Practice alone doesn’t mean financial freedom

By Dr. Paul Hanks

A common belief among dentists is that their retirement will be funded from the big money they reap from the sale of their practices.

Starting with the day after receiving their DDSs, many dentists begin their professional journey with the sole intention of owning their own dental practice. The reasons vary but part of the decision is a heartfelt belief that ‘my practice is my retirement.’

But the reality of creating wealth contradicts this deep-seated notion.

There’s an important distinction between being rich and creating wealth. Previously, I shared with you how investing in real estate should focus on long-term wealth development, as opposed to short-term gains. When you create wealth, you build financial freedom and a whole new approach to your work.

Work as a hobby

Owning a dental practice was a way for me to enjoy the clinical side of dentistry. I could specialize in the care that I preferred providing, for patients I wanted to treat.

I sought to move away from the pressures of having to work to earn an income. Instead, work became a hobby, which I enjoyed immensely. The separate income stream from my real estate investments provided me financial freedom and opened up many new personal and professional choices.

But to implement this vision of fiscal liberation and security, I had to make some clear choices among the often confusing options in real estate investment.

Dentists’ fears

For many dentists, investing is a scary proposition, even more so when real estate is involved. Much of this apprehension stems from working in a profession that is ripe for scam artists or unscrupulous companies.

As dentists, our intelligence and professional success work to our advantage. Our responsibilities are considerable — we provide clinical care to our patients, manage a practice and employ staff. We enjoy social lives outside of work and have loving families.

But I have often heard the same lament among my colleagues — “We are taught well with regard to dentistry and patients, but get very little, if any, training on finances and investing.”

Typically, a dentist seeking to build an investment portfolio seeks referrals for a financial advisor from a colleague or friend. Generally, these referrals are nice people and investing through them is relatively straightforward, comfortable, and safe. However, that financial advisor may not offer the best way to create wealth and propel your long-term vision of financial freedom into reality.

Promises of riches

When seeking to broaden your investment possibilities, there’s a plethora of information and companies at your disposal. Many claim to be able to make you rich instantly, so it’s important to scrutinize material carefully.

When I searched Google for “real estate investment,” I was faced with 52,900,000 Web sites. On closer inspection, I found most company sites would show me how to “make $20,000 by noon tomorrow,” or “earn $20,000+ per month.” They promised to pass me their “secrets to real estate riches” through seminars, weekend camps, books and DVDs.

I began to wonder why I bothered studying for more than 15 years to become an orthodontist, when in just after single weekend course I could become richer.

Another troubling aspect of these companies is the type of investments offered. For the most part, they directly relate to the misfortune of others. Luring you with “profit from foreclosures” and “invest in REOs,” these companies rarely focus on social investing. Certainly there must be a way for your investment to benefit communities and those people suffering financial hardship, while also providing a good return for you.

In my opinion, most companies seem to miss the point. For me, investing is about creating wealth — a feeling of security for you and your family — and financial freedom.

Beware of the quick buck

As financial writer Luis Rodrigues says, “much like starting your own business, investing in real estate requires entrepreneurial skills, a vision, and a lot of time — probably the most important aspect of real estate investment.”

Seasoned investors know that in real estate, there is no quick buck. Unlike the stock market, where traders’ fortunes soar and collapse in a day, investing in real estate is for the long haul. Your action plan must account for a more patient and extended timeline.

Success entails learning the market, discovering how to locate and inspect property, negotiating your deal, contracting to buy, financing the purchase, and closing the transaction.

So if you find yourself getting drawn into investing with someone who promises to make you rich by tomorrow, remember that the tomorrow with a big payoff never arrives.

Strategic returns on your investment

I recommend beginning your real estate investing with single-family homes. They have the two biggest players in the market — investors and owner-occupants. Single-family homes are easier to purchase and subsequently sell. Apartments are commercial properties, only purchased by investors playing in the market.

Remember, the return on your investment is what you should seek. The less you invest, the greater the return. Financial institutions feel more comfortable lending a higher percentage of the value of residential property compared to commercial, which requires a 15-25 percent down payment.

When purchasing a single-family home as an investment, consider these two strategies:

• Buy and Hold: Purchase the house with the sole intent of renting it.
• Buy and Sell High: Invest in a home located in a neighborhood with high sales activity, make the improvements, and then sell for a higher price.

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