

Becoming a Full-Cycle Investor: Capital Preservation and Growth through Market Volatility

By: Dr. David Phelps

Introduction

If you were able to get through the pandemic last year and your business is back up and running well, congratulations! It wasn't easy. It wasn't the handouts from the government that did it for you; you had to be in a place to make it through because not everybody did. Even in industries that have been strong, not everybody came back. **You're a survivor.**



But here's the problem I'm seeing: many people don't realize that the current high-riding market and strong pandemic recovery has been **artificially** created by extreme government borrowing and spending. Because of this, the coming years of the "recovery" will not look like the roughly ten year run up we experienced coming out of the Great Recession. When looking at the market history, even the bull run market that ran until the onset of the COVID-19 pandemic was an **anomaly**. Going forward, the next decade will be very different from that which we most recently experienced.

I believe we're going to see a **big correction** (possibly leading into a recession) that the government will not be able to control because it's really run out of gas. How much more can you throw onto the fire? The debt pile up we've had is a

major mess. With interest rates already near zero and increasing concerns about inflation, they just don't have the bandwidth to do a lot more.

At some point, we will reach the limits of kicking the can down the road. America's economic and political fantasies will soon be overtaken and crushed by its predisposition for unrestricted debt spending.

If you ask Wall Street (or your financial advisor) most likely they'll disagree and keep telling you to put your hard earned money in the stock market. Then when the market nosedives and you lose 30-40% of your money they'll tell you to keep doing the exact same thing.

If you're concerned about political and economic volatility threatening your ability to take care of yourself and your family in the next decade, please **schedule a discovery call with my team at FreedomFounders.com/Schedule**. We've helped hundreds of high-income earners like you secure their financial future.

There is a better way. When you understand economic cycles, you can take advantage of both the ups and downs in the market—you can “ride the waves” of the market cycles and not only protect your wealth but also grow it.

You just need to be willing to make some changes to your strategy and take the road less travelled.

What Do Business Cycles Look Like

According to the National Bureau of Economic Research, there were 33 business cycles between 1854 and 2009, with each full cycle lasting roughly 58 months on average. The average expansion or growth part of the cycle has lasted forty months, while the contraction or downcycle has averaged eighteen months.¹ The most recent expansion period set a record at 120 months long, lasting from 2010 until early 2020 when the coronavirus pandemic triggered a government-mandated shutdown.

The economy runs in cycles, but these cycles have been artificially altered by government interference. The issue is the government is so dependent on borrowing money it cannot allow a real recession to occur—so the central bank (the Federal Reserve) prints more money and uses it to stimulate the economy by lending it to the government and buying bonds and other assets from the public market (Quantitative Easing).

The result is that interest rates stay artificially low, which makes borrowing less costly for the government and can induce asset prices to rise. This approach has allowed the Fed and government cronies to avoid a **complete systemic collapse** in every recession since the crash of the Dot-com bubble in 2000.

A recession flushes out excess in the market. During the expansion phase, businesses are growing, consumers are buying, and the unemployment rate is very low. Investors become “irrationally exuberant,” disregarding key fundamentals of investing and allowing greed to rule the day. The market asset values are said to be “in a bubble.”

Warren Buffett has said about market cycles, “Be fearful when people are greedy and greedy when people are fearful.” Expanding markets don’t last forever (though many think that they do).

During an up market, banks and other lending institutions readily lend money, which pushes the prices of assets up. That’s where we are right now: historically low interest rates and lots of money looking for yield in the market (thanks to government stimulus and central bank money printing).

In a downturn, credit markets tighten as lenders become cautious of default, which means decreased availability of money for consumers and businesses to buy goods or invest in assets. These changes drive down asset prices. The economy then experiences a downward spiral of contraction, business failures, and higher unemployment.

This exact scenario played out preceding the 2008 financial meltdown. By the time Lehman Brothers failed in September of 2008, the Great Recession was advancing quickly. The downcycle lasted well into 2010, with the first sparks of a turnaround in late 2011. Business and real estate assets went through a “repricing period” of about forty months. Those who were well positioned with cash or had access to capital were able to buy assets at highly discounted values. **Recessions are where the opportunities occur.** Wealth is not lost in a recession; it only changes hands.

Dramatic transfers of wealth occur during every business cycle. Those who understand this phenomenon (a tiny percentage of people) and take action (an even smaller percentage) are those who appear “lucky.” Experienced investors ride the wave of increasing asset valuations during the next business cycle expansion. Net worth multiplies by working smarter, not harder.

The Great Wealth Transfer and How It Hurts (Almost) Everyone

“There are two types of pain you will go through in life: the pain of discipline and the pain of regret. Discipline weighs ounces, while regret weighs tons.”

Jim Rohn

We traditionally think of watershed moments as a singular event, a point in time that forever changes the course of the future. 9/11 is a good example. That event changed our behaviors, security measures, and collective sense of safety unlike any other event in our nation’s history.

The last sixty years in the United States has been a watershed period in our history—not a singular event but a series seemingly insignificant of events that have gradually eroded our personal liberty, private property rights, and privacy.

Government interference in free capital markets poses a real threat to the stability and prosperity of our society. The income and wealth inequality gap that has increased significantly in recent decades is, to a great degree, the result of artificially low interest rates. This trend goes back long before the financial crisis of 2008. Interest rates have been falling since the early 1980s from a peak (federal funds rate) of 20%. Over the same period, wage growth lagged productivity growth, and the gap widened between the wealthiest Americans and the middle class.²

How did this happen? Interest rates are the price for the use (borrowing) of money. In a free market, interest rates price risk. In artificial markets like today’s (currently manipulated by the



Federal Reserve), the normal equilibrium is distorted, which changes the economic landscape. Old rules no longer apply. We're playing a new game on a new board.

Lowering the cost of money is not only a gift to those who are in the best position to invest it (investors and entrepreneurs) but also for the government (which relies on low interest rates to keep funding its debt with more borrowing). If you are reading this report, most likely you are in the investor/entrepreneur category, but most of America does not fall into this category. Until interest rates dropped to low single figures, most Americans saved their money and held it in a bank savings account or maybe a certificate of deposit. At interest rates of 5-7%, conservative investment accounts like those were enough to provide the income retirees needed.

That is not possible today, with bank saving accounts and CDs currently yielding less than 1%.

Today's low interest rates encourage people to spend money instead of save it. Why save when there is no reward? It's easier and a lot more fun to go on vacation or buy a new car or vacation home. Whereas those who save are forced to take risks like investing in the stock market which can be a significant gamble for those who are looking for a higher interest yield on their savings.

As a result, many people reach retirement age with little or no savings (and often too much debt) and find the kind of lifestyle they expected is no longer possible. This causes discontentment and resentment. No surprise, we've already witnessed plenty of both. The haves versus the have-nots has become a severe problem.



Occupy Wall Street protesters marching in New York in 2011 (Stan Honda/AFP/Getty Images)

During the government-mandated business shutdown, workers got a few months of generous unemployment benefits, which have now expired (and may not be extended). Small business owners applied for and received “forgivable” PPP loans that came with complex rules and strict limits on how they could be spent. Meanwhile, the Fed and Congress gave their large business

political cronies trillions of practically free cash and full permission to spend it however they wanted. In many cases, that meant stock share buybacks and executive bonuses.

The government wants the big banks. They want to protect the large companies because they can deal with them hand-in-hand. It's **crony capitalism**. It's hard for the government to exert control over small business entrepreneurs, so they use crises like the Great Recession of 2008 and the coronavirus pandemic of 2020 to allow small businesses to fail.

This is how the system politically skews toward those positioned to take advantage of government interference – “the haves,” the crony capitalists, or the elite inner circle.

We won't know for another year or two the real economic and social effects of the pandemic and unprecedented federal intervention, but these are the trends that we see today and from what we know of recent history.

The next several years will involve painful deleveraging—more painful than in the past because of the massive debt that the U.S. and the rest of the world have accumulated.

There is a significant wealth transfer in play right now. Wealth is constantly changing hands (money is never static; it is always on the move). The movement of wealth happens most during times of economic volatility, and this time there's *trillions* of new dollars moving through the economy from the government's response to the pandemic.

The coronavirus pandemic will be a defining moment for this nation for many years. With every recessionary downturn, wealth is lost by the majority. Retirement plans, 401(k) plans, and other traditional investment accounts lose value. On average, it takes another six to eight years for an individual to get back to even. Are you well positioned to take advantage of the next great wealth transfer, or will you (and your financial future) be pummeled by the waves of the coming market cycles?

Protecting Yourself, Your Family, and Your Freedom

“The pessimist sees difficulty in every opportunity. The optimist sees opportunity in every difficulty” Winston Churchill

I often state, “make sure your oxygen mask is on, secure, and that oxygen is flowing.” Put your affairs in order the best you can in order to help the people you care about also maintain their Freedom. If you fail to act now, forever hold your peace. The world is not ending, the sky is not falling, but your liberties and those of your descendants are at significant risk if you remain complacent.

You need a plan with clarity, focus and the ability to implement. There's no guessing and no time for trial and error. Hope is not a viable strategy. **Do you know how to position yourself for the opportunities that will arise?**

Mitigating taxes will be a primary strategy for wealth creation and preservation. Own assets that, in large part, provide shelter and offsets from government taxation. Business and real estate are the best assets for this purpose. Active income (W2 or self-employed) is the highest taxed form of income. Moving from the typical trading time for dollars model to acquiring capital assets provides sheltering income and reducing capital gain (profit) taxes.

Offset low interest rates environment that harms savers. (This isn't your grandparents' economy). Understand and use debt (borrowing money) as an asset vs. liability. Society teaches us to abhor debt and save money (see Dave Ramsey). A no-debt model is considered safe. What could go wrong?

Low-interest rates hurt savers, retirees, and those who no longer have active income capacity. Conservative investments don't pay enough in yield to provide for a retirement lifestyle sustenance. Low-interest rates help those in a wealth-building model (borrowers), buying and building businesses and real estate capital asset investments. In effect, seniors' wealth and savings transfer to estate builders (the wealthy become wealthier). Interest on loans is paid back with future dollars that have less value. This is in effect, shorting the dollar.

Low-interest rates also protect politicians and big government debt-spending.

Hedge against inflation. Inflation is another form of wealth transfer, like a hidden tax, for which no check is written or direct tax payment is made. Governments with massive deficit spending and national debt find the most viable escape plan from that debt is allowing the devaluation of the currency, which increases the cost of living for all citizens.

The best protection against inflationary forces is equity ownership of capital assets like real estate. In times of low interest and high inflation, debtors (borrowing the money to acquire those capital assets) win and savers lose.

Avoid the "everything is an opportunity" syndrome. Pick an asset class and stick with it. Jumping from one idea to the next is a path to nowhere. If you like business and already know a specific business sector, that may be a good point of reference. If, like me, you prefer real estate, then choose an asset class: single-family residential, multifamily, self-storage or mobile home parks as examples. There will be opportunities for deals in every capital asset sector, if you know where to look.

Once you determine the asset class, you must gain some specific market knowledge about both the asset class and the geographic/demographic market(s) on which you intend to focus. Speed to the goal is of the essence here.



“We worry more about deflation.”

Your network is your net worth. This is not the time to go solo. Join association groups, masterminds and invest in coaching for the specific asset sector you have chosen. Don't shortcut and think you can figure it all out by yourself. Time is lost. Harsh and costly lessons that aren't necessary are avoided by accessing and leveraging knowledge and experience already available. Pay to play and reap the benefits. Life and wealth-building is a team sport.

By learning these skills (team building and leadership), you can create anything you can imagine or desire. Fail in this regard, and you will falsely believe that successful people are “lucky.”

In summary, the opportunity currently at hand (economic chaos) only occurs so many times in a lifetime. Don't stay locked in paralysis or hunker down and work harder. Now is the time to multiply your efforts and assets. Now is the time to take the road less traveled.

It's easy to get caught up in the irrational exuberance of a long bull market. Jumping into “investment deals” that you don't understand, don't know the principle operators and have no idea how to perform adequate due diligence often becomes the chapter of a book called “Deals Gone Bad.”

Best to read the book and not be a participant. If you're not sure, find a competent person, mentor or informal group of people who have experience in the investment area you consider and get some unbiased advice before jumping in.

The Freedom Founders Alternative

“Start where you are. Use what you’ve got. Do what you can.” Arthur Ashe, U.S. Tennis Champion

Freedom Founders was created over a decade ago to help small business owners and capitalists not just survive, but to thrive in a political and economic environment that has become very unfriendly to the independent entrepreneur – the one who chooses to go against the grain, to work hard and take risks for opportunities to create a better life where the headwinds are strong.



Freedom Founders members gathering for a live mastermind event in Utah in 2019

Freedom and liberty are the heart of our mission. How to best protect, maintain, and optimize our assets in a world that believes “what is yours belongs to everyone else” and that you didn’t achieve your results on your own. That you most likely took some shortcuts or had some privilege that others don’t have. Be forewarned.

We are entering a decade in which there will be much volatility and change in what we once believed to be true.

That will require us to stay nimble and informed. I’m presently recalibrating all my businesses and investments to get through this time, and I suggest you do the same.

What we do matters far more – the plans we make, the actions we take, the things we do to improve our own lives. We can control our own destiny. We can control our own economy. This is like voting for yourself, and we have the opportunity to do this every single day.

You must also strive to anticipate and innovate ahead of the changes. How? Get outside of your industry and see what other business entrepreneurs and capitalists are doing. Invest in a network that provides you access to the right information and the ability to act on it while mitigating downside risk.

The best way that I know to create outside wealth and equity is through real estate (non-Wall Street, alternative investments). Substantial benefits exist with real estate investments not available through other financial products. Most of the high net worth members of the Freedom Founders community don't talk about day trading, beating stock indexes, avoiding taxes, or achieving the highest possible return on their investments. They have moved beyond those schemes. What they seek are 1) preservation of capital, 2) recurring annuity cash flow at pace with inflation and 3) the ability to pass on to their heirs not just monetary wealth but also the acumen and resourcefulness to preserve and grow wealth in a highly volatile environment.

Our members value the other four Freedoms that open up after achieving financial freedom. Then there are the freedoms of time discretion, critical relationships, health, and, finally, an understanding and engagement of one's real purpose and meaning in life.



Whereas, instead of owning the gift of time—time that can be devoted to family, legacy and philanthropy—the majority remains steadfastly at the money income game and often misses the best opportunities in life. Money is not the goal—it's the currency you use to achieve the goal. Until you realize that, you'll never feel settled. You'll never find Freedom.

Remember, always stay focused on your freedom! - Dr. David Phelps

Take the Next Steps toward Your Freedom!

Freedom Founder's mission is to help professionals find more Freedom for what matters most in their life. The Freedom Founders community has helped hundreds of high income practice professionals become Free For Life®—they're able to maintain their high income lifestyle entirely with passive income from alternative investments in real estate.

We have created such a successful community by being extremely selective about who we accept into the community. We want professionals who are coachable, smart enough to understand the value of a network, and who are not interested in a Do-It-Yourself approach to real estate investing.

Your time is better spent in other pursuits or with your family.

We provide our members with the resources to gain financial acumen and make their own decisions about what to invest in and with whom. We do not take a cut of our members' investments.

Instead, all of the investments that occur through Freedom Founders are based in personal relationships with our Trusted Advisors, a group of highly-vetted and hand-picked professionals who represent dozens of real estate investment opportunities from a diversity of asset classes.

Becoming Free For Life is about much more than finding financial independence. It is about being free from financial worry in order to focus on family, legacy, missions, volunteering, and living unchained from other people's definition of success. If you are ready to live an unconventional life, I invite you to get to know the Freedom Founders community.

**Schedule your discovery call with my team at
FreedomFounders.com/Schedule**

Remember, always stay focused on your Freedom!

Dr. David Phelps

Notes

1. National Bureau of Economic Research. "US Business Cycle Expansions and Contractions." July 19, 2021.
www.nber.org/research/data/us-business-cycle-expansions-and-contractions
2. Jonnelle Marte. "U.S. income inequality could be pushing interest rates lower, research finds." Reuters. August 27, 2021.
www.reuters.com/business/finance/us-income-inequality-could-be-pushing-interest-rates-lower-research-finds-2021-08-27/