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Confessions Of A Stock Market Bull – Part 2

(Continued From The Last Issue)

Why I Don't Sell The Core Holding That Looks Overvalued: If I believe the price is at a temporary peak and could fall (even substantially), as long as I believe the future prospects for the company are sufficiently attractive, I don't sell. I realize my opinion is a minority view. Most investors would take their profit and run. Here are my reasons for ignoring short-term fluctuations for those core holdings with unusual prospects:

- **The Odds Favor Holding Vs. Trying To Sell And Buy Back At A Lower Price** -- Companies that are truly great investments and have become core holdings are rare. Once found, they have a high probability of remaining outstanding long-term investments -- meaning ones that in coming years will likely be worth many times their current temporary peaks. But, it is notoriously difficult to predict what the market (and more so what a particular stock) will do in the short term. If the odds of predicting short-term drops are pretty low, yet the odds of predicting the long-term success of these good stocks are pretty high, why should I step out of an investment I want to hold for the long term? That is especially so if the stock has had a big gain and is held in a taxable account.

- **Stock Market Down-Drafts Do Not Erase A Stock's Intrinsic Value** -- When considering these unusual companies in good businesses with good managements and fine prospects, history shows many examples where the stocks have subsequent prices many times their previous peaks. If the truly unusual stock might rise many hundreds of percent over a previous peak, how crucial is it for the long term investor that in a bear market the price may temporarily fall 10, 20, 30, even 40% before it resumes its rise?

- **Successful Market Timing To Avoid A Market Decline Is So Hard To Do Because It Requires Doing TWO Things Right** -- It's not enough to correctly predict that a stock you own will fall. If it's a long term holding (the kind I'm considering here), you also have to buy it back before it rises above your sell price. Very few people can show success at doing both right on a consistent basis. The few instances I have seen of people selling and successfully buying back at a lower price, I suspect, are dwarfed by the cases of investors who did not buy back at all or did so at higher prices than they sold for. I believe the majority stand to lose far more in long-term profits than they stand to make by selling in hope of avoiding a short-term drop. When it comes

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to these core holdings, I have found patience to be a profitable virtue as long as the fundamentals about the companies haven't changed.

There Is No One Single Best Way To Invest In Stocks: Happily, there are lots of sensible ways. Some people like the "buy-low/sell high" approach. Some prefer "buy-and-hold." My preference is to find a company in a good business, with great management, with a stock price that is not already too high and then "buy-and-add." Occasionally we, as investors, invest in such a company. How do we react? I've noticed that many people, once they realize what a great investment they have, are pleased with the results, leave the stock in their portfolio to multiply, and then go off searching hither and yon for their next great investment. Since a good stock like that can remain a good stock for many years and grow many hundreds of percent, these investors would have been better off taking part of their new investment funds and periodically adding to their position in that company they are already fond of and have grown to understand. I call that my "buy-and-add" strategy. I have found that doing this with my core stocks has given me the best place to invest [i.e., companies that are proven successes, that I have owned for a long time, that I have (hopefully) gotten to understand, and that I'm comfortable owning].

A wonderful by-product of the buy-and-add approach is that by adding to the fast growing investments, these core holdings can get to be a large percentage of a portfolio. Mindful of the risks that can create, depending on one's risk tolerance, time horizon, etc., a day is reached when it could be sensible to sell off some of a too-big concentration, or at least stop adding to it.

These Are The Core Long-Term Holdings In Our Family's Portfolios – Each Of Which I Would Be Pleased To Buy More Of When Their Prices Are At Attractive Levels: For comparison, as this is written on September 25, the S&P 500 is up 9.2% this year (and has a dividend yield of 2.4%):

Apple (AAPL) – Integrated system of cell phones, computer hardware and software services *(Up 31.1% this year + a dividend yield of 1.3%)*

Berkshire Hathaway (BRK.B) – Insurance and diversified business holding company *(Up 10.1% this year and no dividend)*

CoStar Group (CSGP) – Provider of information, analytics and marketing services to commercial real estate industry *(Up 41.9% this year and no dividend)*

Costco (COST) – Warehouse club with low prices on a broad range of merchandise *(Up 25.7% this year + a dividend yield of 1%)*

Henry Schein (HSIC) – Dental, medical and veterinary supplies, equipment and other services *(Up 20.2% this year and no dividend)*

Johnson & Johnson (JNJ) – Pharmaceuticals, medical devices, personal care products *(Flat this year + a dividend yield of 2.6%)*

MasterCard (MA) – Credit card network provider *(Up 46.5% this year + a dividend yield of 0.5%)*

Monmouth Realty (MNR) – REIT focused on net-leased single tenant industrial buildings *(Down 7.3% this year + a dividend yield of 4.1%)*

Visa (V) – Credit card network provider *(Up 31.4% this year + a dividend yield of 0.6%)*

While I have described each of these stocks at recent Investment Seminars, I am not suggesting that they are right for any particular reader of this Newsletter – or are even sensible at their current prices. The problem is that buying opportunities tend to come along during some time of negative sentiment or patch of unpleasantness. While I periodically list companies I like, I rarely make specific recommendations in the Newsletter about when these companies look like attractive purchases. How I value companies is easy to understand but takes a couple of hours of working with examples at our **2-day Investment Seminars** and that is beyond the space of the Newsletter. Just giving prices without background is not sensible. If you want to learn more about investing from someone who is not selling investments (just teaching), plan on attending one of these seminars. They are

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great learning experiences. The next ones are in **New York (Nov. 30-Dec. 1)** and **Chicago (Dec. 7-8)**. Each of the Investment Seminars is preceded the day before by our **1-day Practice Transition Seminar**. If interested in either (or both) seminars, simply call our office or visit our website for information.

Concluding Comments: The doctors I have seen retire wealthy have tended to handle their own investments in a sane and simple manner and spent a little time learning how. Investing does not have to be complicated. Like all the other things you have become adept at, it is a process of learning and refining your skills and gaining confidence. Sane and simple investing has worked well and should continue to over the long term. Only invest in investments you understand and are comfortable with. Fewer mistakes are made that way.

Alternatives To Group Health Insurance For 2019: Roughly 50% of dental and specialty practices continue to offer traditional group health insurance which is not so surprising considering that premiums keep rising by double digits. Here are some alternatives to consider as we approach the 2019 policy year:

Qualified Small Employer Health Reimbursement Arrangements ("QSEHRAs") For Practices That Do Not Offer Group Health Insurance: We've been big proponents of this health care reimbursement plan which became effective in 2017 and which we have adopted in our own practice. As the name implies, the QSEHRA is a program set up by the employer under a simple and short plan document to reimburse full-time employees for their out-of-pocket health care costs. We implemented this plan to be a replacement for the group plan that we had dropped. (One of the requirements for a QSEHRA is that the employer cannot offer a group plan). Our staff members who had been part of the group plan purchased Obamacare-compliant individual (i.e., not group) health insurance coverage. They did not do this "on-exchange" through www.healthcare.gov, because they are not eligible for premium subsidies. They bought better insurance "off-exchange" with the help of an insurance agent.

Since these staff members are now on their own for their insurance, we set up the QSEHRA to reimburse these specific employees for this new specific cost. The issue was that the tax laws permit **all** full-time employees who've completed a mere 90 hours of work and who are at least age 25 to participate in the plan – and we only wanted to provide this new benefit to the handful of employees who were losing their group insurance coverage. And, the tax laws permit practically any conceivable health care expense to be reimbursed, which is also not something we were interested in doing. Therefore, we drafted the QSEHRA plan document to only reimburse the eligible employees for their personally paid individual health insurance premiums. Our plan does not permit reimbursements for anything else. If a staff member participates in her husband's group insurance plan at his job, then she would not be eligible to participate in the QSEHRA since she has group insurance, not an individual policy. This works in our practice, because the only employees who now have individual insurance are the ones who used to be in our group plan.

If this is something you might be interested in, we can prepare the QSEHRA document for you. This typically involves a thirty minute phone call to discuss the specifics, followed by the document preparation.

Short-Term Health Insurance: Big changes are taking place in the individual market. Even though Obamacare wasn't officially repealed, these changes dramatically reduce its relevance. Short-term plans, which used to mean stop-gap insurance plans that could only last up to 3 months can now extend for an entire year. Unlike with Obamacare-compliant individual plans, these are medically underwritten so you'll have to be in decent health to qualify. Short-term plans are not required to provide all of Obamacare's "essential health benefits" so they will be less comprehensive. This should be fine for someone who views health insurance as intended to cover expensive catastrophic care not necessarily more routine procedures that can be covered out-of-pocket. **It will be far less costly - especially for younger people**.

The insurance companies are just now determining their premium prices for next year, and should start publishing them in the next few

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weeks. If you are older (say in your 60s and waiting for Medicare to kick in) expect to see monthly premiums of **well less** than $1,000 per month. If you are in your 20s or 30s, you may find coverage for $200 per month or less.

And, if your health deteriorates during the 12-month coverage period and the carrier does not renew your coverage, you will always be eligible for an Obamacare-compliant policy in the following year. The short-term plan should be purchased on a calendar year basis. If you can't renew it, you can still sign up for an Obamacare plan on the next January 1st with no gap in coverage. This is called "on-cycle." If your short-term plan ends "off-cycle" (say June 30th) and you cannot renew it, then you'd risk being without coverage for six months, until the next open enrollment period for Obamacare plans.

Association Health Plans: The other big change deals with group insurance. Small employers can now participate in association health plans that are sponsored by local chambers of commerce or professional associations. These, too, will be less expensive than the Obamacare-compliant group policies, as the coverage won't have to be as comprehensive. These plans are beginning to be rolled out. Check with your state or local professional association or chamber of commerce to see if they will offer an AHP in 2019.

A "Cost-Plus" System For Credit Card Processing Is Superior To The Card Processor That Is Integrated With Practice Management Software: A Newsletter subscriber and friend asked whether we still like cost-plus credit card processing. Cost-plus means that we, as the merchant, pay the interchange rate, which is the payment to Visa, MC, etc. for the use of their network, plus a small markup for the processing company. The system is not 100% transparent, but it is far more transparent than a traditional arrangement where the processor basically charges whatever fee it wants. Our friend said that his effective rate with his current cost-plus provider is 1.8% whereas it would be 2.6% if he switched to the processor integrated into his practice software.

Are the savings of $5,000+ worth foregoing the convenience of using the integrated processor? They would be to us! Your practice is not a high volume business like McDonalds processing hundreds of transactions per day. You may have 200 transactions per month, which is only 10 per day. The incremental time your staff saves is negligible – which is the opposite of what the PMS marketing literature will likely tell you.

Students Can Claim The Education Credits If Their Parents Do Not Claim Them As Dependents: These are the American Opportunity Credit based on the cost of the first four years of college and the Lifetime Learning Credit for the following years of college and graduate school. Only the person who claims the student as a dependent can take the credit - even if the child's or a grandparent's money pays the costs. The corollary to that is that if the parent who is eligible to claim the student as a dependent does not do so, then the student can take the credit - even if it was the parent who paid the costs.

The American Opportunity Credit is a maximum $2,500 - 100% of the first $2,000 of costs and 25% of the next $2,000. The child will need taxable income and owe tax to be able to claim the full credit. But, even if the child owes no tax, 40% of the credit is refundable, so the student may receive $1,000 as a "tax refund." The Lifetime Learning Credit is $2,000 per year and is available for all years of college and graduate school. It cannot be claimed for the same student in the same year that the American Opportunity Credit is claimed, and it is not refundable.

Are You Wasting Money On Supplies? For example, in dentistry, we typically see general practitioners and orthodontists spending about 5-10% of revenues on dental supplies. Pediatric dentists tend to be near the lower end of that range and endodontists, oral surgeons and periodontists tend to spend near the top or above that range. If you find you are spending appreciably above those estimates, check with whomever is responsible for doing your ordering. It's possible you are buying supplies you don't end up using. This came up recently with a client whose practice we were valuing. He was stunned to realize how many obsolete supplies he had around the office.

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