

Investing in What You Know for your Dental Practice

Making wise investments now while saving for the future will help boost your personal financial strength and knowhow.

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In a lot of ways, wise investing is an algebra equation. There are a lot of variables that go into determining the best investments. Dentists must weigh factors including where they are in their career, what the market currently favors, and what's going on in the world. In addition to those concrete variables, there's also an element of chance.

So, what's the best way for dentists to invest while still protecting themselves for the future?

Coming up with sound strategies

What's the best way for dentists to invest while protecting themselves for the future?

Benjamin J. Bush, CLU, ChFC, Managing Partner at Northeast Private Client Group, says that there is no single, blanket answer to that question. He says it really depends on where dentists are in their career and what their current needs are.

"I just got off the phone with a pediatric dentist," Bush says. "She's an associate. She hasn't really transitioned to ownership. She said that [ownership is] her dream and that's her goal. Her investment strategy, where she's putting money and what she should be doing might be different than a mid-career or late-career, long-term practice owner.

"It also depends on the individual," he continues. "When you work with enough people you start to see trends. There are some individuals who have a significant appetite for business development and growth. It's sort of in their DNA and in their blood. They continue to invest in those things, where others may be a bit more risk averse. This works in dentistry because as a business, the industry tends to be a low-risk proposition. Most people are going into business, they're taking significant risk."

As a good rule of thumb, Bush advises investing back into the practice.

"If I've got a dollar, the idea to me is that I want to figure out a way I can invest," he advises. "That's where I want to go first. Someone's greatest business investment is in people. If you've got a rockstar employee, you can leverage their time, effort, and talent to help grow your business in a specific direction. It could be a rockstar hygienist or a rockstar office manager. It could be a rockstar marketing director or a rockstar treatment coordinator. You could advance your capabilities by increasing your technology. You could add another operatory because your hygiene department is backed up and you need more space."

Bruce Bryen, CPA, CVA is a part of Baratz & Colleagues CPAs and an expert in the accounting practices for dental and healthcare offices. He recommends investing in a retirement plan, not just for the obvious end-of-career benefit, but for the financial protection it provides.

"It depends on your age and number of employees, but you've got to start a retirement plan, because that is the absolute best way to protect the assets that you have," Bryen says. "And as an example, I've worked with some dentists who have done really well for years and years, and then they start to get involved with investments in shopping centers and land development, which they typically don't know anything about. And when they do that, they've got to borrow large sums of money from the bank to be able to do something like that.

"They're at risk, because the bank would make them guarantee the loan," he continues. "And I always try to explain to people those creditors can't touch the money that's in the retirement plan. So, if you've guaranteed a million-dollar bank loan and the project fails, you are on the hook, personally. But if you have a million dollars in your retirement account, the bank can't touch it. It's what to do as an active dentist, not retired. Once you're retired, it's too late to do this. But even if you're older – like [in your] 60s or 70s – you can begin a retirement plan and you can put away a lot of money. The older you are based on the kind of plan, you could put away \$150,000, \$200,000 a year, if you can afford to do it."

Gregory F. Hagood, CFA, is a senior managing director of SOLIC Capital Advisors, where he oversees the Investment Banking practice, including merger and acquisition advisory services as well as private placements of debt and equity. He advises investing back into the business.

"If you look at the market, we're coming off a record stock market. Interest rates are very low," Hagood says. "And there's a lot of concern that the stock market will sell off this year and interest rates will rise. So, what do you do today? The first thing I tell dentists, probably the greatest opportunity they have is to grow their practice, invest in their practice. It doesn't matter if interest rates go to zero next year or they go to 10 percent, what the stock market does there is, it's such a demand for dentistry, and the more you grow your practice, the more people will pay for it."

Next, he advises diversification – spread out investments across a variety of opportunities.

"If you look at how you are investing your retirement funds, et cetera, they are going to be driven by asset allocation," Hagood observes. "And so don't try to pick individual stocks or bonds, but make sure you have a mix of assets. Exchange-traded funds (ETFs) are a great strategy to say, 'I've got exposure to large cap stocks, small cap stocks, some foreign cap stocks'. Yields, on bonds are low and as they go up, they're going to, probably, devalue the value of those bonds. I would be slow to move into fixed income investments. Focus on asset allocation, not individual stock outside your own practice. Focus on making sure you have a comfortable mix and work with your investment advisor."

A trend in investment is cryptocurrency. For those considering cryptocurrency, Hagood recommends investing through an ETF.

"If you're going to invest in cryptocurrency, I would approach it through an ETF," Hagood says. "That's an investment market that's still evolving. There's been a lot of money made, but I would be careful. I would try to do it through an ETF."

Meeting dentists' needs

Like any other profession, dentists have profession-specific investment needs, and the best place to start is by investing back into the business.

"The greatest investment opportunity I think dentists have is to grow their practice," Hagood advises. "But in general, I don't think they should be investing in telemedicine or any specific companies outside of what you can do to build your own practice, whether that's adding an additional dentist, adding an additional hygienist, adding additional cosmetic services, or so forth. Then, my recommendation on your broader investment strategy would be to use an asset strategy to make sure you are capturing market upsides and minimizing your market downsides."

Bryen advises investing in modern, high-tech equipment and consulting with an advisor who specializes in dentistry.

"From the time they start, they typically think they can't afford to do the first investment and maybe the only investment for a while – besides a retirement plan – would be to invest in the practice through state-of-the-art equipment knowledge," he says. "In other words, invest in an advisor. Invest in a dental CPA rather than a regular CPA, who's more inclined to understand business in general. Invest in a specific CPA who understands dental. And you can find a person like that through a lot of different sources. The main source is probably your colleagues. That advisor is going to pay huge dividends to the practice over long periods of time, because that person is going to advise whether you should buy equipment or lease equipment. When you should do that the seminars you should attend, the type of supply company you should go to to get good terms. A good dental CPA is going to understand when the representative for the supply and equipment company wants you to buy something. Maybe the dental CPA is going to say, 'Well, technology's changing really quickly, so I wouldn't buy that, because in a couple years, it's going to be outdated, so the best thing to do is to go into a lease for that piece of equipment.'"

But, for many dentists, the answer may be a resounding, "It depends".

"It's not a one-size-fits-all answer," Bush says. "Dentists, in general, tend to run a similar track. There are certain things that I think investing in makes a lot of sense. I consider an investment to be anything I can put money into that it will come back to me. You'd want to invest in building the right team around yourself, because I don't think the highly successful dental entrepreneurs out there today learned how to do everything on their own. I think what they did was they leveraged other people's time and talent effectively. That could be a practice management partner, that could have a chief of operation, that could be a marketing arm."

Avoiding critical missteps

While dentists have their own specific needs, they also tend to make common mistakes.

Bryen underscores the need for dentists to consult with advisors who specialize in dentistry.

"I've seen some lenders that came out on a Saturday and a Sunday to an area where they thought there were going to be a lot of dentists that were going to show up and they were offering loans for advisory services or for equipment, and you could borrow \$100,000 on your signature without much of any kind of credit check," he says. "I had a client and I found out on a Monday or a Tuesday that he and his wife had signed up for one of these \$100,000 loans on a Sunday, and I was flabbergasted. Some of these companies send somebody out, they stay with you to try to increase your gross revenue. And they give you a guarantee that if don't, they'll come back – you don't have to pay them, but the first time you have to pay them. But if you don't increase the goal – maybe it's going to increase it by a third or by 50 percent – and if you don't, within a year, then they'll come back again for another year without charge. And they come out, they'll spend a day, a week, maybe the first couple months, and then they'll spend a day a month."

“And then finally they think you’re ready and you’re there all alone,” he continues. “And it’s a terrible mistake to hire somebody at that price. And some of these companies have good reputations. They’re dental consultants. But, they pay no attention to your net revenue, only your gross revenue. How much does it cost to add \$250,000 worth of gross revenue? In other words, how many people do you have to hire? How much more supplies cost, equipment costs, space do you need to do it? To me, that’s a mistake.”

Hagood observes that the financial world is dynamic and that what worked last year may not work this year.

“The most common mistake is to pile into what worked last year,” Hagood says.

“Everybody says we’re going to keep buying tech stocks. Well, at some point you have a reversion to the mean, and we’ve seen that already this year. The tech stocks that really drove the market over the last 18 months have sold off this week. And some of the industrial stocks are up this week. One of the cardinal mistakes is to stay balanced, because people have a tendency to say, ‘This was the hottest fund last year, and I’m going to keep investing in that sector.’”

Diversification, he says, is a good way to make sure that the dentist is more likely to hit on a profitable investment opportunity.

“There’s actually software that can help you balance, or advisors that use software that can help you balance your portfolio,” Hagood says. “To make sure that you don’t make those mistakes, keep investing in the hot sectors and neglecting sectors that are out of favor, because at some point they tend to switch, and you suffer to sell off of the hot sector and miss the out-of-favor sector.”

Just as dentists would never try to treat themselves, Bush warns against trying to manage one’s investments on their own.

“It’s not just dentists,” Bush says. “I think many people, in general, may take the, ‘I’m going to do this all on my own’ attitude. This is sort of a self-serving answer because I am an advisor. I get compensated to provide advice and strategy to our clients. But when you’re young and starting out, dentists starting out – especially younger generations – have been given the capability, much more so than prior generations, to invest on their own.

“You’re just getting started,” he continues. “And where the mistake is made is not transitioning over to investing in the right people, the time, talent, efforts of other people. Because, very quickly, if you’re doing it right, that account goes up and the psychology of money changes when it goes from \$10,000 to \$500,000. The way that we respond to market fluctuations and volatility changes. That’s when mistakes start to really get made. Because you have a different relationship with money as you move through your career and, in fact, trying to manage a business in a team and an entire financial empire all on your own effectively becomes very hard.”

Successful, enriching investment requires the dentist to analyze such factors as their end goals, where they are now, and the current state of the economy. And while those are important variables to juggle, there’s also an element of good, old-fashioned luck, which underscores the need for safe investment.

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