Gambling with Your Retirement

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In a recent article, a "Transition Analyst" proclaimed:

> "Cash is king, and the time to invest in the stock market is when stock prices are at an all-time low, not when they are at all-time highs. Converting assets into cash and having it available for investment when the time is right could help you to make up for those big portfolio losses you recently incurred in the stock market.
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> [W]ould selling your practice and retain the right to continue earning income from it for another 5 or 10 years be a good alternative for you?... How about getting 100% of your equity out of your practice today and continue as an owner of your practice for the next 10 or 15 years? That's right, get paid 100% of all your practice equity and continue as an owner and enjoy sharing in its profits for years to come… Use that practice equity for investment or put it in savings for your retirement, either way, it can provide you with a lot of security for the future."

We've heard this before. Sell your practice now and invest in the stock market, become a trader. But even the author acknowledges that advice from your financial advisors may have led to record losses in your stock portfolio and retirement accounts. Are you ready to gamble with your retirement?

You may have thought the sale of your practice would provide for your retirement. Most dentists who reach retirement age with this assumption are sadly mistaken. The sale of your practice will only be an addition to the retirement money you should have already put away. And with the boom and busts we have experienced over the last decade, we see dentists forced to work many more years than they had ever imagined, just for the possibility of retirement. Many may never be able to retire comfortably.

So when is a good time to sell your practice and what can you expect from the sale? The answers are of course individual and multifaceted. It is unlikely that any purchaser will be willing to pay you the full value of your practice and allow you to "continue as an owner" as the author proclaimed, if for no other reason than the purchaser cannot afford to do so. The seller's continued participation in the practice after a sale is a function of the size of the practice and the price that the purchaser pays. Since the purchaser is really buying income, the practice net income will need to be split between all of the dentist producers. If you want the highest purchase price, in most cases, you're going to have to sell the entire practice and leave. Larger practices, those grossing over $800,000 may have enough income to allow the seller and purchaser to practice together, but with significantly reduced income expectations. With smaller practices, it is unlikely there is enough income to support more than the purchaser and the purchaser's loan repayment.

The income of the practice is only one factor to be considered when discussing how seller and purchaser will continue to work together. Other issues include the physical size of the office, staff loyalty, patient loyalty and practice management.

Selling your practice and keeping the practice income is fiction. If you cannot afford to sell your practice, don't do it. Many dentists who prematurely sold their practices and became stock market gurus found themselves looking for associate positions to make ends meet at home. They often found that they left a comfortable patient base and atmosphere, and now are resigned to doing HMO patient treatment for a not so local clinic or DMSO due the reality of available opportunities or their restrictive covenant terms. Not only is this not the dentistry or practice environment they have been accustomed to, but, the scenario has most often proven to be a detriment to their annual income and ongoing lifestyle.

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Newsletter Article Reprint

Do you have what may be considered a "smaller" practice? Some dentists with smaller practices fear that when approaching retirement with a declining practice income they must rush to sell before the practice value drops even more.We find that if a practice's income is steady or even slightly decreasing, it can be financially advantageous to work for a few more years and then sell or even close the office if no purchaser can be found. Even if the gross revenue of the practice drops in that period and the s doctor's income and the practice value are adjusted down with the revenue decrease, there are probably not too many investments that you can "control" that will have the tangible and intangible return equal to owning your own practice.

Mortgage brokers a couple of years ago told homeowners to take second and third mortgages on their homes while they could and invest that money for higher returns, and now we're all living with the consequences of that fiasco. If you are considering the sale of your practice now or in the next five years, consider what choices you have in the real world. You can always gamble with your retirement later.

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