

## **Compare the Pair**

By Phillip Win (Director and Senior Financial Planner, Profile Financial Services)

I selected the title for this edition as a tribute to Bernie Fraser, the architect of the advertising phrase rolled out by the Industry Funds and one of the founding fathers of compulsory superannuation.

Mr Fraser steps down as Executive Chairman of one of the country's largest superannuation funds, Australian Super, in June this year.

Back in the early 1980's, superannuation was not as accessible as it is today. It remained the domain of the "well-heeled" and those fortunate enough to work for employers who could contribute for their staff. Superannuation is now mainstream and has facilitated the accumulation of an asset base that most Australians otherwise would not have.

I have worked with Dental Professionals for 10 years now, and I have learnt a great deal from the many hundreds of meetings and educational seminars that I have run. The outstanding lesson that I must share with you begins with the strong cash flow that Dental Professional's generate. Unfortunately, this very strong cash flow leads to a false sense of security in terms of financial management.

Compare the Pair...

## **Asset Rich, Income Poor**

I am sure that you can all picture a person in your life (perhaps even yourself) who may be in this position.

The position typically comprises a portfolio of investment properties, where the rent being received is less than what is required to meet day-to-day living expenses. I can think of no better example than a client who owned two commercial properties - each valued at about \$2 million. The first problem was that neither property was tenanted so the client had to meet the outgoings from personal cash reserves. The bigger problem became apparent later as the cash reserves depleted rapidly - no income was being received to replenish the bank balance.

Of course, if the properties were leased, the client could have been in a significantly better position. All that matters in this situation is cash and cash

flow! I am sure that you would agree that this was a case of "Asset rich and Income poor".

I have presented the above example as a poor position to be in. However, I now wish to challenge this, by providing you with another alternative. Income Rich, Asset Poor!

### **Income Rich, Asset Poor**

My experience is that Dentists are susceptible to this situation and over the years I have met many dentists who confirmed my suspicions.

Dentists are very fortunate to earn a top tier income from early on in their career. This income brings with it, the benefits of a strong cash flow, however, a person who has great cash flow can experience the '*wealth effect*'. This is simply where you are able to pay for what you want, when you want it and for whatever you want. The cash flow makes you feel wealthy and secure.

The question that you need to ask yourself is where does the strong cash flow come from? Income is deposited into your bank account because you have seen patients and charged them a fee for the dental work you have provided. This is personal exertion income, i.e. If you stop working then the income stops being deposited into your bank account. There is a direct relationship.

Yes, you can insure your income for the period up to and including age 65, or even 70 years of age. This is a necessary strategy to ensure that you can still meet your living expenses in the event that you are unable to work due to illness or injury. But what happens if you don't get sick or injured?

How will your income be generated when you sell your Practice or wish to stop work?

The simple answer is to ensure that you implement a strategy of setting aside (and investing wisely) an allocation of your strong cash flow to accumulate an asset base. This does not happen by accident and you need to ensure that you resist the theory of the '*wealth effect*'.

The accumulation of an asset base will not provide you with the same instant gratification that a new car or holiday provides. It is boring, but I can assure you that you will appreciate and enjoy the rewards that go with a planned wealth accumulation strategy.

Obviously, the optimal position is to be Asset rich and Income rich!

Otherwise, my preference would be asset rich and income poor. Why? You can always sell an asset to produce an income but you cannot turn income into a substantial asset over a short period of time.

The challenge I put to you, is to resist what can be a false sense of financial

security when you have strong cash flow. Critically analyse your personal financial balance sheet and be honest with yourself as to whether it is on track for you to be financially independent. We are offering obligation free consultations to assist you to identify strategies to achieve your goals and objectives. If you cannot answer the question, why not contact our office to arrange an appointment.

Don't be in the position where your peers are retiring and you cannot join them because you need to continue working in order to maintain the lifestyle you wish to lead.

**About Profile Financial Services**

Profile is an independently-owned boutique financial planning firm with offices in the Sydney CBD and North Parramatta. We have operated for over 20 years, and specialise in serving the wealth creation and protection needs of professionals and small business owners. Many of our clients are dentists, and we run regular education seminars on financial planning specifically for dentists. To find out about upcoming seminars, or to book an obligation-free meeting with a Profile planner, call Aine Love on 02 9683 6422 or email [aine@profileservices.com.au](mailto:aine@profileservices.com.au)

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