



What is Financial Freedom for Physicians?

So, what is financial freedom for physicians? It never occurred to me, until one day an extremely wealthy business woman asked me, «So, what's your number?» I thought, «What does she mean?» I'll explain.



Real estate is the most powerful way to accumulate wealth. More people have become millionaires through real estate than any other means. We know how to find the property, create a plan for improving the cashflow, negotiate the deal, and manage the asset. Your passive investment provides you with the opportunity to earn an income without the nine to five. We create a unique business strategy that fits your financial and investment goals. Get the financial freedom you need to do more of what you love. **We are Red Pill Kapital, with a K.**



Making money as a physician

So, when you make money as a physician, it's an active endeavor. It's a personal service business. What you're doing is you're trading your time for somebody else's money. It's a skill. It's not something that's fungible. You can't go on Amazon and say, «Give me two units of physician.» You can't say, «Oh, I need a toaster, and I need it in black,» and they make 3,000 of these things a minute, and you need two of them. You're not a widget. It's a highly compensated, highly trained field, but unfortunately, because it's such a specialized skill, because it's so highly trained, and it's so lucrative, you have something called **golden handcuffs**.



- What happens if, for example, there's a disruption?
- What happens if there's death?
- What happens if there's a disability?
- What happens if there's a divorce? What happens even if you have to take a long vacation and you make your money actively?
- What happens to your income?
- How long do you have?
- How long does your family have before it runs out of money, if you have no active income?



How long can you survive on your savings alone, if you lose all of your active income?

Take your total savings divided by your average monthly expenses, and you'll get a number, and it's the numbers of months of survival.

Now, you might be able to prolong your months of survival, if you have a death insurance plan, a life insurance plan, or if you have a disability insurance plan. You might have an improvement in the number of months of survival, but you know what? This comes at the expense of the person who's disabled. This comes at the expense or the life of the person who's the insured. If you're that person, it's not a good thing, because the only way that your family members are going to get that value is if you expire. Even if you become disabled, it's highly likely that your average monthly expenses will dramatically increase, not decrease, and they'll never increase to the level that you made when you were an active participant in the labor force.

This might explain why there's a very high suicide rate in professionals, such as medical professionals. There's a financial duress that occurs, and sometimes people face these horrendous potential disabilities and future reduction in income, and they don't really see a way out. This might partially explain why suicide rates are correlated closely with financial instability.

$$\frac{\text{total savings}}{\text{average monthly expenses}} = \text{\#months survival}$$



What's your number?

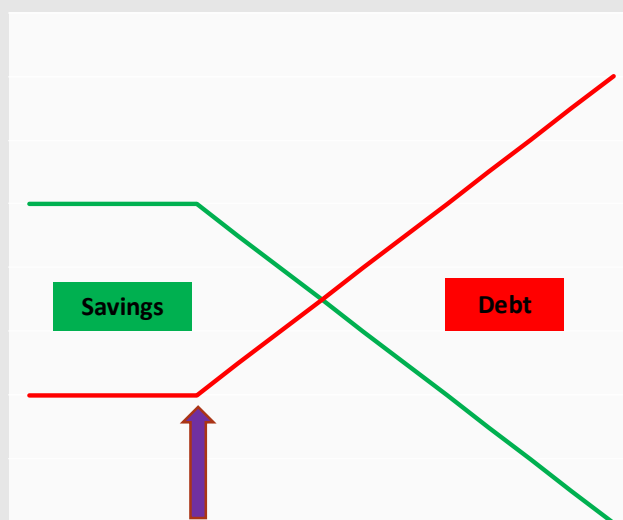
It's your average monthly expenses times 1.30. That's your number. That's how much money you need to survive. Based upon your personal number, how many months can you survive? So, take your total savings, divide it by this number, and that gives you months of integrity.

$$\frac{\text{total savings}}{\text{the number}} = \text{\#months of integrity}$$

Disability is not a Black Swan event

I mentioned disability, and I want to graphically represent this. In the red line is your expenses. In the green line is your income, if you're an active income worker. If you become disabled, which is the purple arrow, all of a sudden your expenses start to go up, and your income starts to go down, and what little you had left in savings disappears, and instead you start to accrue debt. You're far more likely to become disabled than die. On average, a 32-year-old male is six and a half times more likely to become disabled than die. Deaths due to cancer, heart disease, and stroke have gone down **32 percent**, but the disability rate has increased **55 percent**. The things that used to kill people instead now disable them, and the problem is the disability costs way more than the death does.

Income vs Expense with disability



But I have disability insurance

You might tell me, «*But I have disability insurance. I'll be okay.*» You know, the reality is even if you have insurance, it's not going to recover your income to the level it was before, and it's not going to cover the income to the same level as your expenses are going to go up. So, no matter what, you're not going to be able to maintain the delta between your active income, your expenses, and you're going to end up negative. You're probably going to end up in debt.

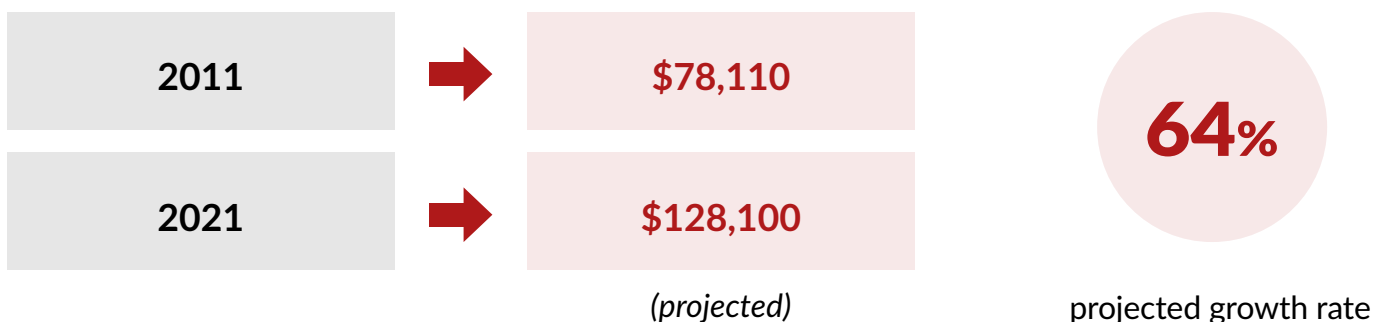
Disability is more likely to occur long before retirement, but that's only because the mortality statistics suggest that death is more likely as we age, and that disability is far more expensive to you individually than death. It's really a catastrophic number that most people don't plan on; they don't anticipate. Some people have disability insurance, but they don't realize how many loopholes are in there, how many hidden limitations, what the time limitations are, or what the occupancy specific limitations are.

Being a physician, and having a disability, and having it occupation-specific to a physician doesn't mean much. It has to be occupation-specific to what you do specifically at this time. It's interesting to me. People change what they do, even as physicians, three to four times in their career, and rarely does their disability insurance keep track of that. The other thing is people set and forget their disability insurance. They get it at one time, and 15 or 20 years later, it has no bearing on what they're currently doing, and it's usually not indexed to inflation, and it's usually not indexed to income changes. You've worked actively, and suddenly your entire future gets destroyed, and all of your years of sacrifice are evaporated, because you didn't anticipate disability.



Population is living longer, but sicker, with greater financial needs

So, one year of nursing home care in a semi-private room in 2011 was estimated to cost about \$78,000. In 2021, the estimated cost is going to be \$128,000. That's a 64 percent projected growth rate. Did you earn a 64 percent projected return rate on your stock market investment from 2011 to 2021, 10 years? I don't think so.





Most Americans live paycheck to paycheck

Most Americans live paycheck to paycheck, and the reality is that the median American household currently holds about **\$11,700** in bank accounts and retirement savings accounts. That includes all their money. Now, median balances are different than average balances. So, the average balance is **\$34,730**. This is the difference between mean, median, and mode. But the reality is **29 percent** of households have less than **\$1,000** in savings. Millennials obviously have the least amount. Baby boomers and older have about **\$24,280**, but they're getting close to retirement.

The Northwestern Mutual 2018 Planning and Progress Report found that Americans average about \$38,000 in personal debt, excluding their home mortgage. So, even though they might have \$34,730 in savings account median, their average debt is \$38,000, so they're actually net negative. About 30 percent of Americans use up about \$14,000 of savings a year, so they go negative \$14,000 every single year.

The 2018 Federal Reserve Report indicates that about **40 percent** of Americans struggle with just paying a \$400 emergency bill. **27 percent** of those surveyed would need to borrow money to cover a \$400 bill. **12 percent** wouldn't be able to cover it at all. About **one in five** adults had a major unexpected medical bill last year, and **one in four** adults skipped necessary medical care because they couldn't afford it. So, people are living on the brittle edge of insolvency.

At any given time, about **17 to 20 percent** of adults are unable to pay their current month's bills. They're going in debt every single month. The real median household income in **2018-2019 was about \$61,372**, which in real dollars is almost exactly the same as it was in 1999. So, the household income average is \$61,372. The average expenditure per consumer unit was \$61,224, again indicating that really there's no difference between people's income and their expenses. They're spending everything that they have.

So, what does that have to do with physicians? Physicians make more money, don't they?

The average physician salary is

\$313,000
in 2019

on a Medscape survey, and this is a Medscape survey. They look at compensation, wealth, and debt.

But the reality is

58%

of physicians have a net worth of less than a million dollars.

While

59%

of physicians live at or above their means.

In other words, two thirds of physicians are net negative. After they get their income and they pay off all of their expenses, there's nothing left over, and there are a lot of reasons for this.

I mean, obviously it's the concept of *"I finally made some money, and I'm going to do what I need to do,"* or it's the concept of keeping up with the Joneses, or it's the concept of, *"You know what, I've got hundreds of thousands of dollars of medical school debt."* There's an interesting study on neurosurgeons that the vast majority of neurosurgeons continue to pay off student debt well into their 50s. What's happening is just like regular people, physicians' expenses match their income, so they have nothing left in savings – just the numbers are a lot bigger.



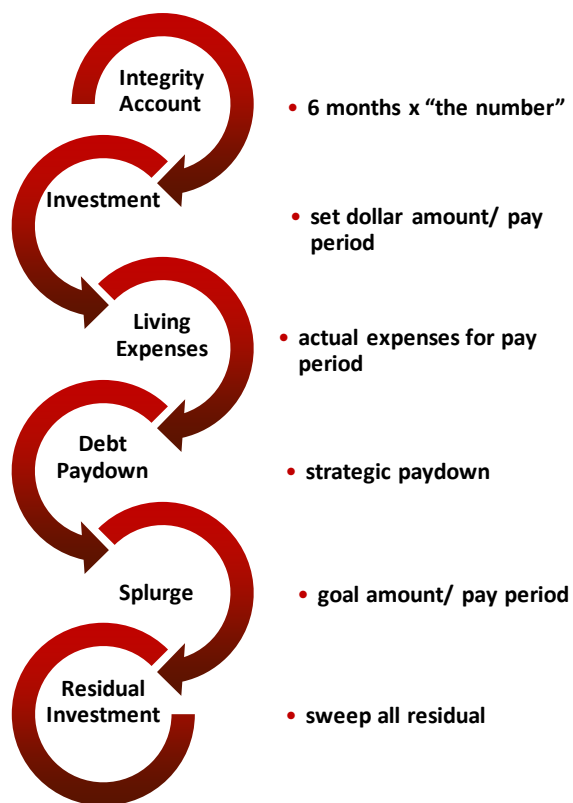
Being an active wage employee leaves you exposed

If you're an active-wage employee, you're exposed.

The reason why is active-wage employment is taxed at the highest possible level. Active employment requires a constant activity to maintain your financial integrity. It's like bucketing out water from a lifeboat that's sinking. The problem is all you can do is bucket faster, and once you start to get behind, it's hard to get above water again. But the other problem is you don't realize, as a physician, your lifeboat is only standing in about three feet of water, and you're drowning in this three feet of water. If you get out of the lifeboat, you can stand up, and look at the horizon, and walk out of this mess.

These are the things that I want you to think about, immediately.

You need to set up some bank accounts and set up some hierarchical accounts. You want to set up an integrity account, which is essentially the number. You figured out what your number was, so multiply that by six, and set up an integrity account. This is where your emergency cash reserve is going to go. It doesn't mean that you have to set it all up at once, but that's your intention. Your first goal is to set up enough money being put aside that you have an integrity account, so that should you have an acute expense – should you have something horrendous happen – you've got six months of cash.



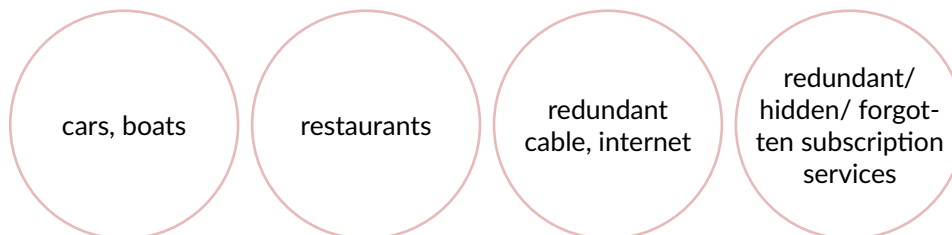
Your next account, the next flow over, should go into an investment account. You want to have a set dollar amount per pay period going into investment. Now, you notice that your living expenses don't come until third. What you want to do then is identify what your actual dollars per pay period are that you're going to use for living expenses, and put it into that living expenses account, and live from that living expenses account. Then you want to pay down debt, and it's a strategic pay down. I'm going to go through that in a few seconds. Only after you've done your debt pay down can you put some money aside for a splurge account – the dopamine account, the thing that makes you feel good. You have to have something that you're looking forward to, and so that's your splurge account. Then whatever you have left, it goes into your final bucket, which is your residual investment account. Sweep everything that you have left into a residual investment account.

Upgrade Wealth Operating System

What I'm really talking about is upgrading your wealth operating system. Your wealth operating system is how you perceive your relationship with money. Most people have an extremely defective wealth operating system. People think that if they spend money, it's a bad thing. Some people think that money itself is a bad thing. Some people think that rich people are bad people. Ask herself a question, and just close your eyes and ask. If you're asking, «Rich people are ... Rich people do ...» ask yourself if you're getting any negative connotations. Are rich people greedy? Do rich people take advantage of other people? If these things resonate in your head, your wealth operating system is defective.

If you asked yourself, «Money is ...» and you let yourself just write it down on a piece of paper, what is money? If money is dirty, if money is something that's scary, if money is something that you lack, then your wealth operating system is defective. If you asked yourself, «Money makes people ...» and if you end up with words greedy, if money makes people jealous, if money makes people behave badly, your wealth operating system is defective. Because money and wealth are merely tools as a process of success. Innately there's nothing good and there's nothing bad about money. Money is just simply something that you can use to accomplish a particular task. So, you need to upgrade your wealth operating system. You need to definitely calculate your number. You need to accumulate your cash for six months of integrity.

Remove all unnecessary expenses



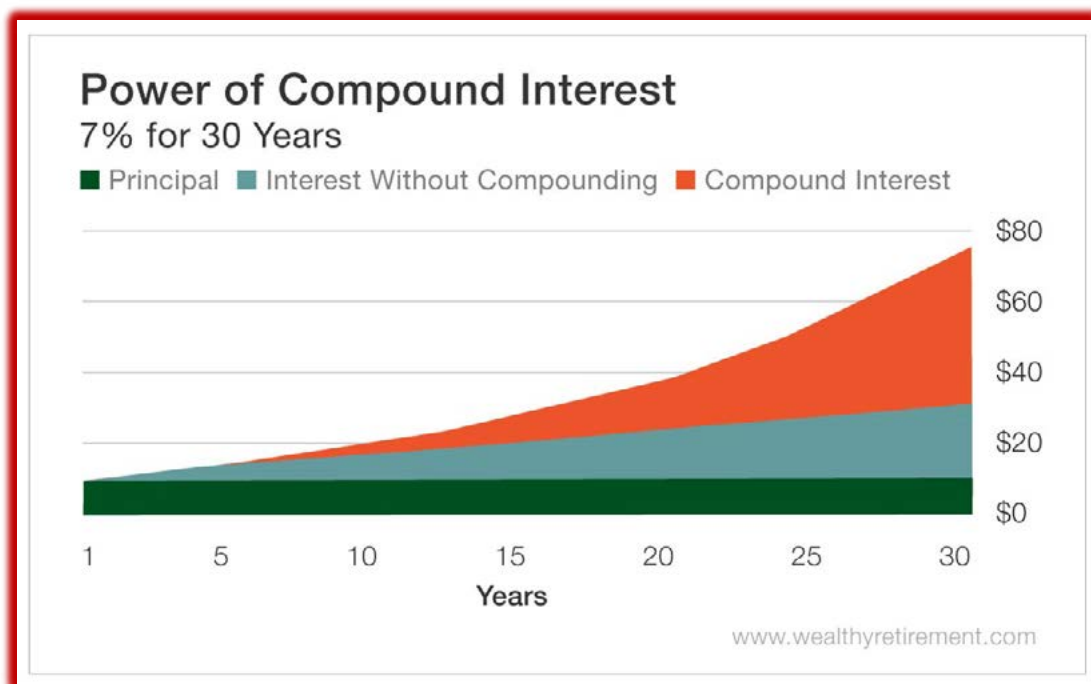


Debt rules: Arbitrage interest rates

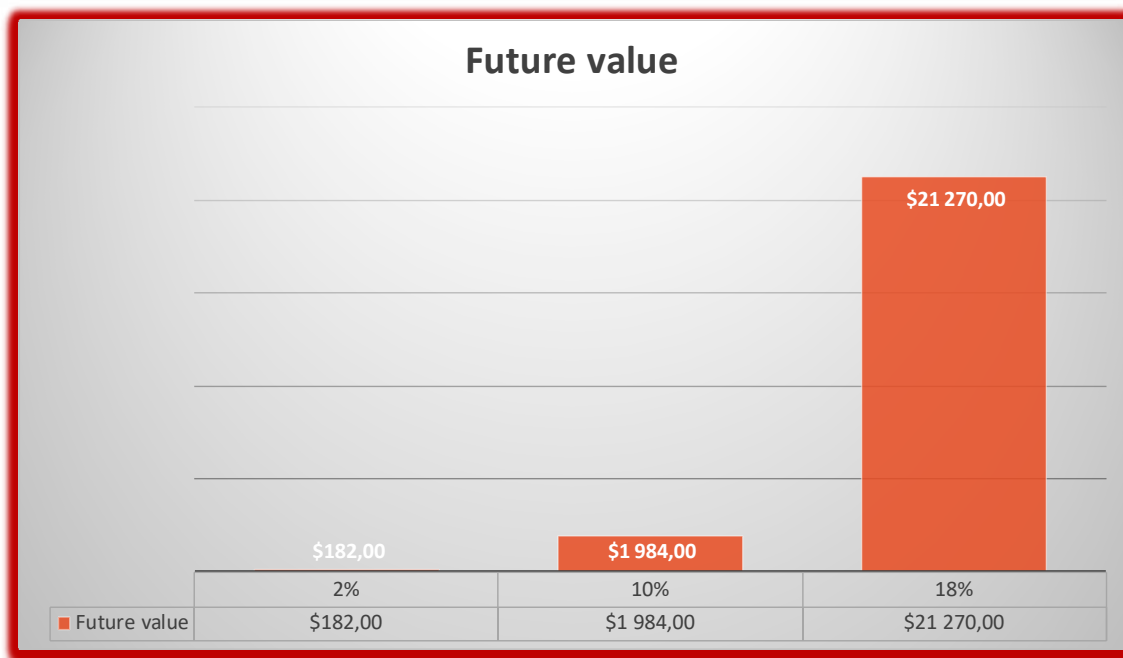
As you upgrade your wealth operating system, you want to remove rules. So, I want to talk about **debt rules**, specific things that you pick up along the way, things I wish somebody had mentioned to me. When you look at things that you have debt on, if they have a high interest rate and their interest rate's **above 12 percent**, you want to pay them off first, because you can generate probably in your investments, if they're significant investments, you could probably generate 12 percent or greater. So, if you pay off debt and it's above 12 percent, it's better to do that, because it's still an investment. You're just paying it off. It's just that you're not getting the money directly, but you're saving the money. If the cost of interest is between **six and 12 percent**, you need to evaluate it. You know, you might be better off paying off that debt. You might not be.

The key thing is take all of your debts and consolidate it down to the least number of units that you have to pay off. Usually when you consolidate debt and you aggregate it together, then the interest rate drops. If it's a minimal debt interest rate, **below 6 percent**, you want to make a minimal payment on it, because you're definitely going to make more money in other investments well **above 6 percent**. What you want to do is you want to take that cash that you would have used to pay down that debt and invest it into cash flow projects. If the interest rate on your debt is below 6 percent – 6 percent to 12 percent – you need to evaluate it closely. Above 12 percent, you definitely need to pay that stuff off immediately.

Really, the **power of compounding** is what this is. Let's take an example. So, \$10 invested for 30 years. Simple interest versus compounded rates of return. Let's say that you had \$10 at year one, and you took out \$10 at year 30. At a 7 percent rate of return, you'd get \$10 principal back. If you had invested without compounding, you would've made about 25 bucks, but with compounding, you end up walking away with \$80 per \$10 invested. That's the value of compounding. Compounding is essentially a formula that allows you to reinvest that money on a monthly basis, and so you're making money off of the money that you already invested, and it generates a rate of return. You add that to your principal, so that you make more money off of it. If you don't have compounding interest, somebody else is eating your lunch.



Let's just do a little, quick comparison, just because I think it's important to understand what a huge difference compounding makes. Let's say that you took an investment at 2 percent versus 10 percent versus 18 percent over 30 years, and you invested \$100. You start with \$100. What is it worth at 2 percent, 10 percent, and 18 percent over 30 years? At 2 percent, it's worth \$182. At 10 percent, your \$100 has grown to \$1,984, but at 18 percent over 30 years, your investment is now \$21,000. That's a huge difference. This is going to become much more relevant shortly, when we start talking about what happens in the stock market and what your real rates of return are. I think you should pay attention to this, because your real rates of return are nowhere near what they're telling you.



Quick analysis compounded return Rule of 72

Another way to look at it is the rule of 72. It's a quick way to determine the number of years it takes to double your actual cash. Now, this is a quick and dirty way. This is not science. This is just a real simple way -- back of the napkin. Take whatever interest rate it is. So, let's say you're going to make a 2.5 percent compounded return on something. Take 72, divide by 2.5, and it gives you the number of years it would have taken to double your money.

$$y = \frac{72}{r}$$



Debt rules: Arbitrage interest rates

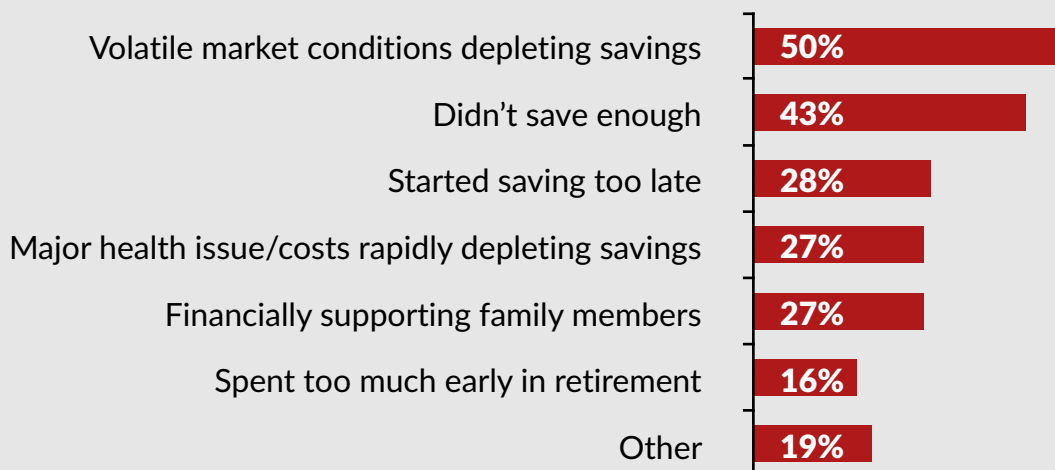
Taxes – the failure to account for taxes is incredible to me. Most physicians are either employees or they're self-employed. They have an average tax rate of **40 to 60 percent** on their income. Doesn't that seem bizarre? Because these are the hardest working people we have in our community, and they're the ones saving the lives, and they're the ones that we're taxing the most. Do you know who has the lowest tax rate? Investors and business owners – people that own dry cleaners, people that own convenience stores, people that invest their cash. In fact, if you make money on your money, you probably don't even pay any taxes at all, but if you're a hardworking physician, and you get blood on your shoes, and you have to deal with difficult patient situations that are life-threatening, you're getting taxed 40 to 60 percent. It doesn't make a lot of sense. This is the issue. The biggest single cost burden that you have to your wealth is taxes, and you are in the wrong category, and so you have to understand that and see exactly why.

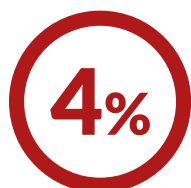
40-60% tax rate	0-20% tax rate
Employees*	Business Owner (not professional services)
Self-employed*	Investors

Retirement financial stability

Why is it that physicians don't feel comfortable about their financial preparedness going into retirement? This is an AMA study that was done in 2018, and over half the physicians are worried about volatile market conditions and depleted savings. 43 percent of the physicians felt like they didn't save enough. 28 percent thought that they started saving too late. If you look at all of these things, these physicians are heavily focused in on savings, and I'm going to conjecture that this is the wrong thing to do. Focusing in on purely savings is buying into the mentality of what portfolio managers want you to buy into, and I don't think that you can save yourself enough to get to retirement, based on market volatility, and inflation, and fees. Most people will never be able to retire, if you really look at it.

Why not Confident?





The 4% rule: (traditional investments in balanced portfolio of stocks, bonds and cash)

When I look at how much money can somebody take out of retirement at any given time, there's something called the 4 percent rule, and that's assuming that you're using traditional investment tools, like balanced portfolios, bonds, stock, and cash. It says that you can take out about 4 percent of your total investment portfolio in any given year, and that portfolio will last you about 30 years. That assumes, though, that the inflation rate is the historical **2.5 to 3 percent**, and it also assumes that the compounded rate of return in your traditional investment portfolio is about **6 percent**. It also assumes that taxes don't go up. It assumes that fees don't go up. It also assumes that you've reinvested all of your dividends. So, what does this mean?

If you invested a million dollars in a **balanced portfolio of stocks, bonds, and cash**, you could withdraw about 4 percent per year with a steady decline in the principal over the next 30 years. The keyword here is steady decline in principle. At the end of 30 years, you don't have anything. There's nothing left. So, if you took \$1 million when you were 30, over the next 30 years, by the time you turn to 60, you would have nothing left. Now, the problem is expenses. People are living a lot longer than 30 years, and they're living a lot sicker. Only 12.2 percent of the U.S. population is now healthy. That means 78 percent plus of the population has significant comorbid diseases, and that's going to be a very significant factor for most people.

It also assumes that the tax rates don't go up, but the reality is tax rates are going up, and they're going to tax your retirement. They're saying that these are tax free, but when you look at use taxes, use taxes are I buy a piece of bubblegum, and it costs me 10 cents, and I pay 1 cent in tax, because I eat that bubblegum. That's not a federal tax. That's not state tax. That's a sales tax. It's a use tax. If I buy a car, then I might have to pay a couple thousand dollars of use tax to the state. I might have to pay a municipal tax.

These use taxes have nothing to do with your deferred tax plans and your 401ks. So, once the money comes out of the 401k, you're going to be using it. You're going to use it to buy things, and the things that you buy are going to have definite use taxes. I also believe that real estate taxes will probably go up. I also believe that the federal government will come up with all kinds of novel ways, because they've run out of money, and the only place that they can get their money is from you. So, they're going to figure out innovative ways to get your money.

The other reality is we have a negative yield bond rate right now. So, that means that there isn't a lot of money that you're going to generate off of investments in bonds. In fact, it's negative. When that happens over a prolonged period of time, stock market returns will start to drop, because people will not be able to maintain high levels of stock prices as interest rates continue to drop. You have to have a certain amount of economic friction with inflation and you have to have a certain amount of economic friction in bonds in order to maintain elevating stock market prices. When those things disappear, stock market prices start to drop. In the short run, they go up, but in the long run, they drop.

**What if your income is passive, and is growing >4%
(non traditional, tax advantaged)?**

So, **if your income is passive, and it's growing greater than 4 percent** in non-traditional tax advantaged states, it creates a whole different mechanism, because if your average monthly expenses times 1.3 is your number and based upon your number, assuming that you're constant renewing passive cash flow exceeds your number, it really doesn't matter what your total savings is, because as long as your monthly passive cash flow exceeds your number, your total savings could be zero and you would still have infinite months of permanent cashflow, because that positive cashflow exceeding your number is all that really matters. Now, that doesn't mean that I would recommend deplete your savings and live purely off of positive cashflow, because the reality is there are going to be fluctuations, but it gives you a different perspective. What you're really looking for is to increase your monthly positive cashflow above your number, so that you can have infinite capacity to survive passively, and then your total savings doesn't really matter that much.

$$\frac{\text{total savings} + \text{monthly passive cash flow}}{\text{the number}} = \text{infinite months}$$

**What if your income is passive, and is growing >12%
(non traditional, tax advantaged)?**

So, **what if your income is passive and you're growing greater than 12 percent** in a non-traditional tax advantaged plan? You know, again, same thing. Total savings plus monthly passive cashflow divided by your number is infinite. What you're doing is you're leaving a huge legacy for the people behind you. Your savings is never depleted. You're financially free, and you're free to pursue your passions, whether that's working in medicine, or whether that's painting, or whether that's travel. Most people that are physicians have spent so long becoming physicians and they're so passionate about becoming physicians and are so passionate about delivering awesomeness and care, they're going to continue to practice medicine, but they won't feel the stress and the day to day grind of that, and the burnout of medicine disappears.

$$\frac{\text{total savings+monthly passive cash flow}}{\text{the number}} = \text{infinite months}$$

I recommend that you work the number. So, what that means is cashflow divided by an investment equals a rate of return. For example, if you get \$100,000 of cashflow and your investment was \$1 million, that's a 10 percent rate of return. Cashflow is the rate of return times the investment. So, this is just another example. If you take your cashflow and you divide it by 12, you get what you need for your monthly cashflow. What you want is you want your monthly cashflow to be greater than your number. So, if you take the number, multiply by 12, divided by your rate of return, you'll get the exact amount of investment needed, so you can work it backwards to figure out how much you have to invest to achieve your number and what the interest rates are.

This is just a different way to look at the same issue, but everyone should go through this to figure out what investment level they need and what their rate of return is. Once you do this, and this rate of return is post-tax, post-inflation, post-fees, once you do this, you have a whole different approach to your investment.

$$\text{cash flow}/\text{investment} = \%r$$

$$\text{cash flow} = \%r \times \text{investment}$$

$$\text{cash flow}/12 = \text{monthly cash flow}$$

$$\text{monthly cash flow} \geq \text{"the number"}$$

$$(\text{"the number"} \times 12)/\%r = \text{investment needed}$$

$$100,000/1,000,000 = 10\%$$

$$100,000 = 10\% \times \text{investment}$$

$$100,000/12 = 8,333$$

$$?\$8,333 \geq \text{"the number"}$$

$$(\text{"the number"} \times 12)/\%r = \text{investment needed}$$



- So, again, what's your number?
- What's your rate of return?
- What is your real risk adjusted rate of return after fees, inflation, and taxes?
- How much capital will you need to deploy to be successful?

The reality is is that you've already won the money. You're losing the time. You have a high income. **You're 90 percent of the way there.** If you just do a few things right, you can be incredibly financially successful. You can leave a legacy. You can leverage other people's time with your money and be incredibly successful at a much lower risk and a much higher reward.



Is Red Pill Kapital right for you?

Are you looking to enhance your financial wealth and truly live the life that you deserve? Are you an accredited investor who's interested in learning more about passively investing and cash flowing commercial real estate? Are you interested in investing alongside us? Because we don't need your money. What we're trying to do is do bigger projects with more leverage, and the bigger the project, the less the risk because the leverage improves. We only make money if you make money. If you have any questions, please email me at info@redpillkapital.com and that's Kapital with a K.

We search for value-added real estate for our passive commercial real estate partners, and we actively manage that investment long-term for a successful exit. We are Red Pill Kapital. Find us at redpillk.com.