

Ep #17: Is Your Practice an Investment?



Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

[Dentist Freedom Blueprint](http://www.DentistFreedomBlueprint.com) with Dr. David Phelps and Evan Harris

Ep #17: Is Your Practice an Investment?

You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to, transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

Evan: This is Evan Harris and I have my good friend, Dr. David Phelps on the line today. David, how are you?

David: Evan, I'm doing great. It's always a great day when I get a chance to talk to you. What's going on my friend?

Evan: Man, we've got a lot going on. I've had a lot of questions sent. I think a lot of our podcasts have been launched, I've been getting more questions. Some of them are ones that frankly I don't have answers to. The good news is I've got a hundred dentists that I visit that I can ask and oftentimes they give me the answers so I can share this live. Some of the questions are things that I believe you're unique to answering and I'd like to ask some of those today.

One of them is David, we've already touched on why dentists need to be better business owners and leaders in their practices, but what about investments? Many of my doctors are frustrated by the lack of savings that they have, lack of retirement account size, and many of them have suffered from the ups and downs of the stock market, their 401K is looking like a 201K. Some of the questions I get, what is your take on investing and the environment that we're in today?

David: Interesting question Evan. I was reading a brochure for an upcoming dental conference and one of the presenter's topics was tile. The number one investment for dentists today: Your practice. I thought, "Yeah, I understand where that presenters

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going but, " I thought, "A dentist practice as an investment?" I think it really depends on how one defines investment. To be fair I understand the presenter's point of view. I haven't heard the presenters' presentation but my best guess is that really is imploring dentists who attempt to be financial wizards or day traders or speculators in crazy schemes to put that aside and instead focus on their practice.

I get that, I think he's right, I don't disagree at all. I think that traditional financial planning and advisement has all but failed. Wall Street hasn't been a good store to the retail investors financial assets at all, and a lot of our doctors, Evan, you know as well as I do, they both feel frustrated and really under the gun to increase their investment or retirement asset portfolio.

Under these conditions it's easy to be sold a bill of goods. Instead of getting involved in real investments. Let me go back to the definition of an investment. My definition of an investment is from the World of Finance, and that would be: "Buying or creating an asset with the expectation of capital appreciation, dividends, interest earnings, risks, or some combination of these returns. More specifically, the asset that produces those returns does not require the owner's labor." That's why my definition of investment excludes almost all private dental practices ...

Evan: I had a question; I mentioned if someone's looking at a practice as an investment, they're not necessarily the technician that has to drive that investment. They could be an owner, but not necessarily the operator that is the sole provider of that machine to work.

David: Yeah, that's the key Evan. For most doctors, with the difference of the few who do know how to build and acquire and aggregate practices that are real businesses, most doctors a practice is not investment, it's not even a real business, it's

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really a job. It's a high paying job, but most doctors spend thirty, thirty-five, forty years in their practice just to hopefully sell it one day for around one point five times multiple of their net annual profit.

That number may change in the future, it may actually go lower as healthcare becomes more socialized, monetized, and more regulated by government and insurance companies. The point is your practice as an investment is not something that most doctors are able to do. It's really no different Evan, than when you and I explain to people that the reason they don't like rental real estate as it's described to them is they haven't learned how to really invest in real estate as a true investment.

Most think, just like I did when I started out many years ago that investing in real estate means buying the property, fixing it, maintaining the property, managing the tenants. Really the latter is a business. It's like a dental practice, it has lots of moving parts.

Evan: Absolutely. For the dentists that listen to this going, "David, I don't have time to be taking care of all these patients, babysitting my staff, dealing with family issues at home, there's already too much on my plate. Real estate? I don't have time for real estate, I just want to point my mouse on some kind of financial website and just have the mutual funds do the work for me, or have my broker do my work. Real estate will be too time consuming." How could real estate be able to be more passive where the doctor could have the capital really growing for them without all the headache?

David: That's the big question, that's the elephant in the room for most people, because again they see real estate from one perspective only, and that's what you see on TV today. You see shows like, "Flip This House," or HDTV and it looks interesting and fun, but it is a business when you look at real estate that

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way. You buy property with the idea that you're going to fix it up. Some people buy it to fix it up and sell it.

As an investor you might think, "I'll buy it, fix it up, and then I'll put an renter into it and get the rental income, but then I have to be a manager." Without the business systems in place, just like we talk about in a dental practice, managing property if you have very much of it or even just a few units without the systems in place knowing what you're doing, it becomes a secondary job and that's what wears people out, burns them out because they haven't looked at investing real estate as a real investment.

The way I do it today and the way I recommend that doctors who should be focusing their time in their practice is to invest either from a lending standpoint, just like a bank does. A bank doesn't own property it lends money for others to buy a property, for others to manage a property, and the bank lends money. Now you can lend money on real estate and also have equity appreciation, that is an index to inflation, there's ways to build that in to the lending environment.

The other way I love to invest in real estate Evan, and I know you do a lot of the same too, is through joint ventures. You find other people whose focus and passion is on lead generation, that is finding the right properties, negotiating them, getting them under contract, and then they have the ability and the team to go in and do the renovation and either flip the properties or they know how to manage them and you become more of a passive player in those arrangements. Therefore, you don't have to get tied up with all those moving parts that most people don't like when they think about rental real estate.

Evan: If I'm understanding correctly they could be able to be fully treating their patients and have their money working for them because it's really their capital that's working ... Like the bank,

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the bank doesn't ask what color they're painting the door or what type of fixtures and furniture they're putting in the house, this is just purely a cash investment, but they're secured by the property. Whereas let's say in a mutual fund there are fractional owners, in this sense, they could actually truly be secured by one home, one piece of property that they could look at, they could knock on, they could confirm, and they're much more solid and conservative in their investments.

David: Exactly. The security interest in a property is what gives you ultimate control. We all want some control. We want control without having to keep our hands and fingers on the control knobs. That ultimate control means you've got a tangible asset that if everything fell apart you could go back and take that asset, which you typically would not have more than about seventy percent of the value of that asset of your money invested in it. You've got a margin of safety that you can't have in other financial product when there is a problem or downturn. When you're invested in a mutual fund or a REIT, you don't have any say so over how things are being done, and so if there's a problem you either lose your principal or you sell out at a loss.

With real estate dealing with the right people is the key, and I emphasize the right people. It's not something again you can just dial up on the internet, which everybody wants. Everybody wants the quick and easy but building a financial portfolio of capital assets takes some time, but the time is really to do connections and network. I'll say this Evan, one of the members in our mastermind group is a doctor who has learned the business aspects of running his practice. He's a practice aggregator. He works a couple of practices himself but at the same time he's also acquiring additional practices in which he'll have other people perform the work. That means he's creating real businesses.

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Not something that most dentists do and most dentists really care to do. They don't have a passion for that. For example, he's currently in negotiations with a sixty-five year old dentist who is now nearing about forty years of being in private practice. This selling doctor has some health issues and he's really to the point where he can't physically continue to work in his practice like he has for so many years. He needs to sell.

The sale price of this practice is going to be approximately three hundred thousand dollars, so let's do the math. Forty years, this good doctor labored, he traded it for about three hundred thousand dollars in equity or net worth from the practice. That's about seventy-five hundred dollars per year, or per day if he works about a hundred and eighty days per year, that's about forty dollars a day he added to his net worth. Think about that, thirty years of doing that, that's not a huge build up in equity, is it?

Evan: Boy, not at all. We talked about leverage, in real estate leveraging our time, where's the leverage in the traditional dental practice?

David: That's the problem, in a traditional dental practice there isn't unless you have other people doing the work for you. You have other providers, other dentists, and hygienists you're really building it as a real business. You can take all the continuing education courses, you can invest in more high technology and automation, and you can market the heck out of the high level services you offer, but at the end of the day if there's only one of you, the primary producing the practice, only one of you to go around that doesn't leave much opportunity for leveraging. You only have so many hours in the day and the week.

Wasn't the original vision about a freedom lifestyle? Where did we go wrong? For me Evan, I thought that's just the way it was. I thought no one in my professional or social circle of influence

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ever told me, "Hey David, change my thinking" back in my early years. I worked hard just like everybody else and saved time for dollars, enough to create a reasonably good lifestyle for my family and me, but one of my mentors Dan Kennedy, says it this way. He says, "I've often said that you'll earn far more once you realize being the best at what you do is far less lucrative than being the best at marketing what you do."

In other words, the focus should be on marketing who you are and not always about the technical work that you spend so many years learning to do. That's a difficult mindset to adopt when our entire life has been built around what we do.

Evan: Absolutely. Thinking of that, here's a doctor that's making forty dollars a day after selling for forty years of work, what about all the practice profits and the income returned to the doctor over all those forty years that he worked in it?

David: Well certainly the doctor was making money, he was making producing revenue by trading his active labor in that practice. There was certainly current cash flow that was coming off the practice during those forty years yeah, absolutely. That paid for his overhead, he paid taxes on that, he had enough to take home, and I'm sure had at least a reasonable, or perhaps even above average lifestyle during that period of time.

That's where the problem lies Evan, is that most business owners, including our dental colleagues, focus on current productivity, current production. Gross revenues, net revenues because that's where all our numbers are based, but businesses should also be increasing in equity and if we're not doing that in a business then we've got to build outside the business, which is the capital asset that you and I love, which his real estate.

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Focusing on the business, if we're not building a little equity into there that's why I turn back around and say, "Your best investment isn't in your practice. Your best investment really has to be in who you are and the additional attributes you can bring to everything that you do." Which can include doing dentistry, but you've got to learn how to work that practice as a real business, and think about it from the standpoint of which you can leverage instead of just always working in it. Working in it year after year after year.

Evan: It sounds like the dental practice can be a vehicle, but if the dental practice is not a good investment in and of itself then where do you think the practicing professional should invest?

David: Again, you're right. I think the practice is a vehicle. I think it's a vehicle to again make the lifestyle income you need to initially pay off your school debts and you start building a life for your family, the problem that most dentists and doctors get into is that they start to feel a little bit of entitlement. I went to school for all these years and I paid off this debt, and when do we start to enjoy life? As they do become maybe more proficient and efficient in their practice and are earning and producing more income that they start letting their lifestyle rise up.

As it rises up again, there's no discretionary income that's going into their capital asset. If a practice itself is not growing in equity, and again most practices today will cap off at some point. At some point where you can't sell it for more than one point five times multiple, unless you're really aggregating building businesses like a few doctors do. The responsibility of a doctor is not to build up this grandiose lifestyle from active work, but acquire those capital assets outside the practice for what I call, "future bank net worth growth."

That's what gives you the passive cash flow. That's how you gain real freedom and security and peace of mind in your life for

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you and your family. That's where it comes from, that's what worked for me, Evan. It took me twenty years to get there. I could of done it faster but we only know what we know, and if not for the people that I associated with early on in my practice career that were more in a financial arena and real estate arena, I'd probably still be in the same place in practice, and fortunately my health is good.

I could still be practicing but like so many, where's the exit? When do I really have the opportunity to slow down or think about transitioning out of practice if the whole basis for the equity of my practice is all about me? In other words, if I'm not in that practice working then that equity doesn't produce. In a real business the equity that you build in that business will produce income whether you're there or not, and that's a fallacy in most professional practices.

Evan: Absolutely. When it comes the doctor having knowledge that kind, "My doctor is super smart." They're so knowledgeable of their craft, of their ability, whatever field their in." There are doctors that are physically highly educated, but find their highly educated like a laser. Just so focused on that one area and then some of the other areas when it comes to real estate, we had to hire an investor that was wiring funds over to be a part of one of the projects that we're doing, and some of the questions that were being asked. It was so obvious that they had never invested other than the occasional stock mutual fund or buying their own home, that even the thought of wiring money had not been done, and understanding how interest worked.

We're paying the doctor, I think ten plus percent on the return, and actually understanding that they can make that full amount for not having to actually do any of the work other than the capital part. They were asking, "Well Evan, do I have to send a crew over there to do painting? Do I have to name people?" I

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thinking, "Wow, the understanding that there is such value in their capital, that they don't have to do everything themselves." Just like the bank does not send over a crew to be able to paint or to renovate, that they're just that lending institution and they can get a very, double digit return just on that capital.

My question to you would be, how do laser focused doctors, or just practicing professionals in general, how do they gain the knowledge and overcome the fear of lack of knowledge?

David: That's a great question Evan, I'm a believer in investing in oneself first, I truly am, but not necessarily the formal education in which many of us poured years of our life. There's another education that I call, "street smart education." It's really not taught in most schools today and certainly not in the academic institutions and highly skilled professional schools that our doctors went to.

Today it's about learning how to communicate, how to market, how to sell, how to influence, and how to lead. Those are the skills and the knowledge that we need. It's the development of a mindset, in my opinion it's far different than what new graduates arrive with today, albeit they have a diploma in hand. A high proportion of the dentists I speak with every week are very good doctors as you said, hardworking, they're able to provide an above average lifestyle for their families, but very few are on schedule or have a plan at all for acquiring real investment assets.

The capital assets that will provide income and capital appreciation. Independent of that doctors own labor. I personally invest in myself every year, but not for additional academic degrees or certificates and continuing education. My investment allows me to immerse myself in environments with others who are like-minded but come from a variety of background experiences and business models. I study

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voraciously the subjects of mindset and marketing, sales, operations, and leadership.

From this foundation Evan, that I feel that I'm able to remain very nimble, adaptable, and ready for the inevitable change. Instead of being blindsided, I'm ready to identify the next niche opportunity and just run with it. All this takes collaboration, it takes a network, it takes strategic alliances because you can't survive today if you try to run solo. Life turned on me and it will happen to you too.

It happened to me not once, not twice, but three times within a twelve year span. I went through a divorce, I had a very ill child, I had a failed practice sale. Enough that it made me think at times that I just wanted to quit and just chuck it all, but you know what, Evan? As long as I remained connected and I invested in myself eventually a new opportunity would appear. The good news is that I had the ability and I had the people around me to identify the opportunity. Most people don't.

Opportunities are there right in front of them, but because of stale almost nonexistent thinking and the inability to take mitigated risks, nothing happens. That's what I call a life of "quiet desperation," and our goal with the Dentistry and the Blueprint Podcast is to break that mold, to break those constraints, and help our colleagues, help the hardworking doctors not to have that life of quiet desperation but to live fully, and to be able to leverage who they are and what they've learned over all these years, and not to be constrained by old mindsets and old beliefs that just frankly don't work anymore.

Evan: Here's another thing to add for the listeners out there, as you're listening and you think, "Well you'd like to know something, you'd like to know more about a certain topic," let us know. This show is not for us, it's for you. If there's things that maybe you're embarrassed that you don't know about or maybe there

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are fears, or maybe you just want more information, it doesn't matter what it is, ask. If we don't know we'll find out. We have so many friends in the business, we have study clubs, just like you all have study clubs in your trade, we do have study clubs in the real estate trade.

We can find out, and it also gives us the ability to speak to your questions. There's a good chance, I believe, that the very question that you the listener has, there's more people that are listening that have the exact same question. Just because David and I have been in this real estate and dental space for over twenty years, speaking for myself, I may not have that question but I may be blinded to the fact that many other people do.

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This is Evan Harris with my friend, David Phelps, we are signing off and look forward to talking with you again soon.

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