Real Estate Investing and Profit Retention For 2025 – Marcus Crigler: Ep #527

Marcus Crigler:

You can't delegate your wealth building to a financial advisor. You can use them as an advisor. They're an advisor. They are not, Hey, this is what you're supposed to do. You have to make that decision for yourself. And so you got to understand these various asset classes. And by the way, if you don't understand it, you steer clear of it immediately.

Dr. David Phelps:

Today we're diving into real estate investing and how to keep more of the wealth generated by your business. I'm joined by Marcus Kler, the founder, CEO and CFO of BEC, A company that focuses on accounting tax strategies and fractional CFO services for real estate investors and entrepreneurs. BEC aims to optimize its client's cashflow and navigate market uncertainties. Just to be clear, A CFO is a chief financial officer, different from A CPA who does more accounting and tax services. A CFO looks ahead and helps businesses with their cashflow accounting. Looking into the future in our conversation, expect to hear current shifts in the capital markets, the kinds of real estate investments entrepreneurs should focus on for safety and stability. The pros and cons of all cash investing versus financing or debt leverage. In today's market, the four financial phases every entrepreneur must go through to build wealth and keep it why CFOs, again, that's a chief financial officer, are handy when scaling a business.

Why? Knowing where to put your money before exiting your business is a missed opportunity for most and much more. Please welcome Mr. Marcus Kler. You get to look over the landscape of a lot of players, a lot of people in the entrepreneurial business rights, again, particularly real estate and see what's going on. A lot of our listeners are not operators. We like to invest in tangible assets. We like to invest in real estate, but we also like to know what's going on. What are you sensing in the capital markets and how are you advising some of your clients in terms of being proactive, hedging instead of being reactive to changes that may come that we don't know when timing wise, what's the general sense that you see at forward looking?

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Marcus Crigler:

I think people are very hesitant right now. I say stagnation, but that has a certain connotation to it, so I don't like utilizing that term. But the reality is people are cautiously optimistic, but at the same time emphasis on cautious. And so I think we've seen a lot of movement in our government over the last 30 days, right? We've seen a lot of movement across the nation in the last 30 days. And so while you may or may not or agree with what's going on, we still don't know what the actual effects are going to be. And so I think what we're seeing a lot of is people still kind of setting, still keeping money in safe spots, keeping it in safe locations and waiting for what's going to happen to happen, whether it's, hey, we don't go down some of the projections that, hey, we're going to go down.

We've got a huge crash that's imminent. The government's not going to solve any of these potential issues that we see in the capital markets right now. And then there's the option of, Hey, we keep going, right? We've had this projection or prediction that things are going to fail and you're going to have massive issues in the commercial markets and these areas. And we've been looking at that for a long time and it hasn't come to fruition yet. It's kind of an interesting place where most people are kind of just making simple moves, not trying to go for any home runs. Certainly right now,

Dr. David Phelps:

Let's talk in terms of a little bit more granular in the real estate markets. During up markets where cost of capital was cheap a number of years ago until the last two and a half years, it was a go-go market, right? Everything was going up, financial markets, real estate, capital markets all going up. So it was getting into equities, grow, go grow, use debt leverage because that's where you boost your returns. Are you sensing almost reversal of that right now or how much of a shift or change, as you said, people are being a little more hesitant to I guess, lean into what we've known in the past to be true?

Marcus Crigler:

You've got a lot of people, if you're thinking specifically real estate and we're just talking, let's just talk, buy and hold real estate in this specific example here. I think if we're looking at that, I think people that were buying and holding real estate, obviously the rates don't make sense with what the prices still are. And so I think that's what we're seeing. I think that's what we're going to continue to see until there's some adjustment in rates. But I think we're mistaken if we think we're going to see any rates that we saw back in the 2020s, 2020 ones, 2020 twos. I just don't think that's realistic anytime soon.

Dr. David Phelps:

Yeah, I would agree. So in light of that, and you work with lots of clients have for many, many years, are you seeing some clients that are shifting their models to any degree based on their sense of this uncertainty? And are you seeing some model shifts and if so, what kind of general model shifts are you seeing or not

Marcus Crigler:

All of them have shifted their model in some way? I guess the question depends on the extent of which they are shifting their models. I deal with a lot of operators, so a lot of people that are in the wholesale fix and flip, moving single family properties at quantity. And so those operators, a lot of those are shifting to how long they're owning those properties.

Marcus Crigler:

So maybe a property they would've flipped three years ago, they would've borrowed private money to flip at maybe a reasonable interest rate. Interest rates are higher on private money and that flip is more risky, so they're going to just turn it and instead of making 50, they're making 30, but that risk is a whole lot less and the cost of capital is a whole lot more on some of these deals. And so what you're seeing and what I'm recommending is that we reduce our time of hold any property, whether it's a fix and flip, if they're still a company that needs to fix and flip, we're looking at much smaller renovations where those renovations are maybe 30 to 60 days instead of sixty, ninety, a hundred twenty days because again, we don't know what the market's going to do and we know it can shift fast.

So I don't want my clients owning anything that they don't think they can get rid of. And so we want short-term assets or I want them to buy something that they have a ton of equity in and they don't have to get rid of it anytime soon. And so that's the other shift that we're seeing. The amount of equity we used to see as a requirement in a property to buy is substantially more. Now you could cashflow potentially a property by having 20% equity in the deal. You can't today,

Dr. David Phelps:

Right?

Marcus Crigler:

So you might need to have 30% equity, 40% equity, 50% equity, but not only that, the cost of that property, but the risk of holding that property is there still too and it's a higher risk. And so what we're seeing is if they don't have great equity and in today's market it doesn't cashflow reasonably, we're moving it and we're disposing it and currently we've been fortunate enough to be able to continue to dispo those properties.

Dr. David Phelps:

I'm dispo for people who know is dispose of

Marcus Crigler:

Yes, sell off, get rid of.

Dr. David Phelps:

Here's my special request of you, my avid and loyal and faithful listeners. Out of the thousands of listeners I've had in 2024, less than 10% of you are subscribed to the podcast. That means 90% of you are listening to my podcast and yet you're not subscribed. Why not? Well, it's just because you haven't taken the time to do it. I know I get busy to the same thing and I failed to subscribe to the content that I like. So if you enjoyed or found my content helpful, clicking the subscribe or follow button right now will help the algorithms push my content to more people who can find it just as valuable. Plus, if you are a subscriber, you ensure you won't miss any of my content or updates as soon as they come out. I'm personally excited about the upcoming guests books and projects that I'm working on and sincerely don't want you to miss out on any of them.

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Dr. David Phelps:

So hit that subscribe button. Stay tuned for more. Now back to our conversation. We just talked about the high cost of capital prices in general, the bid is still too high, so we have to see some equilibrium. Either interest rates got to come down and to your point, I don't think we go back to the days we were in. Prices got to equate, something's got to happen there. What if an operator, now I know this is the big what if, but what the operator went into deals, I know they're having to today because the banks will underwrite 20% down or 25% down. It's probably 30, 35% down better than I do. It's a higher amount of equity that has to go into a deal. It's hard to raise equity right now. I get it because of the uncertainty, but that being aside, why couldn't I as an operator, position myself as the guy that I personally like David Phelps or Marcus ler might invest as a passive LP investor if we're going into a very low or maybe even no debt financing.

Now I know you're going to say, well yeah, the problem is raising that capital David because we've got to use debt leverage to make the money go further. Okay, got that. And also we can't give the same returns because when you're not using leverage, well now we're just going to, what's the cap rate as an operator today? Can we get seven, seven and a half a nail eight? I mean without a big value add. Is there anything there if you could raise that kind of capital to go do it today or do you think that wouldn't sell?

Marcus Crigler:

Don't quote me on this, but I believe that's what Grant Cardone's doing the last five properties, he has paid cash for those last five properties. At least that's what he has said publicly. My guess is that means he raised capital to go pay cash for those. They're 50 a hundred million dollars properties. They're huge properties, and so he's deploying that strategy specifically because he can't get the bank financing. There's not enough good bank financing out there for those properties. He'd just rather buy the properties cash and then move. Now he's also getting them at probably good discounts for being able to buy 'em in cash. And so can you take that model and can you take some zeros off of it and go deploy it in your own market? Absolutely. It is the complexity of how do I raise capital at a lower rate because your probably best bet is going to be, I'm a big believer in under promise, so you're going to probably have to raise it at 6%.

Maybe you could get 'em seven, seven and a half, but you don't want to tell 'em seven, seven and a half because it's going to be tough to do that if you're not taking on debt, but that is the business. Every market has its own complications and so in 2020 there were problems. It wasn't just perfect, right? There was so much competition out there. Prices were going up so fast, nobody was able to predict what the sales price was. There was plenty of issues. This is just another issue that needs to be solved for. The great thing is it can be solved for, right? You're going to have to get good at raising money. Maybe being in an organization like yours can help solve some of that problem too.

Dr. David Phelps:

One more question about operators, and I'm want to go to a few of the frameworks that I know you're really good at talking about in general, again, operators, balance sheets, I'm sure there's a spectrum, but overall, have you seen a shift of that direction or are you seeing people accepting the fact that they need to slow it down, be a little more reserved in general or where you get pushback on that from people like, no, no, no, you don't understand Marcus interest rates are going down. We need to go hard. I'm just curious, what's the sentiment? If there is a sentiment?

Marcus Crigler:

100%. Everybody has shifted their focus to the balance sheet. I think you hit the nail on the head there. When things are great, everybody likes to stare at the p and l, right? Because it looks pretty, but what happens is the balance sheet is what creates the problems. It's never the p and l, the balance sheet is where most of the problems are at because you lose cash. Cash is the biggest piece of your balance sheet, and so yes, from that perspective, every single one of my clients, and we've been focused on this for not just today but since 2020 when we saw the writing on the wall that this isn't going to last forever. Hey, we've got to stack cash into this business and we've got to focus on our current ratio, and you've been in my presentations before. We talk about the current ratio all the time, which for those of you that haven't ever heard of it, it is just simply a liquidity ratio that tells you how liquid you are in your business. And so we talk about the current ratio a ton and what we focus on in that is helping them improve their current ratio, improve their liquidity. If you're asking what the market's doing, I think the market is absolutely focused on improving their balance sheets by putting more liquidity on the balance sheets. Now how successful they are at doing that, it's a person by person experience if you will.

Dr. David Phelps:

You've laid out in the past, I've heard you, I've seen you post some really good models in terms of a wealth framework process. We can think through this together. There's a hustle phase. We get out and we hustle, right? We're out there grinding away, trading time for dollars, just buildings up steam to create something. We go to more of a stable or secure phase. We've got a little bit more to cover the next month. We're not fighting to pull ourselves above the waterline. We've got some level of stability there, and then that's the time where it's like, okay, I've got things feeling relatively secure. I need to grow. I want to expand my empire, my enterprise, whatever that is. And then years down the road it's like, okay, I'm ready to slow it down. I want to exit, take my capital, take my equity that I worked so hard to build all these years and move it. You want to expound on any of those a little bit in the way that only you can do?

Marcus Crigler:

Yeah. Well, so that is kind of the wealth creation framework if you are, and that's for entrepreneurs. Certainly if you are not an entrepreneur, it's a similar process, but it's a little different because you're getting a W2 wage, but ultimately everybody's got to go through the same process and very few are the exceptions. So you've got to hustle, right? You start out in this business, whatever the business is, ultimately that hustle phase is all about focusing on that balance sheet, getting your product together, getting yourself positioned, getting the right cash in the bank. There's a whole process to making sure you've got the right cash, the right debt, all of that and get your balance sheet together. But then you go to the secure phase. A lot of people, they go from hustle to expand and they forget about the secure phase. And the secure phase is maybe the most important part of your journey as an entrepreneur because this is the where you prevent yourself from going backwards.

And if you're an entrepreneur, you know what I'm talking about. If you want to be an entrepreneur, you want to stay away from going backwards because that's the thing that ruins, ruins your ability to grow wealth, right? Anytime you go backwards, it just takes years of wealth building off of your plate. Our goal is to be slow. We don't have to be fast and growing wealth because we know long-term, if you go slow long-term, you'll get to your destination and you can do it in a lot faster pace than if you end up going backwards. And so we go from hustle to secure. Secure is a very, very important spot. And then you go to expand, right? And expand is where you start to invest, right?

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Marcus Crigler::

Invest in people, invest in advertising, start to really get to where your goals are right and start to improve your business, improve your softwares, improve your technology, make your business to where it is an asset, right?

It is an asset so that when it is time to exit, you have a true business to exit from and no matter what your business is, every business is going to have an exit. You can either exit voluntarily or you can exit by design. And I will tell you, if you exit by design, you're going to generate significantly more wealth than if you exit voluntarily. And so going through this process allows you to get to a spot where you can exit in your manner, the way you want to do it so that you can actually generate the wealth that you want to generate in your life.

Dr. David Phelps:

Marcus, what do you see as some of the biggest mistakes or errors in judgment when one is in the secure phase and desiring obviously to expand but going too fast? What are some of the key things you see that sets them back to take those two steps back before they can actually really go and expand the right way?

Marcus Crigler:

Yeah, I think generally what happens is we get into that hustle phase and we start seeing a little bit of that future cash coming in the bank. We can start tasting that ability and what happens is instead of going and investing in things like making sure your bookkeeping is squared away, making sure your LLC is documented appropriately, making sure you've got the right insurance in place, making sure that you've got a tax person in place. All the boring stuff that we don't want to do as entrepreneurs, we forget about it all and then we go straight into the expand phase where we don't have the backbone of a business yet. We've just made a little bit of cash, but making cash is not running a business. Making cash is simply a good hobby. It doesn't turn into a business until you actually get to the secure phase and build that foundation around it.

Have that cash in the bank, make sure you don't have bad debt. We talk about bad debt in the secure phase as being debt that isn't paying itself off. If you've been in this hustle phase in your business and you've been cranking out credit cards or maybe you've taken out a personal loan or whatever it takes, because we're hustling as entrepreneurs in that secure phase, we've got to get that stuff paid off. And one of the big mistakes that I see people make is they go in and they don't pay that off and they go to the expansion phase and just create more debt. It becomes such a huge debt cycle that a little hiccup in the expansion phase, like what we saw in 2023, a little hiccup there in 2024. Now we go backwards and we go backwards to the hustle phase where we're just trying to get cash again and it almost turns into a hobby again because we're not making profits and we're barely generating any cash, but yet we've got all the complexities of an expanded business.

So it's the worst thing that can happen to you is to go back from expand to hustle, and that's when you start seeing layoffs. That's when you start seeing vendors getting missed payments. That's when you start seeing loans getting called. All of that stuff becomes a terrible situation, and ultimately bankruptcy can end up in that area too. So that's why it's so important that you walk through that phase and where you're at in each one of those phases too, of, Hey, yes, I've been in business for a couple of years and I've made a little bit of money, but that doesn't mean I'm ready to go run a 25 person corporation that is generating 25 million in revenue, right? There's steps to this thing.

Dr. David Phelps:

I think that self recognition is so, so difficult here, I'm just going to give kudos back to what you do and maybe this is a good opportunity because I didn't understand what A CFO was. I didn't understand that I could actually hire a firm, a company, a person like you that runs a company even on a fractional participation basis where I didn't need a full-time person, but just having somebody that could give me the entrepreneur or the one who is spinning all the plates and has the vision and I want to hustle and do all this stuff to say, as you said earlier, you've got a great model here. Good job getting to here, but let's set the infrastructure. See, I need that. I need someone to slow me down. Put some governors on, say good job to here. But as you said before you expand, we've got to build a few more pillars in the foundation here. As an entrepreneur, I don't want to hear that. I want to hear you say, yeah, David pedal to the medal. Let's go baby go. But reality is with some time and experience in the field and you have tons of that by helping other people. Can you elucidate a little bit on that and why the services that a good CFO provide is so important? Going from that secure phase to the expansion

Marcus Crigler:

Expansion, I think it's important to understand what A CFO does in your business and what A CFO is for. And when you are looking at growing your business and it's imperative that when you're thinking about hiring that CFO, you're hiring that person because you are looking to grow. A lot of people might not be in that growth mentality, might not need that additional CFO, but we're talking about if you're looking to go through those hustle phases, right? Hustle, secure, expand, exit, what you're looking for in that CFO is not somebody that looks at hindsight what happened. You're looking for somebody to give you insight into what's going to happen, and so what I mean by that is as an entrepreneur, you don't need a CFO to set down and look at a p and l with you and tell you here's how much you made, here's how much you spent.

Here's the net. You can do that with any accountant, a controller. That is a perfect job for that role, but A CFO is going to look at your business and help you strategize from that hindsight information to make insight decisions on where you're going. Where is the revenue trends going? What should we be investing in? Do we need to hire this person? What does it look like if we put more in marketing, what does it look like if we hire that CMO or CFO, right? What does it look like if we hire those people? What are the costs? What are the projections? How does that look in your business? And so that's a big piece of it. The other side of it is tracking your KPIs. Our business is so complicated when we really think about it. When you think about any business, there is a lot going on in a business and we've got to figure out a way to get an entrepreneur to understand what's going on in their business in a few numbers.

We only have so many numbers that an entrepreneur is willing to look at, and so what we look at is how do I get a KPI dashboard so that they can understand the key numbers that actually matter, and then everything else is noise. So if they need to go solve a problem, they can see that KPI that is creating the problem, then go solve it. That's how we look at it, and that's what A CFO is there for is to help you point out those problems. Now, a lot of people look at their CFO to solve the problem. They're not solvers. You are the business owner, and so as the business owner, you're taking the information and you are making decisions, and so we talk a lot about better decisions, better results. If you as a business owner can utilize that CFO to help you make better decisions, that is ultimately what you're going to get is better results, and that's the key responsibility of that CFO.

Dr. David Phelps:

Yeah, I look at it as you are the diagnostician. You can look at the numbers, you can fare it out like a doctor does, looking at a patient's x-rays, blood work that chemistry and say, okay, we've got green, yellow, red, and you can tell me leading lagging indicators historically and then projecting metrics that we can look at that haven't actually turned into a result yet, but there will be a result and can give me that as an entrepreneur from that. Then as you said, it's my job to make decisions, but at least I know what I make decisions about, not just guessing and do I expand? Do I hire this? Do I do more market spend on marketing or just where do I need to put the money? That's the key, and I think as entrepreneurs, so many times when we're young in career business, we're flying blind and that just doesn't work.

So I always talk to people about the difference between an investment and expense, and I look at people like you as an investment that's not on my p and l. I'll grab for my balance sheet, go hire a Marcus Kler because that's an investment in my future, not an expense utilities, something like that. That's my expense, okay? It is what it is, but people miss that. So many times people think, well, if I'm not investing in the stock market and real estate or precious metals, I'm not investing. No, you're investing in yourself or you're investing in something that's going to add long-term results to your net worth equity business, whatever it might be. That's how I look at it. Anyway, let's go for a minute to the exit. So an entrepreneur has gone through the phases, expanded running well, and it's time to exit, and maybe this is not a legacy play to the next generation, it's just we're going to take chips off the table, sell out to another buyer.

How many times do you run into or what's your general sense of entrepreneurs who have learned their craft, learned to be good business people, but then when it comes to tight chips off the table, they're kind of lost. It's like, okay, I've always had my hands in my business. For the most part, that's where my predominant equity's been and I've ridden that horse and I've done a good job. Now I'm going to take it and put it somewhere else and be like a passive investor so to speak. I can put it in the stock market and I'm not making a play. Yes or no. You can certainly do that. What should a business owner entrepreneur be doing along the way to maybe develop more, let's just call it generalized financial acumen?

Marcus Crigler:

I think it's so important to be a continuing learner. I think that's number one. I think if you are great at what you do, that is phenomenal and that is your golden ticket to financial freedom because you only have to be great at one thing. However, on the other side of this, you do need to get good at managing money if you're going to make it. You got to get good at managing it, and so that's your next skill that you're going to have to figure out, and part of that is understanding the various investments that are out there to manage and understanding what a diversified portfolio looks like. Maybe some of your listeners are like, well, I have a financial advisor. That's what they're there for. Unacceptable. You can't delegate your wealth building to a financial advisor. You can use them as an advisor. They're an advisor. They are not, Hey, this is what you're supposed to do. You have to make that decision for yourself, and so it doesn't matter if you like Bitcoin, if you like real estate, if you like stock market, if you like, whatever your thing is, you got to understand these various asset classes, and by the way, if you don't understand it, you steer clear of it immediately,

Right? There's no asset class where you want to get involved with that. You don't have an in-depth understanding of that asset class and what it means to you both on an income standpoint and a tax standpoint, by the way, right? That's another thing that a lot of people miss out on. A lot of people get the after tax, okay, what's the after tax return? That's not what I'm talking about.

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Marcus Crigler:

I'm talking about do you even understand how the tax information is going to get reported to you? Do you understand that when you get depreciation on a syndication that you got to pay recapture when you sell that asset? Do you understand all of these things? And if you don't, you've got to kind of stay clear. What my biggest recommendation is, and I do see to your point David, is that it's something that, what I find is that people that are in that exit phase that are truly exiting, right?

It's a nerve wracking. It's all a completely different skill. It's sometimes 30, 40 years of the same thing, and now I've got to develop a new skill that is completely outside of what I've done my whole life. It's tough and it's so much change, and quite honestly, I believe that's why so many people stay doing what they're doing because they're afraid to be honest with you, to get that new knowledge, to get that understanding of, Hey, I can sell my business and then I can go invest it here and I can get comfortable with making that kind of money, and we talk about being financially free and being able to do what we want when we want to, but sometimes we're too afraid to actually take the leap to do it because we don't know what's next.

Dr. David Phelps:

You're so correct. I see it all the time. It's not that we or the people that have run great businesses don't have the ability all day long or they wouldn't have been done what they've done, but you're right. There's been so much focus on the one thing and getting really good at that one thing, but now it's a different skillset and I think that's a big reason why I see so many hang on when they're physically and emotionally spent because it's the safety net and as long as I can hang on that horse as long as you can because as soon as I drop the reins, I'm going to be kind of dropped dead here, right in the trail. It's not comfortable hanging on because it's bumpy ride, but man, I let go. Where am I going to be? It's that fear of the unknown, and I think you hit it right? It's a scary point to be, and I'm a big advocate as I know you are about always developing additional skill sets outside your primary area of specialization, adding some dimension of, as you said earlier, how can I manage my money outside of my business when it's time to start managing money out outside my business? How am I going to do that? How am I going to allocate? Yes, use advisors, get help, but if you don't take control of your own money, no one's going to do it like you are.

Marcus Crigler:

No, absolutely not. And it's scary, right? It's scary to allow somebody to have that much control without your understanding and agreeance of it, and so I think it's just very, very important that if you are somebody that you are in the expand phase, that's a perfect time. As part of your expansion is to be thinking about what is that exit phase look like, and you might be in the expand phase for a decade. That might be the deal, but if you're in that phase and if you're truly in that phase, you've done the hustle, you've done the secure, you've got your foundation built, you're not going backwards. We know those businesses, those businesses, they might not have the revenue one year that they had another year, but they're still going to generate profits. The owners are still going to get paid. It's a solid business. It's going to take some massive adjustments for that business to not be a great business. Those types of business owners really need to be also spending some time understanding these various investments that they could be getting into.

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Dr. David Phelps:

So to that extent, for all the entrepreneurs that I serve, you serve other people serve that are doing great things in climbing the ladder from security to expansion phase and living life with purpose and creating financial wealth that someday will let them have the choices of freedom. That's what we're all about, right? Doing it by yourself I think is the biggest mistake, and again, this is something you don't learn in school, but we both know that being associated, being intentionally affiliated with participant in different kinds of groups, coaching group, mastermind groups, whatever it is, that's where you and I met is you're doing it with other people that are also on the same journey. The same path could be totally different businesses, it doesn't matter. It's the mindset of somebody who might be a little bit further down the path than I am. Maybe it's age, maybe it's maturity and business, but I'm looking and saying, Hey, that person's speaking about something that I've always thought about, but I haven't done that and maybe I can gain some gleaned some wisdom from that person.

When did you start learning about this? When did you start divesting? When did you start doing this? If I don't have that exposure to other people who have maybe gone before me and figured a few things out, then I'm living in a vacuum and that person who just kind of trips along and every time I get to a new milestone in my elevation, boom, I hit that ceiling. You're like, what do I do now? It's like you've got to be ahead of the game. I dunno. I'll let you speak to that and finish it off, but I know what you're going to say. You're a fan, right?

Marcus Crigler:

Yeah. Well, I mean, I think we've all read Think and Grow Rich. If you haven't put it on your book list for 2025 to read and it talks all about it, right? It talks about understanding the importance of a mastermind, and if you're not familiar with what a mastermind is, it's exactly what David was just describing, right? A think tank, a group of people that are coming together to help each other win, and whatever that looks like, all masterminds are created a little differently, but they're all equal in the sense that, hey, you've got people coming together that are trying to help each other in their expertise in their life, and it could be, Hey, I'm a couple years advanced from you. I've been here, done that. This is the step you need to take right now. Or it could be somebody like me, right?

That, Hey, I've got 200 entrepreneurs that we work with every single day in all these different phases. I'm seeing all the problems. Come ask me, what questions do you have? What issues do you need solved? And so you get all of these people into a room and this think tank, it creates some really magical things for your business, and what it does is it challenges you as an entrepreneur. It makes you grow as an entrepreneur, not necessarily as a business. You have to figure that out yourself, but as an entrepreneur, if you get into one of these masterminds and if you get accepted to some of the great ones in the country, I can promise you this, you will absolutely grow as an entrepreneur, and by doing that, you will get to that wealth goal faster. There's just no doubt about it.

Dr. David Phelps:

That's it in a nutshell. Well, Marcus, it's always great. Thanks for coming back on and just bringing some of your insights and wisdom. I always love talking to you and I know our listeners do too, so really appreciate your time today.

Marcus Crigler:
Oh, anytime.

Dr. David Phelps:
Some of the most common mistakes I see that real estate investors, entrepreneurs are making today is really a lack of a knowledge of a full market cycle. It's oftentimes that I see people get into a certain mode or modality of operations in a market cycle that produces a lot of tailwinds or a lot of motivation and movement going forward that allows certain people in certain business sectors, or in this case in real estate, to make a certain model work. Well, for instance, the last 15 years really going back to coming out of the 2008 financial crisis after that downturn, that correction, everything has been really uphill ever since. A lot of it manipulated by the disruptions and distortions in the financial markets, the monetary policies and the fiscal debt spending by our government has really frontloaded a lot of capital that has pushed asset prices up in that kind of a mode.

It seems like everybody's a genius and everybody makes money. The problem is when we go through a cycle change, a turn, a downturn, a movement in the other direction, most people that have had good results in the previous house cycle don't know how to maneuver forward going the cycle, so I see today a lot of entrepreneurs are still using a model of buy the properties, buy the equities, debt leverage with higher cost of capital is a problem today, and because prices have not equated to the higher interest rates so far, people who have a model that worked in the past are finding they have less margin today by a long shot, still trying to squeeze profits and cashflow out of models that really don't have it, and all it takes is just a little problem, like higher property taxes, higher insurance, higher transient of vacancies and turnovers in their properties, moratoriums on evictions, which we had happen during covid, natural disasters that happen.

All of these things can happen in a normal scheme. You've got enough margin to deal with those, but in a market like we have today where too many profits are trying to be squeezed out of a model that doesn't really provide that, it's a big problem, and I think that's where entrepreneurs that are boots on the ground and investors who love investing in real estate have got to be really cautious today as to how you invest. There's many models of investing in real estate and equity ownership with net leverage is just one of those. I think today is the time to be cautious about that model. It will come back again, but right now I think it's a good time to really be prudent and take time before staying with a model that maybe worked in the past but is not so relevant today for business owners who are at the point of exiting their business or their professional practice, taking the chips off the table, harvesting that equity that they maneuver for so many years, made the income for their family, supported them well, it's a transition time for sure.

It's an opportunity to phase out from active income into more of a leisurely retirement phase, if you want to call it that. That's something that most people look forward to at some point in their life. Here's the problem. When you've been operating your business, your net worth, your equity in that business with your hands on it because you understand that business, you understand that professional practice, you make all the decisions, yeah, it's work, it's active income, but you're able to keep your fingers on the pulse, your hand on the gears or the lever, so to speak, and maneuver those. When you sell out of that business, now you have your equity out from under the business and now it's in your hands, so to speak, figuratively, it's in your hands. You've got it in savings accounts, bank accounts, maybe you put it back into the financial markets, not sure where you put it today.

Dr. David Phelps:

That's the problem is where do you put that equity because you're used to having it produce regular sustainable income and also a growth value aspect as well. Now you're in a position like, well, what do I do with it? Where do I go today? Well, today the marketplace is at all time highs, equities. We're in a bubble. Do you put it back in a bubble market with the high degree of chance that that bubble is going to burst at some point in the near future and reduce your principle, your equity by 30, 40, 50%? Don't think that's a good move. This is a problem because when you don't know how to navigate your capital base outside of your business got problems, this is a set of financial acumen models that need to be learned while someone's in business. If you wait too late until it's time to capture that equity and now figure out what to do with it, you've never done it before except just putting it in a 401k and letting a money manager manage it, not a good look.

I really tell people that it's imperative that you learn how to make money work for you on a more active basis similar to what you've done with your business equity. I like to be what I call actively involved with my passive investments, actively involved with my passive investments. It means I'm not doing the work anymore, but I'm on top of where I'm investing my money and who the operators are, whether that's businesses, whether that's real estate, any of the tangible assets that I like today, I want to be involved, and I think that's what it's going to take going forward in the years ahead because we're going to have a lot more volatility and turbulence and just staying with an old model that might've worked in the past could be very dangerous for many. I'm often asked, can business owners sometimes hang on to a business too long and miss the opportunity to sell when the opportunity is there?

Well, I think that does happen quite often. I think it's a fear factor that when a business owner feels like they are there at the place where they would like to exit, the question comes up, well, do I have enough? They've never again looked to see, well, how do I take the equity from my practice and make it actually produce replacement income? It's replacement income. That's important. Yes, you've got to have the inflation hedge with that, but replacement income is the first and foremost priority. When you're leaving active income, you've got to have the income, otherwise you're going to be taking your equity base and depleting it down over the years, which is the typical traditional model of financial retirement, which in my world doesn't make any sense. I like assets like a business that will keep producing income, have an inflation hedge at the same time, not really a place to be with the financial markets, they don't provide really strong dividends, so you have to be in a growth mode.

Well, growth mode's great when you are in a growth mode period, but when you need the replacement income, those growth stocks that work so well don't play out anymore, so where do you go? That's the problem. So yes, I think there's a window of opportunity when business owners should probably take the chips off the table and they don't because they're afraid they don't have a plan. They've never laid this out in front of them in the past. That's a big problem. It's really imperative. Again, I said it before that a business owner who's good in their business also starts to learn how to make their money, their equity work for them outside of that business. That's what I call plan B. So what I started doing back before I actually got into dentistry my business is I started learning how a plan B works, and today, that's what gave me the exit that I had 20 years ago and lets me live my life really the way I want to, what I call work optional.

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Dr. David Phelps:

I love what I do. It's not work. If there's nothing I'd rather be doing than what I do today, it's not worth, I'd love for you to be in that same position in your life, but you can't do it without understanding how to make your money, your equity work for you outside of your primary business most spend their lives optimizing for wealth, net worth and quantity, thinking them the accurate measuring sticks for success or the magical portals into the lives they want. I believe most people are optimizing for the wrong thing. Time is the greatest resource, and time is what we all want more of in the end, but it's not just about the quantity of time. It's about how you spend it. How you spend your time is the most accurate measuring stick of the success of your life, so how can you optimize your life, business, and decisions for more time, and how can you upgrade where you spend your time to improve quality and the satisfaction of life? My new book, scaling Time Versus Wealth Lace, the groundwork for these questions that provides the lens in which you can filter your decisions to optimize for time and how you spend it. You can get your free copy at scaling time versus wealth.com. That's scaling time versus wealth.com, and thanks for tuning in. Be sure to click that subscribe or follow button and let us know what you want to hear more of in the future. I'll see you next time.