Every Dentist Must Master Leadership, Exit Strategies and Burnout

Dr. John Meis: Ep #550

Dr. John Meis

I don't care if you're the owner or you're not the owner, but developing your leadership skills is super important. You can see the ones that you can say, that person's gonna do extraordinarily well, because you can tell they're a great leader and great communicator. So those two skills would be something that would serve every dentist really well to become a great communicator with their team, great communicator with their patients, and to have great leadership skills.

Dr. David Phelps

Decades ago, I hustled to grow my dental practice and real estate empire. Society patted me on the back and every new deal and patient reinforced the success they said I had. Then my daughter Jenna was diagnosed with leukemia. Nine years, several intense chemo treatments and years of epileptic seizures, my daughter was given one more miracle, a life-saving liver transplant. In that hospital, I realized I wasn't successful. I had money, I had real estate assets and a business, but the only thing that mattered was time with my daughter.

In that hospital room, I decided to sell my business, leave active income, and sustain my lifestyle with my real estate assets. Now, Jenna is healthy and all grown up, and me? I am teaching others to do what I did. And I continue to uncover the principles, strategies, and lessons we can apply in business and investing to create ultimate freedom for what matters most to each of us. Welcome to the Freedom Founders podcast.

My guest today is Dr. John Meese, visionary mentor and a true architect of scalable success in dentistry.

John is the CEO of the Team Training Institute, a master strategist behind hundreds of high performing practices and a trusted advisor on over 100 dental &A; transactions. But what really sets him apart is his ability to simplify what others complicate. Leadership, building systems and creating real wealth without sacrificing values or mental health. Whether it's navigating DSOs, optimizing team culture or unlocking a doctor's hidden potential, John is the go-to

expert for dentists who want clarity, freedom, and results. In this conversation, we cover where dentistry is headed in the next five to 10 years, why private equity-bept DSOs are changing their game, the number one mistake sellers make before a transition, what younger docs must do to thrive in a post-school environment, and how leadership, not clinical complexity, is the real multiplier in today's market. Please welcome Dr. John Meese.

Hey, John, it's so great to have a chance to connect with you. It's been a while since we've had a direct conversation, but I certainly have a lot of great memories of times with you and different mastermind groups and just within the dental industry and your events and you at our events. it's just it's just been a pleasure. And I'm glad we had a chance to circle back around. I'm going to start today with kind of a might be considered a back end part of a conversation. I want to start at the front end because you're on you're on top of this and

You've involved in, I don't know, well over a hundred mergers and acquisitions in the industry. mean, you're known for scaling, helping docs scale their practice to whatever level they want to. And we've seen, obviously over the last particularly the half dozen years, but still to this day, there's a big movement in dentistry and people will be there for against, of course, the private equity backed DSOs, the consolidation of the industry. And there's all kinds of people that will throw stones at it. And other people say, well, it's the only way I could exit and whatever.

And I'm going ask you is where do you sense see the industry going? If you can go rub your magic crystal ball, which I know you have one somewhere you pull that up. What do you see portending for the industry? Let's just go out as far as you want to. I we can take short term next three or five years because there's certainly a lot going on now, but then even longer term because I want to do is have you kind of prognosticate a little bit about, you know, our colleagues that are in practice.

got new ones coming out of school all the time that are looking at the world going well what the heck you know I've got all this debt I can't I gotta go work for a corporate how can I ever ever practice we've got people in the mid career many of them going well should I pull the trigger and make the exit should I scale so you know it's just everything you know and you talk to docs all the time so I'm just gonna let you take all the time you want to lay out the big picture

Dr. John Meis

Well, here's how I see it. I see that the consolidation will continue. I think there will be an increasing number of dentist-owned, not necessarily private equity-backed groups. I see that group expanding. I see private equity continue to grow, and there will always going to be individual practices. So I see that there'll be fewer individual practices. The one doctor, one location,

practice, that will get smaller and smaller and smaller over time. Some of those merging into bigger groups, some of those being bought out by private equity. And so these private equity backed groups, the thing about them is the most senior of those are now getting very, very picky about what they take. One big one that we do some work in education and consulting for, they are now requiring dentists that are selling to them.

to stay for five years and paying on average five times earnings. But if you think about that, if you just, you get all the earnings. If you just continue to work for five years, you'd be absolutely even. And so, so they are getting, getting more picky. They understand the groups, the personalities of the owners that do well. And so they are getting pickier. And so I think the speed of growth on those is going to decrease. Right now the blend of

Dr. David Phelps

exactly.

Dr. John Meis

doing de novos, which is a brand new start versus acquiring that mixture always bounces around a little bit. with the, the cost of lending being relatively high now that's affected the rate of speed of growth of these bigger groups. And that's also affected the mix of whether they acquire or whether they do a de novo. Obviously a de novo, you're going to have a period of time that's negative in cashflow, which for

these big groups, have to borrow that money and borrowing is expensive. And so it's, it's affected that. So that's kind of where I see things going. I see the biggest growth being in not private equity backed groups. may be structured as a DSO, but finding the money through conventional lending and equity to, to dentists in the group. And I see that as maybe the biggest thing moving right now.

Dr. David Phelps

Yeah, that makes a lot of sense from my, my macro view. makes, makes a lot of sense. You, you've always been a driver for culture and values. mean, anybody who does anything in business per se has to have an understanding of that. That's how you effectively can scale to whatever level you want to systems and processes. Absolutely. But the, the human side, which can be, ■ you know, you're, you're

your bane or your whatever I'm trying to say, know, it be the thing that drives things for you or it can be the thing that takes you down. And understanding that what I'm curious about is with with corporate, just call it corporate in general, could be DSO back, could be, you know, just doctor own group practice, which I agree. I think that the the the one doc solo practice is is becoming more and more of a unicorn. So but how

how are we driving the personnel, particularly dentists, that are coming out of school today? And again, I'm not plugged into the schools. You probably have a lot more there. But in terms of the docs that are graduating, my feeling is that they're not getting the reps. They're not coming out with the level of experience, reps that we had coming out of school. how does a group that's trying to expand, whether it's private equity or just group-owned,

How are they fulfilling the needs for able-bodied doctors in this case to come in and fill those seats? Is it tough? Is it difficult? Or are they doing a good job of instilling the education? You have a big place in that, I know.

Dr. John Meis

Yeah. Yeah. So it's all over the map. Some of the DSOs are outstanding at it, at building a positive culture that understands what success looks like in dentistry and dentistry being a relationship business and serving your customers. Some of them are absolutely excellent. Some of them aren't. Some of them are fantastic at hiring people and helping them fill in the gaps of their experience in school. And you're absolutely right.

And schools vary a tremendous amount. In our own group, we do hire people right out of school. Pretty much every year we're getting one or two. And we have somebody came from, actually was the University of Las Vegas. And boy, he got a ton of reps and he was really prepared to go. We've gotten people from other schools that weren't as well prepared. And so then now we have to figure out how to help them get the, how to help them learn the basics first. Cause everybody wants to do something fancy and something elaborate.

but you got to understand the basics, the bread and butter, stuff that we seed and do every day. And so the groups are, some of them are, are really zoned in on that, tied in and do an excellent job. Some less so. Some DSOs are much more hands off. So we'll buy your thing. You just do your own thing and you keep doing your thing and we won't bug you very much. Quite a few of them will do that at least for the first year, maybe two, and then, and they'll start tinkering a little bit.

So it is an important thing for our profession because ■ a vast majority of people coming out of dental schools are going to work for corporate dentistry. And so if corporate dentistry doesn't do a great job of that, it's not going to reflect well over time on our profession. And luckily, most of them are doing a good job. And those that aren't are going to suffer for it ■ and are going to learn a lesson and they're going to have to switch.

Dr. David Phelps

You built the practice, you hit the income goals, but if you're honest, you still feel trapped, prisoner of your own success. You didn't get into dentistry to grind forever, chained to the chair, hoping a 401k will eventually set you free. It's time to stop working for your practice and start building a life funded and protected by it.

At the Real Wealth Conference, you'll learn how to optimize your practice to run without owning your schedule, replace your income with real cash flowing investments. Exit your practice on your terms without selling your soul to a DSO. This is not another CESemmon owner. It's the blueprint to real freedom built for dentists who refuse to die in the chair. This October 23rd to the 25th in Dallas, Texas, go to Real Wealth Conference

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to purchase your ticket. That's realwealthconference.com. Get out of the chair, get into the room. It's your move. With any kind of merger acquisition, John, the founder, the goodwill from a founder, the knowledge base, the culture of the founder has created the reputation in the community. That's obviously very important. And you said most of the buyers today that are buying and aggregating are requiring,

five years for that founder, that seller to stay on. Whoa!

Dr. John Meis

five

years, some three years, some will allow you to do an immediate exit, but ■ they'll only pay you, you're right, there's a big discount on what they're going to pay you for an immediate exit.

Dr. David Phelps

Yeah. Yeah. Okay. Yeah. So if you want it, you want to get paid, you know, the full the full buyout, then you're going to stay for some period of time. Yeah. Because I'm thinking from my standpoint, again, I don't have the experience that you do at all. But I'm just thinking if I'm a buyer of a dental practice, just even a solo practice, I'm thinking once that founding doctor who still has some skin in the game and wants to do well, once he's gone, either mentally or physically or both, I got to replace him or her or whatever the combination was. got I got to now replace him.

I'm an absentee owner. I'm not gonna be the guy going in and do the dentistry. So I replaced them. And again, unless you have a really good system and process and onboarding and things you're saying that the good companies do, but it just seems like as we go full cycle, and I don't know where we are on that cycle, how many turns have we gone where if you go back half a dozen years, we've certainly had some full turns where the founder of the seller is gone. And now how is the replacement?

Dr. John Meis

yeah.

Dr. David Phelps

In general, know there's exceptions, there's good and the bad and the ugly, but is the replacement, is succession, I should say, is that working out as well as the companies wanted or are they seeing some pit misses?

Dr. John Meis

No, there's hits and misses for sure. So what most of them find is when it's a single doctor practice that's acquired by a DSO, that owner doctor now is getting only a portion of what they used to get, right? They used to get the profits and production pay. Now they're just getting the production pay. And so not many people are more motivated when they're making less than they used to doing the same job.

And so we see some drop off in performance, when in that first year or two, but the reason that why most of these groups want the founder to stick around a while is to make that transition easier. Now the smart ones are the smart sellers are building their practice to a size that the practice doesn't depend on them. That makes them much more valuable because the, the, the buyer.

now realizes, the founder's gone. It's not that big a deal. We'll be able to, ■ we'll be able to manage that just fine. But the practices that are both hard to sell and sell at a discount are those where the founder doctor's there. He's a major producer, big tool belt, lots of skills, lots of experience, charismatic, you know, from painful experience. I know now that those are ones I'm not going to touch. Right.

because you're not going to be able to replace that person. And you might have to hire two people to replace that person. And now you've got a different cost structure than what you bought.

Dr. David Phelps

So that leads me to my next question, which you kind of partially answered. So add to it as you wish. when you're looking at, when you were to be looking at acquisition, red flags and green flags, you gave a little bit of that. A solo doc who's a decathlon dentist, got the big tool belt, not so much, or we're gonna pay a lot less because the continuity of that's gonna be tougher. What other, either red flags, which you'll be saying, no, I'm not interested, or what's like green flag, like, yes, we're very interested in looking down the road with this particular one.

Dr. John Meis

So if I were to pick a really great practice to buy, it would be founders producing, you know, maybe less than 20 % of the entire productivity. There's multiple doctors in there. That founder is, takes a lot of vacation time. Practice continues to function well without them there. To me, that's a very, very stable investment. Now there aren't many of those for sale because... How would you sell? Exactly. Exactly.

Dr. David Phelps

What if you were that guy?

Dr. John Meis

And you know, I have to ask that question in general, David, because you see these people that are in the in the middle of their career and in the prime of their earning potential and capacity, and they sell the profit stream for one check one day and then the profit stream for the rest of their career is gone. I just it just blows my mind. I can't understand it. And I know some people who've built something, sold it and then started over again. You know, so I guess

that makes sense. But the idea that you're going to sell your future profit stream forever for one check, one check, and then a maybe other checks along the way. But as you know, those are maybes. The future performance, the value of the parent company stock is in question. We both know there's, as of last July, there were 60 DSOs and receivership. those people who got bought out with

parent company stock, that stock is worthless. So there is risk in this as well. So I don't understand. I can see at exit when you're approaching retirement, I think it's a relatively easy. And if you pick one of the bigger, stronger companies financially, it's relatively safe, not completely safe, but relatively safe. And so then I kind of understand it. But these middle of the career guys, I just, I just blows my mind.

Dr. David Phelps

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Every quarter you'll receive my free digital newsletter packed with powerful alternative investment strategies, timely economic insights, and uncommon wisdom to help you create more freedom, autonomy, and impact in your business and in life. As a subscriber, you'll also get weekly blog insights from decoding market shifts to building generational wealth to crafting a business that doesn't run you. It's not just information, it's insight that leads to action. Join a community of like-minded entrepreneurs

John, what are one, two or three principles, foundational principles that every dentist should master and pick, you know, clinical business?

combination of what do you think would be key principles that they should really work to master?

Dr. John Meis

So.

So leadership is, I don't care if you're the owner or you're not the owner, but developing your leadership skills is super important. And David, as you and I have watched entrepreneurs, so we've been together in mastermind groups with a variety of industries. And when you see, you can see the ones that you can say that person's going to do extraordinarily well, because you could tell they're a great leader and great communicator. So those two skills would be something.

that would serve every dentist really well to become a great communicator with their team, great communicator with their patients and to have great leadership skills. So those would be a couple. The next, and I'm going to stay away from clinical because those things I think are relatively obvious, right? We have to learn the skills to do everyday dentistry, to do it well, to do it efficiently. And just doing that, you know, we've got in our, we have clients that are

you know, seven figure earners and they don't do anything fancy. They just do the basics extraordinarily efficiently have ■ a well run, well producing hygiene department. financially you could do extraordinarily extraordinarily well just doing that. So anyway, mastering that and then developing additional skills, additional procedures you can do, which keeps a person.

I think more engaged in the profession, dentistry can become kind of repetitive. And so when you add a new skill, you add a new technology, then that really kind of reconvigorates you. and another thing is to really watch the technology. so I was just at a dental technology conference and the speed at which technology is improving is really quite astounding.

Every technology now has AI put on it, whether there's really any meaningful AI component or not, but AI is allowing things to improve at a faster rate. And so that would be another thing that I would keep my eye on because there is a, I know there's a lot of talk about AI replacing dental employees and maybe it will someday, but it certainly is going to make them more efficient, more effective. And you know, in our company, people using these tools, they fairly, fairly quickly, you know, within

10, 11 months, they fill the capacity they have. can't see anymore. They're full, which is really exciting. And if people aren't full, there's a very simple pathway to get from where you are to that.

Dr. David Phelps

Well, that's that's good news. I think and I and I take that very well received from from you because I've known you a long time and I know how principled you are. And I think there's a lot of. Particularly younger docs, there's a lot to spare. Well, yeah, despair and I understand some of it. You know the finances, the debt that they may carry, but let's just let's face it. It's it's there's there's good time. There's you mentioned, you know, the technology and the opportunities today. Dentistry.

is still an amazing profession. It's just what we don't know. And I say we because we've grown over the years. We had to learn from other people. We learned through the school of hard knocks, whatever it is. And there's a faster path to get through that. You and I, and I'll put myself, you know, at that age when there's no, we wouldn't be doing what we're doing here today. We might be able get on a phone call, but you know, here, you you could show me some technology. You could show me something here, demonstrate, and I don't have to be with you or you and my officer on the shoulder so I can take CE, I can learn things.

in ways that we never could before. So the opportunity to learn and have mentorship and coaching is just exploded. And that's the fastest track to anything. So I hope the young docs that are listening to this who might figure out, you know, what am I going to do? I feel stuck where I am right now. And I don't know what I would just tell you, reach out and you there's you've written books and you I know you produce a lot out there. Even if people aren't ready to get inside your world, but there's just places to go to get

up to speed, whatever your deficiencies are, we all have them. Those can be overcome if you're willing to put in the work and have someone help identify for you what you may be missing.

Dr. John Meis

You know, one of the things I've always admired about you, and it's a quality that we share, is that you are an extraordinarily curious person. You are a learner. You're a reader. You're a watcher of things. You're a student of things. The things that you know a lot about and about a lot of other things as well. And I don't know about you, but I can tell you that I and the people, we've shared consultants getting help from the same people multiple times over the years. And I can tell you that money was extraordinarily well spent.

And so it's just a faster way to get there. When I started practicing, I knew I practiced with my dad for a period of years and he retired. And I knew the way I knew he was very progressive and he was a very, very smart man and very compassionate with patients. But I knew the way I knew there was a better way. I didn't know what it was. And I did trial and error, man. I did trial and error for about 10 years.

And then I realized, I don't have to, I don't have to drown here. I can find somebody who's doing better than I am and learn what they're doing and apply it, apply it to my practice and won't be exactly the same, but I'll apply it to my practice and make it better over time. And that's how we had such, you know, tremendous growth in our practice and still in our group of practices now.

Dr. David Phelps

So I'm just curious, who would you say was the first dental mentor that opened your eyes at some level? Who was the first one you engaged with? Aha, I found something that can move the needle.

Dr. John Meis

Yeah, a name that nobody will probably know. She was an independent one woman shop. She came out of the pride system and her name was Lynn Garber. And ■ Lynn showed us how to schedule very productively. So working with her for, I don't know how many years, maybe three or four years. know, our practice probably grew in those four years, probably grew times three. Yeah.

So we had pretty rapid growth with her. Some others, Greg Stanley, who recently passed away at Whitehall, learned a lot of things from him. A lot of good things, a lot of things that maybe weren't so great. And that's with everybody. You can't swallow everything whole. You have to learn, take the pieces that fit for you and leave the pieces that don't fit behind. That's on the business side, I would say those were probably the major influences. Many more though on the clinical side. I think Frank Spear took his

series of courses back when he was in Seattle still. This has been quite a while ago, but those really opened my eyes. I said to him one time, you know, you show all these big cases. And I said, I just don't see big cases. And he said, you open your eyes.

You see them, you just don't see them. You're probably seeing at the size of your practice, you're probably seeing one a day. Right. And he really helped me understand that, understand how to do the dentistry at a very high level and how to do it in a practical way and in a way that patients can accept. And not everybody did, of course, and not everybody could. But I learned an awful lot from him.

Dr. David Phelps

There's just a lot to be said about about mentors who are down to earth. They're just further down the path than we are wherever we are in our life and to actually have them give us a vision that we can't see in our little world box. That's the big pieces. If someone else can do it and they're not just some magician or have skill sets way beyond my capabilities. If I see someone do it, there's a chance I can emulate that that behavior which starts with you know, a mindset shift, right?

back to you have to see it. have to see it, visualize it, believe it's possible, and then you can develop the skills that enable you to produce the result you're looking to produce.

Dr. John Meis

And we have an event, we call it the executive GPS. And you have a very similar event where you do that, where you meet with someone, you see where they are, you map out for them what it would look like. Here's, here's where you could be. And here are the steps to get from here to there. And most people don't know what's possible and you open their eyes to what's possible. Most people don't know where to start. Yeah. It's that first step, knowing where you're going and what the first step is so critical. And we do that for.

dentist on the practice management side and I know you do a very similar thing on the real estate investment side. It's really an important thing for people to have that experience where someone who's seen things grow tremendously and see what's possible and share it with you and maybe it fits, maybe it doesn't, but at least you know what's possible.

Dr. David Phelps

Exactly. So John, just to wrap up, what's the best way for someone who would like to further engage with you, your team, wherever they are in the spectrum? What's a good way to get started to see if there's some opportunities to grow with what you are able to teach?

Dr. John Meis

Probably the very easiest way is to go to our website, and that is thetti.com. And on there, there's a place where you can register for an introductory call. And this introductory call, it's a 10-minute call. It's to help you identify the major constraint or blockage that you have in your practice and give you some thoughts on how you can overcome that blockage. There's nothing sold on that call. It's a very quick, very highly choreographed call.

It's 10 minutes, you're on, you're off. And if you find the information valuable, we know that a percentage of people that do an intro call want to work with us. And so then we schedule another call for those and we can walk through where they are, what they want to accomplish. And then we find the right plan for them. Just having that clarity of what is the number one thing. And I think you've read the book, The Goal by... So it's a famous, it was written probably what? 30 years ago, maybe 30 years ago. But it's all about the theory of constraints. Constraints, yes. And so what I...

didn't understand, I kind of understood constraints before that, but what I didn't understand is that in most business systems, there's one big one. There's a bunch, but there's one big one. And you solve that one big one and you're going to have really rapid growth. And that's what this call is all about, finding that one constraint, that one blockage, that if that were solved, makes everything else different.

Dr. David Phelps

you're changing lives and multiplying that effort because when you change a dentist and their team's lives, that's impacting the people they serve and the ripple effect just continues on.

Dr. John Meis

And you're doing

the same thing. know, we share quite a few clients and you're doing the same thing just in a different way. And you really have changed the lives of many of our clients. I'm grateful to have you as a friend and grateful that we get to work together and share clients.

Dr. David Phelps

We do.

It's always a pleasure and I really appreciate your time today. We'll put this out to the audience and just wish you all the best, John.

Dr. John Meis

Thank so much for your time. You

too, David. Great to be with you.

Dr. David Phelps

question that comes up almost all the time is how do I manage debt? When do I pay off debt? When do I invest money? And the real answer is there is no one answer that fits everybody. No one size fits all. It depends upon where you are in your life stage, you're younger in your career, building a path. If you're in mid-career with...

more production or if you're an ender, want to preserve capital, make sure that your lifestyle can maintain without stressing it over time. So let's run through some of the aspects of how I would look at whether to pay down debt or invest my money. One of the prominent questions that come up in terms of financial crossroads is, should I pay that debt down? How fast should I pay it down? Which debt should I pay down? And then what about investing? Can I do both at the same time?

Again, it's not a binary answer. It's not one or the other. It's maybe a combination of the two because you can't wait to pay down all of your debt before you invest. On the other hand, you can't let debt consume your life and keep you as a debt slave longer than you need to. So finding that balance is the key. It's all about your risk tolerance, your stage of life, market conditions, and just overall peace of mind. Do you sleep better at night knowing that you've got control if not having paid down your debt over time? So the foundational

trade off I would talk about today would be one, the leverage dilemma. Good debt versus bad debt. So what's good debt? Good debt is low fixed rate, productive debt that is invested in growing a business. Maybe it's into real estate investments. Maybe it's investing in yourself and your own skillsets. That would be good debt in my opinion. Bad debt is everything that's consumer debt. ■ Stuff you put on the credit card and don't pay off the credit card every month for your lifestyle. It's variable rate.

It's debt that has short-term maturities, meaning the call provision, like HELOCs, ■ lines of credit. If you use too much of that, you don't have the ability to pay it off, it's dangerous. Debt is, think of debt as a tool. It's a tool that can either build or hamper your future freedom. Peace of mind. The peace of mind return on investment is something you can't measure. There's not a number on it.

It's just knowing that you have either control over your debt, you've got a structure to pay it down over time or getting that point where you have it paid off. There's nothing like being in that position. So there is a peace of mind ROI to consider. It provides a psychological freedom, less stress, more optionality in your life, more margin. The emotional aspect of ROI is really undervalued in my opinion based on the traditional, well, what's my return on investment? The investor who sleeps well often performs better

than once it's chasing higher returns at the cost of the constant stress that runs with using a lot of debt leverage. Part two of this framework is your stage of life. So in the early years, I call this the trailblazer. ■ Young people in their 20s and up into their mid 30s, maybe closer to 40, but in that range, this is a point of time when you're focused on building a base of experience. So you need experience in business and experience learning how to invest to be a good investor, which takes education, takes time.

and you're early in your net worth building. Your debt profile often includes student loan debt, business loan debt, and maybe a home mortgage. The strategy should be to look at the highest interest rate debt typically and highest payment debt, combine the two. If you can start paying that kind of debt down and get that off the table, then you can work into a snowball effect where once you pay down one particular debt, now you've freed up that capital.

because you're no longer paying that debt. And now you can take that capital plus what you were using to pay that down and snowball that. So now you've got a bigger amount every month to take down the next debt, if that's appropriate for you. Work on credit cards, other personal loans, consumption loans would be good places to go to pay down the first debt. You need to keep in mind though, if you pay down debt too quickly, too rapidly, that you may have a liquidity problem. In other words, you need to have some savings, some margin, some money on hand that can be used for either

need or even opportunities, both come into place. Beginning your investing program early, even if it's small amounts, is important because you start to some discipline. It makes you need to learn how to invest. Even if you don't have large sums of money early on, just the fact that you're doing something and building discipline towards it and learning about the markets and what investments make sense will carry you long ways, particularly when you're ready to invest more money. You already have a game plan, ■

a basis of understanding, a foundation of knowledge to work off of. Don't be afraid at a young age to use productive debt. When I was young, I was in debt everywhere. Now, I was careful about the debt because I made sure I was investing particularly in assets like real estate that could pay the debt for me so it wasn't coming out my pocket. Negative cashflow, not a good thing. So was careful with my lifestyle and when I bought a home or I didn't finance cars, I was careful about.

only adding what I consider productive debt, buying a practice, equipment for the practice, continuing education in myself. If I needed to finance that and it made sense, then yes, good debt. In your early years, time is your greatest asset. You've got time to build the discipline. You don't have to go out and hit big winners. You don't have to worry about escalating your net worth tremendously because it takes more risk to do that. And you have to realize where we're on the market, which is gonna be the next thing we talk about.

The builder is the next category and that would be people in their let's say mid 30s to maybe their mid 50s. So a 20 year span give or take. The goal in this category would be to maximize your income because you're in the mode of your business is running well, you've got the skillset, you've got a model that's working so you can really maximize your income. And at same time with discipline be building the asset growth, making sure you're always taking money off the table first before it goes into anything else, including taxes. Take money off the table to go into your investments.

You also have to be in a position to look at your debt profile. At that point, you probably still have a mortgage. You may be in a business expansion, still have some debt on the business. Kids' education may come into play. That's an area you have to really look at. How much am I going to invest in my child? Am I gonna send them to the top-rank Ivy League schools, or is there a better place to put the capital and still maintain a good education for them? You may have some possible expansion in lifestyle, I call consumer creep.

It happens to everybody, you have to watch it and monitor it. Don't let your lifestyle expand up to where you're living at the level of your income. Remember, you've to have discipline to always be either saving and or paying down debt. Don't ever get in that trap where you're just treading water. That's a scary place to be. The strategy in this category of the builder should be to rebalance your debt versus investment decisions. So how much debt am I paying off and how much opportunity do I have to invest? It's gonna depend a lot about how the business is running, what are the obligations you may have.

also based on the market cycle and the interest rate climate. Always focus on fixed rate cash flowing debt that aligns with investment returns. In other words, take on debt, but there's returns or cash flow that's paying down that debt for you and you're not always just staying on the debt treadmill and adding more debt without being productive to pay it down over time. You can start looking at, in this category, at accelerating the payoff of certain debt. Again, with good income coming in, with investments already in place,

Can you start to accelerate certain debt to start paying it down a bit faster? Again, you have to be very intentional about this because again, there's gotta be a balance between investing and also the pay down of debt over time. Use these periods of strong cashflow because you're making good money in your business. You may have some good investments that are producing good cashflow at this point. Build some reserves. Again, as you go older later in life, your obligations, responsibilities to your family and other obligations.

can start to extend and you've got to have a little bit more in reserves. So don't be afraid of keeping three to six months reserves in cash that could pay your bills, your lifestyle bills if something happened to you. Be careful of recency bias, meaning that whatever's happened in last say five years or so, maybe it's been a good up market. Just be aware of where we are on the market cycle and realize that what we have, it's been really good, may not be the forecast for the near future. On the same token, if we had some bad years and gone through a correction,

That could be a time to be more aggressive. Again, your knowledge and understanding of how investments work and the market cycles really comes into play at this point. Stage three would be the ender. In your late 50s and beyond, you're looking to transition down to end your active involvement in your primary career. Transitioning or just finding a cutoff date when that's gonna happen. Your goal in this category is to de-risk, preserve capital, and generate more passive income, that replacement income that's so important.

Your debt profile should really be ideally minimal, should have really smaller amounts of debt to pay off and definitely have a schedule to knock that out relatively soon, ideally before your active income career ends. You ought to focus on strategic leverage only. In other words, using debt at this time in life should be very strategic and not putting yourself out on a risk limb. You don't need that at this point in your life. You don't need to be taking undue risk. The strategy should be all about

shifting towards eliminating that final bit of debt that you have, knocking that off in the next few years or before you end active income, particularly if it's personal liabilities. Maybe you have that boat, that motor home, that RV, something like that, that has been wonderful, but if you still got debt on it, it's time to knock that debt off. Only retain debt where it's long-term and fixed rate, and also backed by cashflow. So again, real estate investments. I don't have a problem with long-term fixed rate.

debt on real estate investments that cashflow and pay off that debt and still leave me cashflow on top of it. Liquidity, having reserves is very important at point in time because it gives you flexibility, flexibility to manage your lifestyle, to invest in potential opportunities without using debt.

Stress test your portfolio. Could you weather a downturn without being forced to sell? So where are your assets located? If you had a downturn and there was a downturn in income replacement and or the equity positions that you have in your investments, how much could you weather without having to sell assets off? How much margin do you have in other words? How much of a safety valve have you built up? If you're in the ender category, it's not about maximizing returns anymore. It's about preserving lifestyle, preserving your capital and your peace of mind.

Part three is market awareness. Now this is a big deal and we talk about this all the time in Freedom Founders, but no matter where you are in life, timing does matter. In high interest rate, late cycle environments, be cautious with new debt. Be extremely cautious because that downturn, the recession, a contraction in credit markets, variable rate loans which can spike, very, very dangerous in times where we're dealing in late cycle environments. In low rate environments where interest rates are lower,

then refinancing long-term debt, great opportunity, but careful of new debt, but refinance old debt in long-term lower environments is good. If we're in a recession, then you need more liquidity and more reserves. Start stocking those up. It's like putting away.

assets in terms of like a bunker and having them ready to go in times where you might be looking at more of a recessionary period. Understand mean reversion or reversion to the mean. anytime there's been a market cycle where assets have gone up tremendously, know that there's gonna be a downturn at some point in time. Hedge against that. Maybe take some chips off the table if you've had a big run in certain asset classes and go to higher ground, which would be more liquidity, more fixed rate, lower return potential.

But again, safer overall. So in the decision matrix I've laid out here, let's just recap. There's really four aspects to the filter I would use. Number one is what type of debt is it? Is it productive debt or is it consumption debt? Big difference. Go low on the consumption debt. If it's productive debt, at the right time in your lifestyle cycle, then you can take it on. Rate differential. If I'm borrowing money to invest in assets or myself,

What's the differential between the cost of the money I'm borrowing, the interest rate, and the return on that money? If there's a good spread where I'm making more and still able to pay off that interest rate and it's fixed rate and I feel pretty certain about the economy, good to go. Liquidity. If I prepay or pay down debt too quickly, is that gonna leave me in a cash crunch bind? It's great to have debt paid down or paid off, but in that period of time where you're paying it off, it's hard to get that equity back out again.

unless you can refinance or sell an asset. So be careful to always keep enough liquidity and reserve margins in place when you're in a pay down period. Lastly, it's your psychological profile. Can you sleep at night with what you're doing? And that's gotta be ■ a couples conversation. You've got to make sure you're not putting your family, your spouse, your lifestyle too much on a limb because you like to go, go, go. You need to keep some conservative aspects to it. And there's a way to do that. I've dealt with lot of couples that have had this dynamic in life.

where one is more aggressive, one's more conservative, and there's ways to give the conservative person what they need, kind of a moat and things you won't touch, and still let the person who wants to be a little more aggressive to do their thing, providing the safety for the person who wants to be protected. These are conversations that are very necessary to have. You should have them with your spouse. There's nothing like feeling like you're working in the dark and neither one of you is on the same page. Have the conversations. It's a lot of fun to do it and to do it together. Hey, thanks for watching or listening.

Ad

For those interested in learning how to create replacement income that allows you to step back or exit entirely from practice, then schedule a call with my team at freedomfounders.com forward slash discover. That's freedomfounders.com forward slash discover. We'll dig into your financial situation and let you know your best next steps. And as always, be sure to hit the subscribe or follow button wherever you're watching and listening so you don't miss a single episode of the Freedom Founders podcast. I'll see you next time.