My Freedom Path - David Phelps: Ep #456

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, it's David here, CEO and the founder of the Freedom Founders Mastermind community. A lot of people know that I kind of made my way through the course of my early life and my current life in building recurring income through real estate investment.

Yeah, I started when I was a kid, like 20-years-old before I was even starting dental school, school and bought my first rental property back in 1980. Yeah, that's 43 years ago, 1980.

I still see that house from time to time, and it brings back memories of what things were like back then. And I'm not going to go back through all the economics, but I'll tell you it's a time coming out of the 70s where there's a lot of inflation, stagflation. The interest rates were taken to a very high level to beat back inflation. And we are in that same era today.

That house provided me the impetus. It provided me the foundation for understanding why it was so important to outside of investing in yourself, which I was certainly doing, education to be trained to go into a business of practice, a profession, which is how we make our living to begin with but how important it was to learn how to invest also in assets.

And I love tangible assets versus financial products. I love tangible assets. Why it's so important to invest in tangible assets, because that's eventually what builds wealth. And that wealth would provide options and freedom through what? Recurring income or something, we call passive income.

I don't think it's truly passive. Passive income really only comes from bank CDs or treasury bills, money market accounts. Those are truly passive. Or you can buy mutual funds and ETFs and those are relatively passive, yes.

But to really orchestrate your financial future, your freedom, I found that it made a lot more sense to invest in tangibles in real estate. Outside of business, real estate has always been my go-to. And it worked really well for me.

And it continues to work well for the hundreds of high-income business owners and professional practice owners that we help today through the Freedom Founders community, which is something I got into organically and created just through not a need or a necessity. Not something I had on a vision board, but just because I created the freedom in my own life to go onto a next thing, which Freedom Founders became it over time, over many iterations.

Not going to go into that story today, but it goes back to my premise of the way to get to your first level of freedom, to take the pressure off. To allow you to have margin, to be more creative and evolve in your own life, in your pursuits of the way you do trade time for dollars to give back, to serve people. The only way to do that on your own terms is to have a safety net.

And for me, that was having that recurring “passive income” that was created over a number of years of my investing in real estate. Now that's what I want to focus on today a little bit because there's a lot of, I think a lot of propaganda and misinformation given today about real estate investing, really investing overall, because where we are in the market cycle.

The last 14 years coming out of the great financial crisis of the 2008, ‘09, ‘10 era, it's been a big upswing in the markets overall in the financial markets, main street markets, crypto, everything has overall had a very, very strong rise.

And we're still seeing that today in a big way. There's different sectors of the marketplace that are showing the initial headwinds of what I think will be an overall downturn and correction in time.

But my point is that the times that we're dealing with right now, there's a lot of hype. There's a lot of hype about, well, if you just invest in this. And that could be stock market, it could be tech, it could be Nvidia, it could be Tesla, it could be crypto, it could be NFTs, which they're a little bit outmoded right now, that fad has kind of gone its course, it's really real estate.

And I still see a ton of people who are promoting real estate based on a model that, yes has worked well for reasons a lot of people don't understand. A lot of people think that it's their genius that has allowed them to create many empires for themselves, maybe for other people through syndications and real estate funds.

Too many people still believe that model is sustainable forever, what I call the greater fool theory. There's always going to be else somebody else to buy. I'm not going to go into depth into the model that's happening today. But my caution to every one of you who's watched this video is if you're thinking about jumping into “real estate” to be very, very careful.

In fact, I was on a forum today just briefly. A dentist was asking, “Hey, I want to get started in real estate. So, like, where do I start?” And my comment back to that person was, “I love your enthusiasm. I want to see that person continue on that course of investigating and being curious about ways to create wealth and tangible cash flow that would support them outside of their practice endeavors.”

But I told that person, I said that "Love your enthusiasm, but this is not the right time, at least to jump into equities. That is ownership. That's the way most people get started. Buy the rental properties, do the short-term rentals, which has been the big fad over the last several years.”

Eventually then you want to get into syndications and into funds. And it's been this big ride up for the last 14 years, particularly the last three years. But the taper is here.

The people need to pivot and understand without pivoting the models that have taken people to where they are today will not carry them forward. And that's what most people don't understand.

Even people who've been through a previous cycle, their memory seems to lapse. And so, I look at this often. So, how did I do it? I started with single family houses. I'm still a proponent of single family houses, but maybe not so much right now.

Not because single family houses aren't a rock solid model for which to start for the right people at the right time, but we're in a topping of the cycle where both the pricing of the equity values of real estate overall, but particularly housing is way at the peak.

And along with that, we also have interest rates at the peak. The two combined make a lot of the benefits of investing in single family real estate or really any real estate that's leveraged overall, probably not a good time right now.

But again, people that don't know the difference have not seen a different market cycle. They only know what they know and they got to keep pushing that and selling programs and selling syndications and selling investors on this model that keeps going.

So, I told you I started buying real estate when the market was similar in many respects to what we have today. High interest rates, going through a market correction recession, really back to back 1980 and 81. Yet there I am as a kid, getting my dad to put money into a house that we bought. And we did some things. And that's the key thing.

We did some things right in this house, location wise. Bought it where housing prices had to come down some even though interest rates were high, that's what brought housing prices down. I learned to manage the property. I learned a lot. In fact, I learned a lot of skill sets.

That's one of the things I want to bring to you is why I believe that real estate was so beneficial to me. It wasn't that I hit home runs. It wasn't that I hit some big upswing in the marketplace where I had these massive profits like we've had in the last 14, last 3 years. That didn't happen at all.

Mine was a discipline process of investing in myself and in the assets, which I was really self-managing. And that's where the passive goes out the door. A lot of people don't get that. They talk about passive, you just hire a manager. Nope, it's not that easy at all.

I was in a good place in North Texas where the economy's always been generally strong, and I could buy properties that would cash flow. I could negotiate terms on buying properties because I used a lot of leverage. I used a lot of seller financing to get that done. And that's the model that I started with back then.

What real estate really did for me was create a discipline process of investing my capital, the discretionary income that I had out of my dental practice into tangible assets, that discipline of buying properties, learning to negotiate. So, here's where the skill sets come in.

So, learning to negotiate, learning about financing, learning about management, learning about tenants, people, contractors, business law, legal aspects. I mean, these were skill sets that I did not learn in my formal education.

These are skill sets in dealing with single family properties and learning how to finance them, again, how to manage them, how to add the value. These are things I put a lot of time and effort into.

So again, there's an investment of my time and effort, but these skill sets grew with me over the years to allow me to do more things in my dental practice and learn how to exit dental practices on my own behalf and help other people.

But certainly, in real estate, the financing and learning more about the economy and so many aspects that these skill sets have been a big part of why I've been able to evolve just in my overall business pursuits period. That's outside of the actual financial or monetary benefits that real estate provided.

So, again, number one, skill sets, focusing on a specific investment asset class, putting my hands on it, control of it, not advocating control to a third-party, a money manager, a financial advisor who would just be gladly take my money and I'll allocate it for you David.

No, I want to do it myself. Again, there's a sacrifice to do that. There's a sacrifice, but I'm investing myself while I'm doing this, understand. And that investment, realize investing in yourself through education, through new skill sets that you learned can never be taken away from you, can never be taken away from you as long as you're alive, confiscated, extorted, whatever, and it's not taxed. Those skill sets are never taxed.

So, people always say, “Well, how can I save on taxes? Or how can I push the easy button?” Look, there is no easy button. You've got to sacrifice early on, but sacrifice the right way. Understanding these skill sets and then the discipline to put money into these assets.

We didn’t hit some big up rise in the marketplace in Texas back in the 80s or 90s. In fact, we didn't have any big up rise since this last upturn from the great financial crisis.

We didn't see equities ever go high. We just would truck along at appreciation rates of 2%, 3%, maybe 4% steady Eddie, which means I had to negotiate and manage for what cash flow. No big profit swings after two, three or four years like we've seen recently. No, cashflow. And this is what's missing in the marketplace today.

Operators, syndicators, fund managers who've been selling their programs, selling their investments to passive investors, accredited investors, have been selling on the model of you don't really have to be a great manager.

You don't really have to hold these properties very long. You just buy them. You put some lipstick on them and you have a greater fool buy them in 18 or 24 months for these multiple profits and everybody's happy. And yeah, that model has worked, but it's an anomaly. And people don't get that. It's not like I'm going to be a doom-and-gloomer.

I'm just saying that's an anomaly. We're back to fundamentals right now. And the fundamentals are what I invested in when I was doing it back in the 80s and 90s, building my own portfolio houses. I invested in the fundamentals and that's all I know. I know fundamentals. I know how to manage. I know how to buy and structure terms on the capital stack because I had to do it myself.

No one could take that away from me, and no one in my opinion can do better than I can. Now I teach other people how to do it. I teach other people how to do the due diligence and buy and invest in the right assets based on lowering on the market cycle a day, which is different.

I said I wouldn't go back and buy single family houses today, particularly with leverage, because they don't make sense. They will make sense again, though. This is part of the market cycle, not timing the market, just understanding the overall ride of the market. I invest in different aspects of real estate today. Don't have time to go in that today.

I just want to give you these fundamentals of why real estate worked for me. The discipline of taking capital that otherwise would've gone to a 401(k) because that's what everybody else does. Realizing that I would've lost control of that money.

No, I have full control of my money. I could move it anywhere. I don't have any constraints on it. No government rules, no lockbox until I'm 59 and a half. Nope. I kept my money, took the tax benefits. I don't buy investment tax benefits. But there are huge tax benefits in real estate. Many of you are aware, but I had those and I held my properties long-term.

Well, I had to, there wasn't any big profits to be had in short-term, like there have been in the last 3 to 14 years. It was a fundamental cash flow game. So, how did it help me if there wasn't any big profits? Because I took extra money from my practice and paid down the loans faster. It's called the snowball effect.

Now, I'm not saying that's the right model for everybody. At certain times in the marketplace, if you have a low interest rate loan and your cash flow is something I probably wouldn't pay that loan off really, but I was dealing with loans, interest rate loans in the upper single digits, 8%, 9%, 10%.

Well, it made a lot of sense for me to pay those loans down more quickly than the amortization, which might've been 20, 25 years. Because I took over a lot of loans, got sellers to finance for me. I didn't use the banks and I wouldn't use the banks today.

Whether there's interest rates being high, I wouldn't use the banks today. I'd never had to do that. Again, I created the skillsets to negotiate and structure that nobody else really today until the market changes, learns how to do.

And there's people that are trying to figure that out today, but now they'll be late to the game because these are skillsets that I developed over many years. Having those properties that I paid down, a lot of them in within 15 years. I had some 35 going on, 40 properties paid down in 15 years.

Now that cash flow, that “free cash flow” with no leverage at that point on many of the properties is what gave me the option to step away from my practice when my daughter was sick. It gave me the option. It gave me the freedom. It was that milestone point.

I wasn’t done with life. I wasn't done with taking care of my family. They didn't think I was going to be done with dentistry, in retrospect I was. Not because I had to, not because I was forced at gunpoint. It's just that stepping away from the practice to be with my daughter allowed me to take some time off and develop in my mind what I was going to do next.

I could have gone back to dentistry. I can still go back to dentistry today. I'm still capable, I'm still healthy, could go back and do basic dentistry, but I chose not to. And it's okay, but I had the optionality because I had built my wealth, although I hate that word, I don't really use it. I'm just giving it to you because that's what people think about the retirement plan.

No, I built optionality in my life way before a retirement date, way before. Because I left my practice in my 40s when most people would be practicing another 20 years.

Well, how could I do that? Because I had enough. I had enough at that point in time to take my foot off the pedal. In fact, completely off the pedal for dentistry, sell my practice, put my money back into real estate, bide my time for a while, spend my time with my daughter, and then I got to decide. Do I want to go back into dentistry or is there something else that'd be more fun to do?

I've always been an entrepreneur at heart. Dentistry was a great gig, a great profession. I have full respect for anybody who serves other people. And puts it in the long, hard hours and the investment to become proficient in a clinical realm that takes technical expertise and patience and perseverance.

I have total respect because I did it. But I also found that there was another part of my life that was probably hidden in all that search for certainty. Search for certainty that's what dentistry is. It's a walled garden, a protection. Because as long as you are willing to show up and do the work, you can make a good living and that's fine.

But I use that as a stepping stone to my real freedom, which is investing in the assets that would give me my real freedom. And today, my life has changed for the better, my daughter's life has changed for the better.

Thank goodness, God's grace. Now living really my best life. Nothing wrong with my early life. I was a grinder like everybody else. But I found you don't have to grind all those years to get there.

You just need a plan. You need a blueprint to make that happen. And most people don't have the clarity. I exchange back and forth on different threads and investment threads in different groups. And I constantly find people who I would say they're not uneducated, they're not wrong in their own thinking, their perspective.

But I see so many people that are dug into dogma, indoctrinated into belief systems that were given to them by well-meaning people, their parents, teachers, maybe just stuff they read because they've got a cognitive bias towards one particular thing. And they're so reticent to look at anything else.

And I don't ever try to tell people, “You're dumb, you're wrong.” No, that's not for me to do. The teacher appears when the student's ready. That's what I always say. So, when I talk, there's always people that actually hear my message and get it. They understand.

They don't know exactly what I do, what I teach, but they do know by following me that I have a passion for what I do. That I'm very, very convicted. Not that my way's the only way, but my way does work, for the right people. And I'm very careful about who I work with because that's part of what success is choosing your clients, your patients, your customers, to be the right fit. If you try to serve everybody you serve nobody.

So, I'm very careful about who I work with, but the people I get to work with, the blessing I have are people that will take action. And the successes that I get to see that the lives that are transformed is what does it for me. That's what feeds me today.

Oh yeah, no, I don't do it for free because if I do it for free, then people wouldn't put the time and effort into what I help them do. So, I assess an investment on their part in time and capital that I know is far surpassed by the returns that people get, makes me feel good. But it's still significant for a lot of people as it should be because I'm transforming lives.

I know how to do it. I've been there, I've done it. I mine my own experience. This is not some hypothetical theoretical, this is, I've done it and I've helped hundreds of other docs do it, but they had to be ready to step up and want to make a change.

Usually as people get further down in their life career is when they start looking around going, not exactly what I had in mind to do this for 35 or 40 years. They want something different, and you should want something different.

When you're young, you don't know anything different. You're just out there ready to take on the world and finally get to make some money and that's all good. But after a while, the grind gets to people and they say, “Where am I really going with this? What have I been doing? How am I going to really get to live the life before 65 or 70-years-old?”

I think the ADA shows that the average dentist is now working till 69, which I think is a terrible disservice to the profession and what people should be able to do. But again, their belief system is around old traditional models of investing and capital allocations that they didn’t ever work in the past. And they're going to be in worse shape if they follow those plans in the future because those old models are so outdated and so fraught with issues and problems and you don't learn anything.

I tell people, if you just put your money in a 401(k) or a cash balance plan, you do it for the tax mitigation. That's the big deal is you'll save on your taxes. And what I tell people is you learn nothing about orchestrating your own capital. You will learn nothing about that.

And that's outside of your own investment in your skillset, your trade, your profession, your business. Outside of that, understanding how to make money work for you the way you had to work for it is the other skillset that actually will take you further down the road.

You can do both things in tandem to some degree. Usually you focus on your technical skills for your trade business or professional first, but relatively soon you've got to start looking the money part.

And that's what I fortunately did. Not that I was clear void at a young age, but I just always had this in me that you can't do things always sequentially. You got to do something simultaneously. And it's not easy. I'll tell you it's not easy.

Buying those houses and self-managing and figuring that stuff out and really dedicating myself to two causes, dentistry and real estate investment, not easy.

I didn't have a child until I was 36-years-old, didn't get married until I was out of dental school. So, I did have some time to devote to something that a lot of people don't have time and that's where I come in.

Today, for people who don't have the time, but still want to have the blueprint and the ability to get themselves free sooner or not later, is having a community, Freedom Founders, that has a proven track record that can take them and customize. PS customize, not cookie cutter, customize an approach to life, not just money, not just cash flow, not ROI, but to life.

And then as couples can change everything and change everything in a short time. We see people getting free optionality. Doesn't mean you have to sell your business or practice, but getting free from the doldrums and the chains that bind them up, every week all the time to no freedom, distress and no peace of mind.

We see them get free from that. Some as few as six months. That's on the short end of the stick. A lot of them between 18 and 36 months, that's kind of midstream. The majority by five years and maybe some that are younger, maybe on the outside seven years.

I tell people in a profession like dentistry or a high-income professional, if you can't get yourself to optionality freedom, I don't mean retirement. I just mean to have freedom and choices to do things your way, not based on what other people tell you have to do. If you can't do that in seven years, you're doing it all wrong. I'm telling you it can be done.

But you have to want it. You have to be convicted. You have to have a reason why you would want to do that because too many people get complacent. Follow the group think, the herd mentality, thinking that's the safe place to go.

But I always tell people, if you follow the group, you follow the herd, you're going to get average or mediocre results. And that's not what I signed up for. And I don't think you did either.