

Achieving Financial Freedom in Dentistry – Dr. David Phelps: Ep #479



Full Episode Transcript

With Your Host

Dr. David Phelps

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Welcome to the Dentist Freedom Blueprint, a podcast about freedom—freedom from expectations of society and the traditional path to success that has been ingrained in us from our early years, I'm joined by mavericks, renegades, and non-conformers to discuss an anti-traditional path to financial freedom, freedom of time, relationships, health, and ultimately freedom of purpose. My name is Dr. David Phelps. Let's get started.

David Phelps: Good day. This is Dr. David Phelps of the Freedom Founders Community and the Dentist Freedom Blueprint Podcast. Well, today it's going to be just me. I'm going to be talking to you today about an inflection point, a major opportunity in one's career or life plan that is missed probably by 99% of all dentists, really probably all business people.

But in any case, this is something that didn't become revealed to me until I started working with dentists in a professional, practice owners, maybe 10, 12 years ago through Freedom Founders. And it became again, once again, very apparent to me this past weekend when we held our Freedom Founders members meeting here in Dallas, Texas.

And we had six couples members who. Graduated or received the honor in our community, which we call “free-for-life.” Let me give you a short explanation or definition of what free-for-life means, and then let's dig into what happens to get there and why so many miss it, and why it's something that you can do something about.

I think this will apply to really any of you, no matter what, where you are in your career, even those who are young right now, and probably thinking you're going to practice for another 20, 25 years, and you're still dealing with student loan debt and getting started in practice, whether you're an associate right now, or you're starting and starting a practice or early on in practice, or maybe you're becoming a partner, those of you who are mid-career and who

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have been grinding it out for 10, 12, 15, 20 years, maybe, and you're feeling a little bit like, "Is this all there is, and how do I finally get off this treadmill?"

And then a great number of you are probably at the other end of your career path. You may be 50 plus 55 plus maybe 60 or 65 plus. And you're really at that point where you want to make that move. You've done the work, you've probably got a fair amount of assets. Your practice could be sold for more equity assets, and you could, you'd like to be able to step out.

Maybe you retire completely or just transition over the next few years, find some sale to either private buyer or a DSL group, and make that move. The biggest problem I see for most people no matter where they are in the career path is they don't know how much is enough. How much of a capital base do you need at any point in your life to be able to take some pressure off?

Now, certainly, if you're early on in your career, even maybe mid-career, you're not thinking about stepping away. Maybe it's five, seven, 10 years away still, but not having markers where you can actually see ahead what your capital base might look like to be able to let you have that time off, or maybe just today to enjoy more freedom in your life while you're working to spend more time with your family and not feel guilty that you're not working so many days a week or so many days in a year, that you're taking some more time off and not feeling the crunch. I know how it is when you're in the prime of your season and you're able to make a good income, a very good income, certainly above average income, but it takes a lot of work.

It takes dedication. It's on our shoulders because those are the technical skills that we went to school to learn how to do. It's a privilege. It's an honor. It provides a modicum of safety and security for our families that we want to serve so well and build a certain lifestyle.

We feel proud about that. We want to do that, but the problem is it's all in our backs. Unless you're one of those few docs who have been able to elevate yourself out of the chair and you have a really strong business or practices

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that run with other doctors or dentists that are serving patients, and maybe you are producing less and less of the income, but that's the minority. That's the vast minority of doctors who do that. And even those who are able to do that, I know because I'm in many many groups where these very effective and proficient CEO-type dentists, are still carrying a lot of burden, a lot of weight.

It is not never as easy as you think. Getting your capital base that is your investment capital, what you save, what you put away, whether it's in retirement accounts, 401ks, tax brokerage accounts, whole life insurance, annuities, or even that equity in your practice that you're building up and keep adding value to because you're working it where that total capital base is. The problem is where 99% of all practice owners, business owners miss it is they don't know how to work that money, don't know how to work the money. What happens to the money? Well, the money's usually put into, again, passive accounts advocated to third-party, money managers, 401k administrators, financial planners, you name it.

Or maybe you try some stock trading, maybe you put it in some of the tech stocks that have been carrying the market for the last year and a half, maybe you try some cryptocurrency. What I see so often is what I call a randomized type of investment strategy, meaning stuff is all over the place.

We call it spaghetti against the wall, where people try so much. We had, I'd say, 40, early 40s couple, both dentists and a really high-end cosmetic practice that they have created and been working that practice for about the last, I think, seven, eight, nine years. They're both feeling burnout. They work hard like everybody does. And they came to our meeting because they really want to see if there's a plan that could take them, in their words, to ideally be able to sell their practice in three years. Now, the problem is they haven't thought this all the way through, right?

And as I started to question them a little bit about, "Well, that's great. Let's say you can sell your practice in three years and it's all going to be good

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financially. We hadn't gotten there yet. Of course,” I said, “Well, what are you going to do next?” And they kind of smile, shook their head and they weren't even sure why because it's such a dream that's out there. I mean, people put certain numbers of metrics in place and it's kind of a dream, but then when you come down to putting, doing the math, it doesn't pencil because they haven't penciled anything out and this is not throwing anything against this couple.

They're very proficient, do really high-end practice and they make good money as most hardworking dentists are able to do, but getting that money to work for them, understanding how that works is something that we're never taught how to do it. It's never part of the curriculum. It's never something that becomes a marker even after we get our license and we're out in our career, right?

Because, well, we don't have time, right? You're busy with your practice. You're busy with your business, keeping up with those—busy with the practice, your business, your family, I meant to say. That's enough for anybody to keep up with. And so we're just told by Wall Street and Wall Street is great at marketing, “Just give your money to us and we'll take care of it for you.” And that plan, unfortunately, even if it's worked for some—hard to find anybody who's been able to retire off of a retirement account like a 401k. I mean, it's a piece of the puzzle, yes. And I'm not saying that it's a terrible thing to put money into a retirement account.

But the problem is that money's tied up until you're 59 and a half. You can't do anything with it. And we've had, well, let me just go back to my tenant, the first part of this discussion today, in our meeting last week, we had six couples who went free-for-life, which means back to my definition, which I'm getting back to, which means they have achieved that position where their investment capital, I mean, outside of their business or their practice, and it doesn't mean they've sold their business. In fact, looking at the list here, of our six, there was two that actually had sold a partnership to a DSO. So they

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had taken some of the capital out. The other four have not even sold their business or practice yet. That's still on the table.

But what I'm saying is you take all of their equity, all their investment capital, their assets, not including their home, I'm talking about just real assets that could be invested. That doesn't mean the equity is still in their practice because they can't touch that yet. Whatever's remaining there. It's what they can deploy right now. The deployment of those assets, that investment capital will produce for them what they need to live their life. In other words, what we call their lifestyle burn rate. Not replace all the income they can make as a doctor or dentist. I'm not saying that, no, just to support their lifestyle that pays their way right now, where they are with a 20% safe harbor margin.

So because there's always going to be fluctuations in the economy, things come up, you can't just burn it right to the tee. So we make them produce over 20% safe harbor margin with their investment capital. This is what we call true passive income. Not active, but passive income. And we verified with a chief financial officer's controller who goes through their tax returns and goes through their P& Ls and digs down to verify because this is a very important marker or celebration or event for these members in our community who hit free-for-life.

We've helped tens and tens and tens reach this goal. And here's the key point, this group of six couples who made it through their free-for-life celebration last weekend, the age range was early 40s to no more than age 55. And again, two out of the four have sold chunks of their practice, not the entire practice. Everybody's still working, but here's the key, they're working the way they want to work. They're doing it their way. Now they're taking lots of time off and they don't feel, well, they don't need to feel the burden of having to take certain insurance plans or be open so many days, a week or a month, or a year.

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They're living their life the way they want to make changes in their practice model, see certain kinds of patients they can, if they want to bring on an associate or they haven't sold, they can bring on a partner. It opens up the playing field immensely when you've reached that marker. Well, they all did it in Freedom Founders within two and a half years of being a part of Freedom Founders. That's another key.

We typically get most people to get it done in three years. Sometimes we go out to five years, but we don't let people in Freedom Founders unless we can look and look at them in the eye and say, "We can get this done in three to five years." It's too far, too much further away than what we do is we say, "Well, you need to start working with somebody else on your practice model, or maybe you need to get your debt under control and work with different people to get that done, then come back."

But once we bring someone in our community and we vet them out, this is our goal, to get it done in three to five years. And they all did it under three years. This was an amazing event, and it was so great to have them tell their story from when they started with Freedom Founders, where they were, their lack of knowledge or acumen about their finances, again, experience against the wall type of investments, all randomized, nothing was orchestrated, nothing together, no markers, no milestones, had no idea how to orchestrate replacement income. Replacement income.

It's not about accumulation. It's not about stacking the Benjamins and hoping someday you'll have enough that you can start depleting them over the years after retirement. This is actually having current replacement income that's supporting and fulfilling your lifestyle needs. And now the extra work you do is still enjoying work the way you want to do it. That just becomes icing on the cake.

Promo: Hi, it's David here. I'm interrupting this podcast conversation for just a brief promo. At the end of this month, April, and into May, I am conducting or hosting a four-week masterclass on practice, sale transition exit

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strategies. This will be a class that we small group, intimate, very customized to the participants.

I love doing these classes and this one's going to help people that are in the midst of thinking about exiting their practice, going through a sale, private buyer, DSO, and then on the backside, what do you do with the capital that you have in your hands? So do you want to sell or not sell? What are the variables you need to look at and really be considerate of before you get into lengthy conversations or even get into a contract?

How much is enough? How much capital do you really need to take off the table after taxes from your sale and put that money to work? And how do you put that money to work, particularly in a volatile environment like we have today? What is your plan for replacement income? Because it's all about replacement income.

Cash flow, equity is great, but you've got to turn that into cash flow. How will you protect your capital during the next correction? It's coming. I'd love to have you join me. Just go to freedomfounders.com/catalystgroup. Again, that's freedomfounders.com/catalystgroup. I'd love to have you there.

Dr. David Phelps: This is also a special year for me, 2024, because it marks the 20th anniversary from the year 2004 when I made my decision to leave clinical practice and sell my practice at a relatively young age. And if you don't know my story, I'll keep it very, very brief, but my daughter, at age 12 in 2004, went through a life-saving liver transplant and organ transplant because she previously had gone through a high-risk leukemia, cancer treatment, and then also epileptic seizures.

And by age 12, her liver was gone. It was shot from all the chemo and the epileptic seizure medication. And it was that time I made my decision that I am going to sell my practice. Now I'm not irrational. I'm not illogical. I had been building a small, I call it a mini, I'll use the word empire, but I'm not, I didn't have multi-millions of dollars, let me be frank. What I did have was

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passive cash flow coming from tangible assets, real estate that I had built and created over the previous 20 years. I started in 1980 with my first rental property, and I built a portfolio while I was a dentist and that produced enough, not the final number I'd ever want in my life, but enough to step away from my practice when my daughter needed me, I want to be with her.

And let me tell you, when I made that decision and I did the back of the napkin calculations, that's all it takes. Not some fancy financial planner, computer software. Back of the napkin to see what it would—what I had in, could I step away from my practice and take the additional equity from the sale of my practice, which I did sell and put that into the same investment vehicle, real estate that I already knew how to do.

Now, obviously, I had this ability because I began over 20 years previously studying real estate and getting started with it and finding the best mentors and building this portfolio. Fortunately, it became my plan B. Well, that's exactly what we do in Freedom Founders. Although our people don't want to go out and do what I did when I was in my 20s, you know, find properties and deal with contractors and tenants.

That's not what we teach them to do. I tell people, Freedom Founders is not a fix-and-flip group. We won't teach you how to do active real estate investing, but if you want to learn how to be your own financial advocate, and that's really the crux of this, becoming your own financial advocate. This is where the rubber meets the road.

This is the inflection point because when you learn how to do it and learn how to be aware of the market cycles and what we're dealing with today going forward with looking back at history and understand where we are and having access, this is the other key point, having access to the best investments and the best operators, all curated within our group.

Now you've got a chance. Depending upon, going back and being dependent upon traditional models of retirement planning and the financial assets on

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Wall Street, I believe it's going to be a big mistake for those who are still thinking they'll rely on that. You can't just go back over the last, say, 15 years, coming out of the 2008 GFC great financial crisis and have this bull market that's been where the government through the Federal Reserve and Congress spending like drunken sailors have kicked the can down the road and created this enormous bubble, both in real estate and financial assets. Both. It's an enormous bubble. And those who don't understand where the bubble is and don't understand where they can exit or go to higher ground and wait for the opportunities, again, are going to be in big trouble.

People that talk about passive index fund investing, I know that John Bogle founder of Vanguard, was always a big advocate and that worked. Sort of for a number of years, but I believe those days are over. Why? Because of the volatility of the markets we're heading into. You can't do it the way you've been taught to do or even thought would be possible.

If you aren't ready to be your own financial advocate, you're leaving a lot on the table, and you're also forcing yourself. To my own experience, and seeing this through the eyes of other people, to have to work a lot longer and a lot harder with a lot more stress and missing a lot more memories and moments with your family than is necessary.

I've seen this over and over again. It happened in my life and I've watched us take couples, hundreds of couples through the Freedom Founders program and have them come through and within a relatively short time, they're either free for life or they're well on their way. This is the difference. And it's something that anybody can do, but you've got to be committed to it.

You've got to want to do it. You've got to make a decision that you're not going to be like everybody else and follow the herd mentality because with herd mentality, you get average results, mediocre results, and that's not going to be, that's not what you signed up for when you went to school. To do the hard work you've done and put in the work and the hours and the risk

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and liability that you put into your daily practice model, this is not at all what you signed up for.

One other case in point, and this came off of a demo forum just a few days ago, and it caught me because, again, this is something that this doctor knew, when he doesn't know he wouldn't be feeling the stress he is—I'm going to shorten the post, but let me just read it to you. This person says it was anonymous. So there's no name.

He says, “Here's my story. I graduated in 2003 from dental school. I did a GPR in 2004, came from family of dentists, dad and brother, wife is also a dentist. I bought in as a partner of a large group practice back in 2006, was making take home,” He said 48% of production. Not net production. “We had very low insurance adjustments and only accepted Delta Premier and Blue Cross Blue Shield. By 2017, I was producing 1.6 million a year. Here's the catch. We had a majority of soon-to-retire partner docs that wanted to unload to a DSO. So against my wishes, we were sold to a medium-sized DSO. This gave me a chunk of money upfront.” He says almost 2 million. “However, my pay went down”. Well, that's what happens after you sell. You sell a chunk of your practice, your pay does go down. You get the money off the table, the chips off the table, which this doc got 2 million. He goes on and say, this DS, “This new DSO experience has not been great. We've had four CEOs in five years. We've had four office managers in five years. We've lost almost all of our original employees.” He goes, “It's nuts.” Basically, and he's aged 48, and so he says his dilemma, he says, “I'm 48 and have a desire to do more quality work at a slightly slower pace that I can continue to do until 65.”

So he wants to work about 17 more years. Why 65? I say, I wish I could talk to this doc, because he's picked the quote, I guess, the normal retirement age 65. Now, if you love what you're doing, then you shouldn't have any retirement age as long as you can physically and mentally, you feel good about doing it.

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And that's where the burnout from today's doctors who don't know how much is enough keeps them on that treadmill. This is so sad. Now here's the kicker. He says, "I have multiple millions of dollars," I guess, including the 2 million he got from the DSO sale. He's got over 5 million he says in retirement. And his school loans are paid off. So he's asking, he says, "Should I take the leap and leave this DSO with the goal of opening a practice from scratch or buy an existing doc or start right out my days here at the DSO?" 17 years of being in a culture that he calls nuts. Why would you ever do that?

If he's got 5 million dollars at a very nominal conservative rate of return, which is easy to do today in tangible assets and alternatives of 10%, that's 500,000 dollars a year off of the 5 million, which is over 40,000 dollars a month, which is before tax. And that would be 30,000 dollars, at least 30 per month after tax. I mean, 30,000 net spendable from just the money he has.

And that's not depleting it. That's not taking it down. That's just the returns you can get today. We get in 30,000 net spendable. That's after-tax. Who could not live on 30,000 a month net spendable? I don't know. Point is this guy shouldn't even be thinking about this. He should exit center stage left and go do whatever he wants to in dentistry and enjoy the next 17 years.

If that's what he wants to do, 17 years or spend more time with his family or whatever his goals are. I wish I could talk to this doc because he just doesn't know. See, he's worked hard. He's created value with this partnership practice he's had since 2006, that's 18 years. He was, he's been writing that.

And so he got a chunk out of it, but he still needs to practice to some degree. I guess he thinks he does. He probably really doesn't, but he's not going to want to sit around in a lounge chair or play golf seven days a week or lie on the beach. So like me, like anybody, he's going to want to keep doing something, but why put yourself in a position where you think this is the only thing to do, that you have to stay with a bad culture for 17 more years? I'd say that's nuts. So again, my point is this is a time when I believe every entrepreneur, every business owner needs to take steps like they've never

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taken before to learn become your own financial advocate. I took no classes in school on finance, economics, real estate, negotiation, contract law. I learned it all doing what I do.

And today in Freedom Founders, we collapse time. We fold time for those who want to become their own financial advocates. And this is why we have to bring people in who are, I'd say, kind of clueless about how money works and how to make it work. They can make it, they can make the money, but they don't know how to make the money work for them.

And making your money work for you is one of the most important things you can do today. If you want to get free and have that peace of mind, and true choices and options in your life. This is the time to do it. I'm doing an online four-week practice transition course. I do courses like this, short-form courses online, no travel necessary, a few times a year on different subjects. And because the subject of practice transition has been at the forefront, last number of years and still going forward. There's a lot of docs in their 40s and 50s and 60s that are trying to figure out how do I exit? How do I make my best exit?

And they hear all the numbers from the DSOs. And I'm not saying all the DSOs are bad. I'm not saying that's not the wrong, that's the wrong way to go. But there's so much that you don't know. When you look at this, if you're thinking about exiting, what it would look like for you? Taking chips off the table, whatever your situation is, and you want to know how to really dial this in, to know what's important to look at in terms of negotiations and contractual aspects of an agreement to sell your practice, whether to a private buyer or to a DSO.

And then very importantly, what do you do with the capital now that you take out of the practice? What do you do with that equity after sale, how do you make it work for you, particularly in the marketplace, the economic cycle that we're in right now? It's going to be volatility and headwinds coming forward.

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And if you're not in a position in place where you have an understanding of full market cycles, and really, I think the ability to move at least some of your money, if not all of it, but some of it, at least out of the financial markets and get it to higher ground in alternatives, and Freedom Founders, we have the best of the best.

I've done the work with so many doctors and doing this and this practice transition group. I will be bringing some of my best resource experts that I've worked with over the years to help dentists in this transition. We'll bring this all to you. I'll bring some of my veteran members. I'll bring some of my free-for-life members to these calls, which will be—run this for four weeks, starting at the end of April.

And I love doing this. I love to keep the group small and has some really solid interaction and really bring the best of the best. If you're interested, there's an opportunity for you to jump in and I'll give you that here in just a couple minutes. Back to the story. How hard you make your money work for you is going to be the key.

A lot of doctors fall into the trap of what I call bright, shiny object syndrome. And they try the latest fad, the latest thing. Doctors will say, “Well, I like to try real estate on my own because it's been so good last few years and a lot of people have made a lot of money. Maybe even put some money into some syndication,” or maybe you tried some things in an Airbnb in short-term rentals.

I'll bet though that most of you who have tried it have come to be sorry that you did because really it's a job. It's another business. And unless you feel like you can stretch yourself out into four corners of a square with your practice, your family, another business in real estate, it doesn't make sense.

Folding time. Again, as I said, getting that biggest value for your time is one of the most important things you can do in your life and how you do that and how you go forward and how you stop paying a price for giving up too much

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of your life while you're making that money is something I hate to see any other colleague to go through.

So if you're interested, jump in with me on my four-week course. Details are within this podcast, and I'd love to have you there discuss what's right for you and how you can get to your freedom goals sooner and not later. I'll see you next week.

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