kind of signal in the financial markets. We lately see that with stocks.

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Stocks and bonds had a very tough year in 2022, but they've been back since the first of this year, 2023 and really made some spectacular gains.

I never would've predicted any of that to happen, but neither would I have predicted that our Congress with fiscal policy and our federal reserve with monetary policy would've combined together to inject trillions of dollars of fiat currency into the marketplace since COVID back in 2020.

And continue to do so today with such signals as the Inflation Reduction Act, which is really the Inflation Expansion Act. It's a lot of hot bill spending bills tied into one that claims to reduce inflation, but it's tied to all kinds of things that will actually increase inflation.

We heard the Federal Reserve that had to reinject more capital back in March of this year, 2023, with the failure of Signature Bank, SVB Bank, First Republic Bank. They had to inject another trillion dollars there just to again, bring the capital reserves back up into the banking sector so it didn't fail. So, that, again, that's inflationary.

We have seen time and time again that the Federal Reserve over really the last number of decades, every time there's been a financial or economic drop off, some kind of moving into a recession, the Federal Reserve has always, what I'd say come to the rescue.

They do their quantitative easing, which I'm not going into what that means, but basically it means they go out and buy tremendous amount of bonds, including corporate bonds, which they never used to do before.

And certainly, we've had Congress that anytime that the masses are dealing with difficult economic times, they'll roll out all kinds of programs. Just call them what they are. They're their entitlements.

Not saying that some people don't deserve them. Not saying that the PPP loans that came out during COVID to businesses weren't needed to get through, but like anything in government, it's a very inefficient process and there's lots of ways, lots of corruption, it's just is what it is.

And all that stokes the fights of inflation, which we had not experienced since going back to 1980 when Paul Volcker, the Federal Reserve chairman, had to raise interest rates, federal funds rate up to 20% to go into back-to-back recessions and bring inflation back down.

Chairman Powell is saying he's going to do the same thing, but of course, he's going to try to do it without having a recession, without having a big downturn. Well, who wouldn't want to do that?

My point is, I don't think it's possible for them to do that. Once the cap comes off of the genie bottle and inflation is able to rear its ugly head like we haven't seen in 40 years. It's not as simple as just let's raise interest rates a little bit and we'll just crank it back down.

Yes, are the core stats on inflation coming down from where they were sometime last year when we were up to 9%? Yes, but you have to, again, and this is my belief, that the government skews all statistics.

I believe that there's a lot of lagging indicators that they're not considering in the computation of what they're looking at. And I think that the cost of living, consumer price, index is a lot higher than what they show. Nevertheless, they want to get it down to their figures of 2%. I think it’s going to be tough to do.

What happens if we have what I call the lag effect, which means the fast rise of interest rates that we've seen the fastest in modern history of going from zero federal funds rate back in early 2022. Over the last 15 months, we've got up over 500%, we are now at 5.5%. It's not that 5.5% is historically high itself, but it's the rapid rate of increase that the economy, I don't believe, can handle.

And again, I don't think we've begun to see the full effect of those interest rates yet. I think we've gotten another 6, 12, maybe even close to 18 months before this rolls out. And I think that's where the problems will come.

I wrote a report for Newsmax Magazine that they published about a week or so ago. Again, this being August of 2023 and I titled it, the Economy is Worse Than Anyone Admits.

Going back to my premise that all the news media, the mainstream economists, mainstream media pundits, federal reserve folks are all trying to claim that we've really battled through whatever recession we're going to have. And we're easy street going forward.

And again, like I said, you would look out on the street, you look at the financial markets, you look at the airports, there are throngs of people. You look at tourism today, what I believe is we're seeing the last hurrah of all that money that the Federal Reserve pumped into the system and Congress helicoptered out hand over fist to people over the last three years. I think we're seeing the run out of that.

Why do I say that? Because if you look at the increase in credit card balances over the last several months, it's increasing exponentially. Why? Why do people start to use credit cards?

Because they don't have enough capital to maintain the lifestyle they got used to in the last few years with a lot of extra money on hand, not even really having to go to work in many cases, and they want to get out and spend the money, they were feeling … people were feeling good. But it's false. It's a fake economy and that's never good. It really creates some bad behavior.

Well, we know the bad behavior has shown up in the labor markets. The unemployment rate is historically low and every time we have a historically low unemployment rate, that's another signal that we're going to have a recession.

It's almost a natural law. There's got to be reversion to the mean, meaning we've got to go back to a higher unemployment rate, which usually means we're a cross through and go to an unemployment rate, which will dictate

more of a recessionary trend like we had in 2008. We just haven't seen it yet.

So, the market stays exuberant. We have a very small number of stocks, about 10 primarily, mostly in the tech sector that are driving the stock market. It's a very narrow field. And again, I believe a bubble is being created there.

I'm not against technology. Technology's wonderful. It provides a lot of advances, but I believe we're going to see a big blow off in the equities overall. Equities meaning ownership, stocks, real estate equities, same thing.

I think particularly in the commercial markets, we're going to see some big blowoffs, meaning that the valuations are going to come down, the higher interest rates are causing a lot of profit margin squeeze both in corporate America, so that would be your stocks.

And also, in the real estate sector with the people that run funds in real estate syndications, the typical multi-families that people have been involved in. There's been a number in just the last few months that have really gone belly up. They've gone belly up and there's been a number of cases unfortunately, of fraud.

Not everything that goes belly up is because of fraud. Many of cases are just mismanagement or just miscalculation of the economy. I still see it today. I get offers across my desk or through my email all the time from people that are soliciting me and my group Freedom Founders for capital.

We are very discerning in this group, I'm very discerning. I've learned over time to exude a great deal of patience and not be the guy or the investor who says, “Well, we got to jump on everything.” Or if I pull out too soon, meaning if I move my investments out of equities and go to what I call higher ground, that would be more in debt instruments, maybe even T-bills.

I do carry quite a bit in T-bills today paying over 5%. We haven't seen that in really well over a decade. So, you can actually get a decent return today in what's considered a risk-free investment T-bills.

Now, I can go a little bit higher on the stratus in real estate and invest in loans where I can be the lender and secure my loans with borrowers that I can vet against real estate that I can see, touch, and evaluate to make sure that I've got good security, a good borrower with a track record and the security to back it up.

I can boost my returns up into the double digits just because I have access points and the need for capital. Private capital is increasing right now because the banking sector is tightening up. This is also going to bode for more of a recession towards the end of this year.

So, let me give you some stats that I brought up in my Newsmax article. In fact, we'll link the article if you'd like to go read it to the podcast that I'm doing today.

So, here's some of the stats. Inflation is still high, even though yes, we see the inflation rate is coming down which is the rate of increase in the cost of goods, cost of living; the rate of increase is coming down, but it's still high.

And just because the inflation, number of the rate of increase comes down, doesn't mean that we go back to what we had in terms of cost three years ago, pre-COVID. No, the cost of living will stay high and it's still way above the benchmark.

Inflation is a hidden tax. If you didn't think about that, it's a way the government is able to monetize the debt or continue to print money and you don't write a check for it, but you end up paying for that debt that the government runs up by just a higher cost, which means everything you do, your business and your investments have got to do better than the inflation rate.

Well, what's the real inflation rate? Well, you've got to look at it, but I don't think it's really what the government gives us. I think we've got to do much better than what they're saying the inflation rate is. Whether they say it's 3%, 4%, 5%, I think you can easily double that number to even be conservatively safe.

That's my own opinion. You use yours, but I don't want to be in a position in my life when I'm totally into passive investments, meaning I'm not earning any active income. I want to be totally passive. I've got to be able to outrun inflation or I'm going to see my investment capital diminish over time and inflation can erode it very quickly, very, very quickly.

We've seen that in many times over the last decades, going back to the eighties, back to the seventies actually, where we saw the inflation rate was really, really eating into people's principle, their retirement accounts. And that's not a good place to be when you've decided you're out of active income.

Alright, David, back here again. I'm going to end this week's session right here but stay tuned for next week where I'll pick up on really what all this means to us. Specifically, on a more granular basis and what we can do to make the pivots to be sustainable and actually to thrive on the other side of what I think is coming down the pike. So, pick this up next week and I'll see you there.

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