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WHITE PAPER

Wealth Management and Retirement Planning Strategies for Successful Dentists

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Introduction

After conducting interviews with more than two dozen successful dentists in the New York City metro area, it's clear the profession is going through a tidal wave of changes—not all of them pleasant.

As a result of these shifts, you may need to change your calculus about when you can retire, how much your practice is worth and how much you'll need to maintain your standard of living in your work/voluntary life.

As John Wooden, the legendary college basketball coach once said, "Failing is not fatal, but failure to change just might be."

Overview: 9 Biggest Impacts on the Dental Profession Today

1. Transitioning from insurance-based practices to fee-for-service practices. As one dentist told me, there are three ways you can run your practice:

a. Fee for service.

b. Accept all insurance companies and be too busy, which means you are sacrificing quality.

c. Hybrid (accept payment only from the best insurance companies and charge fee-for-service for those not using the best insurance companies).

Fee-for-service practices try to make treatment affordable to patients by offering them the option of financing their treatments and procedures through third-party financing companies such as CareCredit. In fact, nearly three in four practices (73%) indicated they offer patients third-party financing options, according to the American Academy of Cosmetic Dentistry (AACD).

2. Corporate dentistry (CD). According to my interviews, CD is buying up practices at 85 cents to 90 cents on the dollar. CD primarily buys general practices instead of specialist practices. The issue for specialists is that most of their business comes from general practices, so if CD is buying many general practices, CD may want to keep specialists on board to work in-house.

As my interviews revealed, quality control is often a big challenge in CD. As successful dentists told me again and again, that's because CD is driven by the bottom line first and foremost. That means dentists must handle as many patients as they can in a given day and can't spend as much time with patients as they would like. Further, to make the business model work, CD generally hires less-expensive, younger dentists who often lack sufficient expertise.

3. Reluctance to adopt contemporary marketing methods. Word of mouth has long been the primary way dentists grow their practices. Now a web presence is essential for attracting new patients, showcasing your capabilities and demonstrating that you and your practice are in step with the times. Many longtime dentists have not adopted contemporary marketing methods such as search engine optimization, target marketing, branding and creating a unique value proposition.

Further, Dental Economics reports that combining postcards with geographically targeted Google ads can boost a dental practice's response rate by 81 percent, and that incorporating "trust elements" such as a dentist's photo, a bio and online reviews can help a practice attract 72 percent more business. But the vast majority of dentists either don't follow these practices or aren't comfortable doing so. As a result, they have not been able to replace long-standing patients who leave due to relocation, serious illness or death, and lose prospective patients to more forward-thinking practices and CD.

4. Lack of work/life balance. Dentistry is a very demanding profession, both physically and mentally. With workloads increasing and retirement age being pushed out, dentists increasingly want more downtime to improve their quality of life.

5. Baby boomers exiting. Dentists in their 50s and 60s are trying to position their practices for transition. However, as more young dentists join CD, there will be fewer buyers bidding to acquire independent dental practices. This can bring down values and multiples significantly for independent dental practices.

6. Burdensome regulatory climate. Rules, regulations and compliance issues are pervasive. Mandatory courses about those issues must be completed.

While not nearly as regulated as hospitals or physician practices, dental practices are still subject to a large amount of government oversight from multiple state and federal agencies.

According to the American Dental Association (ADA), a typical dental practice may need to navigate over 100 different state and federal rules and regulations that cover their agreements with their employees and contractors. Because dental practices use amalgam and other materials that could adversely impact the environment, they need to adhere to environmental protection rules. The devices and products dentists use are regulated for safety by the Food and Drug Administration.

That's just the beginning. The Health Insurance Portability and Accountability Act oversees how dentists report and store patient data, and many drugs dentist use fall under the purview of the U.S. Department of Justice's Drug Enforcement Agency. Further, state licensing boards set rules for dental training, continuing education and even how a practice may be managed. Regulations from the U.S. Department of Health and Human Services, as well as state-level regulations, cover care for Medicare and Medicaid beneficiaries, including when a nonparticipating provider, like a dentist, prescribes a product or service that is covered by Medicare.

In response to these challenges, the ADA recently launched a new member resource called Managing the Regulatory Environment on the ADA Center for Professional Success website, Success.ADA.org.

7. Cosmetic dentistry is on the rise. An AACD survey found that 99.7 percent of American adults believe a good-looking smile to be an important asset that attracts the opposite sex and works for advancing careers. Over the past two decades, aging boomers (aka the "me generation") have driven the rise in cosmetic dentistry. Boomers tend to focus on preserving their youth. According to Dental Economics, they grew up with the concept of buying products and services on credit and living in the moment—very different from their parents' generation.

Last year, cosmetic dentistry in the United States generated an estimated $16 billion in revenue, and millennials are also driving the trend. Boomers want to maintain a youthful appearance, opting for veneers, implants and contouring, while millennials are opting for traditional whitening, orthodontia or even more exotic procedures to include enhancing their smiles with "dental bling"—crystal and gold jewelry that is applied to teeth.

Over the next three years, spending on cosmetic dentistry is expected to reach a record $22.3 billion thanks to rising disposable income in the middle-class population and expanding consumer awareness of cosmetic dentistry. As a result, Cosmetic Dental Associates predicts that the cosmetic dental market will achieve a compound annual growth rate of nearly 13 percent over the next four years.

As far back as 2001, Dental Economics observed that there has been "a correlation between the increased use of CareCredit for cosmetic cases and the increase in patients applying for it who are over the age of 40."

According to an AACD survey, most cosmetic procedures have experienced phenomenal growth, with nonmetallic inlays/onlays growing by an estimated 380 percent! Whitening/bleaching is the most requested procedure, while veneers, tooth-colored inlays/onlays, tooth-colored crowns and bonding round out the top five. Such procedures run into the hundreds if not thousands of dollars.

Dental Economics reports that over time—and to stay competitive—dentists can overcome their concerns about the high price of cosmetic dentistry by offering financing and by aggressively illustrating the results of cosmetic dentistry through computer imaging and via success stories in their waiting rooms.

8. Technology pressure. My interviews and industry research indicate that many long-practicing dentists are not comfortable with modern office technology and are hesitant to get up to speed. They ask themselves: "Why make a major investment in technology when I'll be retiring in a few years?" They know modernization will streamline costs and administration in the long run (and make their practices more valuable). But in the short run, transitioning to modern office technology can be difficult and expensive. The transition requires new systems and different administrative groups and assistant groups. That's a big commitment that many established dentists aren't willing to make.

9. Dental malpractice claims are on the rise. A Bureau of Justice report found that roughly 5 percent of all medical malpractice trials involve dentists. Further, these numbers don't account for all the cases that were dropped, dismissed or settled out of court—all of which can still cost a small dental practice time and money. The median price tag for a dental malpractice judgment (according to the Bureau of Justice) is around $53,000, which doesn't include the cost of legal defense. But dropped and dismissed cases can still cost dentists between $2,000 and $5,000, or more.

If you don't think it can happen to you, think again. Research shows that most dentists will be involved in at least one lawsuit alleging dental malpractice during their career. The National Practitioner Data Bank reports that among the 19,755 dentists in the United States, there were 16,337 medical malpractice payments and 13,772 adverse actions (formal reports not related to medical malpractice) filed against them. Among the 3,131 dental hygienists, there were 49 medical malpractice payments and 3,676 adverse action reports. These medical malpractice reports represent only those that are paid claims. There are many more claims filed against these individuals that result in no payment to the plaintiff and, therefore, are not reportable. Nonetheless, while a medical malpractice action is infrequent, it can be emotionally devastating.

Conclusion

As a result of the factors above, dentists' incomes are going down, fees and reimbursements are compressing, overhead and malpractice insurance keeps rising, and dentists are being forced to work longer hours and for more years than they ever have before—often for less income.

Top Financial Challenges Faced by Practitioners in the New Era of Dentistry

Now that we have looked at the key factors impacting the dental profession overall, let's look closer at the ***personal financial challenges*** that many successful dentists are facing today. Again, after interviewing more than two dozen successful dentists in the NYC metro area, I uncovered six major financial challenges that can erode your hard-earned wealth, delay retirement and dilute the value of your practice when it comes time for you to exit.

1. Dearth of business and management skills. "They don't teach us anything about business in dental school." I heard this refrain again and again during my interviews with established dentists. Another common complaint: "The hardest part for me is understanding the business side of my practice and running it efficiently." They also mentioned frustration with insurance companies, such as: ***"I really struggle when it comes to negotiating fees with insurance companies,"*** one dentist confided. **"Insurance companies always seem to be reducing payments while overhead is increasing,"** another told me.

A number of dentists complained about accepting too many insurance companies and not having the manpower to work with so many insurance companies—something that CD practices do very well.

Dentists are the micro-managers of their practices. They have a hard time empowering other people and delegating to others. Dentists tend to be introverts. In the DISC assessment system, most dentists come up as C (Compliant). The other three attributes are D (Dominance), I (Inducement) and S (Submission).

Dentists are not trained hiring managers or HR professionals. I also learned that it has become harder and harder for smaller practices to find the right staff—and retain them long enough to train them properly.

2. Need to invest in technology. With computerization rapidly evolving, many dentists told me they have felt an "urgency to improve technology," but it's not an easy transition even for the minority of dentists who are comfortable with technology. "You have to make decisions more rapidly than you used to. If you don't, you will continue to lose ground," one dentist confided in me.

Many dentists worried about the amount of "manpower" needed to run their machines. "You have to keep up with technology. You have to develop systems. You need different administrative groups [and] assistant groups and to develop systems," one lamented. There's a significant cost to upgrading technology—an investment many dentists may be hesitant to make as they get close to exiting their practices.

3. Time constraints and patient education. As market forces continue to compress fees, dentists told me it has been increasingly difficult to spend quality time with their patients. They also told me it's never been more challenging to convince patients to undergo *nonemergency* treatments that go beyond their regular semiannual cleanings. Helping patients understand the benefits of regular maintenance is critical to growing a dental practice—something that's increasingly challenging for the majority of professionals I interviewed.

4. Hubris. Many dentists suffer from hubris. They believe business should be knocking on their door just because they have the diploma from a prestigious school. In reality, their egos need to be fixed before they can fix their practices. Dentists tend to be isolated. After so many years feeling like they were always "the smartest kid in the class," dentists tend to think they can figure out exit planning and retirement planning on their own. In reality, retirement planning is a lot more complicated than people think—even for well-educated, highly intelligent dental professionals.

5. Overly cautious, which constrains practice growth and personal wealth. As my interviews revealed, dentists tend to be very conservative and risk-averse when it comes to their practices and their financial lives. As mentioned earlier, they are often reluctant to invest in the latest technology that would make their practices more efficient and deliver a better patient experience.

6. High levels of debt. Dental school is more expensive than medical school. As a result, the overhang of student debt remains longer for dentists than it does for other highly trained medical professionals. Thus, many dentists need to work on a full-time basis for more years than they anticipated they would have to when they first entered their practices.

7 Areas Where Successful Dentists Need Financial Help

Retirement doesn't happen on the day you exit your practice. It's the culmination of all your years of saving and investing properly so you can exit your practice on your time line and your terms. Based on my interviews with successful business owners of all stripes, here are the areas in which owners, particularly dentists, told me they need the most help with financial issues, retirement planning and succession planning:

1. "**Help me with retirement.** Get me to the point in my life when working is voluntary."

2. "**Help me understand the economics of selling my business or practice** and how it will impact my financial goals."

3. "**Help me gain clarity about my financial goals** and build a financial plan to ensure I am on track."

4. "**Help me find other experts** who specialize in providing solutions to the many financial challenges outlined in this report—e.g., CPAs, healthcare attorneys, business coaches."

5. "**Help me create a defined benefit plan** or other account for saving additional funds for retirement once I've maxed out my SEP, IRA or 401(k)."

6. "**Help me put together a realistic succession plan** for my business or practice."

7. "**Help me get the best return on my savings and investments based on my risk tolerance.** Introduce me to someone with a strong reputation for making the right decisions with my investments that is based first and foremost on trust."

5 biggest retirement planning mistakes dentists tend to make

1. Not putting enough pretax profits into a retirement plan.

2. Not having clarity about your financial goals and making sure you're on track.

3. Having unrealistic expectations about what your practice is worth.

4. Not having the right team of people in place to help you achieve your ultimate financial and life goals.

5. Having too much of your net worth tied up in your practice or business.

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Retirement Planning: Should I Do It Myself?

As a successful dentist with a strong analytical mind, you're intelligent enough to figure out the many facets of retirement planning. But do you really have the time or desire to do it yourself? Even if you had the time, could you honestly remain objective and keep your emotions in check when things get tense in the stock market, in the real estate market or with your personal financial situation? How about when dealing with sensitive family estate planning issues, tax complications or charitable giving plans? Do you enjoy researching these issues, or would you rather spend your time doing things you love?

Those are questions that you, your spouse and your advisors need to be brutally honest about answering. You may have been high school valedictorian and summa cum laude in college and medical school, but there's no way to test your "fight or flight" impulses when a tough money matter or life transition comes up.

If you're young, in good health and have strong relationships with your extended family, then you can be a do-it-yourselfer (DIY) for a while. But below are actual comments from successful people who've come to see me over the past 12 months. Eventually, they get to the point where they've accumulated a fair amount of wealth, but that's often when life starts throwing you more curveballs. As a result, they tell me that they:

- Wished they had sold more shares of a large stock position when it reached its high three years ago.
- Wished they had a financial plan.
- Wished they had recognized how poorly their retirement account had been performing over the past 10 years.
- Wished their spouse was contributing to a retirement account.
- Wished they took action long ago to start looking at their financial health.
- Wished they knew "someone like me" 30 years ago.
- Wished their parents had been more organized when they passed away.

Chances are you've maxed out your retirement account every year. It's tempting to think you're right on track for retirement, but suppose you had a serious tax issue or an unexpected setback in your career, your family or your health? Suppose those setbacks hit you just when the markets are nosediving and the media's urging you to hit the panic button every day? Do you have the discipline, training, expert contacts and experience to stay the course when your body's natural fight-or-flight response kicks in?

> *"We cannot solve our problems with the same thinking we used when we created them."* **– Albert Einstein**

Biggest challenges for DIYs:
It's about more than just investments

I’ve worked with many successful dentists who handle extremely complicated cases every day. But when it comes to managing one’s own retirement, there are **three** common mistakes DIYs tend to make:

1. Being financially scattered. When successful dentists reach their 50s and 60s, they tend to have multiple investment and retirement accounts in many different places—especially if they’ve been a DIY. This makes it hard to see the progress (or lack thereof) that they’re making toward goals such as retirement, buying a vacation home, helping grandkids pay for school, etc. Being disorganized makes it hard to have a unified investment strategy and will complicate things tremendously for your heirs when you die. Don’t be spread a mile wide and an inch deep when it comes to your financial statements and accounts.

One of the first things our group does for new clients is to build a **Financial Plan**. This gives our clients an understanding of where they are today, where they want to be and whether there are any gaps that need to be addressed. Most important, this plan helps clients understand how close (or far off) they are to (from) accomplishing their financial and life goals.

Second, our plan builds a detailed **Net Worth Statement** for clients that gives them a clear picture of their entire portfolio of assets (cash vs. noncash and retirement vs. not retirement), minus all their liabilities. In other words, it’s about **what you own vs. what you owe**.

For estate planning purposes, we need to know the ownership status of a client’s assets (individual, joint and trust) and confirm that all their beneficiary designations are current. Knowing the cost basis of nonretirement assets—or of nonretirement assets that may need to be sold some day for tax purposes—is also very important. We also build a **Cash Flow Statement**, since most people don’t know exactly where all their money is going. How much of your income is being saved for retirement? How much goes to taxes? Where is all the rest going? Is enough being saved? If so, is it in the right type of account for a specific goal?

2. Missing opportunities. You can’t go back in time to correct a mistake or do something you wish you had done and didn’t. Suppose you weren’t funding your retirement account sufficiently. Chances are you could have contributed more but didn’t know exactly ***how much more*** you could have contributed. Had you done so at the time, chances are you might have been able to retire today.

All too often I see successful professionals with too much cash on the sidelines waiting for interest rates to go up and/or the stock market to come down so they can finally put their money to work. Or they’re waiting for the aforementioned events to occur while keeping their money in bank accounts earning less than 1 percent interest—not even keeping up with inflation.

Suppose you had started a health savings account when your organization first offered it. How much easier would it be to handle those out-of-pocket medical bills? You might have a lot more than you think in low-interest cash accounts. Chances are it’s more than you need for day-to-day expenses and your rainy day fund. Had you invested that surplus cash reserve more aggressively 10 to 20 years ago, it could have doubled or tripled by now.

3. Taking too much risk. Early in our process, we compile a new client's retirement accounts, pension statements, Social Security statements and (almost paid off) mortgage statements. It's often a lot of legwork. Then we compare what we've learned about our client's financial picture with his or her true standard of living. More often than not, it turns out the client ***CAN*** afford to retire immediately. He or she doesn't need to be invested so aggressively in stocks, risking a big hit to his or her portfolio. "Congratulations," I tell the client. ***"You've already won the race. Why not do the things you always dreamed of doing right now?"*** When you get to this point, work becomes voluntary. This means you have saved and invested properly. It means that if you wanted to retire today, you could afford to do so.

I meet many near-retirees who have more money than they ever imagined. That's the good part. However, most successful retirees, including dentists who are in this enviable position, still don't believe they have enough to retire. It also means they have more to lose than ever before. Near-retirees have a lot at stake at this point of their lives. The right advisor will answer your most pressing questions—plus those you haven't considered—and more than pay for their fees. Suppose you tested yourself on your knowledge of the issues outlined in this guide. If you didn't give yourself an A or a B+, you might want to discontinue your career as a DIY before it's too late.

Many successful dentists don't think they need a financial advisor or wealth manager if they're not in preretirement mode. Others think they need an advisor only if they're facing a serious financial issue or have suddenly come into a financial windfall. By the time they do, it's often too late.

"I'm not poor now," you may be telling yourself. "I've been handling my financial affairs by myself for my entire adult life—it seems to be working out just fine." I get it. But it reminds me of the old joke about the window washer who fell off the 50th floor of a high rise. When he passed the 25th floor, an office worker leaned out the window and asked him "How's it going?" The window washer's response: "So far, so good." Don't be that guy.

Vanguard Advisor's Alpha study shows that by providing relationship-oriented services—such as comprehensive wealth management via financial planning, behavioral coaching and guidance—professional advisors can provide clients with returns that are on average ***3 percent better*** (per year) than individual investors can produce on their own. That's just the investment part. Imagine how much "alpha" the right advisor could add to your tax mitigation, wealth protection, wealth transfer and charitable planning goals?

Conclusion

You're a brilliant dentist. Focus on what you do best and let the financial experts do what they do best. You're smart enough to handle many of life's complex tasks on your own. But when it comes to your finances, more often than not you'll get what you pay for.

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Addressing the 5 Major Areas of Financial Concern for Dentists

As a dentist, you lead a busy life and must juggle multiple priorities and demands on your time. However, at the end of the day, you are the CEO of your family, responsible for making the decisions that will determine whether or not you will all achieve your financial dreams.

To do so successfully, you need what every successful CEO has: a sound understanding of the challenges you face, a comprehensive approach for addressing them and the resources you must deploy to meet them.

For many dentists and their families, there are five major areas of financial concern:

1. **Preserving your wealth.** Your aim with wealth preservation is to produce the best possible investment returns consistent with your time frame and risk tolerance.

2. **Enhancing your wealth.** Your goal here is to minimize the tax impact on your financial picture while ensuring that you have sufficient cash flow to meet your needs.

3. **Transferring your wealth.** This means finding and facilitating the most tax-efficient ways to pass assets to your spouse, children and succeeding generations in ways that meet your wishes.

4. **Protecting your wealth.** This includes all concerns about protecting your wealth against catastrophic loss, potential creditors, identity thieves and litigants, including angry ex-spouses.

5. **Giving your wealth away effectively.** This encompasses all issues related to fulfilling your charitable goals in the most impactful way possible.

Very important: None of the five key areas above stands in isolation. All are related. Wealth protection, for example, is often intertwined with wealth transfer needs. And charitable giving has many tax and estate planning facets and can often support goals in each of the other four areas.

To be most effective, you need to deal with each area systematically while maintaining an ***integrated approach*** to your overall financial picture. We call this “wealth management" in our business. *Think of it in terms of how a general practitioner will call in experts and specialists to help a patient with complex medical issues.*

Solution: The Wealth Management Approach

As you may have noticed, many financial firms today claim to have wealth management capabilities. The challenge is that investment management remains the primary focus of these firms. They may offer a few additional services, such as college education planning and estate planning, but they lack the truly comprehensive tool set of wealth management. Without this complete tool set, there are areas of your financial life that may not receive the attention they need.

To define wealth management, we use this formula:

WM = IC + AP + RM

The first element of wealth management is **investment consulting (IC)**, which is the management of investments over time to help achieve financial goals. It is through investment consulting that we address the first key financial concern—wealth preservation.

Smart investment consulting requires that a financial advisor thoroughly understands each client's most important challenges and then designs investment strategies that take into account the client's time lines and tolerance for risk. It also requires financial advisors to review not only clients' portfolios but also their financial lives on a regular basis so that they can make adjustments to investment strategies as needed.

The second element of wealth management, **advanced planning (AP)**, examines and manages all the issues beyond investments that are important to clients' financial lives. We place these issues into four major categories:

- Wealth enhancement
- Wealth transfer

- Wealth protection
- Charitable giving

You may have noticed that these four areas of advanced planning align exactly with the four remaining key financial concerns we described above. In my experience, very few financial advisors address these four concerns in any systematic, comprehensive manner.

Relationship management (RM) is the third element of wealth management. To address each client's range of overlapping, frequently complex financial concerns, wealth managers build relationships within the following three groups:

1. Clients. The first and most obvious group is their clients. It is only through solid, trusted client relationships that wealth managers can fully understand and help manage their clients' needs effectively over time.

2. Advanced planning team. Second, because no single financial advisor has all the knowledge required to manage the entire range of financial challenges, many wealth managers have a network of financial professionals they can call in on a case-by-case basis to help address specific client needs.

3. Team quarterback/personal CFO. Finally, wealth managers must be able to work effectively with their clients' other professional advisors, such as attorneys and accountants. This collaborative approach leverages those advisors' knowledge of a client's financial challenges while helping ensure an integrated, holistic approach to the client's finances.

While our focus is on the first element of wealth management—investment consulting to achieve wealth preservation—keep in mind that it is just one component of a comprehensive approach to your financial life. As you go through this guide, I will describe what you should expect from a wealth manager who can help you make informed decisions about every aspect of your financial life.

Next steps

As we discussed above, a comprehensive approach to your financial life requires wealth management. This means more than just preserving your wealth by taking care of your investments. It also means addressing your advanced planning needs, including wealth enhancement, wealth transfer, wealth protection and charitable giving.

5 questions to ask financial advisors

So if you choose to work with a financial advisor, you will want one who uses the wealth management approach. If you're not sure whether he or she does, see **"5 Questions to Ask Financial Advisors"** later in this paper. However, many in today's financial services industry call themselves wealth managers even though they offer little more than investment management. In fact, research from CEG Worldwide, LLC, a highly successful coaching firm for elite financial advisors, shows that only one out of 16 advisors (6.6 percent) offers truly consultative wealth management. How will you know whether you are dealing with a true wealth manager? Obviously, the financial advisor should offer a full range of financial services in the four areas of advanced planning:

- Wealth enhancement
- Wealth transfer
- Wealth protection
- Charitable giving

In addition, your financial advisor should do two key things:

(1) Use a consultative process, and
(2) Provide access to a network of professionals.

We will look at each of these crucial items in some depth.

Focus on What You Can Control

No one can reliably forecast the market's direction or predict which stock or investment manager will outperform.

A financial advisor can help you create a plan and focus on actions that add value.

Diversification neither ensures a profit nor guarantees against loss in a declining market.

The importance of process

While the structure of your investment portfolio is very important, the process that you use to manage and plan your financial life is even more critical. Without the right process to provide a framework for financial decision-making, even the best investment solutions can be ineffective.

Why? Because a lack of process leads to having a portfolio that's a hodgepodge of investments cobbled together from cocktail party tips and the "recommendations of the day" screamed at you from the financial media pundits. Such a portfolio has no underlying rationale. And that makes it all too easy for investors to make big mistakes—such as engaging in market timing—that can derail their financial stability, security and ability to weather unexpected life events.

Think back to the financial crisis of 2008 and 2009. I know it's painful, but try to remember what it was like. If you recall, there was a great deal of panic and no shortage of opinions about what to do with your money. In that highly uncertain environment, many investors who lacked a defined process to guide their decisions ended up changing their investment strategies—for example, by selling stocks and loading up on cash—at exactly the wrong time. As a result, they missed out on the robust stock market gains that followed. In stark contrast, investors who had a defined process for managing their wealth were much more likely to maintain their discipline and be well-positioned for the impressive future growth that followed.

The Consultative Wealth Management Process

Research shows that the highest performing wealth managers use a consultative process with their clients. This process is what allows them to uncover clients' true financial needs and goals, to craft long-range wealth management plans that will help meet those needs and goals, and to build ongoing relationships with clients that help ensure that their needs continue to be met as those needs change over time.

If we decide to work together, what will that process look like?

As I mentioned earlier, it's a good sign if a financial advisor has a clear and compelling process to help you reach your goals. Research shows that advisors who have a clear process, as opposed to those who do not, have a much better understanding of their clients' concerns, have better client satisfaction ratings and are better at getting their clients the results they deserve.

But that's not quite enough to distinguish a truly elite advisor from the rest of the crowd. In fact, there's a specific five-step process that top financial advisors use to make sure their clients get the best possible service.

Now, these steps may look different in practice. Financial advisors may refer to these steps by different names. But they're a common thread connecting almost every elite financial advisor we've seen.

Here's what you can expect when you become a client of one of these top advisors:

The consultative process usually unfolds over a series of meetings **(see graphic below)**:

- At the **Discovery Meeting**, the wealth manager determines the individual's (or couple's) current financial situation, financial goals and any obstacles that may stand in the way of reaching those goals. In addition, the wealth manager will ask detailed questions about key nonfinancial issues such as values, interests and important relationships. Using the answers given, the wealth manager will create an in-depth profile of the most important aspects of the client's life.

- At the **Investment Plan Meeting**, the wealth manager, using the information he or she gathered at the Discovery Meeting, presents a complete diagnosis of the client's current financial situation and a plan for working toward the client's wealth preservation–related goals.

- At the **Mutual Commitment Meeting**, assuming that the wealth manager can truly add value to the client's finances, both the wealth manager and the client formally decide to work together.

- At the **45-Day Follow-up Meeting**, which usually takes place about six weeks after the Mutual Commitment Meeting, the wealth manager helps the client organize the paperwork from the new accounts that have been opened and answers any questions the client may have.

- At **Regular Progress Meetings**, which are typically held quarterly, the wealth manager reports on the progress toward the client's goals and checks on any important changes in the client's life that might call for an adjustment to the investment plan.

In addition, at the first Regular Progress Meeting, the wealth manager presents a wealth management plan—a comprehensive blueprint for addressing the client's advanced planning needs that has been developed in coordination with the wealth manager's network of professionals (which we describe below).

At subsequent progress meetings, the client and wealth manager decide how to proceed on specific elements of the wealth management plan. In this way, over time, every aspect of the client's complete financial picture is effectively managed.

If you decide to work with a financial advisor who uses a consultative process, keep in mind that you are an active participant throughout the process. At every step, you must reexamine your commitment to the process and make sure that you have the information you need to make informed decisions.

If you choose to manage your finances on your own without a financial advisor, we still recommend that you undertake a consultative process with yourself to help ensure that you move forward thoughtfully.

The professional network

Just as no dentist can know all the possible ailments and treatments for a patient, no single wealth manager can have all the skills and experience needed to address the entire range of advanced planning needs beyond wealth protection. To provide clients with the required knowledge and experience, high-performing wealth managers work with networks of carefully selected financial professionals.

The graphic below provides an overview of the consultative wealth management process and how it is supported by the wealth manager's network of professionals.

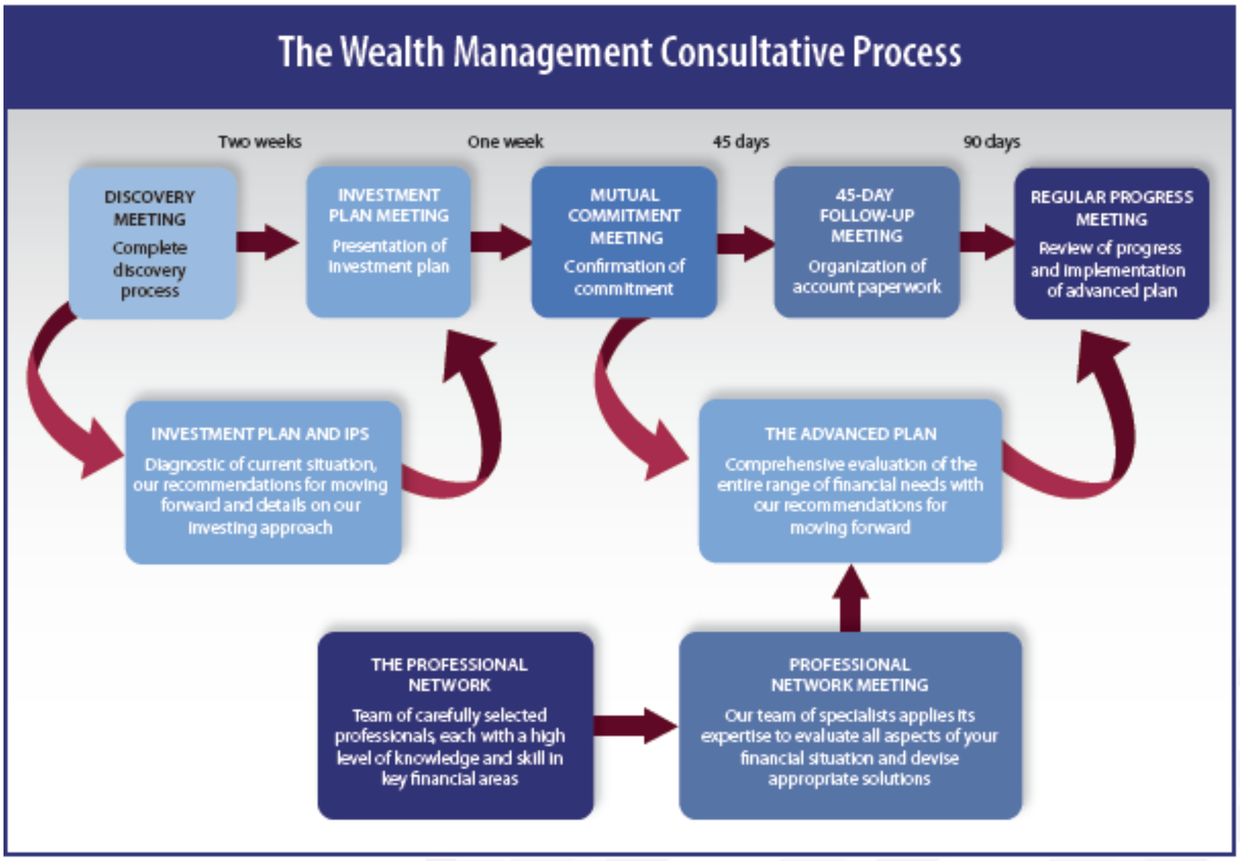
Typically, a wealth manager will create a core network composed of three professionals:

- A **private client lawyer**, who is skilled in estate planning, wealth protection planning, succession planning and developing charitable giving programs;
- An **accountant**, who deals with matters of income tax planning and cash flow; and
- An **insurance specialist**, who works closely with the private client lawyer to identify and structure solutions that leverage the entire range of insurance options.

As needed, the wealth manager can bring in additional professionals to address highly specific challenges. These professionals might include credit specialists, corporate tax lawyers, actuaries, derivatives specialists and securities lawyers, to name but a few.

When appropriate, and as the client chooses, the wealth manager also works closely with the client's other professional advisors, such as attorneys and accountants. This helps ensure that the perspectives of professionals who may have additional or unique insights into the client are included in the client's wealth management plan.

The Consultative Wealth Management Process



Selecting a Financial Advisor

In addition to working with a financial advisor who is a genuine wealth manager, you also want to choose someone with whom you can build a satisfying relationship over time. Trust and integrity are the cornerstones of a good relationship with an investment advisor, just as they are the cornerstones of a good relationship with a medical practitioner. A trusting, long-term relationship with an investment advisor is critical to your long-term success as an investor. Trust allows for open communication, which in turn creates the necessary conditions for better planning.

"I need your help"

John Bowen, president of CEG Worldwide, once told me that the four most powerful words in the English language are "**I need your help**." If you really think about it, people want to help other people. It's human nature. You help people every day in your working life. Why not ask for the best help you can get in your financial life?

The 6 C's

Research from Russ Alan Prince and David A. Geracioti shows that there are **six major factors** that contribute to clients' satisfaction with their financial advisors. We explore these six attributes below and recommend that you look closely at each one with regard to any financial advisor you are considering working with. If you already work with a financial advisor, think about whether he or she displays these six traits:

1. **Character.** Without a doubt, any financial advisor you work with should have integrity, trustworthiness and dependability. He or she should demonstrate these character traits in every contact with you.

2. **Chemistry.** This is the financial advisor's ability to "connect" with you. You should feel a genuine rapport with him or her from your very first meeting. You should agree, even see eye to eye, on important issues.

3. **Caring.** The financial advisor must be truly concerned about you as a person and should understand what is most critical to you, beginning with your life goals and financial objectives. Your financial advisor should care more about you than he or she does about making money.

4. **Competence.** Of course, the financial advisor should be smart and able to manage the technical aspects of your finances. Even better, he or she will be *exceptionally* technically capable. Better yet, the financial advisor will be recognized as a leading professional in your area.

5. **Cost-effective.** This is not a question of what the financial advisor costs, but one of whether he or she provides you with true value for the cost.

6. **Consultative.** This is the most important factor because it frames your entire relationship with the financial advisor as an ongoing, long-term partnership. It has three major components:

    - **Cooperative orientation.** Some financial advisors feel it is their job to constantly hold their clients' hands and take care of everything for them. However, most clients actually prefer a more collaborative approach, where they take an active part in the management of their finances.

    - **Contact.** The financial advisor should ask how often you would like to be contacted, how you prefer to be contacted and on what topics you want to be contacted. As appropriate, he or she should also reach out to you on matters beyond your finances.

    - **Customized communications.** The financial advisor should tailor his or her communications to you and your specific needs and interests. These communications should be sophisticated and highly professional—not off-the-shelf spiels.

As you get closer to hiring a financial advisor—or take a closer look at your current financial advisor—keep in mind that you need someone not just to help you manage your finances, but also to help you reach your most important financial goals. This is one of the most important financial decisions you will make, and you deserve to be extremely satisfied with your choice.

If you are currently working with a financial advisor and are unsure whether he or she is using the consultative wealth management approach discussed here, we recommend that you have another financial advisor provide a second opinion by completing a diagnosis of your situation.

You owe it to your family and yourself to make sure that your investment plan and your overall wealth management plan are designed to address your very specific financial needs effectively, in order to maximize the probability that you will achieve all your financial goals and, along with them, your dreams.

We wish you nothing but success in achieving all that is important to you.

5 Questions to Ask Financial Advisors

We understand that many people are intimidated when they first meet with a financial advisor, because they're embarrassed by their lack of financial knowledge or by how little progress they've made toward their big financial and life goals.

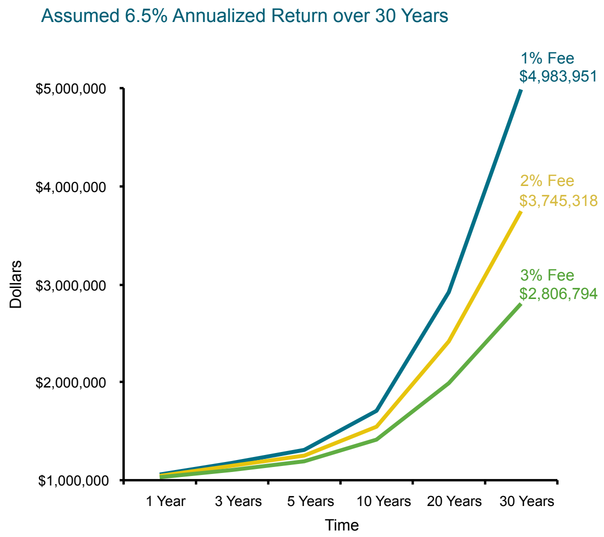
This is ironic, because a lack of knowledge is the main reason you're seeking an advisor. Instead of feeling intimidated, you should adopt the same critical posture that you would when interviewing a contractor or a mechanic, even though you're not an expert in their fields either.

If nothing else, make sure the wealth advisor you are considering is truly committed to working in your best interests—and capable of doing so. When shopping around for an advisor, put candidates to the test by asking five key questions:

1. **How are you paid, and what are all the costs that would be involved in working with you?** You want an advisor who succeeds by making money for his or her clients, not primarily for him- or herself. This is the rationale for the fee-for-service compensation arrangement that most advisors use—typically 1 percent annually of the value of the assets they're managing for you.

Fees Matter

- Fees matter.
- Over long time periods, high management fees and related expenses can be a significant drag on wealth creation.
- Passive investments generally maintain lower fees than the average actively managed investment by minimizing trading costs and eliminating the costs of researching stocks.



2. **What are your qualifications?** Look for credentials that reflect knowledge of the field and, more important, that indicate continuous learning.

3. **How many clients do you have like me in terms of asset totals, life situations and goals?** Advisors tend to segment clients into groups of people with common traits. *You want to be in the group that accounts for the majority of the advisor's clients*. You don't want to be a one-off, because you don't want to be paying an advisor to learn on the job how to best serve someone like you.

4. **Where do you want to take your firm down the road?** Is the firm planning to expand vastly from a boutique operation to a mega-firm with many more clients, thus making you less important? Or is the plan to scale down—to become more of a boutique and jack up minimum investment requirements so high that the firm may not want you any longer? The point is to ensure that your long-term interests are consistent with the advisor's long-term interests.

5. **What is your process for bringing new clients on board?** If there is none, this is a problem. If an advisor's answers fail to show a thorough process for getting to know you and learning about your assets, goals and risk tolerance, then the advisor likely won't render you good service. A desirable onboarding process might involve an extensive interview, a written questionnaire or both.

Why I Chose Wealth Management as My Career

I grew up on Long Island in a traditional blue-collar Italian family. Getting a job and working hard was the main principle in our household. The importance of having a strong work ethic and saving money was drilled into me from an early age, as it was for my brother and sister. My dad was a union electrician and my mother was a homemaker. I guess you could say they were “old school.” They worked very hard to give our family the best life they possibly could even though my dad’s income was unpredictable at times. We weren’t poor by any stretch, but money concerns always lingered in the back of my parents’ minds. (Great, love it!)

I remember one hot summer night when I was 13. My dad and I were having a conversation at the dining room table and he said with a sigh, “Phil, life can be really challenging sometimes.”

Dad looked into the other room where my older brother, Anthony, was watching TV and said to me, “Phil, you and I don’t have what your older brother has.” I took that to mean he thought Anthony was going to be more successful than me because Anthony was always more serious and was more outgoing. It took me many years to understand what Dad meant, but hearing his words really impacted me and motivated me to buckle down and get more serious about life.

I got my working papers at 13 and joined the workforce ASAP. While most of my peers were hanging out with their friends after school, I was washing dishes and mopping floors at a local restaurant—something I did throughout high school. The hours were long, but I managed to play a sport every season. After practice, I worked at the restaurant until 10 p.m. and then did homework until 1 or 2 o’clock in the morning. It wasn’t easy, but all that hard work paid off. I attended Towson University in Maryland, where I played Division I lacrosse and studied business.

As some of you know, Division I is the highest level of collegiate competition, so it’s pretty demanding being a student-athlete in one of those programs. My team practiced every morning before classes. Then we practiced again in the afternoon. After a quick shower and a bite to eat, I hustled over to a local country club where I worked as a waiter/bartender. After my shift ended, I did homework until 2 or 3 o’clock in the morning. And I kept that routine going through all four years of my collegiate life.

As many of you know, self-discipline, focus and time management are skills that take you far in life, long after you’ve left campus and the athletic field.

When I started building my business, I had some challenging days to be sure. But I recalled that dinner-table conversation with my dad when I was 13. As tough as it was to hear his low expectations for me at the time, I recognize today that it was a climactic event in my life that motivated me to learn that most important fundamental value: **having a strong work ethic and saving money**. So, thanks to my dad's "tough love," this learned value drives me to be relentless in striving to be the best that I can be each and every day. Most important, the value my parents taught me of having a strong work ethic really helped me appreciate the grit and determination of my clients, which helped them build the practices and lifestyles they enjoy. Having grit and a strong work ethic gives you the foundation for a process that enables you to achieve your long-term financial and life goals. My wife and I are now passing those lessons on to our own children.

Having gotten to know so many dentists over the years, it's clear that most of you share my belief in the value of having a strong work ethic and never giving up. You know I can relate to the sacrifices you made to get through school and how hard you have worked to build your practice even when the seeds of doubt crept into your minds.

I know many of your families made huge sacrifices to get you through school and you never wanted to let them down. You worked extremely hard—inside and outside the classroom—just to get through years of schooling and specialized training. That's before you even started practicing and finally making some money to put away. I appreciate how important it is to have a strong process, whether it's running a successful practice or reaching your long-term financial and life goals.

The dental profession is extremely demanding intellectually, emotionally and physically. Nobody understands that better than I do. You've worked extremely hard to build your wealth to this point—you can't afford to give it back due to bad investment decisions, losing focus or letting your emotions distract you from following your plan.

Like great athletes and investors, successful dentists are relentless in their pursuit of excellence. They never let up or lose focus, no matter how tired they may be or how many curveballs life throws at them.

Why I became a wealth manager

Like many people who go into this profession, I was always fascinated by the financial markets and how they worked from a very young age. At the same time, I've always been a people person and a good listener—a common middle-child trait. I was also very interested in psychology, and probably would have chosen psychology as a career if I hadn't gone into finance. When working with clients, I spend as much time with psychology and human emotion as I do with the numbers, and empathy is just as important as quantitative skills when it comes to truly consultative wealth management.

There’s no better feeling than looking a successful dentist in the eye and telling him or her after we’ve been working together for a while that they can now retire comfortably or make working a voluntary decision.

Ultimately, my dad did an excellent job of preparing for retirement. However, I don’t ever want to see clients feel the way my dad did when I was growing up, shaking their heads, overwhelmed with financial worries and resigning themselves to the belief that “life can be really challenging sometimes.” It’s very rewarding to help clients make a breakthrough that takes a tremendous financial weight off their shoulders and allows them finally to enjoy the fruits of their labor.

I try very hard to simplify complicated financial concepts (the markets, the economy, tax issues, retirement calculations, etc.) so clients can understand them without feeling patronized. It’s also crucial to spend as much time as possible with clients. Their life circumstances and needs are continuously changing. I must keep reviewing the plans we have built together to make sure they remain on track to reach their financial and life goals.

As legendary salesman and motivational speaker Zig Ziglar famously said, “Repetition is the mother of all skill.” I think most of my coaches and the successful dentists I know would agree.

Conclusion

My boys are growing up in a more comfortable financial situation than I did. But the lessons my parents taught me are the same ones my wife and I are teaching our own kids. Having a strong work ethic, never giving up, saving diligently and investing wisely are tools that will help you move the needle in the right direction and get you to the next level in life.

About the Author

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Philip Palumbo is the founder and senior member of the Garden City, NY-based Palumbo Wealth Management Group. For nearly two decades, he has helped dentists and their families nationwide successfully prepare for retirement or dramatically enhance their retirement years.

Philip is among an elite group of financial professionals to have earned Certified Financial Planner™ designation. This designation is awarded to individuals who successfully complete the CFP® certification process that includes two years of demanding education, examination, experience and ethical requirements. This challenging examination covers a wide range of topics, including retirement planning, insurance planning, employee benefit planning, income and estate tax planning, and investment planning.

Philip has been quoted and interviewed by several publications for his work in the financial planning field. He has been featured in *Distinction Magazine* ("How to Build a Legacy"), Senior Market Advisor magazine ("Reassessing Life Insurance Needs") and *Newsday's* "Ask the Expert" column, where he shared his insights about Social Security planning. He lectures frequently on topics such as probate issues, investment taxation, tax-efficient income generation, and estate and financial planning.

Philip graduated from Towson University with a degree in finance and played Division I lacrosse. He currently resides in Manhasset, NY, with his wife, Melissa, and sons, Philip, Andrew and Matthew. His wife was a math teacher at Great Neck South Middle School and now stays at home to take care of their children. Philip enjoys weightlifting, golf, skiing and, most importantly, spending time with his family.

About Palumbo Wealth Management

The **Palumbo Wealth Management Group** was founded by senior member Philip G. Palumbo, CFP®.

Since March 2000, we have financially navigated our clients through the technology bubble, the tragic events of September 11 and the Great Recession—some of the most challenging capital market environments of the past 100 years. Additionally, our firm understands the financial challenges facing today's dentists and how best to overcome them.

Our group's philosophy is to help each client truly understand the meaning of wealth management. If you ask 10 people what wealth management means, you'll likely get 10 different answers. The way our group defines wealth management is as follows:

WM (Wealth Management) =

IM (Investment Management) +
AWM (Advanced Wealth Management) +
RM (Relationship Management)

The formula above provides us with great insight to identify any gaps in your overall, long-term financial strategy. When a gap is discovered, our consultative process will ensure that the gap is filled.

Our investment philosophy is to work diligently to be students of the capital markets by understanding that financial markets go through long valuation cycles (typically 15 to 25 years), ranging from significant overvaluation to significant undervaluation and everything in between.

Typically, the economy undergoes different stages during a business cycle and so do the prices of various assets and asset classes. Our goal is to identify undervalued investment opportunities during all periods in various countries, sectors and individual securities. We generally take an active approach to investing that aims to preserve capital during periods of volatility and earn a respectable return on investment capital in the long term. Our view is that it is imperative to minimize your investment expenses and costs by, among other things, limiting the use of third-party money managers.

In addition, my interviews have revealed that many dentists need more than assistance in managing their investments. They need a comprehensive approach to managing their financial and life goals. The second element of wealth management, advanced wealth management, addresses this concern. Advanced wealth management addresses four major areas of financial concern beyond investments:

- **Wealth enhancement:** Mitigating tax burdens.
- **Wealth transfer:** Helping ensure that heirs are cared for.
- **Wealth preservation:** Protecting loved ones and preserving assets.
- **Charitable giving:** Maximizing the impact of charitable gifts.

To understand clients' most important goals, values and challenges completely—both now and long into the future—wealth managers must cultivate trusting, long-term, consultative relationships with their clients.

Like a dentist who asks patients detailed questions to determine the correct diagnosis, working with a wealth manager is a similar process of asking diagnostic questions before drawing conclusions or making recommendations.

Despite their high level of intelligence and education, many dentists are untrained in business basics. Others are understandably too busy to manage their finances. Still others are not aware that a true wealth manager goes beyond stocks and bonds to oversee all aspects of their long-term financial life. That includes specialized insurance, trust and estate planning, retirement planning, and more. A wealth manager can often be the key to helping dentists achieve the dream of making work optional.

When it comes to practice management, increasing practice efficiency will be the No.1 area of focus for dentists over the next three to five years. Exploring the financial considerations and impacts of different business models, such as entering into a merger or joining a large practice group, may be best made by working with a wealth manager.

> **"We work hard to understand our clients—from their concerns about the future to the hopes and dreams they have for their children."**
>
> **– Philip G. Palumbo**