1160 – Inflation: The Silent Retirement Killer - From A Real Estate Investor's Perspective

Hosted by: Joe McCall
Guest: David Phelps

Joe: Hey. How you doing? Welcome. This is Joe McCall and you are listening to the Real Estate Investing Mastery Podcast. Glad you're here. This is going to be a great episode as usual, but on today's episode, it's going to be a little different here. We got a good guest today and his name is David Phelps. And we're going to be talking about the big I word, inflation. We're going to be talking about inflation. And it's a big deal. It's a big deal. A lot of things are going on in the economy today. And how are you going to react to it? How are you going to set up yourself to position yourself to be in a place where you can win and not lose? David is a guy I've known for many years. He's in several masterminds that I've been in, and I've been seeing a lot of his posts lately in Facebook and different social media where he's talking about this stuff and he's got a great new book. And I wanted to bring him on to talk about kind of the state of the economy where we're at. What do we need to do to be prepared and how do we personally fight inflation for ourselves? And is there anything we can do about it? And if not, how can we position ourselves, our family, our business in a place where we can minimize the effects and the impacts? Cool. So it's going to be a great episode. I first want to let you know that this podcast is brought to you by my brand new land investing class. So as you know, I've talked about it for a long, long time. I'm doing a lot of extra videos now on YouTube about it. But about three or four years ago, my sons and I were teenagers at the time. They still are young teenagers. We started flipping vacant land and over the course of two or three years, they grossed over about $150,000 in profits, and they got just a small percentage of that. But I started I've been doing land deals for a long, long time. And then recently I started teaching people how to do land deals as well. So if you want to check out my class, go to simple land class dot com to check it out. Simple land class dot com. And I think you're going to love it. I give a lot of details on exactly what we do and how we do it. It's kind of like, you know, you buy a lot by a rural vacant lot for a thousand bucks. Sell it for 8000 bucks on Facebook Marketplace. And that's pretty much it in a nutshell. Buy cheap, rural, vacant land for a thousand few thousand bucks. Sell it for a few thousand more. And it's great. And I have a lot of students that are having great success with it, make it a lot of money. And if you go to a simple in class dot com, you watch my class on it and I'm gonna have an offer there to basically pay for the course for you and set up your marketing, set up your systems for you. And I have this thing called a business completion challenge where if you complete the class, I will actually pay you to complete the class. And it's amazing you're going to love it. And even if you decide not to invest and work with us, that's totally cool. You're going to walk out of the class, kind of learn what we're doing. Our students are starting to have tremendous success to it, for it and everything. So anyway, go to simple land class dot com. All right, enough of that. Let's bring David Phelps on. David, how are you, sir?

David: Joe, I'm doing great. You know, I kind of want to go to your simple land class. Let me go there right now and just forget this interview. I think that could be kind of fun..

Joe: I certainly can. But I want to talk I want to talk about inflation. Guys, David is one of the smartest, if not the smartest guy that I know talking about these subjects and these topics. He's the guy in the high level masterminds that people go to and like, Hey, David, what's going on? What do you see happening? What? Because you've got so much experience, David. You've been in the business for a long, long time. And so I've been noticing your I've been reading like every time you post something on Facebook, I'm clicking that see more button that see more link to the view the all the content that you write, it's really, really good. And so I sent you a message the other day and hey, can I get you on the podcast to talk about the economy, what's going on from your perspective, and especially specifically how it affects real estate investors? So that's a mouthful, but thanks for being here. Welcome to the show.

David: It's always a pleasure to talk to you, Joe, because I'm going to pay the same compliment is that you're. Well, you're not you're not old. I'll take that one. All right. But I'll take I'll take the fact that you are on the forefront of being innovative. And I think if I try to package up where we are in the economy and the marketplace today, I would say innovation is probably the key. No matter what is your business, you're investing whatever you like to do, but you've got to be innovative. Now we can talk about, Well, how do you do that? But I think that is the number one type of flag in the ground. If you want a strategy or tip, that's my number one.

Joe: Okay. All right. Good. Nice. So real quick, David, give folks a history of you. Where how did you get into the business?

David: I got into business when I was in my early twenties. I was I was actually in college and I was taking courses to become a doctor, which I did do, became a dentist. I did do that. I fulfilled that. But while I was in that realm, I was I think it is a lot of people that are listening today, especially following you were inquisitive. People were curious. Right. We generally don't just keep one channel. We got like several channels, one at one time and it's like part of someone's tick, what you want to do. So so I was reading books about, you know, being an investor. Well, I didn't have any money back then. I had student loan debt. Just I'd be on the student loan then actually makes some money. So why don't I start learning about I?

Because I wasn't taking those classes. Back in the seventies when I was in college, the entrepreneurial classes, it was very traditional stuff, so I had to read on my own self educate on that. So I've written books about this traditional stock market, you know, and back then mutual funds just come into play and there's a lot of books on that and knocked out a few books. I'm on real estate. And when I compare and contrast the two, to me, just real estate had all the attraction because, well, it was something that was tangible. Whereas we know that I could exert some level of control somewhat where it is active or passive. And of course, when you're early in life, you're going to be active because you don't have any money. I had more time and money. So from those books, I took action, which is the key thing, right? That we all have access to tons of information today and that's what you got to do something with it. So I called my friendly banker. That was my dad. I think you're lucky you got a loan for anything. Saved my life back then because I wouldn't make any money like all my dad's and I. Dad, I'm going to be in school here. This is dental school now for the next four years. I said I can either pay rent or we can. We get on a property together. So kind of a standard when I call it joint venture today, you know, you take tons of that stuff, right? What do you bring to the table? Well, I brought time and energy and a willingness to to do the work. Right. And my dad was busy in his own life and career, and he had the money. So we put money in the in the energy and the motivation together. He had to believe in me and trust me that we're all screwed up. Right? So there's a little bit that goes into a relationship. But we bought this property together and I did I did manage to manage it for the next four years and actually move. And it wasn't it wasn't all luck. I mean, there's always some timing, but but we we exit and we split about $50,000 in capital gain profits on that house. We sold it. I sold it because I wasn't staying in the area. So I was a hands on manager back then. And I just figured that was what you do. I didn't know the 1031, all the stuff we did today.

Joe: And that was in the eighties?

David: That was. Yeah, I bought it in early 1980 and sold it late in 83, so it was four years. So that was early eighties. So if you think back, we're talking about we're talking about this topic right here, right? Questions. So just to give people a little bit of idea. 1980, the inflation rate was 14 14.8%, at least in the months that I was buying this house and the federal funds rate. By then Fed Chairman Paul Volcker, he's the counterpart to Jay Powell today. Right. So Volcker was brought in under Carter in the while Carter was still in in the administration in the presidency. To do what? To fight this nasty inflation that started in the sixties and was like piling on, piling on, piling on. And so Carter writing in in 79, Carter was out next year, Reagan took over Reagan, Volcker. And together they said, we need to control this inflation. So there was a mandate, there was a political will, and it caused a recession to cost two back to back recessions. It wasn't just one, it was two back to back.

But Volcker took the federal funds rate up to 2020, while not, what, 2.5, not maybe three, like they're talking about 20% now. I didn't have a clue what that meant. I didn't even know what was going on. The world that I was in this little, little box because we didn't have social media, we didn't have Facebook, we didn't have any smart phones. You know, there's nothing there's no online. So, so so the news of the day was was just not plugged in at all. So actually, it's probably good I didn't know what was going on. Right, because I probably was. Well, this sounds scary. It sounds like we're in a recession. I never heard a word recession in my life. I know what a recession was. It's just like, let's just go do something. And using the basic fundamentals of what I read in the book about location and, you know, cash flow, about expenses and debt service, I mean, that hasn't change. I mean, that fundamental doesn't change. I don't care where we are on the market. That's that's what I want to bring to people. It's like we're out of a time zone right now that most of the world, unless you're, you know, 55, 60 years old or above, you've never heard about inflation, stagflation. They heard about it, but you never lived through it. And now people are like scared. It's the news. It's flipping everywhere today. And, you know, it's like, well, yeah, you have to change your model. You've got to change course. You can't just stay static, but it's not a time to be like running for the hills, like, like, like Armageddon. And the stock is going to fall. It's just, it's an opportunity for people on the forefront. And that's why they come back to innovation and and being contrarian. And you're not following them. The group think that's out there in everywhere we want today.

Joe: Yeah. And before we get any further into this, this is a great topic. Obviously right now in these times you have your book available at inflation book dot com and it looks like it's a it's an invitation to get your book the hardcover complimentary just pay 3.95 shipping and handling so it's free, just pay shipping and handling.

David: Completely free just now we'll just pick up some of our hard costs and get it out to you. That's it.

Joe: Nice. All right, good. So go to inflation book dot com right now to get this book through. You're going to be glad you did. I bought it and I'm looking forward to reading it. Okay. So, Dave, talk about like back then in the eighties, inflation was a problem. You're saying for a dozen years, I mean, going back to the sixties.

David: Yeah, yeah. You know, it started at 6.5. Well, you know, we're all well built based on the current government measure right now. We can talk about that, but sure. Whatever, whatever it's it's running high today. Yeah. And it was ramping up. And now for different reasons. For different reasons that we have today, we can talk about what's going on today. And you know what the wise it's not it's kind of academic. It's like, what do you do with it? Right. So but but yeah, we had, we had back in the sixties and seventies under Carter, Nixon and Gerald Ford, we had very accommodative Fed chairman. So this was before Volcker. So Arthur Miller and Ken Burns, they were they were very you know, we call them dovish. So they were of this this Keynesian monetary policy where, you know, you could spend your way to, you know, to to get out of problems. And we still had a lot of hanging on the debt. And there's a lot of politicians and economists out there who still believe that you can spend your way. And we see now we see what's happened with that. It's both sides of the aisle. I'm not being political here. I'm just saying, you know, it started with Trump was calling in and we started just throwing money, digitally printing money, extending credit, expanding credit like crazy like we've never done before in this last two years when it started in the spring of 2020 and all this money pumped into a system where everything was shut down globally, everything was shut down. So we got all this money coming in the system and no production going on. It's just a supply and demand. That's Econ 101 right. Supply and demand. And it's just it's too much there to not have inflation. So inflation started to rear its ugly head a little over a year ago, I think April of 2021, where we start to see it's sort of tick a little bit, right? That starts tick, tick, tick, tick, tick and don't tell. Everybody wants to play games to say, well, this is it's transitory. It's just don't don't worry about that. It's it's nothing to be seen in here. We are now deep into 2022 and inflation continues to run pretty unabated. And my personal opinion is that it's not going to be easy fight if a fight is to control inflation. I mean, something something has to give in the system. There is this there's no such thing as a soft landing. If you talk about, oh, we'll have a soft landing. We can. We can. They've never done it before. The Fed's never had a soft landing or anything. It's either over or overcorrect to one side, which they did with the stimulus only just in quantitative easing, which is not a topic we want to get into today. But all this basically it's just expanding credit and it's fiat currency. So you stay in credit like that and then the value of the purchasing power of the dollar starts to drop. And so everything goes up. Financial markets, asset bubbles, financial markets, real estate, businesses, multiples even down. I mean, pe, private equity. I mean, it's just, you know, it's just here's the here's the bottom line, Joe, is interest rates are a measurement of risk worth. They should be. They should be, except we have markets that are manipulated by the Fed. So the Fed has managed to keep interest rates down and throw all this money at the wall. Then you don't have to markets. So what is cheap? You mean anybody else in business or in Wall Street? It's like, well, it's money so cheap. I can take some chances, can I not? I could take some chance because it's so cheap. It's almost, almost free. Almost a lot of the money actually was needed to fight back. It's almost free. And so if that's the case, then that distorts the markets because interest is supposed to be a marginal risk in a free market economy. If the price would not be where they are today, they'd be at least probably, you know, five, 6%. That's kind of the average over over decades. And we've kept them suppressed. So you're going to have asset bubbles and then you have inflation, never trying to fight back. And it's it's turning the economy upside down right now. I'm not trying to be the forecaster because I don't have a better crystal ball than anybody would pretend to be. But I think the time where you have to hedge, just have to hedge your bets because there's too many variables out there for any one person. I don't care how well qualified they are in economics or making predictions, there's too many variables out there for anybody to take any longer. I mean, we could basically just go out a few weeks and see what's happening there. But to take a long game stance. Well, here's what's going on. No, no way. No way you can do that.

Joe: Have you ever looked at okay, what is the worst case? Best case? Probably scenario in the next round.

David: And, you know, I understand I'm not a pessimist. I'm not a fear monger at all. I am I have no agenda, except I just I have a responsibility to certain people to follow me. And I take the responsibility for real. So I just try to speak what's in my heart. But I'm more of a realist. So I, I don't dwell on on negativity, but I just realized that, yes, things could get to get bad. How bad? Well, I mean, I think we could at least go back and have a. Recession of the level that we have in 2008? Well, I think it could go to that level. That would be kind of a worst case scenario. Could you go worse than that? Well, of course, anything can happen. But that's about as deep as I need to go there on the other side. Could could they kick the can down the road further? So I think that's all we've been doing. So I think if you want to say what's the positive side, well, as they kick it down. If they have the ability. That's where that's where I think the problem is. I don't know. They have the ability to do that. Where we are with so many different variables that they can't control said now. But we could kick the can down the road and we could maybe delay the day of reckoning one more time. But the longer we delay the day of reckoning, which needs to get back to fundamentals and economics and turn off the free money spigot along we go without dealing with what is not dealt with, the harder the falls. Well, just think about your own personal business or your own personal lifestyle. If somebody said, Hey, Joe or David, you know, I know, I know, maybe you're going through a little tough times or you'd like to expand your business or your lifestyle. Here's an open line of credit. Don't. Don't worry about paying back. Well, get to that way right now. It's okay. Just use it as you need to. Well, see, that's. That's what we're running on. And the US can do that to an extent because we have the reserve currency, the dollar's reserve currency, and that's what we've kind of planted our flag on all these years. But eventually, eventually, I'm not saying when that may not hold true. When that day comes where we are, the global economy is no longer relying solely as much as it does today on the dollar. Now, now all bets are off. Now we can be just like Argentina, Venezuela. We could be a third world all day long. Now, when that happens, if it happens, I'm not here to dwell on that. But this is the problem that this country sits on. And the politicians, as we know, don't care about the long game. So they're not we're not going to get any help there. The only thing that changes this is I don't know, Joe, I should probably stop and shut up and let you ask questions.

Joe: No, this has been really, really good. And I think about this because I remember back in the eighties, there was a book by a guy, I forget his name, I'll look it up here. And it was called The Coming Economic Earthquake. Larry Burkett, do you remember that book?

David: Yeah, yeah, yeah, I do. I do.

Joe: Larry Burkett. And I think it was late eighties when that book was written and he was warning of these same things that were that are going on now. And I remember at the time, everybody's kind of panicking and freaking out, like, oh, my gosh, the end of the world is here. And but then Clinton became president, and it was eight of the some of the most prosperous years we've ever had with Clinton in office. Right. And I don't know all the details at the time, but he balanced the budget for the first time.

David: No, I mean, number one, we weren't nearly as divisive as we are in this country today. Yes. There were two sides of the aisle. There was you know, there's Republicans, Democrats. You want to start there. But but there wasn't there wasn't so much divisiveness. And so they Clinton, to his credit, was a very amiable guy who could be looked at today. He's charismatic as all get out. So when you have those and Reagan was too I mean, I'm not saying it wasn't like the best ever because there's no such thing. But but those kind of leaders are the ones that can build some consensus. And and we're not we're we're all power driven chance questions. But yeah, but, but I think they failed. I think there was less focus, right? There was more of a fundamental understanding that there had to be some kind of economics. You know, we had Nixon takes off the gold standard and that's you know, that's that's part of this whole ball to unravel. Right. And so I think they were trying to the best they could to bring some fundamental sense to everything. But that's all out the door now. I mean.

Joe: I was thinking about that book, you know, kicking the can down the road. I mean, Larry Burkett at that time, when you wrote that book, was just talking about the dangers in the economy and the numbers that he was using at that time or like at the time looked really huge. When you compare them to where we are now. Minuscule, it's minuscule is nothing. And so I'm just wondering, like, how much longer can a government and the Fed, you know, kick the can down the road? But, you know, I guess we could talk about the problem all day long. Right. But, David, I think a lot of people are wondering, what can I do right now to protect my family, to to prosper and thrive? And is this a good time to run to the hills and hide? Should I buy some ten acre lot of plot of land and bug out, you know, or what are you telling people now?

David: Well, I know like you, I know people who have done the bug out. And I think people I respect, you know, it's okay. That's that's not me. And probably not for a lot of people that have families and kids. I mean, yeah, you can you can pull that off and maybe that's a good way to go. But no, I think for like kind of more mainstream is, is there's always new opportunities every time there's some kind of chaos and disruption. And the more chaos and disruption, the more. Uncertainty. The more people are afraid, the more opportunity. So just just like. Just like, you know, in real estate, you've always been a leader and a hint of what what's coming next. And we're about to see I mean, that's that's what you teach. You've always been there. And I think we've been talking on some of the threads and some of our mastermind groups. Just that fact is, is that some of the we call them old school techniques, if you will, you know, control that ownership. I mean, these options I mean, you talk about those things that haven't been so prevalent in recent years. Money so cheap and it was wide open. Well, you don't really need that. It's more a game of marketing and and first of all, cash. I mean, let's see, that's going to change. That's so that's why it opens up opportunities. For those of you who are sitting there listening to this right now and thinking, this sounds scary. No, no, no. Actually, it's a time for you to thrive because everybody who's been in the game in the last ten, ten years, the last decade of low, low cost, cheap, cheap capital, it's good. It's turning it's turning right now as we speak, which means new problems to solve in different ways. So it's like it's like just scrap the current board game, scrap it, you know, just the game of Life or monopoly. Just throw it up in the air and new pieces, new rules, and you get to actually devise some of the rules. What an opportunity that is. Yeah. But, you know, you have to I think the key thing for most people and this is why again, why, why you and I are different from masterminds. Find a tribe, find people. This takes some work. If you're if you're young, you're younger and listen to this and you're just trying to get started. No, you're not. You can't just jump in and play a high level. That's what's going to be maybe more you can do. But there's places where you can jump in at your level. Find the people, find the protocols. Yeah, I'm not just saying this because I don't have my podcast. I've known Joe for a lot of years. Joe and other people we run with our people I would refer anybody to if they have something that they want to teach or teach a group of people that that were not place like where they wanted to do grab hold and make the most of the opportunities. You've got to find those people who've been there, done that. You can lead you through the course, otherwise you're just going to get bumped and bruised and you know, maybe you're young and time is on your side. But why? Why spend all that time in negative energy when someone can at least put some bumper, some guardrails on so you're not, you know, veering out of control? That's the key thing in life. And I would have found the right people early in life. I can resolve some of the

Boston Bruins. I have no regrets because those lessons are great. You never forget them. But yeah. So I think I think you are be on the forefront, realize there's great opportunities now people watching you may have a business of some kind. Probably a lot of people here are involved in real estate. Either they're full on any business, they're starting up, they deal with it for a few years and they're seeing the change in the market. Maybe real estate is a side gig for you. Maybe you have a different business or career path, but you want to get more real estate, which I think is a good thing. So either way, find the right people, find where you can plug in with a time and capacity you have, and and this is a time to thrive. So that's why I start with with that group of people.

Joe: Yeah, that's smart. Surround yourself with people that know what's going on.

David: All day long.

Joe: And the great thing about real estate that I love is that it's it doesn't change on a dime like the stock market does or cryptocurrency does. Right? It's like you can spot the trends in advance. Like already we're seeing just the other day I saw you post this yesterday, I think on Facebook, some mortgage, huge mortgage company in Dallas, Texas, was fired 90% and they've declared bankruptcy. Right. So we're starting to see the trends right now of lower mortgage applications. Right. We're starting to see mortgage companies fire people. We're starting to see large brokerages fire people. Companies like Redfin are laying a ton of people off. Right. So we're starting to see the trend change. Talk a little bit about this is important for a lot of wholesalers in my community, hedge funds, what happened to them? Where are they now? What's what's going on with that?

David: Yeah, well, again, hedge funds took the opportunity in front of them cheap capital go go play all day long. And of course with with cheap capital, which also means low yields on interest returns. If you're in the interest rate yield bearing business, which is what Wall Street and hedge funds, then with the kind of more standard, traditional, risk averse places to go, would be like bonds, right? Well, the bond market, we've been following interest rate cycle for the last four years, so you can't get a yield there. So with cheap money, though, the hedge funds can play in markets they haven't played before. Real estate, you know, really start coming on road in the last decade, coming out 2008. But we're seeing more and more piling on. Right. I could say the same thing for my industry, health care. I mean, big plays, big massive private equity plays in the health care consolidation, rolling up what used to be so practices. I mean medicine itself has been basically rolled over but like in my industry of dentistry and. In medicine and optometry and some of those, they're still more silent, but they're rolling those up right now. Well, why why would you. Why would you want to put money into something that has so many moving parts as health care or even real estate? I mean, let's face it, we all manage the property and then you have hedge funds coming in and buying huge portfolios. Well, is that easy to do? No, we know it's not it's not easy. But again, the money that they're using to acquire is so dirt cheap, they don't have to have a very big spread in profit, too, to make it real, especially when you're talking about billions of dollars. A two point spread on $1,000,000,000 is frankly, that's a lot of money.

Joe: We're not not counting even the tax benefits and the deduction of depreciation yet.

David: Yeah. So so this is why we have a lot of money in the last decade, particularly running into real estate, because it's been a good place to now start changing the dynamics of the cost of capital, you know, interest rates going up. And again, I believe that how the Fed are kind of mandate to at least through September like in a quarter three, you know that I'm not going to say they were going to keep rolling interest rates up 55 basis points through the end of the year. We'll we'll see. We'll see. We'll see how strong. But but even, you know, do that for the next two quarters. It's not so much that it only went up, David, by half a point or three quarters a point. It's the relative increase. When you start it, basically we start at zero zero. So 0 to 1 point. I mean, that's massive.

Joe: It's 100% increases.

David: Going from 5% to 6%. Okay, nice to see. So that's the people understand? Well, that's not very much, is it? No, it's it's a tremendous amount. When you go to 1% or 10% or 15%, it's a massive change in the capital markets work off of of of arbitrage in interest rates. So if if their cost of capital is changing like every every three weeks or four weeks, then how can they stick the landing on that? And they've already well, they and other people have pushed the asset prices way up here. So when it costs capital going up in prices up here, where's your arbitrage? So now they're looking now. So again, big money now is looking to go. Well, wait a minute. Whoa, whoa, whoa, whoa. Things are changing here. Is there a safer place to still make the spread we want? Is real estate still the best game in town? And I'm not speaking for them as a whole here. I'm saying that's how I would look at this is real estate right now or is it a month from now? Is it still the best game in town? If it's not? Guess what? The money moves. They they're not like us. You know, I've got a portfolio of rental properties I can't just like. So I'm taking a 12% haircut just because I want to, like, take my marbles and go and play game. I can't do that. They can't they play in big money. And and so there's some shifting going on right now. Right. And I brought the point that, again, it's not a massive play, but but there's some shifting of some hedge funds. Some are looking to sell off some oil. Well, there's who's going to buy what's happening there? Hedge funds, why they're buying? Well, I can't say I'm not inside their boardrooms, but see, nobody. That's what I'm saying. Nobody has a plan. What the market's doing, everybody's trying to guess. And so we think that market, there's always buyers and sellers. That's what makes the markets, right? I mean, that's always what makes a market. Somebody thinks it's time to buy something so we never know who's right. We'll find out in time. But. Right, but that's the guessing game.

Joe: Well, we've seen, you know, in our own business, hedge funds backing out of deals, walking away from $5,000 earnest money deposits. And, you know, you have they have a contract to buy this house. You can't they're saying go ahead and sue us. We're going to close on it. Right. Right. But so they've stopped buying. Majority of them have any clue or idea what they're doing with their current existing inventory. Are they're going to keep it for ten years or.

David: Yeah, that's that's a good guess. Joe and I don't have insight or insight info to say what they're going to do there. I think that's that's anybody's guess. You know, I guess, you know, if they're thinking in terms of the overall market they're going to hold, that would make more sense if they if they can maintain. Because once somebody starts dumping, then we know it's a domino effect. So let's not get dumped. The problem spirals down and then everything starts. I think nobody really wants to see that's not healthy at all. That's that's too much correction, right? Just haven't stopped buying. If they could do that, hold on to inventory, that's probably would be the best situation for the market overall and mean just let things build up from there. But yeah, if they started dumping, I think there would be a downward spiral that we couldn't pull back.

Joe: Which would be interesting because if housing prices start falling, that's going to be real interesting because then these hedge funds might say that maybe we need to sell some of this inventory we have before prices drop any further, which could then just exasperate the problem.

David: And you know that the first one, you know, it's like it's like everybody will sit back and say, we're not sell, I'm not selling. But there's always going be somebody is going to say, we're going to be the first one and we're going to take a small haircut because we can take the haircut and we can move our money somewhere else where we can make that up. Well, if your last down the middle or lower down the line in that sector, well, then you got to stop. It's like musical chairs, you know, the last one where the music stops and have no chairs. And that always happens to somebody like.

Joe: It's a few old white guys in suits in a boardroom in New York that make that decision. Yeah, it's just a it's a simple little decision to make. All right. So again, guys, get David's book, Inflation Book dot com. It's free. Just pay four bucks for shipping and handling. It's a real book. It's called How to Outwit the Fed and Their Extraction of Your Wealth. The inflation problem we have is the silent retirement killer. And so David goes into deep detail in this book explaining what the problem is and what we can do to fight it. Because it's you know, I love this analogy to David. You talk about this wealth doesn't disappear, transfers and it just doesn't magically vaporize. And it's gone. It goes places and it goes from here to there. And this is why it's so important, like you said, to stay in a network and mastermind of other investors, because then you can see where that wealth is transferring to. So maybe you already answered this, but where do you see the money transferring to? What are you telling people to invest in or to look at now?

David: Well, yeah, I didn't say where, where, where the money's going. What I mean, what I, what I look for is, is in the markets that I have some knowledge about or access to. So like for me personally, I mean, I know the dental industry really well, so I could watch, see what happens there. And if I were game on, I could pick up dental practice as assets at a discount. That's not my game, but it could be my game is really what we're talking about is real estate. And that's I love real estate. I've always loved it. And so so being plugged into a network, number one, I don't have to I don't have to know everything in every market. Number one, I could I can know my market, which is outside of Dallas, Texas. So I know my work. I know the players here. But there's so many different, as we know, so many different access points to different asset classes and the geography. Every market's different the more access points you have, and that's really leveraging your network. So knowing people in different places as the market starts to change, then we get first line information. I mean, we in our mass markets, we get first line information we don't have. We can or those where we can create some kind of a collaboration, target it with my dad back in 1980. Okay, same thing. Everybody brings something to the table. And so you build those joint ventures where you can profit with a synergy of working with other people. I hate to do anything myself today. I don't think I know you're a fan of that too, Joe, what do you need to do? The whole thing or whatever it is? I mean, I take participations and cuts with a lot of different ways of people and diversified, gives me lots more opportunities and I get to actually do what I love to do most. And you know, today it's not outdoor knocking or or marketing. I mean, I'm a fan of marketing. I mean, you're a great marketer and I love marketing, but I don't want to be the one pressing those buttons. I just who but who does it? Well, don't call. Well, what's, what's, what's, what's his access points. Well he's got access points here. Here, here's John. I'm just making this up with Joe, you know, you think there might be an update to bring some capital into what you're doing? I think so, David. Well, we'll find exactly where that point is. And boom, let's let's go. Well, there you go. There's a collaboration, right?

Joe: Okay. All right. Let's get a little more practical then. Let's talk about the fundamentals of buybacks. Yeah. Is shifting, right. And so like even back in the eighties, you could still with interest rates as high as they were and inflation as bad as it was, you can still cash flow on deals, right? So for you, when you're in your own real estate investing, David, and what you teach other people like what are what's the buybacks that people need to be trying to stay into and how is that changing over the last year?

David: Yeah, let's just let's just keep it very basic at single family rental because it applies across the board. So let's just keep it there. So you have a buy box for me, it's cash flow. Yeah. Question number one. No, nothing wrong with buying land, what you need to buy land through the cash flow and that's what you do. The same thing. So, so, so for me, what's the cash flow going to look like? So your point, you know, the mortgage that my dad utilized to finance 8% of the house we bought, it was like 13 and a half percent today. What are you going to buy with 39% on. It's not gonna work like is there's a lag time. There's a lag time. But in time, if interest rates continue to stay or go up, well then asset prices start to come down. All right. We just got to wait till I come down to the right point. If you're using the capital markets at whatever the rate is, is 5%, 6%, 7%. But there will be a time where, as you said, real estate slowly falls out. So the house we bought a 39% interest rate back in 1980. We bought for $82,000 and it ran. Okay, so quickly, I can do the math. I know what my expense ratio is and I realize that we had a spread. What's my cash hold spread? Above all normal expenses, expense ratio and my debt service, whatever that debt service is and if that makes sense and there's a margin there because I'm comfortable with and I kind of stick a number it's going to vary from market market, but I like doing $2 per month in cash. If I got that there, then I know I can take a little. In a downturn if things get soft. But I'm still in the game. I can play the long game. So I think that's the most fundamental cash flow. All the other great benefits we know about real estate. That's just like icing on the cake. Yeah, you take all of those in, add them together, and real estate for me will always be the number one asset to invest in for both creation of wealth and preservation wealth.

Joe: Well, let's talk about rents. One good thing with inflation, maybe if you look at it, I'm sorry if I'm being insensitive. Good thing about rents from a landlord's perspective, right. Is rents go up. Yes. Is that can be a good thing, I guess, if you're if you own real estate, do you see that slowing down at all or.

David: Yeah. Yeah, I do. I think I think because it's really about the affordability, whether it whether it's rents or people paying their mortgage. But affordability at some point, we stretch the American consumer as far as I can go. And I think we're still in a lag period after a lot of the COVID stimulus, the unemployment benefits that were that were student loan out, and people stayed home for a while. And so actually the savings rate went up for a while. So Americans have more money in their hands. And therefore, even as things start to open back up again and even wage rates start to go up, people will still. So it will buy. But but yeah. There's a point where the affordability index, which is cap out in different markets, it's different because the average your wages in every markets can be different. But you have to kind of know what that is in your markets. And if if the hedge funds, as we know, are slowing down, stopping their buying, realized that they've been in not all areas getting you have to know your area, but in areas where they've been very strong buyers on the margin, that's what's really lifted those asset prices up. So if they pull back, you know, as the prices come down and we don't know how how that intends to get managed, what's going to happen to it. But that could also cause a softening in rents, more so in those markets in a market where hedge funds haven't visibly applied and then worry like on what the actual economics of that area is. Does that make sense?

Joe: Yeah. Yeah. Okay. So what do you see in areas like Miami and Florida, for example, Vegas, San Diego, L.A., where you're starting, you see a lot of you're going back to a lot of pre-construction condos and a lot of speculation. Do you think investors are going to get burned there or is there still an opportunity there?

David: I think investors are still paying, you know, the going run rate. They can get burned in those areas. That's speculation in those markets. Yeah, you mentioned not everywhere in Florida, but there's certain pockets in Florida that I think are definitely overvalued. You can go, you know, West Coast for sure. No. In Boise and Salt Lake City, Provo, Utah. Denver, yes. Austin, Texas. Yeah. That's not I mean, yeah, those those markets have had the greatest lift in the last two years since forward. I think, again, you have to start to look at the fundamentals I'm speaking so broadly, but they have the most potential, I believe, for asset price decline and potential softening of of the rent market softening or at least softening, meaning maybe it slows down. There's there still going to be some upward demand for us this year. It doesn't stop like that. And real estate, like you said it, things trend. We have time to watch it. We have time to see see it move. But I think expecting rents to keep going up as they have in the last ten years. No, I don't see that.

Joe: So if you're advising somebody who's looking to put some money into real estate, are you telling them avoid high end, high end, you know, luxury class-A real estate? Are you telling them to focus in on the lower, cheaper stuff or in the middle?

David: Yeah, in the middle. Yeah. I don't want to be on either end of the spectrum. High end certainly works when the market's going. Right. And so so right now, if I was high end, I was like shifting gears I think a of people who are low end is it it looks like a good castle play on paper rents. We know what that looks like.

Joe: And even section eight. Would you do Section eight?

David: No. I know a lot of people like Section eight because it's it's government backed. Right. I don't I don't like to be I just me personally, I don't want to be tied into anything the government does. I just I don't I know section eight's been a strong benchmark and lot of people love it. So I think you got to you've got to choose. I'm not telling anybody here what to do. I just I'd rather be free of the government. I don't want. There's a danger with the government. Can I just say that, you know, it is all that danger when you play ball, the government in any regards. I don't like that. But no you don't want to be at the bottom of the stack. I mean I mean, certainly those properties you can simply buy a new market for or for cheaper because not everybody wants them in the decisional answer. Financial institutions don't live there. So I just like to. In that kind of blue collar market that's strong people that in fact, blue collar workers are have most stable positions right now. Anybody? White collar is actually more. More sense of instability. So good blue collar have good jobs and neighborhoods that are, you know, just we just go back to American family values.

Joe: Yeah. Yeah.

David: It's good for those neighborhoods because, look, that there's always a demand for those. Yes. You might have some people that are living there today that may have to drop down or double up. They will do that. But certainly there's always people who will trickle down to those that they've been living a little bit higher level. They'll come down. You've always got a market. They're always got a market for those.

Joe: So right now, we have this huge discrepancy between supply and demand, and that's been that way for a few years. You see that leveling out a little bit. Or if the government were to say, hey, we want to help fix this problem and I'm not a big fan of government fixing anything, but is there anything the government maybe could do to help the supply? Like to incentivize builders to build more blue collar homes, right?

David: Well, I mean, the government. Yeah, they can always do that if if that's if that's their agenda, you know. But who knows what goes behind those those doors with all the cigar smoke? That's that's that's where that's where that's where the real agenda happens. Right? They can blow smoke out here to us all day long about what you what they're trying to do is say save America and save the system. But, yeah, I mean, certainly we've always used tax incentives in this country forever since we've had that tax 1913 Federal Tax Act came out. So, yes, they they could do a lot of things to do that. But I just get a sense it's just my sense that the how the Fed chairman is feeling Volcker-ish, Paul Volcker. I think he I think you know, people like that that are there I think he is I think people like that want to make a name for themselves. Now, I'm not saying that way. I mean, you know, he wants to make a name for. So he was he wants to leave now because he doesn't need money. He doesn't think he's he's well set. Like, he's just he's just like being a power broker that he is right in this part of the game. And I think so. I think he really wants to push hard. So I don't I think I think they I think I think to some extent, I don't know what's in Biden's head. I don't know what to say. But I think they I think they they want to tap the brakes on inflation. They'd like to just hit the brakes a little bit, too. That's their whole thing. Let's just take a break. Let's just pump the brakes a little bit here. But that doesn't work. So I don't think they're going to incentivize anything in the short run out. And this year things start crashing more. Yeah, they don't quite pull out everything they can. Who knows what they're going to do with that. And it's but it's always too little, too late or or it's too much too late. Right now we look at it's in and and so there's a lot of inventory in the pipeline. But is it in like this affordable starter housing? No, not so much me. I mean, I don't people that are trying to either. First of all, it's extremely difficult right now. I mean, that's where that's where the biggest base of renters are, because they can't they can't they can't make that move. They don't have the down payment money and and things just keep going higher and higher. So, yeah, it's any time you have the free markets are interfered with, which they are all the time, we're always going to have this big seesaw. It's a big seesaw now. Right. It's not just little iterations. It's it's massive. And so I think that's why you've got to be on the forefront of your business model, your sector, your investments, and you've got to see where these things are going. And again, you can't place 100% bet on anything, on any horse here, but if you just you've got to hedge a little bit. And that's what I try to do. I try and stay. I stay diversified on everything real estate and some business.

Joe: Ok so dive into that in a little more detail here real quick though, guys. Inflation book dot com. Get David's book for free just pay a little bit of shipping and handling. He'll send it out to you.

David: Yeah. So, so so hedging for me, you know, we know in real estate and and really in all the financial markets. Yes. What we call a capital stack. It's in the book. Capital stack just means there's there's equity plays as an investor. And you can play in the in the debt private capital, which means which is lending money in the bank. Right. Well, in real estate, in business, you can play either side or both or even a hybrids of the same. So so it's like equities are always great when the markets start running up like the last ten years, you know, equities them awesome place to be and just about anything that makes sense.

Joe: Now you know, when you say equities, you mean stock market.

David: Well, no, I'm talking about stock market, I'm talking about real estate. I mean, equity, equities and real estate is owning the rental property. Okay. Is being made part of a syndication that owns the self-storage facility. So that's equity. So that's had a great run up. Now there's there's more risk in the equity market in general. In general, if you've got access points, there's always the place. But in general, there's more risk in the equity market. So speaking, real estate or stock market, there's just more risk there right now. Why? Because the capital markets are changing. The cost of capital goes up, the equity markets start. You have to figure it out. Profit margins get squeezed. Well, that brings values down. Okay, so. So I might play well, I do play more on this more in the deck or the stack where I'm actually lending money more and lending money really more the last two or three years. But I saw plays on both sides. So that's my hedge. By Lend Money, I get to kind of call the shots. I'm not lending money at 1% of what I consider value. I can decide where to place my debt and I want horse, right? So I lend money. I'm not operator, I'm letting to an operator what I know about the operator. Well, what do I know about the asset class? Well, what do I know about that? You know, his is geographic economics. Those are the things that I learn about. Not because I'm so smart, but because I spend time in rooms in masterminds with other people that I get to meet firsthand and get that inside Intel. It's an insider's date. This is an insider's game. Stock market, no real estate. Big insider's game on the inside. That's I know.

Joe: That reminds me back in oh six when the market started crashing. 07 08 09 it became it switched from a seller's market to a buyer's market. And a lot of guys that we know that were doing really well. It's a time where the hard money lenders were the guys that were offering transactional money, more creative type of financing. Right. So do you see that again coming? Yeah. And so how does the average Joe Blow investor like me get more into that involved with the debt side of the business?

David: So so I did some of that coming out of 2008, the Great Recession. You know, I have limited amount of capital to invest. I've always been an investor or have investments. But as as the market opened up coming out of the 2008 Great Recession, I'm talking about 2011, 12, 13, 14, 15, especially in the early years, there still wasn't any financing. And all the buyers that were have been buying and investing up until 2000, seven and eight. Gone, gone, gone, gone. They're like licking their wounds, right? So, so but with the cash market, you don't have time. So what? The deals were plentiful. So what are out? So what I do well, I know some people, you know, because again, I spend time with people. I kind of I like good people and people that actually have money but don't have the access to the deal flow that I have. So that's a key. So if you got access, you're with a group or you make your own markets in your area because you're lead generating and you've got a team of some level and you can find the good deals. There's tons of money out there, people that are that don't want to be in the game actively, but would just point out my money market, stock market, how can I get involved in real estate lending? Money is the simplest, safest way for them to start out with simple safest way. And look, you don't have to offer them 10%. I mean, today, probably six, seven, oh, maybe 8%. I mean, you're going to get a ton of money. There's of course, there's a myriad of ways to structure those things so everybody's happy. But that's how I would tell young people, look at this market is the money is always there. Just figure out who you are in the game. I mean, are you active? Do you have access to deal flow either through yourself or through people? You know, if you have that, you've got an asset right there in your hands that you should be monetizing. If you're on the other side in your you already have a business, you don't have a time, but you've got some money that otherwise you'd be sticking in a 401k, which I think is ridiculous. Find this find the the young guy in your in your in your area. Go to the real estate association meetings or meetup groups. Yeah. Do some work, do some more. I mean relationships take some time, don't they, Joe? I mean, you get it from us, but if you if you're in this to do it, some of the best time you'll spend is building relationships, connections, building a network. It is worth everything, though. In fact, I would say tonight it's my best insurance policy.

Joe: That's very good. Very good advice. The I was going to say to this, this is important and we'll wrap it up here in a second. If you're a wholesaler and you're just you're that guy going out there getting the deals, I think it's really important to adding on to what you're saying to find when you sell your deals, find a way to offer the financing with the deals, whether it's hard money, private money. Maybe if you're networking, you've got a network because these guys are buying these homes. They still want to buy more, but they are losing a lot of their sources of money by those deals. So if you can as a dealmaker, as a rainmaker, bring them the deal, but also the financing in place. Maybe it's a small little local bank or credit union, maybe it's a hard money lender, maybe it's a private lender. You're going to sell your deals faster and at a premium and you're going to be doing fine. Would you agree with that?

David: Yeah, just understand, the game of real estate business is so much fun. There's so many different iterations of it. Just get in, plug in with somebody. Again, Joe, I'm just going to say you because you're right here and I know you well. In fact, I actually did that with you. I'll just a quick aside, but you may not remember this, that probably ten years ago, I have my market. I have a guy that I really want to help. And he was good on the ground. I remember. And I invested in him through you to have you teach him the stuff that I taught him. But you have a better system. So I'm saving myself time. And Joe, I'll just tell you. Say his name. I do probably 15 deals with him from that start point, which is from 2011 to 2015. And he rolled them up, managed them the whole time. For me, I had nothing to do with it. And we went out and it was it was well in the seven figures because we wrote the markets and he was my manager, which meant I did nothing. I just got him the money.

Joe: I was thinking of that. I was thinking about that this morning. As I was thinking about our interview, I was wondering how that all went.

David: It went great and it was a win win all the way. And he learned so much. And now and we still do some deals together. But you know, he's built his own platform now. I mean, he's like he's he's because he's he went through and learned how to put the stuff together. I helped him. You helped him, and then he's just the guy on the ground. It's awesome. It's just that's the way you put these things together.

Joe: That's really good. All right, David, we're going to wrap this up here again, guys. Get David's book right now. I mean, you're crazy. If you don't, it's free. Just pay $4 shipping and handling. You get the real physical book to you. Go to inflation book dot com inflation book dot com. David, any final words here before we wrap up?

David: Joe It's always a pleasure. I get a little bit wrapped up on this stuff because I kind of love this love these conversations because, again, I'm I'm as an opportunist as anybody. And I want people to see the light of what all the turmoil and the down casting that's going on out there today. It's like, no, no, you can't look at that way. It's an opportunity. And I just want people to see that side of what we're talking about. Yeah.

Joe: Nice. Okay. Thank you again very much, David. Thank you, everybody. David, don't go anywhere. I have a question to ask here, but thanks, guys. We'll see you later.