

# A Recipe for Financial Disaster?

*Income, Business Sense, Media, and More*



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**M**ultiple forces are at work today, many of them keeping dentists from realizing their financial potential and creating the likelihood of a poorly funded retirement.

## HIGH EARNINGS CAN INVITE PROBLEMS

The traditionally high income found among dental professionals can unwittingly perform 2 disservices. One, it invites opportunities for those with designs on the dentists' money. Two, it gives dentists a false sense of security, cultivating the attitude that they can always make more money. Because they're doing well now, they assume they will always be doing well. This leads to aggressive, risky investments and no sense of urgency regarding financial planning and retirement savings.

My father, Gordon Moffat, DDS, was a perfect example. He grossed more than \$1 million per year throughout the 1970s—yes, back then, \$1 million was still a lot of money. For more than 45 years, he operated multiple practices, always learning and teaching the newest technologies.

However, he was risky when making his investments. His philosophy was that it was acceptable, even expected, for a tax-wise investment to lose money—and a loss wouldn't even brand it a bad investment in hindsight! Due to his high income, taxes trumped economics in his mind. But as long as top-tier income tax rates are below 100%, your goal should be to continue to make money. Dad's flawed thinking led to his investment—along with one very famous show-biz Mormon family and a few other investors—in the largest, privately owned dairy farm in Utah. Our dentist-father knew nothing about dairy farming—we knew even less—but entranced by the tax benefits, he decided that we could work on the farm while we attended Brigham Young University. Ultimately, the farm failed, costing dad and other investors millions.

Years later, as a young man with a freshly minted degree in financial planning, I was visiting my father's dental office and happened to pick up the phone. The stockbroker on the line suggested that dad invest in a start-up that sold fundraisers to nonprofits. On the spot, I said "pass," as dad was just starting to recover financially from the dairy farm debacle. The next day, the guy called back when I wasn't there and dad agreed—to the tune of an eventual \$2 million loss!

My father planned, like so many others foolishly do, to practice until he died. When a heart attack forced his early retirement, he had no way to earn a living, and he had no income-generating investments.

## "DENTAL SENSE" DOES NOT EQUAL BUSINESS SENSE

Dental school gives you the skills to earn money, true. But this is not nearly the same as teaching you what to do with it.

Using my dad as an example again, he was a brilliant dentist but an utter failure at investing. After

his unexpected retirement, only \$1.5 million in assets remained, including his and my mom's La Crescenta, Calif. home. His cash flow while working should have guaranteed ample retirement funds in the tens of millions, but his decades of poor decisions whittled it away. To survive, he had to drastically reduce his lifestyle and accept support from my siblings and me. It put him into a depression from which he never recovered.

What is the lesson to take from my father's sad tale? It is that being a good doctor does *not* make you a good businessman or investor. His story isn't unique or the product of a bygone era. Even today, with heightened awareness of the need to invest for retirement, thousands of hard-working and successful dentists are already on the same path, thinking that they know how to invest just because they know how to earn.

I joke that in today's politically correct environment, we would call my father "investmentally challenged." I could see the futile mistakes he was

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making from a very young age, and it affected me profoundly. In retrospect, I suppose his failure inspired my success because for the past 3 decades, I have been a financial advisor specializing in advising dental professionals and their retirements.

## DO YOU REALLY UNDERSTAND ECONOMIC MARKETS?

Take real estate for example. For months now, papers have been reporting on some permutation of the fed's involvement in Fannie Mae and Freddie Mac or the entire mortgage lending crisis. Journalists worldwide are referring to this as the bottom, or at least a bottom in the real estate market, and celebrating this apparent good news. They see this as a spark to creating stability in the credit markets, making it easier for lenders and borrowers to facilitate loans.

That's a popular premise, but completely false—or at best, flawed. While it may be true temporarily, the downward pressure on the real estate market has not discontinued and will likely not stop now. Our country's dropping real estate prices are only peripherally related to credit problems. There is another trend that is quite obvious, yet nobody's talking about it:

The demand for homes has slowed, or in some markets stopped, for one simple reason: the number of people demanding that next buy-up home is declining. As reported by the US Bureau of Labor Statistics, the average couple in this country buys their largest home in their early 40s. It's no secret that tail-end baby boomers have just passed that age. Whereas each of the last 10 years we've had an increasing number of people reaching the age at which they buy "the big home," going forward

we will have fewer and fewer people reaching that age each year. Grade school math proves that demand will slow as a result.

Take this slowing demand, which happens automatically with the demographics, and add to it the problems with the credit and mortgage markets and the financial institutions. Who is surprised at this huge drop in real estate? When the dust settles and mortgage companies become financially sound again (and they will), we will still have the problem of declining demand for these types of properties. This side of the equation will not change for at least another 10 years.

I find it shocking, and a disservice to readers, that no one in the media is talking about this declining-demand side of the issue, especially when it's an open secret brought to us courtesy of the US government.

I happen to teach at several community colleges, and I always remind students that financial trends do not occur in a vacuum; they must be considered within the context of demographic data.

To be a successful investor, it's vital to understand the nature of the economy. An investment plan needs to be flexible in a changing economic environment. As 75 to 80 million baby boomers retire over the next decade, their departure from the

work force will have a far-reaching impact on the entire economy—not just real estate. Demands on Medicare, Medicaid, and Social Security will boost the tax burden on those of us still working. Furthermore, baby boomers new to fixed incomes will curtail spending, further draining the economy. To prepare for this coming shift, I'm advising my clients to *think macro* (not *micro*) investment strategies.

During any given 80-year period, our economy cycles through 4 seasons, each typically lasting a decade or more: "growth boom," "shake-out," "maturity boom," and "inflationary downturn." The growth boom of the past 25 years is taking a turn toward shake-out, also known as the "great winter" cycle, during which the economy slows. Since we're consumer-spending driven, the upcoming baby boomer retirement/worker tax burden increase will further exacerbate the slowdown. Nimble investors will be affected less.

The next few years will show an influx of patients reaching peak spending age for dental services and fewer dentists to fill the needs of more patients. Is this an ideal scenario for increased profitability? No, probably the exact opposite is true. Routine checkups are linked to the economy, so as the economy slows more people will forego preventative checkups. Corporations, facing less revenue, will look to cut costs by eliminating employee benefits like dental insurance. With fewer patients in the marketplace, price wars may occur between dental practices.

## HOW TO SURVIVE THIS TRIPLE THREAT

Professional dentistry will likely remain a high-earning career, dental schools will not likely add

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business classes, and the media is not likely to change its headline-happy simplistic

views. However, armed with awareness of the situation, you can take action to temper the consequences.

Your mileage may vary according to personal circumstances, geographic area, years in practice, and more. But the

starting point is a place where the media never goes: a long-term economic forecasting technique based on the study

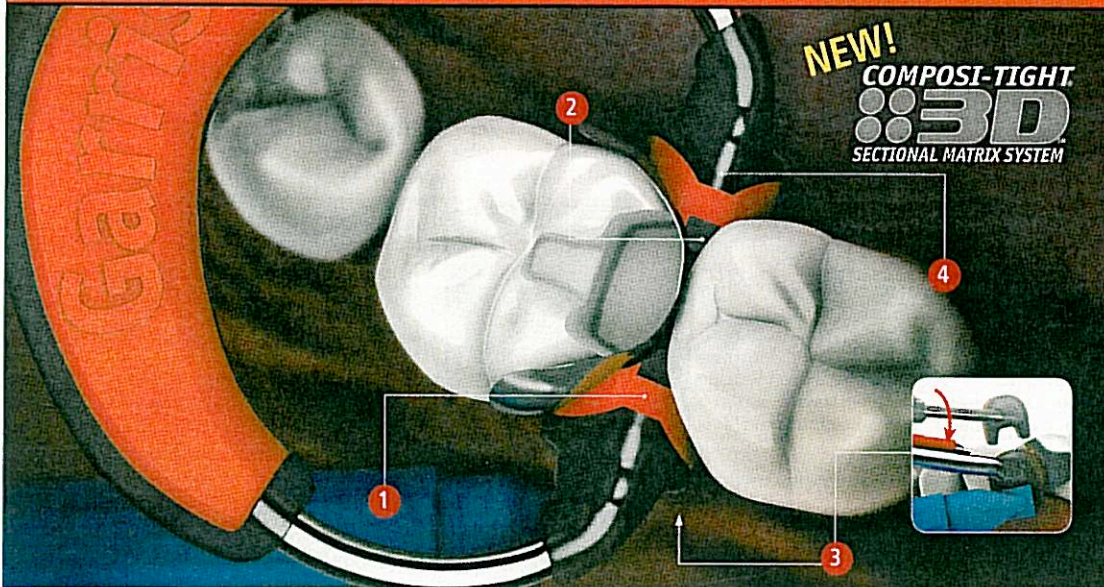
of and changes in demographic trends and their impact on our economy.

Yes, you need a plan, but avoid the media hype to do-it-yourself: basing your decisions on what your peers are doing or on "advice" from poorly qualified sources can cost you millions. It is well worth the expense of 1% or 2% to get good financial advice.

A good planner will seek to build a long-term relationship, not just convince you to drop a quick million on today's pet opportunity. Cold-calling brokers will always salivate over a high earner like a dentist, but professional planners are trained to look at the overall financial picture—from income and insurance to taxes and investing—and superimpose this information on the demographic trends.

Investment success is uncharted territory in almost any economy—even more so today. Your patients trust you to make decisions based on your area of expertise. Technically, a patient could purchase some composite and fill in the spot where amalgam cracks and falls out. Wouldn't you consider that foolish and risky? Similarly, you could make a series of \$8 trades yourself or act on financial advice you overheard in an elevator at the Greater New York Meeting from some colleagues involved in a game of one-upsmanship. But should you? Treat yourself as least as well as you treat your patients. You deserve expertise too. ♦

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Disclosure: Mr. Moffat is a certified financial planner, registered financial consultant, and graduate estate planning consultant. He has created the Moffat Financial Group.

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