

How shrewd real estate investment can help in retirement planning

by Dr. Paul Hanks

Aged 40 to 60 years old? Then the next 5 to 20 years will be critical. In retirement, you'll need 80 percent of your pre-retirement income – more if you want to travel – but that's just the first year. In each of the following years you'll need even more to compensate for the rate of inflation. Many orthodontists would like to retire early, but the longer the retirement, the more they risk having insufficient retirement income.

Acquiring a portfolio of real estate is a wise strategy in planning for retirement – whether this is total or semi-retirement. Rental properties offer stable income, which increases with inflation, and real estate always has residual value; prices will never fall to zero. Real estate is a hybrid asset, having the capital appreciation of a stock but the income-producing capacity of a bond. This makes real estate investment the ultimate protection from inflation because in this situation, inflation works for you, not against you, pushing the value of your asset upwards as well as your rental income.

Strategic planning

Remember, the portfolio has to be balanced and income-producing. This is where you need to work with an expert. Forming a strategic plan is the most important part of any decision-making process. Consider orthodontics. What would you say is the most important appointment? I would say the treatment planning stage. Get this right and treatment follows smoothly. Get it wrong... well, let's just say stress! Real estate is exactly the same. Get the planning stage wrong, and you will lose not only sleep, but all money – and that is what we are trying to prevent.

Orthodontists share common roadblocks as to why they don't invest in real estate – insufficient time and lack of knowledge being two of the most commonly cited ones.

The following are some issues to consider when looking into real estate investments.

Appreciation

Carefully analyzed real estate investments will usually increase in value over time. By buying property in the right location, the investor can rest assured that the



value of their investment will always increase over the long run.

Leverage

By applying the concept of leverage (i.e., borrowing most of the funds necessary as a loan against real estate to buy other real estate or business assets), an investor will have greater purchasing power, which gives them the ability to acquire a number of investments, resulting in larger returns.

Income

Renting real estate creates cash flow. The tenants pay the rent, which you can apply to the mortgage. They can literally buy all or most of the property for the investor.

Tax advantages

The investor can deduct, as an expense, all of the interest, property

taxes, insurance, repairs and depreciation of their property. The rules of depreciation bear no relationship to the market value of the real estate; the property can be appreciating in value while the investor is depreciating the real estate asset on their tax return. This non-cash expense can reduce current taxable income without reducing actual income. Real estate is the only investment that the IRS allows you to show a depreciable loss when you have, in fact, made a profit.

Tax-deferred exchanging

This allows an investor in real estate to sell and purchase other investment property without current tax liability and create for the investor substantial additional wealth.

Concerns

Many orthodontists I recently talked to raised such concerns as:

- Was this the best time to invest since real estate was going through a down-turn?
- What about the problems in the mortgage sector?

My advice is to stop thinking about these issues for a moment. An asset is a great asset regardless of these two issues. That is the nature of a great asset. As I said before, the planning is the most important stage – select the right asset and you have no worries. The right asset ticks all the boxes – appreciates, no maintenance, good tenants, cash flowing, etc.

Use a professional company structured for the needs of clinicians

Do you invest on your own or do you use a professional? I pay a gardener to maintain my garden. Yes, I can do it and I like gardening. But he is experienced –

spending all his time working in gardens – and what I pay him, I can earn more as an orthodontist. Additionally, I get to enjoy all his hard work. The same is true for real estate. Why do it yourself when you can have a professional do it for you and you enjoy the benefits?

Many clinicians want to have a real estate investment portfolio, and regardless of knowledge level, just do not want to spend their family time analyzing markets, sourcing real estate, inspecting the properties, negotiating loans to get the best rates and contracts that protect you, finding tenants, or managing the tenants and properties.

It does not stop there. Once you have a portfolio, you need to continually manage the assets from the point of view of do I sell? What about 1031 tax-deferred exchanges? Buy more real estate?

Summary

By applying the above concepts, an orthodontist can invest in real estate and get the cash flow of bonds, the appreciation they could

see in a successful year in stocks, along with the ability to have someone else pay for the majority of the investment. Additionally, you can declare a loss on your taxes even though the real estate is making money. This makes real estate the most prudent investment today for orthodontists. **OT**

If you have any questions or comments that may be helpful to colleagues, please e-mail them to the author at phanks@us-pds.com. These will be published in future articles.



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OT About the author



Dr. Paul Hanks, president of Portfolio Development Services, began his professional career as an orthodontist. His knowledge and experience in with real estate was utilized on an increasing scale by colleagues. He became a real estate professional and California real estate broker, offering clinicians a trustworthy and safe way to invest in real estate.

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