

# The Fundamentals: They *Don't* change

by Larry Mathis, CFP

The recession has been especially hard on the dental profession, and as an orthodontist you might feel as though you have been picked on by our economy over the past couple of years. As a Certified Financial Planner (CFP) professional, who has worked with dental professionals for two decades, I have personally witnessed how difficult these times have been for many in your profession. Before the rest of the country, and the world for that matter, showed up to the recession, it seems to me that the dental profession had received a premier invitation to the downturn of the economy. And the orthodontic profession apparently received front row seating.

So what does the future hold? I wish I knew, but more than likely we still have a couple of tough years ahead of us. I believe we will see another wave of foreclosures, including those related to investment real estate. We will probably continue to experience volatility in the stock market. And the orthodontic community will continue to be impacted by the slow economy for a bit longer. But this is nothing new to our economy. Our economy has experienced downturns before

and it recovered. When our economy finally turns around and we recover from this nauseating experience, we will no doubt experience another downturn sometime in the future.

Figure 1, "Alternating Secular Bear and Bull Markets," illustrates what I am talking about in relation to the stock market. The term "secular" refers to long periods of time. The graph shows us that the stock market experiences not only short-term fluctuations, but also long-term fluctuations. As this chart shows, we can see four periods of time when the stock market has experienced secular bear markets. According to this chart, from January 14, 2000, through December 31, 2009, the stock market was experiencing the fourth secular bear market of the time period shown (1906-2009). The chart also shows that we have experienced three secular bull markets. The last secular bull market ending in January 2000. Whether we have re-entered a new secular bull market or not, as of the date of this article, only time will tell.

The challenge for many orthodontists is this is the first time they have ever experienced a "long-term"

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slow down to their personal economy. Consider this: an orthodontist who is 50 years old most likely graduated from orthodontic school between 1988 and 1990. With this in mind, this individual came out of school, entered the orthodontic profession and began riding the wave of one of the best economic periods the orthodontic profession has ever experienced. In addition to building a robust practice, he or she might have also made some money in the real estate and stock markets, which were also enjoying rides on what seemed to be never ending waves of prosperity. But suddenly, with little warning, the waves came crashing to shore leaving some buried in the sand wondering what happened.

Let's go back to the alternating secular bear and bull markets graph, and assume our 50-year-old orthodontist started investing in 1990. From 1990 through 1999, he or she would have experienced a period of tremendous growth in the stock market. And this being his or her only experience, he or she might have assumed this is how the market always works. Now that orthodontist knows all too well this is not so! But, should this stop someone from investing? By no means; it is in the down periods where much of the opportunity lies!

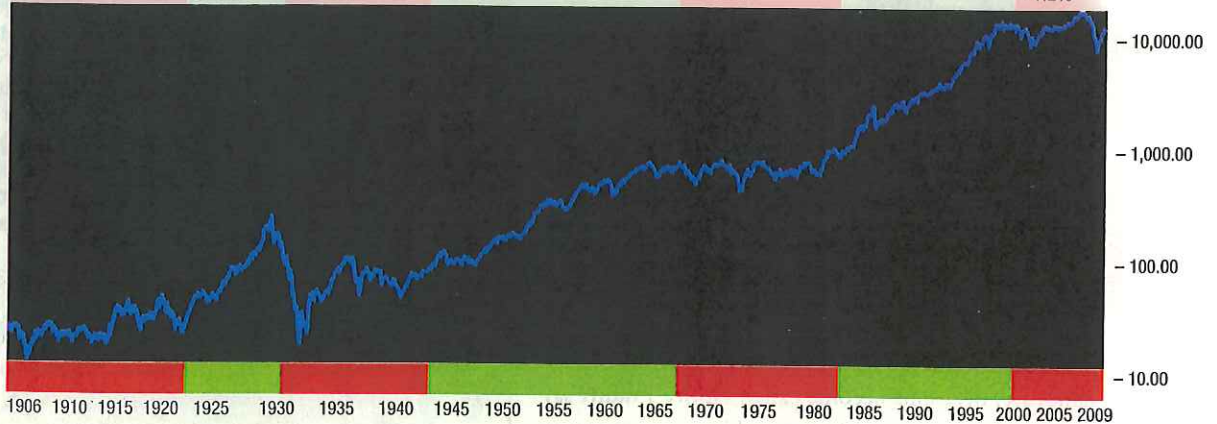
If this describes your experience, I have a question for you. *Did you at least learn something?* I was asked the same question by an older gentleman shortly after I crashed a brand new jet ski into another jet skier (my wife), while vacationing on Lake Powell. The accident was completely a result of my inexperience, and fortunately no one was seriously injured. I did cause about \$4,000 of damage to the two jet skis though. The accident could have easily been avoided had I simply done some planning ahead of time – like getting some personal instruction on how to properly operate a jet ski!

Just as I learned from my jet ski incident that you never shut off a jet ski when it's in motion, hopefully (if needed) you too have learned from the recent economic experiences that the good times don't always keep rollin'. With that comes my main point: there are certain fundamentals of financial planning that don't change.

First of all, you need to know what's important to you. *What do you really value in life?* In today's economy many have come to the realization that peace of mind is much more important to them than a huge house and the mortgage that usually comes along with it. The truth is though, most people have never really sat down to explore what's really important to them. Have you? When you take the time to discover what

## Alternating Secular Bear and Bull Markets Dow Jones Industrial Average: 1906-2009

Market Regime	Bear	Bull	Bear	Bull	Bear	Bull	Bear
Dates	1906-1921	1921-1929	1929-1942	1942-1966	1966-1982	1982-2000	1/14/2000-12/31/2009
Length in Years	15.5 Years	8 Years	12.5 Years	24 Years	16.5 Years	17.5 Years	9+
Cumulative Return	-15.31%	496.51%	-75.62%	970.98%	-21.93%	1408.9%	-11.0%
Annualized Return	-1.06%	24.9%	-10.55%	10.47%	-1.49%	16.84%	-1.2%



Source: Ned Davis Research. For more information, please visit [www.ndr.com](http://www.ndr.com)

The Dow Jones Industrial Average ("Dow"), a registered trademark of Dow Jones & Co., Inc., is an unmanaged index composed of 30 common stocks. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Returns shown above do not reflect the reinvestment of dividends or other distributions; these total return figures are not available for the Dow prior to October 1987. Returns shown represent only the price appreciation of the index. With the inclusion of dividends in the data, performance of the index would be better than the performance shown. Vertical Axis is the value of the Dow.

Chart provided with permission by Genworth Financial Wealth Management, Inc., an investment adviser registered with the Securities and Exchange Commission, is a wholly owned subsidiary of Genworth Financial, Inc.

you really value, then you can align your financial decisions with those things you value most. Perhaps for you those might include: peace of mind, living with reduced stress in your life, quality time spent with family or making a difference in the lives of others.

Once you have a clear vision of what's important to you then you can begin to *set your goals*. As values are our intangible desires, goals are the tangible things we desire. Goals are personal milestones, like: financial independence, sending your children to college, buying a vacation home, being debt-free or traveling around the world.

Goals need to be specific, measurable, achievable and compatible, and they need to be in writing.

**Specific** – “I want to pay off my house,” is not a specific goal. Here is an example of a specific goal. “I want to have my mortgage loan of \$278,500 paid off by March 15, 2020.” This goal says exactly what is to be accomplished.

**Measurable** – The above goal is also measurable. It is measured by both the amount of the loan and the date by which it is to be paid in full.

**Achievable** – It is vital that your goals be realistically achievable. A goal to retire by age 55 with an after-tax monthly income of \$10,000 might not be achievable. It depends. Are you 53 years old now and have nothing in savings? Unless you have a rich uncle who is on his deathbed and plans to leave you a small fortune, then it's probably not realistic.

However, if you are 35 years old, have your debt under control and are maximizing your retirement contributions, then you will have a much better chance of achieving your goal. The fact is if your goal is not realistic (achievable) than you will soon give up on it once the “reality” sets in.

**Compatible** – Your goals must be compatible with your values (those things that are most important to you). If you want to be totally debt-free by a specific not-too-far-away date, how do you think buying a timeshare in Hawaii would fit into your plan? Well that depends. Can you have it paid for by that specific date? If so, OK. If not, well then you should probably not purchase the timeshare. You see, when you know what's important to you, when you know what your values are, decisions become easier. Notice I didn't say decisions become easy. Changing old patterns is not an easy venture; it will however be very rewarding!

Since I'm discussing retirement, let me give you a reason to start saving now. See Figure 2, an illustration of the “Time Value of Money.” What this shows is the

magic of compounding interest. In this simple illustration Dr. Smith starts saving \$10,000 per year at age 25 and stops saving at age 35. Dr. Jones waits until age 35 to start saving \$10,000 per year, but he won't stop saving until he reaches age 65. If they both earn a hypothetical growth rate of eight percent, Dr. Smith will have saved about one-third less than Dr. Jones, but she has more than 50 percent more money at retirement than Dr. Jones!

My point is simple: start saving early! And if it's too late to start saving early, then start now!

Now that you know what's most important to you and have set your goals in writing, you need to *establish where you stand financially*. This can be a very sobering process. The first step is to gather the information to develop your personal financial statements, which includes a net worth statement and a cash flow statement. The net worth statement tells you where you stand financially at a given moment in time. Essentially it compares your assets to your liabilities. The cash flow statement tells you where your money is going. You can go to [www.mathisfinancial.com](http://www.mathisfinancial.com) under the “Resources” tab and download the forms you need to develop your financial statements.

The next step is to design your financial plan based upon those things that are most important to you. Your financial plan needs to be designed specifi-

### The Time Value of Money

Dr. Smith	Dr. Jones
Starts at age 25 Stops at 35	Starts at age 35 Will stop at 65
Contributes \$10,000 per year	Contributes \$10,000 per year
At an 8% hypothetical growth rate	At an 8% hypothetical growth rate
Age 65: <b>\$2,590,565</b>	Age 65: <b>\$1,132,832</b>

**Dr. Smith saves about one-third the dollars,  
but has over 50% more money for retirement!**

Returns are hypothetical and are not meant to imply the future performance of any investment, which will fluctuate.

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continued on page 30

cally for you, taking into consideration *your* values, *your* goals and *your* ability to reach those goals. Regardless of your age or your current financial situation (wealthy or flat broke), you need to have a written financial plan and then implement the plan to give you the best chances of achieving all of your desires regarding your finances.

There are few people who are capable of designing a successful financial plan without the help of a financial planning professional. However, there is a big difference between a financial planning professional and salesperson in the financial services industry. So what should you look for when hiring a financial planning professional?

First of all, I suggest you use a certified financial planner (CFP) professional. Just as you have taken the time to specialize in orthodontics, the CFP professional has completed the established, rigorous education, examination, experience and ethical requirements of the Certified Financial Planner Board of Standards, Inc. (CFP Board). The mission of the CFP Board is to benefit the public by granting the CFP certification and upholding it as the recognized standard of excellence for personal financial planning.

Your CFP should have a structured process for creating a financial plan and he or she should be able to tell you what it is. The CFP should want to know about those things that are most important to you and not just talk about their services or the products they sell.

A CFP will work very similarly to a CPA, attorney or your physician. You should expect him or her to know what's important to you and to know your entire financial situation before making any recommendations. Furthermore your CFP should inspire you to achieve your goals and not prey on your fears and insecurities in order to get you to buy a product.

Maybe you're facing some difficult financial circumstances, perhaps due to some past financial deci-

sions coupled with the recent poor economic conditions. Here are seven things you should consider:

1. Stop worrying and focus on what you can control, i.e.: your work schedule and spending patterns.
2. Avoid taking on more debt. Live within your means and know the difference between wants and needs. Stop spending money you don't have.
3. Stop worrying about what other people think. They don't pay your bills.
4. Avoid cashing in your retirement accounts. This can be very "taxing" and expensive. Besides you're going to need this money someday.
5. Create a strategic plan to pay off debt. Pay your debt off in the right fashion. For example, if you have credit card debt (not tax deductible) and a business loan (tax deductible), focus on the credit card debt first to take advantage of the tax break on the other loan. Your CPA or CFP can help you design your debt elimination plan.
6. If you don't have an emergency fund, start saving to establish one. Work to have six months of your monthly expenses set aside in savings.
7. Don't let your insurance policies lapse. Some insurance isn't as easy to get when you're older and you might not qualify for it later.

Here's something to think about: Most people spend more time planning a week's vacation than they do planning their financial life. A properly developed financial plan takes time to develop and implement. Remember, trying to get it done the cheapest or fastest way will most likely only cause difficulties and financial loss. As much as possible, do it right the first time and don't try to "piecemeal" your plan. Also, don't wait to start! I once had a college professor who had just assigned a term paper to the class say, "starting is half done." In other words, getting started is the hardest part. Do yourself a favor by getting started now and take the time to do it right! ■

### Author's Bio

**Larry Mathis** is a certified financial planner professional. He operates a personal financial planning practice in Phoenix, Arizona, with clients throughout the U.S. Larry works primarily with dental professionals and is the author of *Bridging the Financial Gap for Dentists – What Every Dentist Should Know About Managing Money*. Larry has spoken for numerous dental organizations, including the American Association of Orthodontists.

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