Is Your Financial Advisor Up to the Task: The Dentist's Guide to Financial Freedom Without Wall Street – Paul Goodman: Ep #459

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: Hi all, David here. This week's podcast, I'm sharing an interview, a discussion that Dr. Paul Goodman of Dental Nachos and I had very recently.

And the topic was, Is Your Financial Advisor Up to the Task?

Now, you're going to find this interesting. I'm not taking financial advisors to task. What I'm doing is really putting them in the position where I think they can be valuable to you.

But where it's important for each one of us, for every one of you, to start to take more control over your financial future.

Advocating that to Wall Street, to a one advisor, a one money manager, a 401(k) person is not going to be the plan that gets you to where you want to go.

Particularly because we are in a market that is going to be vastly different going forward, not just this next year or two, but I mean in the next decade, it's going to be vastly different than what we've seen in the past. This is a time for you to get your house in order.

I think you'll really enjoy this discussion I had with Dr. Paul Goodman. Give me some comments and feedback on what you think. How are you using your financial advisor? Are you using them, him or her, to your best advantage?

Or are you also perhaps advocating responsibility too much to one person or one platform that may not do the job for you in gaining the freedom that you want and you've worked so hard for in your own life?

See you next week.

Paul Goodman: Ready for my start to start his video on our Talking Nachos video podcast, the amazing Dr. David Phelps who has come up with a phenomenal title.

We have people coming in, watching on Zoom, watching on Facebook Live. If you're here live, you're welcome to ask your own questions.

And the title to this, which I love, David, Is Your Financial Advisor Up to the Task? The Dentist Guide to Financial Freedom Without Wall Street.

So, before we dive into the nacho plate of your life, David, tell us why'd you come up with that title?

David Phelps: Because we are in a very different market cycle, really a longer secular cycle that anybody who's of age under 65 is probably not going to appreciate.

And I'm talking about going back to the early ‘80s when I was in dental school and then coming out of dental school and inflation was running hot and heavy and interest rates were high and I had no clue.

I didn't know the difference of whether the economy was good or bad. I just got out of school. And just like most people, it's like, “Let me get my hands in with some patient's mouths. And by the way, I'd also like to figure out how to be a better steward of my capital.” And that's where I got involved in real estate.

So, we're in a different market cycle today. And my point is, financial advisors, I'm not here to bash them at all. They're good people, they just have a certain product or a certain platform to work off of.

And it's been the kind of default mechanism for not just dentists, but really anybody in their career path or their businesses. It's like, you got to have a 401(k) and you've got to do this and that and it's all in the financial markets. And just be a good saver, be prudent, and it's going to be good.

Problem is we're in a very different cycle right now, and the vast majority of financial advisors have not been in the marketplace that long. I mean, I think it's like over 44% have been in the financial advisory market since like 2008.

So, most haven't seen the changes we're going through that I think it's going to be very, very prudent for people to understand what they're looking at and how to maybe make some pivots or some changes in their future allocations.

Paul Goodman: I'm a big fan of Gary Vaynerchuk, Gary Vee, and really, you embrace the end world. It's not it could be a traditional investment vehicles and something else. It could be, these are some core fundamental things we've done in dentistry.

But look, dentistry has transformed over the years. We are not doing the same things we did in the 1970s and ‘80s. And if I'm hearing you right, we should be using that same mindset towards our investments. Is that an accurate way to put it?

David Phelps: Yeah, I really believe that it's going to be important that any person, whatever your age is, whatever your career path, wherever you are right now, in the profession of dentistry, whether you're an associate looking to start a practice, buy a practice, you're moving up in position.

You got into, I got into, Paul, you got into dentistry. I mean, number one because, well, we had an affinity towards helping people with their oral health and smiles and all that that goes into that.

And it's a very high satisfaction position to be in. Although there's also, the downside, but we don't talk about that. You do a good job of talking about that.

What I'm saying is that we wanted to have some control over our lives, didn't we? Most people are like, “Well, I want to be in my own business. I want to be on the forefront.”

And yet the world and financial markets say, “Yeah, you do that, doctor, in this case, you go do that. Put all your effort there because that's what you're trained to do, and we'll take care of your money for you over here.”

That's been the way it's been for as long as I've been alive and as long as we've had a market that overall, and again, the last 40 years we'd had four years of declining interest rates, which I call huge tailwinds to all markets.

Financial markets, real estate markets, dental practice markets, except for darn insurance companies. And you know what to do with them. So, you can put that aside.

Even dental practices. Well, I've been selling for some big multiples of EBITDA in the last four or five, six years.

That's not just because all of a sudden dentistry became great. It's because there's been a slow cost of capital and money's chasing investments everywhere. It's everywhere.

Well, that's changing right now. My point is, we got into dentistry because we wanted some control over what we do, yet we abdicate because society, Wall Street says, "We'll take care of it for you." I think those days are over.

I think we've got to be as dogmatic about operating our businesses in whatever we want to do with those as we are with our money. And that's not easy, Paul. It's not easy. We're not trained to do that.

We don't typically take courses in business, or finance, or real estate, or that sort of thing because we're so focused on the sciences and getting through college, and then to DAT, and then to dental school, and GPR, and residency and everything else that we do is that there's just no time. So, we just-

Paul Goodman: And I would say it too, David, what I've noticed as a medium age dentist is bandwidth is different than having time too.

Because after running your practices and doing all the things you need to do and investing all that energy in that, where is the energy or bandwidth to now go and learn about these things?

But you're sharing with us some really valuable tip because not paying attention to this can be very dangerous.

Tell me this, like my name Dental Nachos, I have a lot of different toppings go off on tangents. I notice when you put this together, we say to a patient, "Move your tongue to the mesial," or we use say mesial and we patient tunes out because they don't know what you're talking about.

Well, I know my listeners, and by my listeners I mean me, don't exactly know what you mean by the cost of capital. So, that's something I've heard a lot.

I've heard that, "Well, DSOs aren't going to buy practices because the cost of capital. This is going to happen."

Just tell us like we're six-year-olds. My favorite movie, Philadelphia with Denzel Washington, "Explain it to me like I'm a six-year-old." Explain to us the cost of capital and it's a crisis, a challenge. Tell us more about that.

David Phelps: Cost of capital, other words for it would be interest rates. So, we can all relate to interest rates. We've got student loan debt. So, we've got interest rate on it. Higher the interest rate, that's cost of capital.

The higher interest rate, the more that debt, that loan that we took on to get into somewhere, which is what we have to do costs us.

We want to buy a practice. Well, interest rates today are substantially higher than they were 18 months ago. So, the cost to us to borrow the money to start a business or practice, buy equipment is higher.

To buy a home today, interest rates are doubled. So, you have to pay twice what you do today in mortgage payments to buy the same house that you would've paid 18, 20 months ago.

Cost of capital is interest rates. And the higher the interest rates go, the more asset values come down. It's, you just have to think about it.

Same thing as buying a house. If I only have so much capital that I can put into buying a house, again, 18 months ago, I could have bought a house at this price point.

But if you double interest rates and I only have the same amount of bandwidth in my budget and the cost of capital interest rates has gone double, then I can only buy a house half.

So, it's a big, big difference. And it does and will affect dental practices. It does and will and is affecting the real estate markets. And it does and will affect, I can promise you, the stock market.

But there's a lag effect. People saying, “Oh yeah, David, you've been talking about this for quite a while, that the market's going to shift. There's going to be a correction that we really haven't seen it.”

And I'm just saying, I hate to say this, but I say be patient. I'm not saying be patient because we want it to happen. I'm just saying I'm a realist and it will happen.

It doesn't mean we have to fold up, pull it up, and go home and quit. No, but you have to realize that everything's changed, dynamics are changing.

And so, it just changes the way we have to navigate with both our businesses, our practices, our investment strategies. We have to just understand it's a different time and we can't just go on what's been in the past. It's going to be procrastination for the future.

Paul Goodman: Love it, David. Now, I always like to deliver immediate value so people pay attention. But now, I want to shift gears. And kind of in this part of the interview I say, why should people be listening to you?

Now, people call me up, text me and say, "Paul, I need an associate. Why should I listen to you?" And I say, "Well, I don't want to brag, but I want to play professional basketball that failed. So, my backup dream is I truly believe that I connect with more dentists than any other human being on earth."

I have a 70,000 people following me on social media. I have multiple associates in my practice. I get contacted by DSOs daily about finding associates to help people buy and sell practices.

So, I say, "Well, I don't know all dentists on earth to the person, I do know a lot about how dentists think and how they make decisions."

And what I see is a daily safety net guarantee is important. What I see is ridiculous restrictive covenants will not have people take your job.

So, when I went to Freedom Founders a few years ago, I was blown away by a few things. One, the quality of the people that you connect with. I have met the nicest people that have joined Freedom Founders. One who I helped sell her practice and get her to her freedom number.

So, tell my audience, even though most of them know you, some are listening for the first time, your story, why we should be listening to you, and catch us up from where you started till now, with your journey.

David Phelps: It is my journey, it's my experience. And it's not just my experience, but I've been blessed because of the freedom I was able to achieve. Not in a linear path, but going through many different iterations to help other dentists.

So, like you, I am one of us. I've been there. I understand the trenches, I understand what's out there, I understand the hurdles that are in place.

Paul Goodman: When did you graduate from dental school? What year was it?

David Phelps: 1983.

Paul Goodman: I don't know, I want to share this. Could we stop saying this? Like I tell dentists, “Don't call teeth virgins. Don't say things fail. Don't say we have to save this tooth.” Say the tooth's ready to retire. Say tooth’s without a filling. Can we stop this, David?

I'm going to ask this question. How long were you a wet fingered dentist? Which I think we should stop saying. It's not a regular phrasing, but that's what dentist know. So, how long were you a wet finger dentist?

David Phelps: 21 years.

Paul Goodman: 21 years. So, 21 years, you're doing fillings, you're doing crowns. I see a lot of myself in you and I think of you as a mentor.

You don't have to hate dentistry to want to do something else. Like you don't have to get up everyday and say it, however something inspired you to shift gears, pivot and do something else.

Tell us the shift from wet finger dentistry, which we should just call clinical dentistry. Everybody stop saying wet finger dentistry. Last time I'm going to say it. What caused you to shift from clinical dentistry into another space?

David Phelps: The shift came at about the 2021-year mark. But the history that preceded that is that when I was in college, this is what makes me a little bit different. Yeah, I guess unique is the word to put into it.

But I was not only studying for the DAT and getting through my anatomy and physiology classes that, well, I do organic chemistry, but I found the bandwidth going back to our term to read a little bit about being an investor.

I just always wanted to be an investor. And to me that word just meant you're good with money. I think that's all I knew.

And I didn't know anything more about that other than I just read book. I went to the library, went to Walden's bookstore because you couldn't get anything on the internet.

We didn't have the internet back then, so I had to just get books and I read books on the stock market. And mutual funds were just coming out then and that was interesting.

And then I got some books on real estate, and it just made a lot more sense to me. I'll just put it that way, made a lot more sense.

So, I did my career path in dentistry, getting out of school in '83. I'd already bought my first rental property in 1980. And I parlayed that into more properties.

And a few years down the road, I had built up a sizable portfolio of rental properties, pretty just standard stuff, vanilla ice cream, what you think is the first layer of I want to be a real estate investor, so I'll do that. And I did that.

Let be clear to people I was able to do that because my wife and we got married when I was right out of dental school in '83 and she had a career path as well. And we just made a decision that we weren't going to have children for nine years. I mean, we decided. So, I had time.

Now, if I would've had kids, this would not have worked. So, what I'm telling people is don't just take what I did in my history and go say, "Well, I'm going to go and buy rental properties." By the way, it's not the right time in the market.

Now, the shift came because my daughter, Jenna, who she just turned 31, can you believe it? I mean, Paul, they grow up so fast.

But when she was very, very young she was diagnosed with high-risk leukemia. That was in 1995. So, we're going back almost 30 years. So, she was very young.

And she got through that, but the marriage to her mom, great lady, (and still a huge advocate, I'm a fan of a hundred percent) we didn't make it. Just distress. It's no fault, distress.

And I kept kind of hard charging, but it was devastating. When a family breaks up, it's just hard. It's hard financially, it's hard emotionally. It's just many, many ways. But I was still able to dedicate the time I had with my daughter. I kept plugging away.

And then a few years later, unfortunately because of all the chemo she had, chemotherapy she had, she also had seizures. So, she had to take a lot of anti-seizure medication, epileptic seizure medication, all that was too toxic on her liver.

And she was in end stage liver failure in 2004 at age 12. And so, that was my breaking point.

So, you asked for the shift. That's the shift. I'm in the hospital with her post-transplant and it was successful, obviously, she's living today, but it was difficult. And I was sitting there watching her breathe, just watching her breathe. It's drugs and tubes and everything everywhere like any women who's gone through major surgery.

And I just really thought, "Is this the plan I should stay on?" And that was the first time I really took to account. Not that I had some big massive portfolio, Paul, I wasn't some big multimillionaire.

But what I realized then, when I did my back of the napkin accounting of what I had in terms of, I'll call it passive cash flow, it's semi-active because you have to manage some stuff here to make this happen. But I had enough with the sale of my practice.

I'm thinking if I sold my practice, I know what to do with the money. That's a key thing. I knew what to do with the money because I've had some experience, some practice.

And I put that together. I go, "I could buy myself some time." All I wanted right there, Paul. I wanted to buy myself some time. Not retirement, not done forever. But how could I buy myself at least 12 months, maybe 18 months where I could just focus and be present when my daughter was, whether she was sick in the hospital recovering or she was well?

And I needed to be freed up to practice because the practice, as we all know, you're an owner, you can't just … well, very few people. I wasn't of the capability to have … I had associates, but I had to be there.

I mean, it wasn't just associate driven, it wasn't that nirvana practice like people will talk about. I had to be there because if I'm not there, it's probably not going to run really, really well.

Paul Goodman: David, I appreciate you sharing this vulnerability. I want to share some of my own, some people know my story. And listen, there's a lot of awesome parts about owning a new dental practice and there's just some downright awful and annoying one.

So, sadly, my mother passed away suddenly when I was 20. And my dad was 52 and he was back at work the next week running the practice.

Now, it was for two reasons. He was the type of person who that helped him. That did help him routine. But also, if you're not the one back there, the team doesn't make money, the patients aren't seen. And he had a dental partner.

And then fast forward to when I was 38, sadly my dad passed away suddenly. My brother and I were back at work a week later because if we weren't there, the team wouldn't get paid, the patients wouldn't be serviced.

So, this is not to say don't be a dentist. Be a dentist, there's some awesome parts about owning a practice. But what you're talking about is the dentists have to show up and as Rob Montgomery say, “Make those dental donuts every day.”

And it's nearly impossible to take a month off your dental practice in a way where you can.

So, I really appreciate you sharing that context where that was your motivating factor. I really admire that. So, you take this 12 to 18 months off, you sell your dental practice and what do you move into next?

David Phelps: Well, besides the focus on my daughter, which is the key element here, but I finally had some space in my life again. And this is a critical thing.

It's what I find in Freedom Founders is when people can have some peace of mind about having some space, some margin, some bandwidth in their finances, where it's not like you're in choke hold because you have to be back at the practice every day, every week, like I said, barely take any time off at all because you feel like the overhead goes on. And it does.

If you can build some margin … and you can build some margin in two ways with everything you do through Dental Nachos to help people build more efficient, productive, profitable businesses, practices. That's number one. I would always focus there.

Secondarily, multiple streams of income. I'm back to the cash flow model, the passive cash flow model. It took some work for me to get there. I'm not kidding.

But there's ways to do that today where you're more constructive about how you're investing your money than again, I say just putting it in the stock market, the Wall Street.

And because I had the multiple streams of income from the real estate and I knew where to put additional capital from selling the practice, then I could have that margin.

So, when I had the margin, yeah, I fully expected to go back to dentistry. I thought I could always go back and be associate somewhere for a while. I could fire up another practice. It was open to what I want to do, but I didn't go back.

What I found was in that time of having that space, dentistry was great, but I was able to deal more focusing on the real estate I had been doing more passively on the side and focused more on it.

And we were coming around to where the market was … we're getting closer to 2008. And then when 2008 hit, it was just assets were on sale everywhere. I mean, dental practice assets were on sale. Real estate was on sale. Stock market cratered.

It's this big time where it's the right time, right place. And I was able to just magnify my wealth because I had experience doing what I've been doing. So, it's some experience-

Paul Goodman: You just said something valuable just for me to reinforce and I'm really the bystander to your speech. But you consistently said especially when you sold your practice, you knew what to do with the money.

So, that kind of just seems like this theme of anybody watching in, somebody watching in who I was just talking to this afternoon as a new associate. I see my team members watching in.

You want to share, David? I don't want to say this touched my feelings, but I run Zooms where I teach people how to talk to patients and do better treatment planning. I get four people on and now you have almost 10 times that many here on Zoom.

So, your topic is a lightning rod for dentists paying attention. So, I kind of want to go to that. Whenever I do so many pieces of content, so many different TV shows and why are dentists so tuned in to pay attention to this?

It's because we don't learn anything because dentists retire later. I mean, dentists are making 2 to $400,000 a year, but they retire later as far as I know than most other professions.

Where do you see they go wrong in this? I have a couple questions here. Because most dentists don't want to be prepping a tooth for their 80, but sadly there's still some dentists prepping a tooth till 80 not on their own terms.

You want dentistry to be your hobby and you want to do it when you're 76, but this is not on your own terms.

So, where do dentists go wrong with retirement that you see?

David Phelps: Well, there's several areas. I think the first one is what I've mentioned already is really just abdicating that responsibility to other people.

Not that you shouldn't have other people advise you, I totally think, but I think you've got to learn to be, I say learn to be. You're not going to be without some time, but learn to be your own financial advocate.

And then use advice from other people. You need to be the driver. So, that's number one.

I think number two, there's been a preponderance of speculation in a lot of markets, and I'm not putting any of these down, okay, but crypto. Crypto's a big one.

There's the meme stocks of just a few years ago. In places of real estate, there's been speculation. Financial assets, the stock markets being carried right now, by seven tech stocks.

I mean, to me that's all speculation. And the world and people can start to think that, well, whatever they've seen in the recent past, well, that's just going to continue. Or maybe there's a little dip and then it will go back to normal.

I just have to tell people that I just don't believe that's going to be the case. I mean, the elephant in the room is the debt and deficit spending this country. And nobody has, and nobody talks about it. Nobody talks about it. Like it's just like, “Nah, it doesn't matter.”

It does matter. And it's going to catch up and it's going to change the dynamics of the general markets going forward. Whether it's dentistry, dental practices, whether it's the financial markets, stocks, bonds, whether it's real estate. You pick it.

I believe we're going to go back to a somewhat similar situation that we had. And again, this is probably before most of the listeners that are here, but I was a kid back then.

But in the mid ‘60s to the early ‘80s, say ‘65 to ‘82, that period of time, if you were in the stock market or had a 60/40 typical traditional stocks bond split, which is kind of a long-term portfolio management for people that are billing towards retirement, you would've lost money because it was a sideways market.

My point is, there was like no growth. It was flatlined.

I'm not saying we're going to have exactly that, but I don't think we're going to have this big growth that we see in all the speculation that's says pushed the market up in these different asset classes.

I think that air's going to start coming out and then people are going to start going, “What do I do now?”

Again, I'm not putting these people down, you know that, Paul. But if you're financial advisor, if you having meetings with that person, whoever, it's your CPA, I don't care who it is.

If they're not talking about the changing dynamics of the market and bringing some relevant conversations to that and what they see, what they believe, they're missing the mark.

If they're just going back to the, "Well, you just dollar cost average, just buy and haul." It's like, I think that's going to just only ruin people's expectations.

And I don't want that to happen because, Paul, we both know, especially today how hard it is to come out of school with a debt that our colleagues are having to take on. The ridiculous amount of debt. It's doable, but it's hard. It's climbing that mountain deal.

Paul Goodman: And also, it's emotionally … if somebody waits, that's a near of $637,000 in debt, and they're going to an associate position where they're earning $179,000 a year and everybody in America says, "Oh, you're making so much money."

But when you look at it against what they've invested in it, it's just totally normal to feel concerned. And that's why I kind of want to tell this happy story. So, I always say I don't violate HIPAA even though when it's no HIPPA.

So, this story is someone you know who came to me to sell her practice. We won't say her name even though I think she'd be proud for me to say her name.

David Phelps: Yes, she would.

Paul Goodman: But she was like 50 years old, and she was part of your group and she came to me and sold and said, "I want to sell my practice. And the first thing I said was, "Man, you're so young."

And she said, “I've been part of David Phelp’s Freedom Founders and he has helped me find my freedom number.”

And maybe you're uncomfortable bragging about yourself, but it's my show, David, I don't care.

So, I went to Freedom Founders and I saw all these amazing dentists who were so much younger than I had assumed flying to Dallas. I just thought I was going to see a bunch of old people there.

And so, when you see a 50-year-old who's been a practice owner, who is now sold to practice and still continue to work because it's part of a DSO, but is able to through what they've done with Freedom Founders.

Tell my audience the concept of freedom number. I know it's different for everyone and how you help people get there.

David Phelps: So, it's the difference between what I call the traditional accumulation model, which is really what potential advisors in Wall Street talk about.

It's like save, which is good, put it somewhere, whether it's in taxable accounts or your retirement accounts. But save, build up a nest egg, sell your business, your practice, and then take that nest egg. But you need to accumulate a certain number.

Now, they'll never tell you exactly what the number is. I mean, they might throw darts at the wall, but you have to have some number.

And then what you're going to do is when you stop your active income, when you left clinical practice, then you're going to take that and we'll help you invest it. We've got to be more conservative now, because we can't risk losing waste.

We have to put you in some like bonds. Which bonds are conservative, but they don't give the returns that you probably need going forward. So, there's going to be some depletion of that nest egg over time.

And there's models they have. It used to be you could take 4% out per year. I think they've reduced that. Why? Because we have this thing called inflation now.

And people think, "Well, inflation, the Fed's, they're going to cure that problem." No, I don't think so. The debt's the problem.

So, the problem is accumulation model versus a cashflow model. So, the freedom number is based on a cashflow model.

Now, where do you get the free cash flow, free or passive? Well, that's got to be from some asset, some investment. And that's where we build our numbers.

So, we tell our docs, let's teach your freedom number. What does it take to sustain your lifestyle? And then we add 20% safe harbor margin.

So, if it's $15,000 a month because of where you are in your life and you've got most of your debts paid off, and hopefully maybe your house is paid off and your kids are through school, 15,000 a month, maybe just fine or 18 or 20, whatever it is.

We gross up for taxes. And then we just say we can get on a conservative nominal basis. Whether the markets are going up like we had, sideways, like we're right now, or on a correction model, which I think we're in the middle of right now.

We can get 10%, just using conservative numbers. Then we can back that in and say, “Well, how much do we need of a nest egg to create 10% cashflow?”

Now, we have a real target we can shoot for that's attainable, sustainable. It's not just like, “Well, I just got to keep building up.”

Because the problem is people will take their foot off the pedal because we feel guilty. If we don't know how much is enough, then we just keep going because we're afraid.

We want to provide for our families. We don't want to run out of money. We want to run our 70s and go, “Well, that didn't work out so well.” So, we feel like we just got to go at the copper.

When you know how to generate cash flow from wherever your investments are, then you've got a model that even when we go through recessions and contractions in the market, if it's operationally producing sustainable cash flow, just like a good well-run dental practice, doesn't matter what the valuation is.

If you're going to operate that, you're going to get cash flow from it if you're a good operator. You don't have to worry about selling it until the day you want to sell it. When you sell it, now you got to do something with that capital.

And that's what our mutual friend doc will do because she goes, “Okay, I feel good about selling, now I can make a decision. Is the DSO exit the right way to go? Now, I can actually, I have parameter say yes, this will work, this will work. Rather than, I don't know, I don't know.” Because it's a gamble.

Paul Goodman: I'm going to add, David, this is kind of go back, I mean really loving this conversation. I always like watching movies. And they think at the end of the movie some hero comes in.

So, let's pretend in your movie for your dental practice, the hero is a DSO with a giant check. Like the Happy Gilmore golf check. Let's just say that four years ago that check was going to say $2.5 million.

Why is that going to say less now? Why is that going to like being at the cost of capital, the lack of expansions, DSO is not being open to buying practice.

If someone's saying, “I'm going to build my practice and DSO is going to ride in with a giant check.” Why would you say be cautious of that being your exit strategy?

David Phelps: Well, the actual number if it's 2.5 million, the number may still be there, but it's not a sale with a DSO, it's a buyout. Two different things. Not a sale.

A sale means you get a check. In this case if 2.5 million is the number, you get a check for $2 million and you could walk away or if you want to stay on as an associate. But the buyout is the DSO model. It's what's been done in real estate forever.

I'll just give you an idea. When I was buying real estate when I was younger, I didn't go to banks. I had to negotiate terms (terms is the key) of sale from people who were wanting to sell their homes.

They're motivated, they would carry back financing inequity. And I could buy out from other people because I could give them their price.

They might say, “David, I want 150,000 for this house.” I say, “Buyer, I'll give you a price if I can set the terms.” You understand that model, Paul. DSOs are doing the same thing.

Now, a few years ago when the cost of capital interest rates were lower, then it was easier for them to give more of that 2.5 million upfront.

Now, today what they're doing, they'll still give you the 2.5 in the figures, but they'll say, “We're going to have to give you a little bit less of that upfront.” With the number, it's ratcheting down. And the earnout or the buyout period is probably going to be longer.

Now, they're still going to base it on history. Normally, we have recaps every 24 months. That's what we've seen in the last four or five years. Yes, got it. That's because the cost of capital interest rates have been low for the last 15 years. Like next to zero in the federal funds rate.

When we've taken those all the way up to 5, 5.5, that changes everything. Changes in real estate too. Same ballgame there, all the syndications and all the go-go models and we'll get the profit on the back end.

Well, that's just getting strung out and some of those are not going to even make it. I mean, there's DSOs that will not make it.

Paul Goodman: Right. So, I mean, that's what I think is important to note that some DSOs don't make it. And I work with Rob Montgomery all the time and he says, “You better be happy with that number they give you at close.”

They may paint a picture of the recap of the recap, or the third bite of the apple and all these cliches, the second bite of the apple.

And I think that's so key for our audience to recognize. And that's why my next question you asked me to do a few years ago this video, which I appreciate, who could buy your dental practice for one of your shows?

And I said it could be a private practice dentist at solo, it could be a group practice like my brother and I, or small DSO or a large DSO.

So, my question is, maybe there's some associate dentists thinking, “I'm going to buy a practice and the day I sell my practice, I'm going to have this giant amount of money that I can retire on.”

Why should dentists not count on their practice sale as the main factor in their retirement?

David Phelps: Well, number one, is your practice of the size and can you get enough capital to actually make that work? That's number one. And again, what that number need to be will be based on how well you can invest that capital.

Like I said I learned how to do it. Our mutual friend doctor learned how to do it. But if you don't know, then that's going to change that dynamic.

So, look, I'm not here to be a downer about practice values, but I think we've seen the high point. Let me put that, I think we've seen the high point. I'm not going to say we're going to hit the bottom. I think we've got to be more prudent in the …

The young docs who have taken advantage in a good way, it's made sense for them to sell early. They can take that capital and then they can stay in the game. And I get that. That's fine. That's fun. I just don't see that model playing out.

Paul Goodman: Well, I think it's fair to say it could be an important piece of your retirement, but thinking it's going to be the only piece that does it. What I'd like to do, we're about two thirds of way. People that are here on Zoom, if you want to ask a question, put in the Q&A.

I would love if my audience would just share one thing that David has said that you have found valuable, that has given you an aha moment, that has made you inspired to do something. I would love to do that if you're here live.

So, next thing I kind of want to get into, David, because we talked about our audience, dental students, new dentists, people about to buy their first practice. Here on Dental Nachos a lot of this are our core people, especially about the buy their own practice.

And even this reinforces some of the things we've already said. Someone listening to this right now, is going to say, “I'm about to buy my first practice. I'm making $200,000 an associate. This practice is 800. I can grow it to this.”

I talk about being aware, prepared, and responsibly scared. I hope I make people aware, prepared, and responsibly scared.

You sign up for $650,000 in dental school debt, you better be responsibly scared.

So, now, these dentists who are enthusiastic and motivated but got zero classes in dental school in all of this, what should they be concerned about in their career with their financial treatment planning?

Think of their career like a patient. Break a few points down for them and even if there's reinforcing stuff you've already said.

David Phelps: Well, with our financial planning as new buyers, I think you've got to maintain as much of a liquid cash position as you can. It's very, very important. You know the old saying cash is king. Well, cash becomes actually like oxygen when you need it.

When we go into type our economic times, like I think we're headed, where the banks are clamping down on their underwriting, they're not making loans as easily. And even when they, do the cost is higher. That's when you need to make sure you've got some financial bandwidth.

So, that's why I'm a big fan of particularly young people, not to fall in the trap of I'm making good money now or decent money and now, I'm paying taxes. And I talked to my CPA and said, “I hate paying these high taxes.”

And the CPA wanting to do the right thing and appease the client says what? “Well, we have some great tax deferred vehicles.” And yes, they do. I'm not saying they're great, but they will defer tax, not save it. They'll defer it.

And so, what happens is they work hard and then we'll the quote save taxes, we'll put it in the lockbox, which is why I call retirement account. The 401(k), that's a lockbox because once it's in there, you can't get it back out again until you're 59 and a half unless you want to pay exorbitant penalties and tax. So, you kind of locked it up.

You need liquidity. You need liquidity when you're young, you're starting out because things change.

Plus, I also believe that, again, like I said earlier, you should be the best advocate of your capital. If you've got more free capital to use rather than trying to invest it in speculation or stuff you don't know anything about, why not invest it back into your business?

Whether that's you hiring or keeping him on board good advisors. I mean, Paul, we both know mentors, advisors, good coaching, I mean, that pays over and over again dividends and just not making mistakes and doing things right.

So, I think just keeping that capital on hand liquidity as much as you can early on is important. You could always make those investments later.

Don't feel like you have to start jumping and start making all these crazy investments because people tell you, “Well, if you're not making X, Y, Z percent on X, on this and that, you're just not doing it right.”

And the social media's terrible about that. It gets people thinking, “Well, there's something wrong with me. Why I'm not getting those big old runs?” And they start speculating and it can turn things upside down. So, liquidity's a big one.

Watch your debt overall. Personal debt, consumption debt. It's very dangerous. It's tough place to be. Well, we're not going to talk about it tonight because it's not relevant that much. But do I need to go out and buy the house now versus rent?

Oh, you should always own. Not always, not always should you own. There's again, a right time to own, right time to rent, don't upgrade your life-

Paul Goodman: I also want to share to you, David, because it's important and I talk about that as someone who's a dental practice broker. Buying a home restricts your geographic flexibility because it's super annoying to sell a home and move somewhere.

So, it doesn't mean not to buy a home, but if you are someone listening and you really think you want to buy the best practice you can buy for you, renting does give you some flexibility.

Because I talk to dentists all the time and they say, “It's no problem for me to move an hour and a half away.” So, it's not a judgment, it's just observation.

But just that's why having a good team of advisors and letting people like question … I mean, question some of these like social media themes of like if you got to buy a home immediately, you got to put your money in this.

And like you said, liquidity, and I know you know this, that makes you a good risk for the bank. So, when you go for a practice loan of $1.5 million despite the facts that some banks are fairly aggressive, David, most banks want you to have enough liquid assets to survive a problem. And many a times that's 10% of the practice purchase.

So, you're kind of outlining, make sure you maintain liquidity, make sure your lifestyle does not exceed your income because you're keeping up with the social media. That's what they call them now.

I don't know who the Joneses were of the past, but everyone was trying to keep up with them. So, now, it's keeping up with the social media Joneses.

And I think it's not easy to be a new dentist and getting all bombarded with all this information and things that affect your outlook where you don't think you're going fast enough.

I mean, how long many years did you own a practice for, David?

David Phelps: 21.

Paul Goodman: I just want to kind of point this out because you do things with real estate, you do things with your dental practice. Would you call running a dental practice one of the most active ways you can make income? I mean, it is an intense way to make income.

David Phelps: Sure, sure. Well, that's what all starts. Whether we're a dentist or doing anything else with our intellect or our hands, that's where it starts. Unless you're a trust fund baby, we got to get out there and do something. Active income is where it all starts.

Paul Goodman: So, I was pleased you said that because I wanted interject this. I sat next to someone at a SEA event and they turned to me (this Saturday, it was great) and he said, “Paul, remember me?" And I said, "Oh yeah, I did buyer coaching with you."

He bought a $1.2 million practice, and he is grown it to $2 million. He's put in systems, he places implants. And I said, "Oh man, you should be so proud of yourself and I'm so glad to be a small part of your journey." I go, "What did I say back in 2019 that was helpful?"

He goes, "The best thing you said was don't buy too small of a practice. Because I wanted to buy a $500,000 practice and you told me if you're going to do this practice thing, you may as well buy the $1.2 million one."

And that's why I was kind of joking that there's a lot of effort and energy that goes into running a dental practice. Make sure you're set up to buy the best one you can for yourself.

David Phelps: Yeah, sure there is. And the whole key that I try to help younger docs look at is you got to have that active income and put it back, invest first in yourself and in that business to the extent that the business optimized to the point where, okay, there's really nothing else I can put into it.

Or I've got coaching and stuff, I'm at capacity, I'm not going to build it out, I'm not going to do a second practice.

Whenever you feel like you're capped out there, always invest in yourself and technical skills and personal growth, that's always going to be something that you can take to the bank with an ROI.

And then at that point, start to invest in other assets, the plan B, multiple streams of income so that you are building that wealth outside. But always start with the practice in yourself.

And I think sometimes people get mixed up and they think, “Okay, I'm a practice owner now, and this seems like it's hard work and I don't really want to do that along. So, there's got to be some easy button I could hit.”

And if you look around again on social media, somebody will tell you what they just did in the last couple years with something that blew up and they're thinking, “Yep, I should go do that too.”

Big mistake. I think it pays dividends to stay focused and keeps some guardrails on. You could always take what I call some moonshots. Moonshots to me like that would be like crypto.

I'm not dismissing something like that. But that should be an outlier. And you should always have your moat or your main base capital invested in things that you believe in that you have some level of control over that you can drive.

That's what I think is important. And your practice is certainly like number one on that list.

Paul Goodman: I want to add that we have a few comments here. And this one is from someone who's extremely smart and not easy to impress. She's going to know who it is when I read her comment.

She said, “David, I really appreciate the explanation of how important it is to factor in the cost of your lifestyle into your freedom number. I think that's important to reinforce.”

You said that to my awesome team member before we were on this Zoom, you've repeated it a number of times. So, people listening in this moment and also on demand later how important your lifestyle is when it comes to your freedom number.

And also, appreciate the commentary on the effect the deficit's going to have on the market.

So, share that one more time for people who aren't as tuned into the stock market as you or this awesome person listening in. The deficit on the stock market. Share with us that impact again.

David Phelps: Well, it's going to affect everything. And so, the US has been like the major financial capital country in the world for centuries. We've built up and we've been very good with.

But we've been as a country and as leaders, irresponsible a lot in the last, well, let's just say at least going back to early 2000s. We've always carried some debt, but from 2008, the great financial crisis to today, we were back at $10 trillion of debt. We're at, I think it's 33.5 trillion and counting. And that number is exploding.

No country can get away with taking on massive debt and having a printing press like what we've done. We get away with that to a point, but at some point, that's going to fall over.

And when that does, that's when the stock market … and when I talk about the market, I'm talking about the people who invest in it. The market's the market, but it's emotionally driven.

And when people lose confidence, and they will, in this country, I'm talking about foreigners and people in this country, when you lose confidence in the dollar, in the basis of, in this case, this country, that's when the markets will start to implodes probably a bad word, but there's going to be some massive correction.

Only thing that's keeping things up right now, is the general people right now, are still betting that the Federal Reserve will come to the rescue and lower interest rates and pump back up and print that money again like they've done in the last 15 years.

The problem is they're between a rock and a hard place. I'm not here to sell books, but I wrote this book on inflation two years ago before inflation really hit. And I'm proud of that book because I could see it coming.

And when I wrote that book is true to this day, the Fed is trying to fight inflation because they thought it was going to be transitory, but it's not.

And there's so much baked in to the economy right now. I don't have time to go into it, but they can't just snuff it out. It's not going to snuff out.

They'll keep playing with it and then they try to get it down, but then the economy starts to implode. So, then they have to like ramp it back up again and print money again. Well, what does that do? That fuels inflation again.

So, see, they're trying to do this right now. They didn't have to do that. When the debt bomb is so high today, the debt to GDP is at 120%. We could deal with it when it was 30%. It's 120% today. That is not sustainable by any means.

But officials, government, treasury, Fed, they act like, “Oh, we got this, we'll manage it through.” And it's going to crack.

I got an article from yesterday from (I'm just reading it) Jamie Dimon, chief and Fed of Chase Bank. He said he rips the Central Banks from being a hundred percent dead wrong on economic forecast.

This is Jamie Dimon pretty well respected in the banking industry. He's saying these people are foolish. He's calling it. There's other people that are calling it.

I got an article that was wall Street Journal today, Paul. It says, “You’ll set it and forget it (in quotes) 401(k) made you rich no more.” I've been saying this for two years.

I mean, people are starting to wake up and one the domino start to fall, it's emotional. And the confidence, it's a con game, confidence game. It's a con game. And when the confidence starts to dissipate, that's when things start to drop.

So, liquidity, watch your debt, be focused on your business. Your best thing you can have going into an economy like we have right now, is have a good, solid business that you could turn the knobs on. As much as that active income is difficult to do, at least you can do it.

Paul Goodman: So, that should be inspiring to dentists who are doing this. We're going to spend about five more minutes here, but I want to ask, where could people buy your books?

You can totally sell your books. That's what the whole thing's for. You can share your books. That's selling help. I'm a big fan of selling help, so I know my team member will put it in the Facebook comments and the Zoom comments of where people can find you.

But if someone to buy that book inflation share one of your other books, where could they get it?

David Phelps: They're all on Amazon. Just type my name in and I've got a number of books, but that's probably one that's most applicable to our conversation tonight about the markets and how to look at inflation and the cycles.

Paul Goodman: And I think this question I want to answer before we wrap up, which I think will drive everything home. Someone had asked about alternative investments. That's not the question. We talked about crypto, we talked about real estate. Please, we're going to give some links to follow, David, having been on his podcast.

Actually, sorry, David, before I get to our final question, someone asked who it seems like he's in the know, “Does the government have any other choice than to pursue MMT because of the hole they have dug?” I don't what MMT is.

David Phelps: Yeah. Modern monetary theory. The only viable way for a country to deal with the debt, which is huge, is to monetize it, which means inflation, hyperinflation. That's the only liable way because the only other ways to do it is to tax the heck out of the workers, us. You can't tax enough to pay the debt.

Or the other way is to go into massive austerity and reduce federal spending by about 35%.

Going into election year, you think that's going to happen? Neither one of those are going to happen.

So, the only way to do it really long term is to inflate. And that means, in my opinion, you've got to be invested in hard assets, tangible assets, not …

Financial assets I think that long term is over for them. This playing the game of index investing and it's all been good and ride the market. I think you've got to be involved in hard assets.

Again, that would be your practice. Good business, a good practice, and then other tangible assets, whatever you like. Could be other businesses, multiple dental practices, if you're good with that.

I just happen to like real estate, but I think tangible assets because that's what's going to keep up with inflation.

Paul Goodman: I appreciate that. The question I think that will really bring this home before you share a bill is that real quick, does Freedom Founders make sense if you're not an accredited investor yet?

David Phelps: No. And it’s not even to do with a being a credit investor, which has a definition of so much net worth. It's more based on where you are in your practice, what your debt levels are and how operationally efficient you are.

We kindly and nice nicely turn people away. Not because we don't want to help them, but because yeah, you've got to be a certain place.

I want people to focus and I set people up with other people to help them with their practice models. Get up to here, get some debt paid off and then we can talk. So, I'm very, very careful about that.

Paul Goodman: And we're sharing that yeah, you're super responsible of those things. I've been at your events, but we'll share how people can listen to your podcast link for this.

But this is a question, I want us to answer him. “How early (this is a real person) should one start working with a financial planner? I'm graduating dental school. I'm consider having one.”

Before you answer, David, these are my people. You graduate from dental school and you might hear saying, “These financial planners aren't so great.” But then do it yourself might not also be so great. So, where is this middle ground?

And my grandmother would say, willy-nilly. You don't want a willy-nilly sign up with a financial planner because they have a glossy one sheet.

But you might not also want to try to figure this out on your own because you don't have the knowledge.

So, answer this question before I finish up. How early should someone start connecting with a financial planner? And if they do, how can they do so responsibly?

David Phelps: I think you can start early, but I think you want to be careful about what you allow them to take charge of, if I could put it that way.

Certainly, there's lots of things that financial advisors can do, I think. Well, and it has nothing to do with investing in the stock market, or index funds, or annuities and all the other products they have.

I think a good advisor can also help people or young couples or with families with their insurance needs. I'm not going to go on the rabbit hole there, but insurance needs, maybe some basic estate planning, other types of insurance. I think there's things that they can do to help there. I would say-

Paul Goodman: I just want to say getting disability insurance. There's a dentist right now, who can't pay her rent because she didn't connect with the Jim Cashmore Tower … and you need some basic protection to just ask the right questions, so my team can put the disability insurance.

If you are a dentist, you need disability insurance ASAP. There's some scary stories. Your income can go from $15,000 a month to zero, never to go up again without it. But I wouldn't want to cut you off. I just wanted to add to that.

David Phelps: Get some help with the basics. I would say do some reading. And look, as I said earlier, when you're younger, please, at least for a while until you read and get your own convictions, don't play the game of dumping it into 401(k)s.

Please, please, please, you could do that later if you want to. But read, get some foundation. I think even be careful about the stock market in general.

And again, because I'm the same thing about real estate right now. Equities in real estate, I'm not a fan of right now. We're playing the other side, the debt side.

My point is you've got time right now, even it's just saving money. And you go, "Well, gee, David, if I save money, am I not losing purchasing power because of inflation?"

You can get 5.5% interest in treasuries today or a lot of money markets today. Right now, for let's say for the next 12, 18 months, that's good enough because again, you're not going to hit any whole runs. You're not missing any home runs by being a little more patient right now.

Now, two years ago I might've told you something different. So, I'm being very, very careful about looking at the marketplace.

But right now, you are okay to just be prudent, save money, be disciplined, don't let your lifestyle get out of hand. Focus on your business, your practice, your skill sets, investing in yourself. Put your money there right now.

Financial advisor, just get somebody to help you with the basics. Listen to them, but read books and be interested in alternatives. Just be interested, that's all I'm saying.

Paul Goodman: Awesome. I absolutely love it, David. Thanks so much for sharing with us. Stick around for a minute before we go. Someone wants to reach out to you to connect with you personally, listen to your podcast, where's the best place for them to do that?

David Phelps: Best connection would be the website, freedomfounders.com.

I do a weekly podcast, which people would probably find interesting because it's mostly about financial … and we talk about practice models to some extent. Not as well as you do, but we do talk about that because it's interesting. That's the Dentist Freedom Blueprint podcast.

And then I put out a lot of video blogs just on YouTube. I think it's just Dr. Phelps probably find me there on YouTube if you want to pick up some stuff there. So, that would be the best places.

Paul Goodman: Awesome. Well, you are just incredibly generous, David. Stick around for a minute. But thanks so much for sharing on this episode of Talking Nachos.

You've been listening to the Dentist Freedom Blueprint Podcast. If you're tired of trading time for dollars and you want to create more freedom in your life, I encourage you to visit my week blog, freedomfounders.com/blog. I post weekly hard-hitting videos about creating more freedom in your life. Check out my latest book on Amazon, *What's Your Next?: The Blueprint for Creating Your Freedom Lifestyle*, or visit freedomfounders.com to learn more about how we help high income earners create the freedom to buy back their time and create more impact.