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Purtzki & Associates

CHARTERED ACCOUNTANTS

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Why So Many Associate Buy-ins Collapse

Your practice has grown to a level where it is apparent you need another dentist to join you, perhaps initially as an associate with the prospect of becoming your future cost share partner. From my observations, the majority of these associate buy-ins fail and it takes often repeated attempts to find the right match. These are the most common reasons why these transitions fail.

- **Lack of common practice philosophy.** There are often significant generational differences between the senior dentist and the junior dentist and as the result, the attitudes and values regarding practicing dentistry may differ significantly. It is critical for both parties to engage in initial discussions to make sure that they share the same practice philosophy.
- **Lack of communication.** While the senior dentist may be delighted to have a new dentist on board , once the dentist has joined, he or she gets often ignored. There seems to be very little time available for the senior dentist to sit down and chat. Set aside a specific time each week to discuss practice and perhaps even personal issues. It is a small investment of time, but worthwhile in ensuring that the planned transition proceeds smoothly.
- **Not sharing the turf.** Problems arise when the senior dentist does not want to share not only the sandbox, but all the toys too! He feels justified in hogging the best patients, the best equipment and the best assistants. How can an associate build a reputation and a patient base, when relegated to working in the oldest operatory, with inexperienced staff, doing all low end procedures the senior dentist doesn't want to do?
- **Insufficient volume.** One of the main causes for a failed associate buy in is the lack of patients. The office billings should be about $700,000 per year and growing at 15% annually, before you consider a full-time associate.
- **Lack of staff respect.** Staff is often reluctant to accept suggestions from the new guy on the block. This naturally will lead to conflict. It up to the senior dentist to take an active leadership role to make sure the new dentist gets the respect from the staff he or she deserves.
- **Lack of transition plan.** Not having the details of the transition ownership spelled out, in particular, the purchase price and the date of ownership, will inevitably lead to failure. Most associates would like to purchase into the practice after three years, so it is important to set the dates and the purchase price at the beginning of the associateship.

Over the last 25 years, we have assisted many dentists in successful practice transitions. If you are contemplating, or in the process of a transition, take advantage of our experience and book your complimentary consultation today.

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Get Ready for the Next "Hot" Tax Shelter

The Tax Free Savings Account

Since January 1, 2009 the TFSA is available to all Canadian individuals 18 years or older. You can deposit up to $5,000 per year in a TFSA, and the financial institution that also handles your RRSP will administer it. However, unlike the RRSP, the contribution must be made with after-tax dollars. Also unlike the RRSP, the income earned is tax-free and you can withdraw the capital and accumulated income at any time without penalty. The interest on the money borrowed to make the contribution is not deductible. You must follow the same investment parameters as for RRSP- eligible investments.

This is how the TFSA can work for you.

Illustration A

Year	Entitlement	Deposits	Withdrawals	Contribution Room
2009	5,000	2,000	0	3,000
2010	5,000	0	(1,000)	8,000
2011	5,000	0	1,000	14,000

In 2009, you contribute $2,000. This leaves room for $3,000, which is carried forward to the next year. In 2010 you withdraw $1,000. The withdrawal does not increase your contribution room for 2010, which remains at $8,000. The 2010 withdrawal of $1000 is added to the contribution room for 2011, which is $14,000, in the example.

While the $5,000 annual limit does not seem like a big deal on its own, you can set up multiple TFSA's for all your family members, as long as they are 18 years old. So now, instead of accumulating your savings in the DentCorp, you can pay the surplus practice cash flow in the form of dividends to your low- tax bracket family members, including children and parents, who then in turn can contribute to their respective TFSA's.

To maximize the tax-shelter effect, I strongly suggest you invest the TFSA funds in interest bearing investments. Assuming you are in the highest tax bracket (43.7% in B.C., which applies to income over $123,185), then for every $1,000 of interest income earned in the TFSA, you save $437 in income tax. In case of $1,000 of portfolio dividend income, the tax savings are only $185, and for capital gains the tax savings amount to $218.

TFSA versus RRSP

When comparing the TFSA to the RRSP (assuming a $5,000 contribution for an individual who is in the 40% tax bracket), you will see that the end result is the same.

Illustration B.

	TFSA	RRSP
Income before tax	5,000	5,000
Personal tax– 40%	(2,000)	0
Contribution to plan	3,000	5,000
Value of account after 15 years at 6%	7,190	11,983
Tax on withdrawal – 40%	0	(4,793)
Net Cash	**7,190**	**7,190**

One of the biggest advantages in using a TFSA is that, unlike the RRSP, you don't need sufficient "earned income" to make the contribution. Since the funds drawn from the TFSA are not considered taxable income, they do not affect income-tested benefits such as GST credits or child benefits. For seniors, in particular, the TFSA is beneficial as it does not claw back OAS payments and Pharmacare benefits.

How to Direct Change in your Practice and Make It Stick

Despite your best intentions and efforts, the stark reality is that 80% of your initiatives to bring change to your practice probably ends in failure. Honestly, have you been really successful to date to implement changes such as making the hygiene department more profitable, or introducing new kinds of dental treatments and leading edge technology?

While the need to change is often crystal clear, what needs changing is often much less so, and how to create meaningful and lasting change in the practice is a totally different and more complex issue. According to a survey of CEOs, 80% admit that their organizations have not historically been successful at managing change. The problem does not seem to management's reluctance or inability to conjure up changes. Rather, the problem seems to lie in the inability to successfully implement such changes and, more importantly, make sure they stay around. Proposed changes so often exceed the organization's capacity to digest them.

I spent the recent holidays immersed in the book, *"Change- The Way You Lead Change: Leadership Strategies That Really Work,"* published by Stanford Business Books. It serves as a reminder of what can happen to any strong business when change is not well managed. I was impressed with the book's practical, commonsense approach and the useful examples, all designed to help you beat the odds.

Disciplined Investing Produces Winning Results

Dalbar, Inc., a Boston based financial research firm, recently concluded a 20-year study that produced some surprising results. Having examined real investor returns for equity, fixed income, and asset allocation funds for the 20 year period ended December 31, 2007, they concluded that investors themselves are to blame for the disappointing performance of their mutual funds. In other words, if your mutual fund company advertised an annual investment return of 10%, and you are making less than 5%, don't point your finger at the mutual fund company and accuse them of false advertising. According to Dalbar's study, you, the investor, is the one who is to blame as apparently, the investment return is far more dependent on investor behavior than on fund performance.

Examining actual investor behavior over the span of the study showed that the average equity fund investor earned only 4.5% annually, or an inflation-adjusted return of a mere 1.5%. Fixed-income investors did even worse, losing 1.5% per year, factoring in inflation.

The company now set out to find out why the investor returns were so low compared to what the mutual fund companies advertised. They identified these two major reasons:

1. Unsuccessful timing of investing and redeeming. When the tech sector blossomed in the 1990s, investors got caught up in the hype and moved away from the protection of a diversified mutual fund and invested directly in "dot-coms".
2. Investor holding periods, on average, are shorter than the periods measured by mutual fund companies. Equity investors typically sell their holdings in less than four years, regardless of their ultimate investment objective of long-term growth. Onviously, investors do not have the discipline and patience to weather stock market dips.

The company also compared the investment returns of an average investor to those of a systematic investor, who typically uses investment strategies such as the dollar cost averaging method.

Let's examine the following scenario. 20 years ago, an average and a systematic investor each invested $10,000. Dr. Average earned $14,011 as at December 31, 2007, while during the same period, Dr. Systematic earned $21,036, or 50% more than his average investor counterpart.

The difference becomes more drastic with fixed income investments. $10,000 invested in 1988 for 20 years generated income of only $3,600 for the average fixed income fund investor, while the systematic fixed income investor earned $10,654, an increase of 196%.

As you can see, systematic investing reaps great rewards, and if you are not already doing so, I recommend that you consider strategies such as dollar cost averaging. By using this technique, you will purchase an investment with a specific amount of money at specific intervals. It does not matter whether the market is up or down, you invest the same amount of money. When the prices are down under the dollar cost averaging method, you buy more shares than when prices are high.

Especially when the market is as volatile as it is now, the dollar cost averaging can provide great benefits, as the chart below illustrates.

		No Volatility		Volatility	
Month	Invested	Share Price	Share Purchased	Share Price	Shares Purchased
1	$1,000	$10	100	$10	100
2	$1,000	$11	91	$8	125
3	$1,000	$12	83	$5	200
4	$1,000	$13	77	$7	143
5	$1,000	$14	71	$12	83
6	$1,000	$15	67	$15	67
Total	**$6,000**		**489**		**718**
Total value at month 6			***$7,335***		***$10,770***

So, as you can see, if you invest $1,000 each month for six months into a stock which increases gradually (no volatility) from $10-$15, your stock value is $7,335 after six months. If the stock price fluctuates, then you boost your stock value to $10,770. The reason for this is that you purchased more shares when the price was low. Of course, you would have made the most money had you purchased the share when it was $5. The fly in this particular ointment is that nobody has managed yet to predict the bottom of the market.

I urge you to consider the dollar cost averaging method, especially when you are at least five years away from retirement and you need to reduce your investment risks dramatically increases. It will not guarantee success, as you still need to find the right investment vehicle to provide you with long-term growth, but it will decrease your emotional and knee jerk reactions to market declines, and assist you on your path to becoming a disciplined investor.

Retired Dentist Outsmarts Stock Pro

Your investments tanked, retirement planning is on hold, and the guy in charge keeps telling you that you should thank him for only losing 30% of your stock portfolio. Hang in there, eventually the losers may become winners. Sounds familiar?

Not everybody lost his shirt in the market. A retired dentist I know earned an almost 50% return on his portfolio over the last 12 months. He is helping his friends achieve similar spectacular returns, but he is not making public the secrets of his investment strategy. His comments are that the Buy-and-Hold strategy, employed by most big banks and investment dealers has been a losing proposition for a long time. The only ones benefiting from this are the institutions who charge their management fee, whether you make or lose money. What is working for him is to invest short term only, always maintain a large cash position to be able to diversify and to take advantage of the daily stock market volatility

We look forward to seeing you at the 2009 Pacific Dental Conference on March 5th and 6th, 2009 at the Vancouver Convention and Exhibition Centre. Visit us at Booth 1827.

Website Update

Client Services Portal Now Available

We are excited to announce that clients can now use our website to efficiently and securely upload documentation and financial records. Visit our website at **www.purtzki.com** and follow the steps. It is a simple and secure way to send us your year end data, and other important information. If you have any questions, call us.

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