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The "Growth Trap" for Stock Investors: In general, stocks are excellent **long-term** investments. However, this does not mean that **all** stocks will be good investments. Even companies with histories of rising earnings which have great growth prospects may still be lousy investments. How? Because their current prices may be too high. High purchase prices can lead to disappointing investment performance. On the other hand, the less exciting, but steady, companies often out-perform the high flyers, because their purchase prices are more reasonable. This is known as the "growth trap."

In a classic example of the growth trap, Wharton business school professor Jeremy Siegel compared IBM and Exxon Mobil over a lengthy measuring period -- 1950-2003. From a business operations standpoint, the growth stock, IBM, outperformed the value stock, Exxon. IBM had better annual sales growth (12.2% vs. 8%) and better earnings per share growth (10.9% vs. 7.5%). Yet, investors had better long-term stock returns in Exxon (14.4% per year) than in IBM (13.8% per year)! Both were good investments, but investors' expectations were simply too high for the tech company.

Price has to be looked at in the context of value, measured by price-to-earnings (P/E) ratios. When we look at the high P/E ratios of some technology and biotech companies these days, we remind ourselves of the growth trap. These are wonderful businesses with great products and services, but if we pay too much, they can still be lousy investments!

In Response to Recent Inquiries from Newsletter Subscribers and Seminar Attendees, the Following are Some Stocks We Have Recently Added to Our Own Family's Portfolio: [*EDITOR'S NOTE: What follows is not meant as investment advice for any individual. Each reader must do independent research and consider his or her own situation and act accordingly. Your broker can order company annual reports, as well as Value Line, Morningstar or Standard & Poors reports on each company for you to begin your research.*]

American Airlines (Ticker: AAL) - Major domestic airline.

Berkshire Hathaway (Ticker: BRK.B) - The holding company run by Warren Buffet and Charles Munger with a diversified portfolio of insurance, energy and manufacturing businesses.

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Boeing (Ticker: BA) - Commercial aircraft and defense manufacturer.

Diageo (Ticker: DEO) - British company that is the world's largest producer of alcoholic drinks (brands include Johnnie Walker, Crown Royal, Smirnoff, Tanqueray, Guinness, among many others).

ExxonMobil (Ticker: XOM) - Largest worldwide oil company whose stock price has been battered with the drop in oil prices.

Monmouth Real Estate Investment Corp. (Ticker: MNR) - A real estate investment trust concentrating on long-term leases of industrial properties to high quality tenants and paying a very consistent dividend.

Of Course A Key Question Is: At What Price Would We Buy? While we have shared the names of companies we own and occasionally have mentioned when we think fire sale prices are available, we have never written about our method of calculating the prices we find attractive for them. How we value companies for this purpose is easy to understand, but takes a couple of hours to work through examples at our 2-day Investment Seminars. Just giving prices without that background is not sensible. If you are interested in learning more about investing, plan on attending one of these seminars. They are great learning experiences (and profitable). The next ones are at **NEW YORK CITY, Dec. 4-5, and CHICAGO, Dec. 11-12.** Both seminars are preceded the day before by our 1-day Practice Transition Seminar. If interested in either (or both) seminars, simply visit our website or call our office for information.

Multi-Specialty Group Practices Require a LOT of Thought Before Setting Up, and We Question the Ultimate Benefits Compared to Remaining Independent: If you are contemplating a multi-specialty, multi-owner practice, the management will be complicated. You will need not only a set of well thought out documents, but the doctors must have a good understanding of how things will work. The issues are complex, because each general dentist and each specialist will incur different expenses, use different employees and equipment, and will have different levels of profitability. If the documentation does not adequately deal with the potentialities, the relationship will break down because one or more of the doctors will feel that they are not being adequately paid and are carrying the others.

There are different ways to structure this arrangement, and we don't mean to imply that what follows is the only way to do this -- or that the way you may be doing it is somehow wrong.

However, the structure that we have seen work involves "the practice" being owned by a limited liability company (LLC). This LLC will contract with the patients, will do the billings and collections, will be the tenant on the lease, will own commonly used equipment and employ commonly shared employees. The more general in nature an expense, the more likely it will be covered under this LLC.

The LLC itself will be owned by the doctors. Each doctor, whether a general practitioner or a specialist, will create his or her own business entity, such as a professional corporation (S corp), to purchase their ownership interest in the LLC. The value of that ownership interest will be a pro rata share of the LLC's assets, both tangible and intangible. It will include some intangible (goodwill) value, because the doctor will derive some business value from the shared enterprise. The value will be relatively small, however, because each doctor will essentially be building their own practice through their own efforts.

These separate S corporations add flexibility. They will employ the doctor and those employees that are specific to that specialty. If a specialist wants to hire an associate, it would be done through their own entity without affecting the rest of the group. These S corporations will buy the specialty equipment and supplies that each specialist will use and that the rest of the

group has little use for. The more specialized the expense, the more likely it is to be handled through the independent S corporations.

This structure will also facilitate a doctor's transition out of the practice. Each doctor will find his or her own successor. The incoming doctor can form their own S corporation to purchase the exiting doctor's LLC interest.

Another key issue is owner compensation. It won't be fair to simply give each doctor, say 35%, of their practice's collections and then divide the remaining profit according to percentage ownership. A compensation as simple as this is doomed to fail. A GP runs overhead of typically 65%. An oral surgeon may have 65% profitability and 35% overhead. It will only take last a few months before the low overhead doctors notice that they aren't earning enough. To be fair, each doctor will need compensation roughly equal to their specialty's normal profit percentage, and if there is practice profit left over after paying these salaries and the rest of the overhead, only then would it be allocated based on ownership.

Also consider that once a specialist joins a multi-specialty practice, it can limit their ability to get outside referrals. GPs won't refer as often for fear that they will lose their patients to the GPs in the group. The same will hold for the other specialists. Is this worth it? We're not so sure. We have seen it work in a couple very large groups. More often, we have found the owners questioned their decision to form the group. You may do better financially with the traditional independent practice model.

We are seeing more examples of doctors thinking about forming these multi-specialty practices primarily because of guaranteed referrals and the expectation of reduced overhead. If you have done so, we'd very much welcome hearing from you and learning of your experiences, both positive and negative.

Lease Assignments and Releases: When signing a new lease or renewing an old one, pay attention to the assignment language. Should you happen to sell your practice during the term of the lease, you want two things - the right to assign the lease to your buyer **and** the right to be released from your obligations. The typical assignment language will give you the right to assign or sublease the office space so long as you receive the landlord's consent. But, even if you get the landlord's consent, you will still be liable for the rent payments if the new tenant cannot pay.

Request that the assignment language permit you to assign the lease to anyone who buys your practice (without the need for landlord consent), and that you are **released** from all obligations after the assignment. Landlords prefer not to release the original tenant so that they can have recourse against two people. However, if the practice buyer can qualify for a loan to buy the practice, whether from a traditional bank or from the "bank of Dr. Seller", then by definition, the buyer should have good enough credit to satisfy the landlord without you also having to remain on the lease. If the landlord resists, which may be more likely with a corporate landlord, you should certainly be able to limit any remaining obligations.

The Law Permitting An Up-To $100,000 Donation From an IRA Directly to a Charity Will Likely Be Extended Into 2015: Section 408(d)(8) of the tax laws permits people age 70-1/2 to make an up-to-$100,000 contribution from their IRA **directly** to a charity. This is referred to as a "qualified charitable distribution" or QCD. Without the QCD, we would take our required minimum distribution from our IRA, make the charitable donation and claim a tax deduction. The advantage of giving the money directly to the charity is that the QCD is excluded from our income and won't raise our AGI. A higher AGI hurts because it reduces our itemized deductions and personal exemptions, subjects more of our Social Security benefits to tax and raises our Medicare premiums.

This is one of those tax provisions that only lasts for a year or two and then expires. Each time it expires, Congress and the President

have to re-authorize it. It expired last year and has not officially been renewed for 2015, though we expect it to happen eventually. In the meantime, if you are charitably inclined, you can go ahead and make the distribution directly to the charity. If the QCD rule is reinstated for 2015, then you are home free. If it isn't reinstated, then the worst that happens is that you will treat the contribution as income and then claim it as an itemized deduction.

No More HSA Contributions Once You Enroll in Medicare: The HSA remains in existence, but it cannot receive **new** contributions. We've been asked whether this also means that we can't make a **non-deductible contribution** to the HSA. That's good thinking, because even a non-deductible contribution to an HSA would be worth making for the tax-deferred growth and tax-free withdrawals. However, no contributions, deductible or not, can be made at that point.

If you delay your Medicare enrollment past age 65 you **may** be able to keep funding your HSA. If you're covered under a **small** employer plan with less than 20 employees, then your insurance will be secondary to Medicare. You will enroll in Medicare to maintain adequate insurance, but this will mean no more HSA contributions. If you're covered under a **larger** employer's plan (more than 20 employees), then the group insurance is primary and you need not enroll in Medicare. Now you can keep funding the HSA past age 65. (Be sure to confirm with your own insurance company that these rules will also apply in **your** situation).

The one exception to that rule is that if you've begun collecting Social Security benefits you will be required to enroll in **Medicare Part A** at age 65 -- even if you stay on your large employer's group plan and decline Medicare Part B. In this case, you will be deemed to have enrolled in Medicare and can no longer make an HSA contribution.

Inheriting an HSA: The decedent's account passes to the person (or people) who are named as the beneficiaries. If the beneficiary is a surviving spouse, then the spouse treats the account as his or her HSA and can make tax-free withdrawals to pay for health expenses. The spouse does not need to have a high deductible health insurance plan to inherit an HSA.

If someone other than a spouse inherits the HSA, then the HSA will be closed and the beneficiary will pay income tax on the money they receive, which will be a nice problem for them. Also, a non-spouse beneficiary has one year following the decedent's death to take tax-free withdrawals to cover the decedent's final health care expenses.

Roth IRA Conversions Do Not Require You to Have Earned Income: In order to make a **contribution** to a traditional or Roth IRA, you need earned (i.e., W-2 type) income. You do not have to have earned income to make a Roth IRA **conversion**, and there is no age limit for making a Roth conversion. This can be useful to a retiree looking to diversify some of his retirement assets into a Roth IRA. It will trigger an income tax in the year of conversion, but if the Roth account is in existence for at least five years, future distributions will be entirely tax-free.

Only "Earned Income" Will Adversely Impact Your Social Security Benefits When You Claim Prior to Your Normal Retirement Age: If you're considering claiming Social Security benefits **prior to your normal retirement age (NRA)**, then you have to pay attention to the "earnings test." If you earn more than $15,700 in 2015, you will forfeit $1 in benefits for every $2 that you earn over that amount. Only earned income is taken into account. Income from inheritances, investment income and distributions from retirement accounts do not.

If you were born between 1943-1954, your NRA is 66. If you were born between 1954 and 1959, your NRA is age 66 plus a few additional months, and if you were born in 1960 or later, your NRA is 67.