



Compiled by
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What have dentists learned from **SURVIVING THE GFC?**

Whilst I prefer to avoid quoting him, because doing so has become a cliché, he often makes perfect sense. Warren Buffett says, “you never know who’s swimming naked until the tide goes out.” It’s true. You never really know how robust something is until it’s tested (put under stress) and many people’s financial decisions and investments have been tested during the global financial crisis (GFC). Having worked with and advised dentists for more than a decade, I have been able to see how the good, bad and ugly decisions have played out during the GFC, and below are some of my observations.

Apparently, in Russia there is an expression: “The wise man learns from someone else’s mistakes, the smart man learns from his own, and the stupid one never learns.” So wise dentists, read on...

DON'T GET SUCKED INTO SHORT-TERM THINKING

Many dentists make financial decisions on an *ad hoc* basis. These decisions are typically driven either by the desire to save tax or because they feel any decision is better than none, i.e., they have procrastinated long enough and feel pressured to just do something...anything. In my experience, the sad thing is this approach rarely works in the dentist’s favour. In fact, short-term decisions, i.e., what will reduce my tax next year nearly always result in poor quality long-term outcomes.

A far superior approach is to set some longer term goals such as “I’d like \$100,000 of after tax passive income in 15 years’ time to fund retirement”. Once that goal is set, every financial decision you make needs to be congruent with that goal. An excellent example is where a dentist is considering investing in another property. The dentist might already own a number of existing properties. Putting the next property in their personal name might help further reduce his tax bill. However, the longer term consequence will almost certainly be a higher land tax bill in retirement. In fact, it’s possible that the higher land tax bill will cost more than the shorter term tax savings in the long run. It is this style of longer term planning that optimises financial decisions.

BEING RISK AVERSE OFTEN WINS THE RACE

In 2008, Warren Buffett invested \$5 billion in the investment bank Goldman Sachs. He structured the investment in preference shares that paid a fixed 10% dividend. He also received a warrant

to buy another \$5 billion of shares at \$115 per share. Goldman Sachs eventually redeemed Mr Buffett’s investment before maturity (because it was expensive) but in total, the investment netted the billionaire investor \$1.7 billion, or roughly \$190,000 a day. The key to this story is how Buffett structured the investment. He says that you must always consider your downside before you consider your upside. From this investment, he was either going to enjoy a strong income return (10%) or capital (share price) appreciation – or both. He really couldn’t lose.

Smart investing is about getting the highest return for the lowest risk. My advice is to only invest in sure things – safe, blue chip, proven performance, don’t speculate. Also mitigate risks through the use of insurance, paying for independent advice, doing plenty of due diligence before investing, don’t try and reinvent the wheel – stick to the tried and tested, reviewing performance regularly and so forth. A safe investment strategy might be boring but it works!

QUALITY ASSETS OUTPERFORM SPECULATIVE ONES

Most of us love a hot share tip – one that will see us double our money in a short space of time. However, reality is, very few share tips do this. The fact of the matter is that you can’t out-smart the market. If you manage to do it once, you almost certainly can’t do it twice. Trying to cut corners and make fast money will likely result in you breaking the first rule of investing: don’t lose capital (the money you initially invest).

In my experience (including observing thousands of clients) you should only invest in ‘sure-things’. Think about Warren Buffett’s example above, he couldn’t lose. For example, some clients initially balk at paying an investment property adviser a \$15,000 fee (for example) to find them an investment-grade property. However, if you are investing hundreds of thousands of dollars, why wouldn’t you want to pay a fee to an independent, trusted expert that has decades of experience in selecting investment properties that work. Think of it this way, who’s likely to be a better dentist; me (after perhaps reading one book on dentistry) or you? There’s no fast-track way to generate years of experience. The quality of the assets invested in will determine 80% or more of your investment outcomes (returns). Other things like your financial strategy, tax planning, funding, etc., will probably only account for 20% of the outcomes. Focus on quality.

business perspectives

CUTTING EXPENSES BY 10% RARELY IMPACTS ON LIFESTYLE

Some dentists have experienced fluctuations in business revenue over the past couple of years due to variable demand for their services (as consumers tightened their belts) and with the introduction and withdrawal of government funding programmes. Consequently, some dentists have focused on reining in their discretionary expenditure. In our experience with clients, most dentists can reduce their spending by around 10% without it having a significant impact on the quality of lifestyle. Successful budgeting is more about simply "knowing where your money is going" rather than living on bread and water. If you can't tell me how much you spend each month and split it into a few categories such as food, entertainment, rates and utilities and so on then it's likely you'll benefit from reviewing your expenditure every six to 12 months. In my experience, you are probably wasting money on some items that add very little satisfaction/happiness to your life. Sit down and go through your last three months of credit card and bank statements and roughly add up the withdrawals – it often doesn't take much more than half an hour, and you can learn lots. Invest (wisely) the money you save as a result of reducing expenses.

DO IT WHEN IT'S RIGHT FOR YOU...

There have been great times to invest since 2007/08 when the GFC began. There have been times when the market (asset prices) has been depressed and investors have been able to buy quality assets at below their intrinsic value. This is often referred to as market timing. However, truth be told timing the market is not easy to achieve as the best time to buy is when everyone isn't buying – so

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you have to have the fortitude to do the opposite. Don't worry too much as very few investors can time the market consistently. Smart investors invest in quality assets when it suits them, i.e., when their financial and cash flow position is such that it is safe and prudent to make another investment, e.g., Buffett investing \$5 billion mid-GFC. My advice is to run your own race. Invest when it's a good time for you – keeping in mind there's probably never going to be a 'perfect' time as there will always be a reason why not to invest. Don't delay or procrastinate... but by the same token don't rush in and invest to your full capacity either. Steady, regular, deliberate, considered and diligent investing (whilst ignoring the media and well-meaning friends) will always result in success.

IT'S NOT ROCKET SURGERY!

The problem with smart, educated people is that they tend to make things over-complicated. I prefer simple solutions. Investing and making money from investing isn't that complicated. Just invest in the best quality assets you can, manage cash flow sensibly, don't take high risks and let time do its thing. The financial services industry likes to make things complex but don't be fooled as most of it is 'marketing'.



Stuart Wemyss is the founder of Dentists Home Loans, a niche mortgage broker that exclusively works with dentists to help them get better rates and service from their banks and build wealth. Dentists Home Loans is backed by a team of experts in Stuart's full-service boutique financial services business, ProSolution Private Clients – a long-time supporter of the ADA. Contact Stuart and his team at www.dentisthome loans.com.au

The poster features an aerial view of the Hotel de la Bretasche in Brittany, France, with a lake and greenery. The text is in yellow and white. At the bottom, there are three small images: a golf course, a woman receiving a massage, and a Michelin star dish.

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