



\$ Investing Basics \$

Evergreen Consulting Group Inc. - Richard A. Green, DDS, MBA

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Dear Reader: I would enjoy hearing from you. Spread the word about these articles. I think you and your friends will find them helpful.

– *Richard A Green DDS, MBA*

Financial Freedom: Change the dynamics of your patient relationships.

In the summer 2002 Pankeygram, Dr. Dennis Munholand wrote about his “Prosperity Formula”. When stated as an algebraic formula, it looks like this:

$$(GR - BE - PS) \times (1 + R)^n = FV$$

where

GR = Gross Revenues of Practice

BE = Business Expenses

PS = Personal Spending

R = Rate of Return

n = Numbers of Years

FV = Future Value of Savings

As you study this formula and reflect on its various parts, it may help you begin to see the big picture and, therefore, come to an appropriate understanding of how you can more easily start to manage and impact each of the components. Personalize it by asking the question, “How can I influence the future value of my savings?” You have many options at your disposal. You can increase the Number of Years you save and invest, or you can attempt to increase the Rate of Return. You might have more control by decreasing your Personal Spending or Business Expenses through monitoring and managing spending patterns, both personal and professional. Your last variable or control in influencing this formula is through increasing the Gross Revenues in your practice through responsible strategic planning. This might include becoming more aware of and altering the mix of services and then grouping the work to be done at a given appointment in a more effective way, which would in turn lead to better scheduling.

Note: You may assess the appropriateness of your fees through the Discipline of the Fee Estimating Exercise calculated on individual cases or by participating in the process of the Pricing Analysis Report (PAR) to gain feedback from a broader survey compared to your fee schedule. Contact me

rich@evergreenconsultinggroup.com

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Sanibel, Florida 33957



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if you would like additional information about these.

My biggest concern is for the dentist and his/her understanding of the controls that need to be in place to experience a practice that becomes the “economic engine” in their life; one that benefits the patient, staff, doctor and their respective families. My purpose in this article is to talk about some issues that I believe contribute to a witnessed phenomenon I have observed in myself and others, as well.

When a dentist can answer the question “How much is enough?” he/she can begin a discovery process around money and relationships. When you begin to understand your deeply held values, your attitudes that surround money, your thoughts and feelings concerning wealth accumulation and realize your responsibility in accomplishing this “life task”, you begin to open the door to a new relationship with your patients. The task of getting comfortable with money involves many, mini discoveries around using wisely what you earn, spending less than you make, using debt to your advantage, paying what you owe when you owe it, setting aside a percentage for future use (retirement), and giving a percentage back with a grateful heart.

In studying social change, John Naisbett created an index that tracked topics in newspapers by the number of column

inches that were dedicated to a topic or issue, then he analyzed how those numbers changed over time while linking them to major events, lifestyle, or attitude change. Recently I have wondered about creating an index based on the number of phone calls I get concerning the market. Is it going up or down? Is now a good time to buy? In the light of what has happened in the recent past, should I have money in a retirement account anyway? At times it sounds a bit like the late 70’s and early 80’s when inflation was running wild, construction money was at 23%, and people thought it better to spend their money in the present than risk losing the value of those saved dollars through the impact of inflation.

I am constantly on the search of numbers that will allow a dentist the freedom to do the dentistry of their desire. I do not think it is possible to be a “market timer” and a dentist at the same time, whether “student, adept or master.” I have just reviewed some numbers that prove the benefits of being a long-term investor. The data was collected on the S&P 500 from 1950 to July 30, 2002, and looked at from the standpoint of three different cycle lengths: 36 years, 18 years, and 4 years. In each cycle length, the highest average return and the lowest average return were calculated.

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36 Year Cycle

Highest Average 12.5%

Lowest Average 10.1%

18 Year Cycle

Highest Average 18.5%

Lowest Average 6.5%

4 Year Cycle

Highest Average 30.5%

Lowest Average 0.5%

The obvious lesson from these numbers is to get into the market and stay in. Keep buying. Start young even if you invest a small number. Learn the discipline! Your portfolio will benefit by being a long-term investor. It will be less volatile over time, thereby causing less anxiety in you and allowing a different kind of relationship with your patient to grow. The security, of knowing your investments are working long term, changes the environment!

Even in the face of much uncertainty, develop your bank account by learning to live on less than you make. Don't spend up to the dollar limit, spend less, and develop your Financial Freedom. It may be a long time before you are Financially Independent but just knowing that you are on the right path is often enough positive feedback to keep-on-

keeping-on. Add to this your growing competence and confidence in technical, behavioral, and communicative abilities, and you will indeed naturally change the dynamics in your patient relationships.

The second item on Dr. Pankey's Financial Foundations List is "Pay yourself first – make it automatic." Often we do the opposite; we live on what is left over. You do not have to do this many times before you find yourself "down in the mouth," depressed, or suffering from a low self-esteem. That condition can drain a lot of energy – energy that could be better utilized in the leadership role with your patients, staff and family.

To pay yourself first requires you to accept responsibility for the task of understanding your numbers, both practice and personal. I have found that using clean management numbers is the only way to "diagnose and treatment plan" your financial future. Tax numbers are fine for your accountant and his/her duty to separate you from excessive taxation, but they are inappropriate when understanding the "economic engine" of your practice.

Our Pankey Practice Operations Studies in '93, '94, '96, '98, and 2000 (we are presently getting ready to do another one in 2003), have uncovered numerous items. But let me continue to focus on

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paying yourself first. The dentist, who is also the manager and owner of the practice, should be compensated for each of his/her roles. On a percentage basis, in a solo-practice, the dentist should minimally be paid 34% of practice revenues in salary and benefits for being the dentist. That includes your retirement plan contribution.

I believe more dentists would be more willing to perform the activities of management, if they got paid an additional 6-10% of practice revenues for that responsibility. The last component of your compensation is that of entrepreneur. Prior to consideration of any financing or capital costs (Non-Operating Expense), the dentist, as entrepreneur, should receive 6-10% from the operations of the practice.

Typically the Management Income Statement (MIS) would call the total of these three numbers the "Modified Operating Profit (MOP)." While average in our Practice Operations Studies has been about 42%, the High-Profit Practices (the top 20% as sorted by the MOP) ranged from 47-57% with 51% as average. The Top 10% averaged 54%. In other words, the Top 10% are being paid 34% of revenues in Salary and Benefits as dentist, plus 10% of revenues for their management time, and 10% of revenues for their Return on Invested Capital (ROI): entrepreneurial responsibilities. In those instances

where the bank has provided the capital, the 10% ROI capital money is being used to pay down the practice note, but the MOP remains the constant monitor of operational profitability.

Paying yourself first becomes easier to understand with clean numbers and categories that separate operational expenses from financing expense. These are two separate areas of responsibility the dentist has as CEO: one is making decisions concurrent with the operations of the practice and the other is making decisions around the financing or capitalization of the practice.

By looking at your practice numbers in this way, it is easier to plan or budget your salary and benefits as a fixed expense and pay yourself first on a regular time interval. This leads to a more disciplined approach to developing a spending plan for your home and office which in turn helps you accomplish your desired objective of financial freedom by intention. Choose to choose! If you are not receiving the rewards of your due diligence as a practicing dentist, consider some of the many processes that have been developed by the Business Systems Development Department. It is my job to create processes that enable your enhanced understanding of the dental practice, both present and future.

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