Chained to the Chair: The Dental Dilemma

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How to Create Financial Independence as a Private-Practice Dentist

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Introduction

As a private practice dentist, you face a unique set of challenges. If you're like most dentists, you graduated from dental school saddled with debt. And then you took on large liabilities to start or buy into a practice. But perhaps the biggest challenge you face is the fact that a dental practice is a cash-flow business. It will generate a lot of income over the years, but it won't build much equity.

While the money is coming in, life is good. You're able to enjoy all the things you put off for so long. You're paying down your liabilities. And you're building a practice that should continue to grow over the years. But are you also building assets that create wealth independent of your practice?

That's the secret to creating financial freedom in a private dental practice. **If you're not creating wealth separately from your practice, you could end up "chained to the chair," unable to retire because you can't afford to lose the revenue stream.**

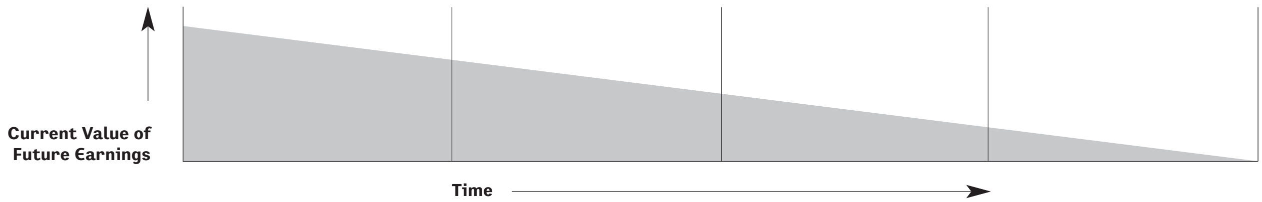
A Dental Practice is a Cash Flow Business

One dentist who had a successful private practice for more than 20 years, sees it happen all too often. "You see guys who are practicing when they are 75 and you have to wonder. Is it the true love for dentistry—and sometimes it is—or is it because they have to?"

Unlike most entrepreneurial ventures, a dental practice does not build value apart from its owner's active participation. The real value of your practice is dependent on your ability to produce earnings. That means your practice's largest asset is your future earnings; and its largest liability is your lifestyle. As you spend down your earnings, the value of this asset decreases. (See the chart on the following page.)

Current Value of Future Earnings Over Time for a Private-Practice Dentist.

As a dentist, your greatest asset is the present value of your future earnings.
As you consume your earnings, the value of that asset goes down



Furthermore, “selling out” isn’t a reliable plan for retirement. In fact, any practice management class will tell you NOT to rely on the sale of your dental practice for your retirement. It can certainly be the cream on top, but don’t plan on it for your primary income source. (Owning the building your practice is in, however, is another story. That is certainly one way to build some equity with your practice.)

Dentists face unique liabilities

Dentistry is an entrepreneurial business. Most dentists are either in business for themselves, or in a small partnership. While this has a lot of benefits, it also exposes you to more liabilities.

As mentioned in the introduction, you have to take on large liabilities right out of school, most often without the protection of a group. For instance, the cost of starting a new practice is exorbitant. But that’s often not even an option these days. Increased competition in the field is forcing many new dentists to find an established practice to buy into, as the market can’t absorb more new practices. So you’re immediately tied to a long-term liability.

You have rent or mortgage payments for your office space. And you have insurance: property insurance, malpractice insurance, and health insurance for your employees.

In addition to your professional liabilities, dentists also face unique asset protection challenges. These too need to be discussed with your attorney, CPA, and any others who help you manage your practice and your money.

And lastly, while most dentists expect to be in business for themselves, many are not prepared for the business aspects of running a private dental practice. Dental school simply doesn’t prepare you with all the financial and managerial expertise it requires. As one dentist told us, “We did hear about financial management issues in dental school, but no one was in the mindset to listen at that point. It wasn’t until we were actually in practice making financial mistakes and hearing the same advice in other classes that we started to pay attention.”

Making up for lost time

By the time you get out of school, you're several years behind your peers in the earnings game. It's no wonder that dentists often exhibit the "caged lion" effect, where they're anxious to buy all the things they've put off for so long—the big house, the nice car, the fun toys.

We heard this comment several times during our interviews with dentists who've been in practice for a while. "The generation of today wants it all now," said one. "They want the Porsches now, the big house, now. It's the pressures of lifestyle. I worry about those guys maybe not starting to save."

It's a simple case of delayed gratification. Dentists graduate with certain expectations of lifestyle, and society has them as well. But spending as if one is making up for lost time means that there's less money available for saving—whether it's for retirement, for college funds, or other things.

What's the Answer?

So how do dentists "unchain from the chair" and enjoy the fruits of their labors?

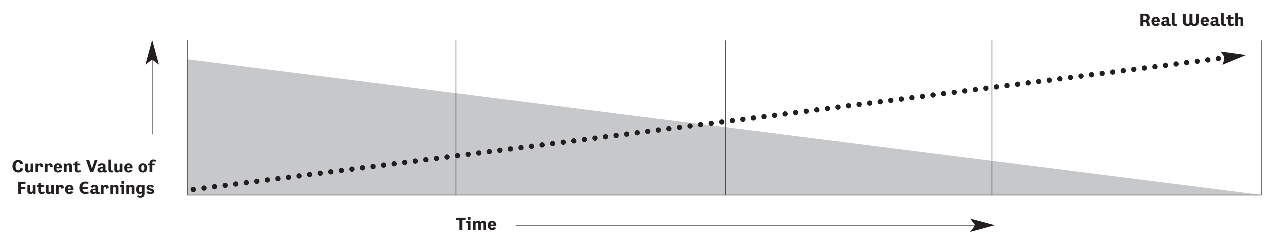
The answer lies in managing your lifestyle expenses and transforming your practice's cash flow into productive wealth—independent of your practice.

If you capture a portion of the income you earn and direct it to productive assets—the kind of investments that will generate income separate from your practice—you'll build wealth that will increase in value over time. That way, while you're spending down your practice's most valuable asset (future earnings), your productive assets will be growing into real wealth to offset this.

An easy way to do this is to "throw some of it over the wall." If you consistently take some of your earnings and put it into a plan independent of your practice, it will grow over time and create real, independent wealth.

Real Wealth Accumulation

As you spend down your practice's future earnings, assets that you invest independently of your practice will grow into real wealth over time.



Now that you understand the general idea of what needs to be done, let us insert a word of caution. The confidence that got you through dental school and makes you successful in your practice could actually work against you with investing. You're smart. You're successful. You're certainly capable of doing your own finances, right?

Right. But understand that **investing isn't about skill. It's about emotion.** And it's extremely difficult for anyone to maintain objectivity and not make emotional decisions about their own money. That's why we recommend finding someone who cares as much about your money as you do, but has the emotional distance to help you make the right decisions.

The Wealth Management Solution and the Family CFO

We're not telling you to rush out and find a financial planner, a stock broker, or even an insurance sales person to help you. In fact, our contention is that the traditional financial services industry is ill-equipped to handle the challenges you face as a dentist.

We believe you need an unbiased, highly trained professional who takes a holistic approach to wealth management, which includes estate planning, tax planning, life goals and more. We call that person a Family Chief Financial Officer (CFO). A Family CFO is the cornerstone of a Wealth Management Team, which consists of all the financial advisors in your life, from your lawyer to your CPA. Working with this team, your Family CFO will sort through the complicated web of financial issues for you, putting together a custom-tailored approach that will take you from high income to independent wealth and well-being.

Note that a Family CFO doesn't face the same conflict of interest as most financial planners or brokers. This person isn't focused on making a short-term sell, which may be driven in part by commissions on products and services you don't really need. The best Family CFOs are paid a predetermined rate and receive compensation from only one source: you. There are no strings attached, no lurking fees. You control your financial relationship.

The Family CFO Relationship

This truly is a relationship—one that requires an emotional investment on both parts. A good Family CFO will learn about your values, interests and aspirations, which can sometimes be a little uncomfortable in the beginning. Knowing that this person cares as much about your money as you do, it's important to trust him as you work together to determine your needs and goals, such as retirement, education funds for your children, more free time for your family, etc. If you do, your efforts will be rewarded, and you'll reach a point where you can release yourself from the burden of second-guessing every investment decision.

Your Family CFO will compile your financial team's advice and put together a plan that focuses on your needs and goals, and ultimately your long-term wealth and well-being. You remain your family's CEO, making the big decisions. Your Family CFO just helps you make the right financial ones.

Unfortunately, the right Family CFO can be hard to find. The most important thing to look for is someone who resonates with your values. This isn't a matter of finding someone who always knows the hot stock of the day. In fact, if you find someone you think is a good fit, ask that person how the market did that day. If he knows all the details, he's not the guy for you. Your Family CFO needs to be focused on the long term. You'll know you've found your Family CFO if you ask the previous question and he or she says, "I have no idea." Sounds crazy, but we promise it works.

Working with your Family CFO

Once you've found your Family CFO, he or she will guide you through a disciplined process, which includes a series of meetings to help identify your values and goals, establish a plan to help you meet those goals, and give you the ability to hold the course.

Wealth Management Consulting Process

1. Discovery Meeting		2. Investment Plan Meeting		3. Mutual Commitment Meeting		4. 45-Day Follow-Up Meeting		5. Regular Progress Meeting
Complete discovery process	2 WEEKS	Presentation of investment plan	1 WEEK	Confirmation of commitment	45 DAYS	Organization of account paperwork	90 DAYS	Review of progress and implementation of wealth management plan

In the Discovery Meeting, your Family CFO will gather facts to understand where you are right now and where you want to go with your investments. This will include information from all of your financial advisors: accountants, attorneys, insurance agents, etc. This is where you'll start to build your relationship and share a lot of important information about your values, goals and interests. (See "Discovering What Makes You Tick Financially.")

Once your Family CFO has gathered that information, he or she will meet with a team of experts to develop a comprehensive plan that meets your objectives. Then, at the Investment Plan Meeting, you'll review the proposed plan, look at specific recommendations and discuss them in detail.

When you have reviewed the proposed Investment Plan, and feel confident about the advisor you have chosen, it's time to meet again and formalize a working agreement (the Mutual Commitment Meeting).

About 45 days after your Investment Plan is implemented, it is important to reconvene, review all the paperwork and discuss how things are going. From here, you will move into the servicing stage of your relationship, in which the two of you will have regular Progress Meetings to review your goals and your plan's performance.

Discovering what makes you tick financially

Like in a good doctor-patient relationship, it's important to provide as much information as possible to your Family CFO. And it's more than just sharing which investments you currently own. You'll sit down with your Family CFO in the Discovery Meeting and carefully pinpoint your values and goals, and answer questions you may never have really asked yourself before. Seven areas should be covered here:

1. Values. The first question your Family CFO should ask is “What’s important about money to you?” This helps you both get to the heart of what you want to do with your money, and what you want your money to do.

2. Goals. You’ll spell out targeted goals, such as retirement, establishing college funds, leaving a legacy for your children, buying a vacation home, etc. If you don’t get specific with your goals, it’s hard to establish the right plan. Clearly-stated goals will come in handy down the road should you get a whim to change directions. Your Family CFO will be able to remind you about what your intentions were, and make sure you really want to stray away from them.

3. Relationships. Who do you love? Who are you expecting to provide for? These questions will help you clarify your values and goals, and find the right investment strategy.

4. Assets. Of course, you’ll also discuss the assets you currently have. A quantative review of exactly what you own establishes what we call your current reality.

5. Advisors. It’s important for your Family CFO to know who your key advisors are, including your attorney and CPA, but also any insurance brokers, private bankers, or others you’re working with, so everyone can be on the same page. In the past these advisors may have worked individually, but by working with your Family CFO, they’ll have important information they need to add tremendous value to your overall plan.

6. Process. This is where the two of you establish how you’ll work together. You might be asked, “In an ideal world (working with somone you completely trust), how involved do you want to be in the investment process?” Many people want to be more involved at first, but as trust in the working relationship develops, and the investment plan gets well under way, it’s common to have much less contact with your Family CFO than you may have had with other financial advisors. But this is completely up to you and your Family CFO.

7. Interests. And last, but certainly not least, you should talk about what rounds out your life, understanding that your interests—like travel, sports activities, hobbies, etc.—often drive your financial decisions.

Unless a financial advisor understands all of the information outlined above, you might as well stick to “The 20 best funds to buy right now” articles. On the flip side, by delving deeply into each of these seven areas, your Family CFO will be armed with the information necessary to help you through the inevitable tough times. That’s because you’ll end up with a carefully conceived plan, called an Investment Plan, which will enable you to look beyond bumps in the road to your ultimate goals. Remember, **this isn’t about money, it’s about your life.**

Getting More Specific.

Once your Family CFO has a thorough understanding of your values and goals, he or she is almost ready to generate your Investment Plan. Because this is a long-term plan, one you should be able to refer back to time and time again, three specific topics need to be discussed in order to develop it right. These include:

1. Understanding risk. Risk means different things to different people. It is very important to have a discussion with your Family CFO about what risk means to you. How much risk are you comfortable taking? Are you strongly averse to risk? How do you feel about short term fluctuations in the market? This conversation should also include the topic of inflation, or the erosion of purchasing power, because in twenty years, a dollar won't buy as much as it used to.

2. Defining a time horizon. Some investments are tied to a specific date. Are you planning on college for your kids in six years? Do you want to buy a vacation home in ten years? When will you retire? To live a life without compromise, it's important to keep in mind that life doesn't end when you retire. Research shows that you'll probably live another 40 years after retirement, so your investments will need to keep working for you during that time.

3. Stating a rate of return goal. Once you both understand risk and define a time horizon, you need to discuss your expectations for a rate of return. You'll be able to use this over time as a measuring stick to make sure you're meeting your goals. This needs to be a rate of return goal that will make all of your life goals work.

Now, sit back and relax.

After you've covered this important information and your Family CFO has generated an investment plan, it's time to sit back and trust him or her to manage your finances with your family's best interests at heart.

This is the hardest part, because it's difficult to do nothing. Especially when the market is fluctuating and constantly in the news. But once your Investment Plan is implemented, it's time to hold the course. Let go. No matter what is happening at the time (the "crisis du jour"), it's important to not let your emotions take over.

Remember that you have a very defined plan which will get you to your goals, and blips in the market won't affect it in the long run. By following the process of determining what's really important in your life, and then implementing an Investment Plan that matches those things, investing becomes fairly simple.

But don't confuse simple with being easy. It's hard to watch what's going on in the market and not respond. The good news is that investing, when approached with this disciplined process, is under your control. What really matters, and what ultimately determines your success over the long haul, is determined by your behavior—what you do and don't do during market ups and downs—and only you can control that. (You can learn more about how behavior impacts your investment success at www.behaviorgap.com.)

In many ways, your Family CFO is your behavior coach. If you ever do get tempted to act in ways that may not be in your best interests, he or she can pull out the notes from your discovery meeting and point to your Investment Plan, using it as a touchstone to keep you grounded. Only if something drastically changes in your life should you second-guess your investment plan. Of course, there will be periodic rebalancing with your investments when necessary, but no matter what the hot topic is around the water cooler or at cocktail parties, remember that your plan is there to get you to your goals.

So, turn off your favorite money programs, throw away your financial magazines (or read them purely for entertainment purposes) and start looking for a great Family CFO who will help you put your focus in the right place. Doing this will enable you to spend less time worrying about your investments and more time on what's really important to you and your family. And guess what? Your investments will do better too.

About the Authors

D. Carl Richards

D. Carl Richards has spent more than ten years working in the brokerage industry, including five years at Merrill Lynch as a Wealth Management Advisor. In 2004, he left Merrill Lynch to open Clearwater Wealth Management (CWM). Through CWM, Carl serves as the Chief Financial Officer for a select group of families.

In 2007, Carl partnered with Todd Quinn to form Silverstone Wealth Management (SWM), a specialized wealth management firm formed to help physicians and specialty dentists build wealth that is independent from their practice income. SWM works with a focused group of clients in order to ensure they receive a high level of personalized attention and direct access to the partners' expertise.

Driven by a relentless curiosity about investor behavior, Carl began a research project, which has grown into the website www.behaviorgap.com. The goal of the project is to gain a greater understanding of the factors that contribute to a successful lifetime investment program, and then help as many people as possible apply those factors in their lives. In addition to the website, Carl presents his findings at public speaking engagements.

Carl received his Bachelor of Science degree in Finance from the University of Utah. Credentialed as a Certified Financial Planner™, Carl also completed training in 2004 to be a Certified Investment Management Analyst (CIMA®). Married with four children, Carl enjoys spending time outside with his family. Contact Carl at carl@silverstonewealth.com.

Todd D. Quinn

Todd D. Quinn always wanted to run his own investment firm. After seven years in investment management, he made his dream a reality when he partnered with Carl Richards in 2007 to form Silverstone Wealth Management (SWM). Most recently with Bank of America, Todd also worked for Credit Suisse, the world' second largest investment bank.

With a background in managing high-net clients, Todd's valuable investing insight helps him guide physicians and specialty dentists through the important process of creating wealth independent of their cash-flow practices. To create a custom investing experience, SVM works with a select group of clients to guarantee personal, one-on-one attention.

In 2000, Todd earned his MBA from the Marriott School of Management at Brigham Young University. In his free time, Todd's either with his family or spending time in the mountains. You can email him at todd@silverstonewealth.com.

About the Firm

Silverstone Wealth Management

Launched in 2007, Silverstone Wealth Management is the brainchild of Todd Quinn and Carl Richards. Their goal? Help physicians and specialty dentists create wealth independent of their cash-flow businesses. For more information, please visit silverstonewealth.com or call 1.888.997.5336.