FACTORS THAT AFFECT OUR ECONOMY - DENTISTRY AND YOUR BUSINESS - PART I

by: Bryant Cornett, Senior Vice President
Brokerage, Ackerman & Co.

If you're running a dental practice in today's market, you have most likely seen a lot of changes, from classmates selling their practices to competitors being acquired. Perhaps you've experienced some change yourself, worked through tough times or received offers to purchase your own practice. Whatever the case, we're all a little shell shocked by these occurrences, wondering what happened and what we should be doing in preparation for what's to come.

In our three-part series, we will look at the factors that are affecting our economy, dentistry and your business. We will provide a snapshot of what happened in part I, then in part II, we will examine the associated risks and finally, when you're in the middle of planning for next year, we'll get to the really good stuff in part III —the opportunities.

Acquisitions taking place today are not like the frothy 2007 market when prices on everything soared and individuals, groups and new students alike all bid up the price of practices. Now, in the wake of an incredible fall in the markets and low interest rates, a confluence of factors has created an interesting set of challenges and opportunities for dentists. This overview will serve to lay out the facts of the last few years and identify some of the challenges and opportunities of this market. But note: while we dip into many aspects of dentist businesses, the greatest experience I have is within real estate, so forgive me if a lot of the challenges and opportunities I identify involve real estate—it's just what I'm most accustomed to tweaking.

THE FACTS

It never seems that good while you're in it. The run up to the crash that began some five years ago, was a historic run. National unemployment was at 5% in 2007, and it had been at or below that rate for the previous 30 months. Private employees saw growth in wages and salaries at a rate of 3.6% pre-recession, and the Consumer Sentiment Index averaged an 89 in the 5 years leading up to the economic slump. The Index barely averaged 64.2 during this last recession. The Consumer Price Index was flying as high as 4.1 in the years leading up to the fall out, then dropped to a dismal 0.1 in 2008.

From October 5, 2007 the S&P 500 went from a high of 1561 to a low of 683 by March 2, 2009. One of the great effects of the first part of the last five years was that you and your peers, especially those nearing the age of retirement, experienced a catastrophic loss of wealth. For younger workers, this loss can be redeemed, but for older workers, in the last ten years of their practice, it's more complicated.

Some held on, invested through the market and are now merely behind. They have lost five plus years of expected appreciation and are now just slightly under water on their previous investments. But others, tossed by the fluctuations, pulled money out of the markets or were driven into alternative investments. Now that the markets are almost back to their 2007 levels, those that exited the markets or made rash decisions at the bottom find themselves not just five years behind in growth, but literally never able to catch

up to their previous retirement expectations. So keep this in mind as we consider the next major factor that is driving opportunities and challenges today.

Further, over the last five years, monetary policy experts have pulled every lever they have to stop the bleeding. On our level and in the near term, this has meant historic low interest rates across the board from home mortgages to corporate financing. The bankers with whom we work say that they have never experienced a more competitive banking environment. This all translates into extremely inexpensive money for households in Alpharetta all the way up to General Electric and even over to the government of Brunei.

It's complicated, but when we broke the buck, things became extremely risk adverse. Here's what happened: Money Market funds were built to be extremely safe. Their yields are a pittance, but for that lack of yield, they provide the next best thing to an FDIC guarantee (which is limited to $250,000). If you had oil interests or insurance premiums coming in at a rate of say, $10 million dollars a day, then yes, you're looking for capital appreciation over the long haul (through major investments), but you're also looking to make sure that, until you can invest that money, a dollar is still a dollar. So when the buck was broken, it meant that the most conservative player in the game, closed out the day and the net asset value of one share of this fund, which was always supposed to be $1, was less than $1. Suddenly, in the institutional money world, putting a dollar under the (institutional world equivalent of the) mattress meant that you would have 87 cents to pull out.

For us that probably didn't mean that much. It only happened for a short time and I never really noticed that a money market fund was much different than cash anyway. But for institutional players, it was game changing. United States Treasuries (long considered the safest investment in the world) saw the lowest yields since the early 1900s. Throughout the 90's and early 2000's, yields on 10 year Treasury Bonds really hadn't been much higher than 8% or lower than 4%. Today, they sit at around 1.75% and the appetite for them from foreign nations and multinationals is off the charts.

This lays out the situation. In part II, we'll look at the risks that this economic environment has brought into your dental practice and in the last segment, we'll address the opportunities going into 2014.

For more information, contact:

Bryant Cornett
770.913.3901
bcornett@ackermanco.net
www.ackermanmedical.com