Understanding Financial Freedom for Medical Professionals – Dr. David Phelps: Ep #473

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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, David here. Well, you're going to get just me today. And I love to do these model podcasts because I can really open up and give you a little more transparency about some of my thoughts in different aspects of financial wealth building, sustainability, predictability, and just creating a freedom lifestyle. Today, I'm going to give deference to a friend of mine, really an acquaintance, not someone I have regular conversations with, but somebody who I've had communication with. We've done podcast interviews together over the years, and that's Dr. Jim Dahle, that's D-A-H-L-E, of The White Coat Investor.

Jim and I probably started out in our separate ventures to help our medical and dental colleagues probably around the same time. I'm guessing, I think White Coat Investor started publishing back around 2009 and 11, and that's really about the time that Freedom Founders was getting them off the ground. So again, we came from totally different places in life. Jim Dolly is an ER, emergency room physician in Utah. And I came from dentistry. I had left my dental practice when I really started Freedom Founders for reasons I won't go into here. It's not part of the discussion this morning, and Jim, if you go back in his history, he started looking at the great plethora of propaganda misinformation that is fed to typically people in the healthcare professions, doctors, dentists, and those who go through inordinate amounts of training in their lives, but no basis of really financial training, no acumen.

There's not time, there's not time. There's so much to learn and becoming a proficient medical professional and going through school. And then when you start a family, then you're starting a practice of some kind and the hours just get away. And we're typically told to, well, just default to putting your money on Wall Street, and they'll take care of it for you. Jim is a really good writer. I know he's a voracious reader. He dives into topics, and I'd say that, overall, on a majority of the things that Jim talks about, writes about, he's well-resourced and on point.

We may not agree a hundred percent on the efficacy behind some of the things that he talks about, but I'd say overall, we're on point. And if there's something I want to deeper dive on, many times, I'll go check out Jim's site and see what he's dug up on it. I tend to be more of a specialist. I specialize in alternative investments, that would be being real estate.

I just find, for me, if I focus in one area and get really good at that and create the network and the curation there, that works for me. Jim, I'd say, it's more a generalist and provides a wide range of information in the financial world, and he looks a lot at Wall Street and certainly at using tax strategies, which I look at too, but let's dig into it.

Now this is Jim's White Coat Investor daily blog post dated Monday, January 29th of 2024, so you can look it up. There's lots of information there. This one he's titled it "8 Reasons Doctors Suck at Money". And so let's go through the 8 reasons. It just starts out with kind of comparing and contrasting of the fact that doctors who make a lot of money can have high-income potential are generally what we call under-accumulators of wealth. And I will just back him up on that. It's so true. Unfortunately, in people I work with, which are primary dentists, we have a number of medical professionals as well, but it doesn't matter.

Millions of dollars go through the business owner's hand or the practice owner's hands, millions of dollars over a career of 25 years at a minimum, more 30, 35 years, millions and millions of dollars. And when I have the opportunity to have a conversation with those that are approaching their late 50s or early 60s, many times, unfortunately, they've gone through a divorce or two, which doesn't help, but notwithstanding their hard work and the money that flows through their hands and the income that's allowed them to provide for their lifestyle, which has all been good and probably raised good kids or the best they could and probably paid for a lot of their kids education, which that's another story for another day on how much we should augment our kids' education for what reason, they end up at those late 50s, early 60s, going into their 70s with not a lot to show for it.

I mean, in fact, that's the conversation I just had with a doctor the other week. It's like, “We've been doing this for 25 years, my husband and I both in a practice together till there's a double high income.” And yet at approaching age 60, in that burnout stage, which is so common, this is hard work, the labor factor in healthcare, the intensity, the liability, just dealing with people and insurance. It takes a toll just like an athlete, a professional athlete who only has so many years. Most people shouldn't be doing this for 30, 35 years, not at the pace they do it when we're younger.

And that's the whole point is how do you get off that treadmill and start creating wealth in an early age? But again, the construct is always backwards in society. And that's what Jim's running about so well here today is that Jim says, he says if you're somewhat competent at money management, then you're actually somewhat of a superpower. That's maybe just a term Jim came up with. It's not superpower. There's no superpower. This is not rocket science. This is not studying the Krebs cycle. Financial acumen is something that should be basic and instilled in early age for anybody, whether you're a high-income earner or you're strong in the vocations, in the trades.

These are just, again, concepts that are never even brought out in the forefront in any, whether it's high school or outside, it's just never there. So reason number one from Jim's blog is doctors have no financial training, as he says, go through years and years of technical training only to have maybe a whole life insurance agent show up in our class's coursework towards the end of our pathway in academics.

He says that none of the doctors gets dropped off in the world, somewhere in their late twenties or early thirties, starting out with a pretty good income, but zero knowledge of what to do with it. No one even talks about the business of medicine, the business of dentistry. It's just like, “There you go. Have at it and good luck.” He says that generation after generation of trainees, doctors get dumber and dumber about money, business, and finance. He says, thank goodness for a few dedicated folks writing books, blogs, recording podcasts, running Facebook groups and forums, giving lectures, and teaching courses on this material. Without it, no docs would ever learn it.

I'm happy to be one of those people. I, again, I'm very much a fan of Jim Dahle and there are others out there. I think they do a good job of embodying some level of discernment, at least making high-income earners doctors be more propitious about the information they're taking in, at least to learn to ask better questions.

That's a starting point, ask better questions. So that's number one. Doctors have no financial training. Number two, Jim says that we as high-income earners were very much targeted by the financial services industry. He says nearly every doctor is targeted at some point by a salesperson from an insurance company wanting to sell them a high commission, low return, a whole life insurance policy even though they have six figures of 7% student loan debt. Or perhaps it's the annuity salesperson or a loaded mutual fund salesperson masquerading as a financial advisor or even an attorney using fear of malpractice suits to pawn complex trusts in multiple entities. I see this all the time. It's just a craze. Perhaps a realtor looking to sell a McMansion or a mortgage agent with a special doctor mortgage. He says, “How about the plethora of investments sold only to accredited investors?” Yeah, you've got a target on your back as a doctor because you are blessed to be able to earn a high income.

And with that income, it's pretty easy today to become defined as an accredited investor, which means now you are eligible to have more targets on your back and have your hard-earned money sucked away by people who simply have investments that they need your capital. And there's no, many times no basis for the return.

He says, “I haven't even broached the subject of actual fraud, whether it's a Ponzi scheme or a thieving office manager.” There's plenty of that out there too. In fact, I'd say starting with mismanagement, I'm talking about people who invest the money for us, those who provide the accredited investor the place to put their capital.

And I look at real estate, it could be anywhere. There's just a lot of people that have taken a lot of capital in the last few years and only because of the saving grace of the low-interest rate environment and the trillions of dollars has been pumped into the economy by the Federal Reserve during the pandemic, but even going back to the 2008 great financial crisis, it's all fiat currency.

It's all been pumped up like air into a balloon atmosphere, which is going to be popped. And when it gets popped, then people who were writing this euphoric bubble get beat up. And the people who've been taking their money, of course, have not just disclosures, but really very little, if any, liability built into those.

So even if they mismanage your money, I'm not talking about fraud, fraud's different. But they just mismanaged or were negligent in being good managers, which many of them are, unfortunately, not by attention. They just don't know what they don't know. And they've just been riding this curve of money for the last 10, 12, 14 years, certainly the last four or five. And yet they don't know how to operate. And with the higher interest rates today, with the onset of a recession coming, those are starting to show up in spades. So again, unfortunately, the doctor is a target. Says number three, doctors are busy. No doubt doctors are very busy, but it's about prioritizing your time.

And it's just like anything in life. If it's important to us, we'll make time to do it. If your family is important to you, you will carve out the time, the quality time to spend with your spouse or your kids. And yeah, so many people say, “I can't, I can't. I come home, business is always on my mind. I've always got to take calls. I've got to spend time working for the next day.” Just a little side note. I grew up with always usually a dog or a pet in our family, as a kid growing up. And that was fine. That was fun to have a dog or pets around. Then as an adult, I never felt like it was gonna be fair to a dog. I'm a busy guy and my daughter is gone and grown now.

So to have a dog around the house just like, doesn't make sense ‘cause I'm on the move a lot. And I just, if I'm going to have the responsibility to take care of something or someone, or in this case, a dog or pet, I'm going to be there. And if I can't be there, then it feels like I'm being negligent and irresponsible.

But we ended up fostering a dog just a few years ago because it was going to be put down and my wife just said, “Hey, we got to pick this dog up and save it. For a few days or a few weeks until we get a home for it.” And I said, sure, why not? We can do that thinking that we would find another home for it.

And long story short, here we are five years down the road and we still have this dog. So what happened? Well, I started taking the dog out for walks thinking, well, this would be a short-term thing. I can do this for a few weeks, kind of like go back to the gym and start working out again. I mean, I do work out every day, but some people say, “Well, it's something I only do once a year,” so I can try it for a few weeks.

Same thing with the dog. It's like, “Well, I can carve out an hour or so an afternoon to go take the dog out.” And we just got into a routine. The dog became just a beautiful, lovable dog. And it's like, well, we can't give this dog away because it's part of a family. You all know what I mean. You have pets. You know exactly what I'm talking about. But here's my point. A guy who's busy, who says, "I never have the time to do these other things," like walk a dog. We do it every day rain or shine sleet or snow, we're out there. We usually go for an hour and a half. It's a great time for me because I get to think time and I love to have think time where it's like I'm not obligated to anybody else. I'm not taking phone calls. I'm not on the internet or still researching stuff. It's a great time, and my life seems to go on. So my point getting back to doctors are busy, yeah, doctors are busy, but if it's something that's important to you, you will carve out the time to do it and finances are no different. There's places you can really fold time, collapse time to gaining the expertise and the potential background and acumen that you need.

And I'm not here to sell you anything, but Freedom Founders is a great place to learn to do that because we actually get couples together to get them on the same page on understanding what are their goals as a couple, as a family unit, you have to decide what the end result is, where you want to be in a certain number of years, and then reverse engineer.

Investing money is not just getting the highest ROI. It's not just diversifying over a platitude of investments all across the board, which was what I call spaghetti against-the-wall investing. That never works. That's why I like to specialize. You may specialize in something that you find to be the right thing for you, and that may be something on Wall Street, that may be index funds. I'm not saying it shouldn't be if that's right for you. I like something I can control. And with that control, I'm able to offset a lot of the market risk and volatility. Well, I've only done it for over 40 years, so I know it works.

But Back to Dr. Jim Dahle's blog, he says number four is an overdeveloped sense of mortality. He says, as doctors typically work around or help people that are not healthy, many times that's why they come to the doctor, right? So they're not healthy. They're aging out. I remember people in my dental practice would come to me and gosh, they were probably 60 years older or older. And many of them were just like they've given up on life and maybe their health is not so good. And rather than, say, fix teeth, do implants, they just say, "Well, doc, just pull it. 'cause I don't know how much longer I'm going to be around here." That's just an attitude that's never incorporated in my life. I'll just be honest with you.

I'm 67 going on 68 years old today, and I just played tennis yesterday with a couple guys that are heavy hitters, probably 4.5 level if you play tennis, and I keep up with them. I probably go even with them and these guys are 10, 15 years younger than I am, but I keep up, right?

Because that's just my attitude about life. I don't care what my age is. I don't look at my life as running out, and yet we work with people that have an attitude, so there's a feeling of, as Jim says, "Carpe Diem. Seize the day. Or YOLO. You only live your life once," right? So you gotta go for it. You gotta go for it.

So instead of being disciplined about your money and it doesn't mean you live in austerity for your entire life. I'm not perpetuating that and neither is Jim. It's just like you have this feeling that why do you spend the money? Because I'm going to be here tomorrow. You've got to find some balance in that, right?

It's a place where you've got to get in step with your spouse. And I think for our spouses, I'm just speaking for my experience, is they care about quality of life more than we do. I mean, we like quality. We like quality things, but we're willing to put things off in terms of quality time. I think when I'm talking about quality life, I'm talking about time.

We look at life differently many times and we're expected to stand up and show that we're relevant and that we mean something to the world because, well, we're doctors and therefore we should have a certain lifestyle and show that. And I think we just take too much of that in instead of looking at, well, what's the quality of time that I am spending or investing with people, relationships, and memories. And that doesn't seem to add up on the ROI calculator too often until we get further down the road in life. And then we're going, "Oh, what did I do with all my time in life?" We have these conversations at Freedom Founders all the time. So that's number four, overdeveloped sense of mortality. Then the next one is number five, high income.

He says high income is a true blessing when it comes to building wealth. But he's amazed to read some of the FIRE blogs, which is financial freedom, retire early. I think that's financial independence, retire early, says a lot of those young people that are not doctors, I mean, they are 1 really, really living austere lives and just learning how to get by because they want the freedom, right?

And that's a choice, he says, but for doctors who have a high income, it's kind of ridiculous that what's so easy for us because of our high income that we can get a lot further down the road and actually have financial independence at a relatively early age. I talked to our young people at Freedom Founders constantly about the fact that before you get out and have all the obligations of a materialistic world and all the expectations that society puts on us, to live some lifestyle to show that we're relevant, to show that we mean something and that people should look at us.

If you just keep your lifestyle down, in fact, I create the causality that if one will just allow their lifestyle to increase, expand, or elevate, only buy assets that one invests in that produces the income from the asset to then elevate the lifestyle, you'd be free. I said this for anybody. I don't care what your career path is, what your business is, or if you're an employee or you’re a professional practice owner, if you can't be free of five years starting that way, you missed the formula.

Now, the further along you get in life and the more you stack up in lifestyle obligations and debt, which we'll get to in a few minutes, the harder it is. And again, I get a chance to experience this by looking over the shoulders of hundreds and hundreds of dentists and couples every year and see their financials and see what they've done.

And, you know, without calling them mistakes, but they would call them mistakes. "If only I would have, if only I would have done this there, if only we would have had these conversations back then, we just didn't know what we didn't know," and that's so common, so common.

So the high income is a problem because he says, "High income is only a blessing if we actually use it to build wealth rather than fritter it away." It gets worse though. He says, not only do we think we don't need to be frugal at all, we find ourselves in the highest tax brackets watching 25, 30, even 35% of our income going to the tax money, and we assume that our high income was just going to continue keep rolling for 25, 30 or 40 years as we continue to enjoy a long awesome career and the lifestyle that goes along with it and then burnout raises its ugly head. Yeah, so you can't keep on that same pace that you did when you're in your 20s and 30s and 40s. Just like the athlete only has so many good years to be on the field at the high level

The body just it can't take it. You can't keep up. And so the problem is, but we think we can, we don't put any discipline and really forethought into a plan that would give us the options, a choice to step away or even slow down before we hit the wall at age 57, 62, 65, 67, whatever that comes up for people. Number 6, he says, "Rapid growth into income."

So again, he's talking about these doctors going through all of our training, whether you're a medical doctor and you go through your residencies, internship, or a dentist goes to GPRs and especially training as well, until we actually get out and actually start earning the real income that a doctor can earn, we are living certainly on a more frugal basis.

Well, we have to, we're loading up typically on student loan debt. So we have to have some constraints there. But as soon as we get out, our income typically jumps in the first year no matter whether you're an employee or an associate, or you actually have the opportunity to jump into a business ownership, your income is going to jump multiple 3, 4, 5x of what you had just the year before.

And that big chunk of money coming of your way all at once is actually a bad thing because we tend to blow it. All of a sudden we got all this extra money. We was like, “What do you do with that?” And we just don't have a get a game plan. It's like, “Well, if I actually put this money into real investment assets,” I like hard assets, not financial assets. But again, that's a discussion for another day. And the assets that you like, that could actually grow and produce predictable, sustainable income at some point. That's why the financial model I hate because it's all about accumulation and never about cash flow. I mean, to have freedom and financial independence, it's not about how much have you stacked up.

Because you can stack up a lot of money, but if you've got to tear it down over the years, in other words, deplete it because you don't know how to make that capital produce cash flow, then the mountain you've got to climb to have enough capital to last you whatever number of years you have post active income could probably be three, four times higher than it needs to be if you know how to make that money work for you.

That's what we teach in Freedom Founders. That's, I think, the essence of understanding the specialization of a certain asset investment class and really understanding it. Not just superficially, but understanding it and understanding how to curate and find the best opportunities and how to do the underwriting and due diligence. Again, it's not Krebs Cycle. This is easier than Krebs Cycle, but it does take some time and how you can collapse time to learn this stuff is really the key. All right, number seven, doctors used to living on debt. I said we'd get to this one and he's exactly right. We take on big amounts of student loan debt.

Many of our colleagues are coming out of their training with half a million or more in just that student loan debt that's aggregated. And then we get a mortgage because, by golly, I'm a doctor. I should have a big house and my family, you know, everybody else, so I ended up with a mortgage of at least half a million, 700,000, a million dollars, depending upon where you live.

So you stack that on top and then we've got to have the business. So practice loan, another 6, 800, 000. And then while we're at it, we need a couple of cars. We need better cars. We'll finance those too. And before you know it, we've got this mountain of debt that now we are on what I call the turnstile.

The turnstile, just paying off the debt, trying to squeeze out enough additional income to pay our lifestyle, pay our taxes, and there's nothing left over to really put into any demonstrable investment asset at all. He says that people get this, what he calls a fat doctor mortgage because you can get it, sign your name away, you're good for it along with a Tesla payment. He says, “Debt is more like a metabolic syndrome lurking in the background with slowly leading to the unforeseen hardship in your 50s and 60s.” This is so true. Again, I see this all the time.

All right, number eight, the last one on the list here is societal expectation to spend. Nobody expects a dry cleaning store owner or a duplex landlord to be a big spender, but they all expect doctors to have fancy cars, fancy handbags, fancy vacations, fancy houses, I'd say, bragging on your kid's private school. And again, I'm not against private school if that's the main thing, but it's just all these things we have to do. We feel like we have to do because society expects it of us. Our colleagues expect it of us. Look, again, I'll just be transparent here. I drive a 2009 Lexus RX 350. Yeah, 2009. It's got 180,000 miles on it. It still looks great and it runs like a top. I don't need a new car every three years. I don't need to drive a Tesla.

I don't need to drive whatever. I don't care. That's just how I live my life. I much more appreciate the freedom and not having all these obligations and material things I have to keep up with and maintain just to show off. Yeah, do I live in a nice neighborhood and nice house? Yeah, but not a McMansion. Free and clear. Paid off house. Been paid off for 20-plus years. And all my other investments, I don't have any leverage on them at all. Now I had to use leverage. I had to use debt to get started. And there's a proper way to use debt at the right time, right place. I'm not against that. I'm not a Dave Ramsey, “all debt is bad” guy, but there's a right time, right place to use it.

And right now, I see a lot of young docs who've gotten this big bug about, "I got to get into real estate because everybody's made all this money in real estate." They don't understand the market cycles and the fact that the headwinds are overtaking the tailwinds that we've had in our backs for the last 15 years.

And they're buying in and getting into syndications and all kinds of stuff at the absolute wrong time. And, but it happens every market cycle. And it's just because of a lack of acumen, a lack of understanding what the market cycles do and what is a true investment. Jim says, "It might be hard for non-doctors to understand, but every doctor has had the experience of being called the rich doctor," by their family, their friends, their patients, even when they have a negative net worth and aren't even out of training.

Sometimes it isn't said, it's just implied, but the pressure to live high on the hog is there, just the same. Too many doctors succumb to it. Those are the eight reasons that doctors suck at money. I virtually agree with every one of them. Just want to give you some of my insights because as Jim alludes to, these are all truths. And if you're going to break the cycle, you got to start somewhere, but you got to start somewhere where you and your spouse, significant other can get on the same page with this because we all build up expectations. And I think what our spouses oftentimes feel like is that we are working really, really hard to make the money, to get the lifestyle, and provide the financial moat for the security for our family.

But really, really our families and our wives, our spouses, significant others, what they really want is quality of life. Look, I've been there. I've been there where it's like, I'm doing this for the family. I'm doing this, all this work for the family. "Yeah, but you're never here, David." Yeah, but I'm doing this for the family.

And with the right model of understanding how your money can work for you and having expectations that are reasonable, rational, and you and your family can see the milestones you're building towards, not just accumulation, but predictable, sustainable income by investing in the right assets, that's the key to giving you the time back and taking the pressure off and the stress off so that you can actually start to live your life the way you want to live it, instead of waiting until your quote “retirement age” when your probably your health sucks, along with everything else in your life, your kids are growing up and gone.

Other people in your family or friends and relationships are gone. You may be gone. I mean, let's just get down to it. We have to build a plan that has a foundation to it. And unfortunately, the financial world has not been providing that to you. You've got to go on your own frontier here. And it's what I love to do with our docs and our members is give them a place to be in a community where the social proofs’ there.

They're not just saying, “Well, is this just another–come on, is this another place where someone's going to suck my money away and put it in the bad investments?” Yeah, we don't do that. We educate, we build the construct to allow our members to see a comparison contrast amongst a lot of investments with the collective wisdom of an environment that gives you the protection, safety, and your own wisdom to make the right choices.

You're not depending upon just one person to do it for you. It's all about your freedom. I hope you enjoyed this particular edition of the podcast and I'll see you next week.

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