



A GUIDE FOR DENTISTS DURING CHALLENGING TIMES

HOW TO SUCCESSFULLY NAVIGATE
THE NEW ECONOMIC MARKET

by Charles Cooke, CFP®

A PROFESSION IN TRANSITION

The current financial crisis has left no sector of the economy untouched, dentistry included. Some have felt the pain more than others and the consequences of the recession are varied based on geography and specialty. But no matter where professionals practice, what kind of practice they have, or how close or far they are from retirement, they have viable wealth management options, as long as they start planning.

This period of volatility is not new. It offers dentists an opportunity to address long-term financial pressures facing the dental industry and their individual practices. This can be a technically-complex process best managed by a wealth advisor tuned in to a dentist's unique set of needs. A dental professional can benefit from an advisor who is able to sort through a web of wealth issues and oversee a team of experts in each field while keeping his client's best interests foremost. As a result, dentists can devote more of their time, energy, and talent to that which is most important to them and their families.

TAKING STOCK OF WHERE WE ARE

Dentists face a complex, multi-layered set of challenges. Besides being challenged with keeping abreast of advances in medicine and healthcare, dentists must address economic and demographic trends that are likely to impact the way they practice and whether they are able to realize their short and long term financial goals. The profession's challenges are many and a viable wealth management plan to address these challenges is important.

1. Challenges of Affordability

The hard fact is that a majority of the nation's general practice dentists are losing money and patients as people put off dental care because of the economy and lost jobs. The American Dental Association reports that more than half of general practice dentists lost money and new patients in 2009, prompting dentists to rethink how they do business and instilling worry about the long-term health effects of so many patients who have postponed or skipped appointments.

Of the dentists surveyed nationally by the ADA, about 40 percent said they delayed retirement because of the recession and 46 percent said they put off making capital improvements. More than one-third reported delaying collecting their personal incomes.

There are an estimated 132 million people in the United States without any sort of dental insurance. It's an endemic problem among the unemployed, the poorly paid, and those without medical insurance. While the recently passed national health-care act will increase the number of people eligible for medical insurance, its

effects on dentistry will be mixed. Some in the industry believe that if you analyze the health care bill, you see a legislative attempt to integrate dentistry into the overall health care delivery system following the medical model. Potentially this would create more regulations and costs for dentists.

The fact that middle class patients don't have as much money for dental care as they previously did, has hit some dental practices hard. In other cases, the people who do have the money are holding onto it and postponing care.

Another trend is that fewer people are opting for elective cosmetic procedures, which have been an important moneymaker. 'We are living in a no frills society' is a phrase heard over and over again and for good reason. It has become the norm.

2. Challenges of the Evolving Practice Model

Many dentists practice in either solo or two-dentist partnerships. They like making their own business and patient-care decisions. However, the trend for dentistry

may be anticipated by looking at what is happening in the medical field.

Medical doctors and freestanding hospitals have increasingly joined larger health care organizations in the past 25 years in order to gain economies of scale, managed-care contracting clout, and greater savings in volume supply and equipment purchasing. A growing number of independent dentists are facing similar decisions about their future.

Over the past decade, dental management corporations have been acquiring veteran dentists in established practices or employing young dentists with average dental school debt of \$250,000 who have found it financially difficult to open practices of their own.

Ten years ago, a young dentist could walk into any bank and get a loan. Today it is much more difficult to obtain capital. You have a supply of dentists who want to work in the dental chain model and, dental management corporations also are growing because of rising overhead costs and the ongoing downward pressure on reimbursement by insurers that include Delta Dental, Aetna and Blue Cross Blue Shield.

When reimbursement is driven down, the only way to maintain profit margins is to increase production. The management corporations are able to recruit dentists who don't want to run businesses anymore and they hire professional businesspeople to run the administrative side of the practice.

Because of their size, dental management corporations also have more contracting leverage to negotiate more favorable rates with insurance companies. This trend is very similar to solo or small physician practices that are joining larger medical groups for economies of scale. They fit a niche and meet the needs of a certain patient population who want evening and weekend hours. Independent dentists also are starting to offer those hours.

While dental corporations also offer billing, collections, marketing, capital equipment purchasing and office support assistance, large management companies strike deals with dental insurers that promise a higher volume of patients for lower reimbursement.

To be profitable, as they want to be, they have to raise production by driving billable services and procedures, to meet the higher volume of insured patients, some dental chains schedule dentists and hygienists to see many more patients per day.

The myriad of economic pressures suggest the need to stay current and maintain the ability to respond to the constantly changing financial environment. These changes have implications for not only the way a dentist will practice, but how income will be managed in order to reach short and long term financial goals.

3. Challenges of Increased Competition

Another challenge on the horizon that has certainly gotten the attention of dentists in NC is the issue of mid-level care providers. There are two fields of thought about mid-level providers—one is access to care, and two, the issue most dentists in NC are concerned about, is quality of care. If someone is trained in a 12-24 month program, are they qualified to do irreversible procedures on people? Is a mid-level care provider going to be able to handle an emergency with the level of expertise that a doctor has?

In response to the challenges above and the difficult times in general, many dentists are returning to more traditional profitable procedures. Dentists are taking more courses on certain treatments typically done by specialists and are trying to integrate these procedures into their practice.

In some cases, specialists have experienced a drop in referrals as dentists, who have associates in their practice, are offering a variety of procedures such as orthodontics, endodontics, implants, and surgical procedures.

Another trend, fueled by the economy and big business, results in a growing number of patients seeking 'alternative and less costly' procedures even though they may be unproven. This results in fewer patients seeking specialty care, and when they do, the dental professional spends much more time defending evidence-based dentistry, and redoing inappropriate treatment.

In summary, the dental profession has a great deal on its plate. It is critical that dentists capitalize on the new trends and seize the opportunities that are available.

OPPORTUNITIES FOR DENTISTS REMAIN

There is good news among the sometimes daunting challenges faced by the dental profession.

The demographics for dentistry are good: 10,000 people are turning 65 everyday and they need dental care and can't delay it forever. The first Baby Boomers will become 65 throughout 2011. Over the next 19 years, 78 million people are going to hit that milestone as well. These people will start receiving government checks, increasing discretionary income when their dental needs are high.

Dentists also have new ways to work with current and prospective patients. The rise of internet marketing, using a website as a two-way communication with patients through email, blogs, and videos can be quite effective. Patients are shopping online for the correct dentist, so a well-designed and an updated website becomes important, just as the maintenance of a good reputation in the community.

Increased competition means that every dollar produced should be used wisely and invested for the maximum benefit. Wealth management decisions are critical for the realization of short and long term financial goals.

The dentist's response to this complex set of challenges and demographics should be a disciplined and well thought out approach that encompasses all aspects of finances.

A wealth manager is trained to help them understand what they need to understand and focus on those strategies most likely to help them reach their financial goals.

The Wealth Management Approach

It is the job of the wealth manager to take into account the full range of financial needs, hopes, and dreams that dentists have. Managing money, planning for retirement, choosing insurance options, and integrating tax and estate advice into a viable wealth management plan is a major task. It demands committing time, maintaining vigilance and partnering with an advisor who can oversee the efforts of an expert team. A wealth manager's group of specialists applies its expertise to evaluate all aspects of a client's financial situation and devise appropriate solutions.

It is crucial to coordinate the efforts of insurance specialists, estate planning attorneys, and CPAs to make sure that the ongoing advanced planning needs such as Wealth Transfer, Wealth Protection, Wealth Enhancement, and Charitable Gifting are addressed appropriately.

We believe that wealth managers are the professionals best suited for addressing the complex and varied needs of dentists and other healthcare practitioners.

HOW TO SELECT THE BEST ADVISOR

Do I just open the Yellow Pages?

Read this brief list for key issues to address when you're looking for advisors.

1. Do they have a clean record? You can check in the brokerage section of FINRA's Web site (www.finra.org) or the advisor section of the SEC Web site (www.sec.gov).
2. Do they seem interested in getting to know you, or is their emphasis mostly on the products they sell?
3. Some advisors work on commission, others for fees, and some use a mix. These are all acceptable—just make sure advisors are upfront about their compensation methods.
4. Do the advisors have many different kinds of products available, or do they try to solve all problems with just one or two kinds?
5. Do the advisors work with other clients who are in the same net worth category as you?
6. Do they seem to understand your profession and its specific problems and issues?
7. Are they concerned about what is important to you?

Just as dentists cannot be all things to all people, neither do all financial professionals work with all kinds of clients. This is not a one size fits all type of set-up. Here are a few subsets:

Investment generalists. These advisors offer a broad range of investment products but do not specialize in a single type of product. While it is helpful that they have a bag full of solutions, they are primarily focused on the transaction. While they can be knowledgeable about what they have, they don't have a consultative focus.

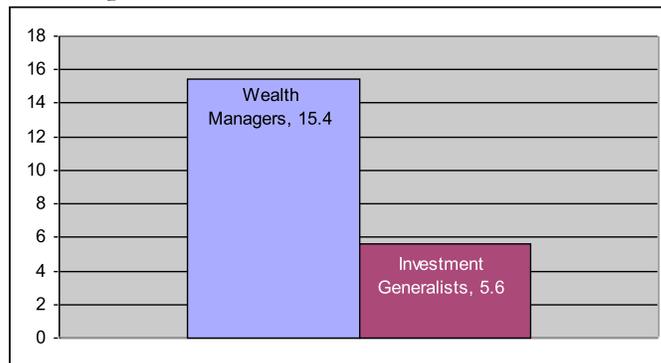
Product specialists. These advisors focus exclusively on one type of product and offer it again and again as a solution to a variety of investment needs. They often focus on selling products such as managed accounts, stocks or fixed-income alternatives. While the products can all be useful in the right circumstances, this method can be especially problematic for dentists who may need a variety of financial tools. As the old saying goes, when all you have is a hammer, everything looks like a nail. Like investment generalists, these advisors are not consultative and tend to focus on the transaction.

Wealth managers. These advisors take a comprehensive approach to meeting client needs, which is exactly what a dentist needs. They use a highly consultative approach to construct integrated strategies for clients' specific problems. Although many advisors call themselves wealth managers, the following are hallmarks of those who truly practice wealth management:

1. They use a consultative process to establish a close relationship with you in order to gain a detailed understanding of your goals and your most important financial wants and needs.
2. They offer customized choices and potential solutions designed to fit your specific needs. They take into account a range of interrelated financial services, such as investment management, insurance, estate planning, and retirement planning.
3. They deliver customized strategies in close consultation with you. The wealth manager works closely with you on an ongoing basis to help you adjust as circumstances evolve.

“Working closely” means exactly that: wealth managers stay in touch. For example, they are likely to stay in touch more frequently than investment generalists, as shown in Exhibit 1.

Exhibit 1: Times per Year Advisors Contact Each of Their Top 20 Clients



N=2,094 financial advisors.

Source: CEG Worldwide, 2007.

A wealth manager will offer a wide range of services to help you with all your financial needs. Below are some of the essential ones.

- Retirement Planning for Dental Practices—not all retirement plans are created equal, and the selection of a poorly-designed plan can result in an inefficient use of contributions. Common challenges a dental practice owner must overcome:
 - I. How to target contributions to owners and family members
 - II. How to adapt to employee changes
 - III. How to accommodate the entry of a new partner into practice

Source: The Mand Marblestone Group LLC
- Charitable gifting services—managing the investments in the entities that include private foundations, donor-advised funds, charitable remainder trusts and charitable lead trusts.
- Wealth transfer services—identifying and facilitating the most tax-efficient ways to pass assets to succeeding generations.

- Wealth protection services—shielding wealth from litigants, creditors, children, in-laws and ex-spouses.
- Property and casualty insurance—covering everything from the mundane (autos, homes) to the exotic (rare artwork, top-end yachts).
- Succession planning—aiding in practice transition or practice sale.
- Asset management services—mutual funds, managed accounts, fee-based brokerage accounts and alternative investments.

To properly meet your needs in a very specific way, a wealth manager will spend a lot of time getting to know you. Below is just a sample of the kinds of questions you can expect a wealth manager to ask.

VALUES

- What’s important to you about money?
- What in particular is important to you about that value?
- Is there anything more important than that value?

GOALS

- What are your top accomplishments? What would you like them to be?
- What are your professional goals?
- Ideally, where would you like to be when you are 45? 55? 65? 75?
- What are your quality-of-life desires (houses, travel, boats, cars)?
- In dollar figures, how much money do you need or want?
- When you think about your money, what concerns, needs or feelings come to mind?

ASSETS

- What is your source of income (privately held business, employer, profession)?
- How do you make money today?
- How do you save or set aside money to invest?
- What are your investment holdings?
- What benefits do you get from your workplace?
- What life insurance do you have?
- What property do you have (real property, artwork, jewelry)?
- How are your assets structured now?
- What kinds of taxes bother you the most?
- When you think about your finances, what are your three biggest worries?
- What were your best and worst financial moves? What happened?

PROCESS

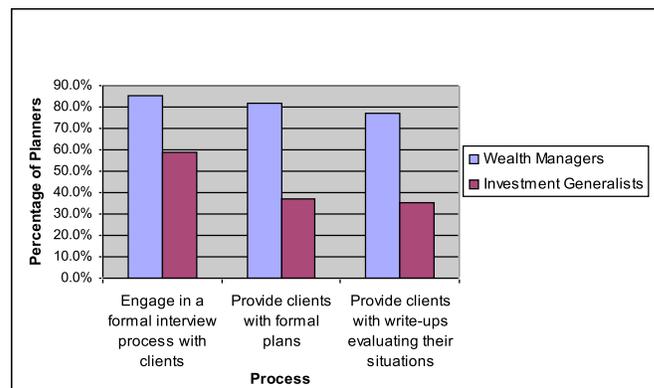
- How involved do you like to be in managing your finances?
- How many face-to-face meetings would you want over the course of a year?
- How often do you want an overall review of your financial situation and performance relative to your goals?

It’s obvious from this selection that true wealth managers will take the time to get to know you and your practice so they can provide custom-tailored financial strategies. You may not be able to eliminate the external forces affecting you and your practice, but with a dedicated wealth manager in your corner, we believe you can make the best of the situation. You will have the best possible chance of making your financial dreams come true even in tough times.

Working with a Wealth Manager

Because wealth managers are focused on a consultative process, you may find that from the beginning they use a different system from other financial professionals you’ve worked with. Exhibit 2 highlights some of these differences.

Exhibit 2: Communications Systems in Place



Source: CEG Worldwide survey of 2,094 U.S. financial advisors, 2007-2008.

From your first meeting with a wealth manager, to the time you come to an agreement, and over the months and years you work together, the wealth manager will likely work with you in a series of structured meetings. These are designed to allow you to ask a lot of questions and to understand exactly what the wealth manager will be doing with your money.

Exhibit 3 is a brief outline of how you will work together, and the focus and purpose of the meetings you will have. You may find variations from advisor to advisor, but these are typical of the kinds of meetings you can expect in a wealth management environment. These are the formats wealth managers will use to elicit the various questions noted above.

1. The Discovery Meeting

At the first meeting, the wealth manager you are considering engaging will use a systematic, detailed interview process to define your true financial needs, goals and current position. This interview process will provide the advisor with the information he or she needs to create a Total Client Profile. This is a key tool for communicating your financial picture to a network of specialists the advisor will turn to help create customized wealth management strategies to help you.

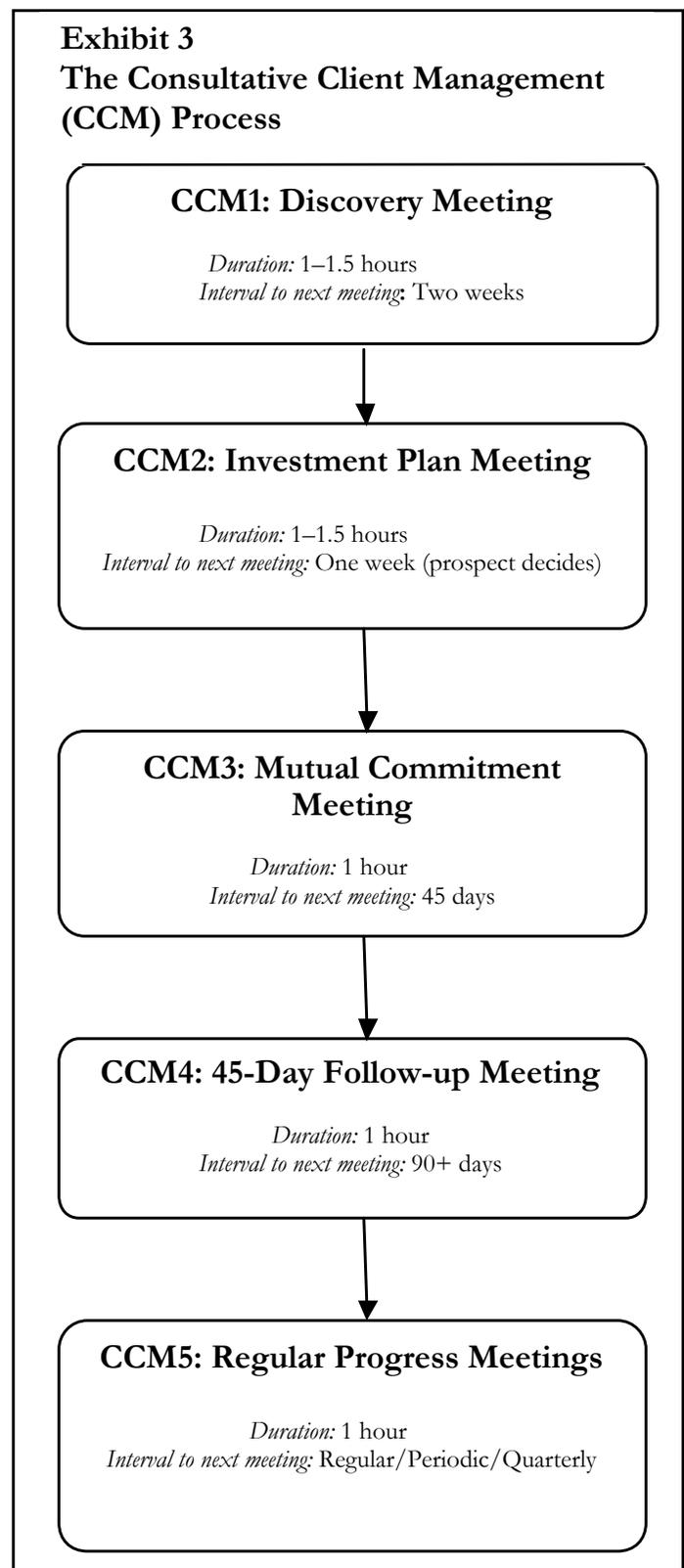
During the meeting, expect the wealth manager to work with you to uncover your values, wants and needs; collect information to assess suitability of working together; and garner the details necessary to create a wealth management plan.

2. The Investment Plan Meeting

In this meeting, the wealth manager will present you with a detailed investment plan that describes your needs and risk tolerances and provides benchmarks for tracking progress toward your goals. This plan will serve as the road map that can increase the probability of achieving everything that is important in your financial life.

Investment plans will likely include these six important areas of discussion:

- Your long-term needs, objectives and values. Long-term goals can consist of anything from early retirement to purchasing a new home to achieving financial independence. Because these goals are the bedrock upon which the portfolio will be built, your advisor will work with you to define them clearly and concisely.



- A definition of the level of risk that you're willing to accept. Risk is a complicated topic, from both mathematical and psychological perspectives. Your advisor will want to discuss this topic extensively with you, to make sure you understand the amount of risk you're willing to tolerate during the investment period.
- The expected time horizon for your investments. You should understand that the minimum expected investment period will likely be five years for any portfolio containing equity securities. In many instances, you'll want to talk about 10, 20 and even 30-year time horizons. Your advisor will help you determine the investment period in which your capital will be placed.
- The rate-of-return objective and asset classes that will be used. Your advisor will identify the specific return/risk profiles of each optimized model portfolio, and use these ranges of returns for each risk level as the framework to determine your return expectation for the portfolio as well as its component asset classes.
- The investment methodology that will be used. There are three basic investment methodologies: security selection, market timing and asset class investing. Your advisor should clearly explain each one and state the reasons for whichever method he or she is recommending.
- A strategic implementation plan. Your advisor will establish the means for making periodic adjustments to the portfolio as needed. They may adjust your portfolios on a defined basis. The investment plan creates a benchmark to measure investment portfolio performance.

A well-drafted investment plan should provide you with the sense that your advisors are making smart decisions about your money.

After your advisor walks you through the investment plan, they will likely explain that investments are only the foundation of the entire financial picture. (This is one of the hallmarks of a true wealth manager.) Your advisor will explain that if you become a client, he or she will consult with a professional network of top specialists to help with your financial challenges.

3. The Mutual Commitment Meeting

At this meeting, if you have been pleased with the discussions so far, you will likely become a client. You can ask any questions or voice any concerns about the investment plan. You and the advisor can then make a mutual decision about whether you should proceed. If you both choose to work together, the advisor will ask you to execute all documents needed to begin to implement the investment plan.

4. The 45-Day Follow-up Meeting

Because of the amount of paperwork generated when money is transferred and multiple accounts are involved, you might feel overwhelmed in the weeks following the implementation of the investment plan. This meeting should alleviate your concerns. Your advisor should show you how to read the various statements received, and then help to organize the documentation.

5. Regular Review Meetings

These meetings will likely be held quarterly. You will be able to ask questions at each meeting and your advisor will review and explain your portfolio's performance relative to your long-term goals.

CONCLUSION

Dentists considering their financial situation and searching for professional advice can capitalize on the experience by understanding both external and internal factors are essential in planning for their future. External factors include all the aspects of financial health, including the way they practice and outside forces that affect their income. Internal factors are evaluated by taking an intensive look into each dentist's particular financial situation and identifying their financial goals, determining retirement requirements, and implementing a viable wealth management plan. This ongoing process has implications for not only the way a dentist will practice, but how income will be managed in order to reach short and long term financial goals. We believe wealth management incorporates the various processes that can lead to this kind of critical examination, and more than other methods, give dentists a plan which offers a greater chance of realizing their dreams.



Charlie Cooke is a wealth advisor specializing in helping successful dentists in North Carolina. Having grown up around the business he understands the challenges that dental professionals face and enjoys making a difference with his dental clients. His experience with the dental industry began early: his father has been a member of the dental profession for over 35 years.

With more than a decade of financial services experience, Charlie worked in North Carolina and New York. Charlie has offices in Wilmington where he resides and also in Goldsboro. He attended the University of North Carolina at Chapel Hill and has a BA in Economics. He is committed to giving back to his community. He has worked on behalf of The Boys & Girls Club, The Boy Scouts of America, and is a member of the Military Affairs Committee at Seymour Johnson Air Force Base in Goldsboro.



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