

**Changing The Business and Investment Models -
Adapt or Lose Money - Dr. David Phelps: Ep #480**



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: Hey, it's David again this week. Last week, I did a monopodcast and really enjoyed my thought process in hopefully bringing some key constructs to you. I decided to roll it over to a second week. Why? Well, because I have a lot of thoughts on my mind. These thoughts get stimulated by my conversations, my engagement, my relationships with other people.

I'm in a place in my life where I really, really enjoy solving puzzles and we have lots of puzzles to solve. We have the dynamics of a current market cycle and circular cycle, which I'll get into in a minute. It's really changing everything going forward. And I know some people are thinking I'm being hyperbolic when I say changing everything.

Well, I say changing everything. I'm talking about changing the model. What model, you might ask. David, what model are you talking about? I'm talking about the model that whatever we've used, whatever you have used in the last - let's just call it 15 years. I could go back and really talk about 40 years in a circular cycle.

Let's just talk about the last 15 years of a half cycle. A half cycle is either peak to peak or trough to trough. So in this case, I go back to

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2008, 2009 and 2010: we're coming out of the trough of a bull run that took us to the peak in kind of late 2006, 2007 and 2008, we kind of started to hit the gutter with the great financial crisis.

So that's a trough. Since then, we've had really a major upswing coming out about 2010, 2011, 2012. And then 2012 on forward, we've had really what we call a bull run in the markets and really all markets to be quite frank. And the reason for that is really cheap money, cheap money, like never before. And that cheap money comes with a cost.

Everything comes with a cost. Everything comes with a price. Well, we all end up paying the price somewhere. It's just how far can the government defer and kick the pain down the road. And the only reason we've been able to do it thus far, is because to date, the U.S. government, the U.S. of A - America - is still the best of the worst.

But that's not saying a whole lot, not in a marketplace where the irresponsibility of our government leaders, which includes politicians, our representatives in Congress, current administration, past administration, probably any administration at this point, it's not going to matter going forward, even though we have a big election coming up in November - the hands are tied.

The hands are tied of those who think that they can continue to kick this can down the road. I'm talking about budgetary responsibility. If you're paying attention at all, you realize that we have doubled our national debt in 10 years, \$17 trillion 10 years ago, we're at over \$34 trillion. And by all estimates, we'll be at \$50 trillion in debt by the end of this decade.

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I wouldn't be surprised if it comes sooner than that because we're adding a hundred trillion dollars in spending every 90 days, every three months. This government is spending that much money. It's incredible. We're spending like we are in a wartime and maybe we're going to have a war. I hope not. We're kind of in a proxy war right now with Russia, Ukraine.

We're in a proxy war to some degree in the Middle East. and many times the military industrial complex is what pushes the drive to increase GDP because we are productive. But the problem is all productivity, all GDP - gross domestic product - that the government is touting today, the media, the pundits who want to get Biden reelected, whatever, they're forcing this narrative down people's throats by saying, look at the economy.

It's all good. It's all good. Well, look at the stock market. My gosh, it's just gone ballistically up, since it had a downturn in 2022. Well, why? Because they turned the spigot back on the billions and billions and billions of dollars that are created out of thin air through credit, because we can. Why can we get away with this in this country?

Because we still have the reserve currency of the world. But that is also beginning to fade. We have the BRICS nations that are looking to offset the dependency on the dollar because of the way we have in the last couple of years - particularly with Russia, Ukraine - weaponized the dollar against countries for which we have issues, and that's a problem.

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That's a big problem. All right. So why do I go into all this? Just to give you really a short bullet point list of the current concerns that I see that are changing back to my point - changing the model. So whatever we've been successful in doing, let's just go back 15 years back to the trough of the last downturn.

And right now we're at the, I'd say the peak, the peak of a half cycle. So from trough 2008, 2009, 2010, 2011, to a peak - call it 2023, 2024, 2025. We are tipping over the peak and we're heading down to a correction in a market cycle, which has been extended way beyond its maturity point. We actually were rolling into a recession back in 2019 and then COVID hit.

And of course the stimulus money came like never before. And while this, you could say, well, it saved the day, and all the money that was pushed out to wage-earners and to employers, small business, big business, that money is so inefficiently placed that it's stuffed the coffers of many. And that's what has created the great rise in assets, real estate.

If you weren't watching the market or you've been in the market for a new home, well, good luck. If you're going to get financing, you're paying double or more. In payments for a home today. The cost of living in all regards is way higher than the CPA, much, much higher. They measure the CPI by completely different standards than they did back in the 80s.

If you go back to the 80s standard of measurement of the CPI, we're running 9, 10 plus percent easily, easily. So it's all manipulated. So the model going forward, as we cross the peak of a half cycle, to go down

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to the next trough and that trough will, will drop, I truly believe we're in the middle of dropping that trough right now.

And the next big drop will be in the financial markets, which are very emotionally driven. They're emotionally driven up to higher, higher peaks, the exuberance of the market, and they are driven down very, very quickly when the emotions of the marketplace and the sentiments are negative. Happens also in alternatives, but slower paced, slower to rise and the slower to drop, and you have more time to make decisions with your business: perhaps the sale of your business or your practice, perhaps where you invest your capital.

Whether it's just from your savings and your retirement plans or from taking chips off the table, when you actually sell your business or your practice, you've got some opportunities. Look, I don't sell my advice. I'm not a financial advisor. I'm not a fiduciary. I have no incentive to sell anybody anything.

But to give you my best advice after having gone through five major recessions, trough to trough, or peak to peak cycles in my lifetime, going back to 1980 when I was a young adult and started in my investment and my business pursuits into dentistry, which I did for 20 some years in dentistry. I can carry it on with my investments in alternatives, primarily real estate, for now 44-plus years.

And I've gone through these cycles and I have a great understanding, though I'm not an economist. I spend a lot of time with people in the trenches, in other business sectors, in other marketplaces. I've had the

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opportunity and the blessing to be around people that really have a grasp on what's happening in the markets.

And again, what I will tell you is that whatever got you to where you are today, good for you. You had to do the work. No question about it. I'm not saying it was easy. Whatever you think you need to do going forward, whatever your goals are: buying back time, making the pathway to exiting at some point, your business career, your practice transition.

It's all changing right now. And if you're looking backward in the rearview mirror and saying, "Well, whatever's happened in the last two or three or four years, well, I can just jump on board and ride that same train." And I'm telling you, you cannot.

David Phelps: 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 strategies. This will be a class that will be a 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 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 it up? How much capital do you really need to take off the table after taxes from

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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, cashflow. Equity is great, but you've got to turn that into cashflow.

How will you protect your capital during the next correction? It's coming. I love to have you join me. Just go to freedomfounders.com/catalystgroup. Again, that's freedomfounders.com forward slash catalyst group. Love to have you there.

David Phelps: Whether again, you're selling your business, your practice, particularly if you're looking at an exit through a DSO group. Now, not all DSO groups are the same by any form or fashion. Just like in any marketplace. there's a whole striation of different models and operators. And that's the thing that you have to be aware of. Just like we have to do in Freedom Founders in assessing alternative investment opportunities.

Again, I will say, I tell it to my members all the time. We just had a members meeting two weeks ago. And the key was, we went back and looked at the cycles going back in time and reviewing what it looks like to go from peak to peak or trough to trough and what we're likely looking ahead. And going into this, now this downturn, this correction that we're going into.

And what that means in needing to change your model again, based on how you go about the potential sale or exit plan of your business or

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practice. And then what do you do with the capital? All of your capital, not only from the sale of your business or practice, but all of your other investments, are you going to keep them in the the same place, I would say you need to reallocate.

You need to reallocate. Where do you learn to do this? Well, I'm sure that most of you have some kind of advisors around you, and I'm not putting down advisors - but advisors, particularly that sell products in the financial markets, they have one menu. When it's like you want Chinese food, but your, your spouse wants to go to the Mexican food restaurant, but you want Chinese, or, or maybe, maybe you want a burger.

So you go to the Mexican food place and yes, do they have a burger, but it's not going to be the same kind of burger you'll get if you went to a real burger joint right? So same thing here, is when you go to financial advisors who use the financial products of Wall Street, you only get to get from that menu.

If you want something outside to hedge or diversify in different alternative investments, you've got to go somewhere else to figure that out. And that gets tricky. It gets tricky getting advice period because virtually everybody who sells advice or counsel have an incentive that is transactional.

And there's nothing wrong with that in your own businesses. I'm not speaking a lot to my friends in professional practice arena. You sell your services to solve people's problems. It is transactional. You provide the service, they pay you and it's next. You got to do it again.

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So is there an incentive to produce that work and get it across the finish line?

In other words, take a person who comes into the business, the practice, to solve a problem, you provide them a plan of action. Is there incentive for you to get them to take that plan? As long as you believe it's an ethical and a good plan for them. Well, yes, there's incentive - and I'm not saying it's a bad incentive.

Realize that when you're getting advice on longer range and higher risk decisions, like selling or exiting your business or practice, like investing larger chunks of capital, because you're further along the line and you're looking more towards the end game, which is not ending by retirement or end of life - I'm talking about end game, just meaning you're ending active income production or slowing it down. Well, now you're in a position, and I think I talked about this last week where now you've got to take. That ability that you use so well to make money during your career and hopefully save and put it, put it away and have equity in a business that you can harvest at the right time.

But now you've got to shift gears. Now you've got to move to being a shepherd of that money. And by and large, that's something that very few high-ranking, high-income, highly specialized, highly educated technical people, like I'm talking to you here on this podcast, I've had the time or propensity to do, and by the way, you're told not to even try because it's too complicated.

Just give your money to us: Merrill Lynch, Wall Street, 401k advisor, and we'll take care of it for you. That's the default mode. And

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unfortunately that mode, even if it's worked to some extent in the last bull run - and yes, when you have a bull run, everything works pretty darn well. But now when you go into a different mode, a completely different cycle, all these models of the past are not going to play out the same way.

In fact, I think many of them will play out very poorly. So DSO group, very important. If you're selling to a DSO, you understand very deeply where the alignment is, if there is any. Where's the money coming from and how much leverage are they using? So we have to do the same thing in real estate. We don't just go out and put our money with a syndicator and say, well, here you go.

You've made some great returns in the past. So let's just go do it again. There are different questions to be asking right now in these very, very important decisions that you are considering making. And if you're not doing this with a full scope of what the criteria should be - in other words, what are the questions you should be asking?

You're not going to get the full scope from any one individual, and I'm not saying I have it all. But what I've built is a consortium. Again not being a practiced broker, advisor, don't sell products, don't sell real estate. I'm agnostic and that's what I love to be - I'm agnostic to what my members, the people I counsel, to what decisions they make.

I just want to protect them from the downside risk of so many things that I know. I'm in the mix. I'm in the know in real estate. I'm in the know in dentistry and DSOs. I get behind the so-called curtains in the rooms I'm able to access. Shepherding your capital, your investment capital,

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your assets going forward, whether you're still in your business model or moving out of the business model and now having more capital that you are now in charge of, and you need to take particular care.

Because you can't afford a big mistake. Everybody that I talked to, well, not everybody, but most people I talked to who are looking for a different way or different models are typically pursuing what I call chasing yield. Chasing yield, meaning they want the high returns that maybe they, whether it was in the stock market or in crypto or tech stocks, or maybe they had some good luck with some real estate syndications in recent years. Because again, when the market's going up and you have cheap money, unless somebody is just completely incompetent, it's really hard to lose. It's very, very hard to lose. And people get this recency bias that whatever's happened in the past was going to continue.

And because we haven't seen a sharp correction yet, a sharp correction yet, except for somewhat in 2022, but then the bounce back and the stock market makes everybody get complacent again and think, well, it's going to be okay. And the feds raised interest rates by 500% since 2022. And look by, by the media standpoint, everything's good.

The economy is strong. The economy is built on debt. I mentioned that earlier in this very podcast communication - based on debt. How strong would you feel in your family if you had maxed out all your credit card lines and we're still living in the, let's just say the big house with the big cars, leased cars.

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How good would you feel? You would be tossing and turning at night because it's not going to last. And that's exactly where we are in this market. It is not sustainable. And some people just want to put their head in the sand and go, well, I just keep my fingers crossed that, Jerome Powell and the Fed, because it's an election year, they'll, they'll drop interest rates and we'll go back to quote normal.

We're not going back to any normal. There is a complete new normal. And that's what none of us can actually put a crystal ball on. But what I find is my best insurance policy, my best insurance policy in hedging the financial future, the generational wealth legacy that I want for people I care about, my family, my members of Freedom Founders.

My best insurance policy are the people with whom I have over the years selected to put myself around to bring around me, my informal board of advisors. I want people who are not out there selling me stuff. Oh, yes. I still use the competent help of CPAs for taxes. I use a chief financial officer for cash flow statements, projections.

I use different attorneys for different aspects of legal help. Yes, absolutely. I use those kind of people, but around me for overall making crux decisions in business and investments, I want to be around a variety of people who I have over time curated. Now this takes work, but I talked about it at my last freedom feminism mastermind meeting.

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Talk to people about who's on your board. In other words, who are your five? Who are five people that you could trust with your money, your accounts if something happened to you? Who are five people who you could go to and you could give, and they would give you unbiased objective advice without any agenda.

And a lot of people looked around and thought, maybe I've got one, maybe I've got one, but when I said go for five, many people said, I don't have five. I haven't built that network. This is something that you've really, really got to think about because there's going to come a time and a day when you, the driver of everything you do in your family, not saying that your spouse isn't right there with you doing their part, but their part's usually different than your part.

And I'm assuming - could be wrong - that you're probably a big part of the financial driving of your, your family, your business. And be that, that being the case, have you set things up so that you've got your loved ones are surrounded by the right team, the right people with the right instructions?

Have you built that out? Who are your people that would step into place? Do you have trust and, and, and trustees and successor trustees built in place? When I asked for a show of hands, very few have done this. They thought about it. They maybe have a basic will and some basic instructions. But the holes that we all leave, and I'm in the same place, I have to continue to revise my own standards in this, is we have to go back and do the work. And doing the work with the right people is a pathway to stay ahead of, I believe, the volatility and the turbulence that's ahead of us.

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I'm not a naysayer, I'm not a pessimist. I'm a realist and I try to get pragmatic advice just from my years, many, many years of being with my personal life stories, the situations I've been in, how, how I saw them in business and practice and in investment capital, particularly in alternatives and real estate, which again, I've been doing for over four decades.

I like to have as much control as I can have, but without a lot of liability and responsibility. And you say, well, how do you do that? Well, there are ways to do that. And that's what I love to do in Freedom Founders: help our members, hedge their bets, not all have everything all piled into one basket, but have an understanding and their spouse have an understanding about what all this means.

It's not a doomsday approach, it's actually getting reassurance and bringing back to your own vision, your family's vision. What was this all about in the first place? In other words, you go into school and doing the work and getting into business and practice or whatever it is, is you do today. What was this really all about?

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And am I living the life I really want to live right now? And if I'm living in fear. Why is that? Probably because you just don't know what you don't know. It's okay. You're probably a gamebuster at what you do in your business or practice. Probably top shelf. Where very few have your skill level in different aspects.

But it's okay not to understand everything. It's okay to say, I need some help in some, some other area. You don't have to know it all. And I'd say it's really bad to pretend that you know it all. We all like to think we're competent and we're willing to do the work and be like John Wayne independent in our lives, because that's the way we've lived a lot of our lives. But we can drop that facade and say, look, I can't know everything.

And if you surround yourself with the right people, it will give you a lift in your life, no matter where you are, whether you're going through great times right now, or maybe going through some difficult struggles in different aspects of your life. Being around the right people, I have found in my life, it's been the best thing ever that I've done.

I'm doing an online course in a few weeks based on the theme of practice, transition, exit: what considerations you need to understand before you go through it and what you need to understand after. There's so much complexity to this. And again, I think many people just get a piece of the story, parts of it.

But they don't see the whole thing. I've been through it. I've done it with hundreds of other dentists, and we continue to do it today in Freedom

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Founders. If you're interested in learning more about finding out about what you may not know and what you could learn from a relatively simple way to go about gathering that information with others that are on the same path, just go to freedomfounders.com/catalystgroup. That's freedomfounders.com forward slash catalyst group. Love to see you there, if you're interested. Have a great week.

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