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Wealth management 101

Younger physicians face critical decisions about spending, saving

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Physicians in their first 12 years of practice face financial decisions that may differ markedly from the challenges facing their longer-term colleagues. School debt, young children, and lifestyle choices (e.g., homes, travel, recreation) all place pressure on a younger physician's earning and saving power. Fortunately, the medical profession offers an excellent earning opportunity that, over the long term, should allow for debt reduction, a comfortable lifestyle, and sufficient retirement savings.

The challenge for many new physicians is in understanding how best to allocate their financial resources among the many options available. This means choosing an appropriate course that balances risk, cost, time horizon, desired outcomes, saving enough vs. creating a financial legacy, and personal economic style. This article does not address specifics of financial planning, but rather provides a way for physicians, especially those in their early years of practice, to think about how to manage their financial life.

Choosing what role to play

The following exercise will help you consider how to start, review, or adjust your financial decision-making process—and how to avoid having to transition through several less-than-successful financial relationships in the future.

• **Think of yourself as a CEO.** While you may still feel fresh to the profession, the sizable financial compensation within the medical profession will place you among the wealthiest Americans, perhaps with an estate that will be in the multimillion-dollar range. View this opportunity as if you are the CEO of a small company for which the long-term growth prospects are excellent.

As CEO of your "company," you must answer questions today that will optimize your financial opportunities ahead. For example, do you want to be actively involved in the purchase and management of investment real estate, individual stock selection, or bundled investments such as exchange traded funds and other bundled products? Do you want to fund college education for your kids fully, partially, or not at all? What type of estate planning decisions match your current financial situation while having the flexibility to change as you move forward?

• **Decide whether you want to operate as both CEO and CFO of your "company."** While you may feel confident in your current ability to develop your own sound financial strategy, if you choose to be in charge of your own finances you must become conversant in multiple disciplines that are more than likely outside your area of expertise. These will include tax law, asset diversification, debt management, estate planning, protection planning, and investing. Also, keep in mind that financial acumen and day-to-day execution are separate issues. While you may understand what you need to do, if you do not execute on a continuing basis you will not be able to optimize your financial opportunities.

If you choose to delegate some of your financial decisions, consider hiring a financial adviser to act as your CFO. You must be willing to relegate some control, which can be challenging, but the CFO can be crucial in keeping your financial planning on track.

Choosing the right adviser

If you do decide that it's time to use a financial adviser, you'll need to spend a significant amount of time exploring your options and defining your long-term financial goals. Ask yourself what level of risk you want to take with your investments, where you want to be financially when you retire, and how much control over your assets you will allocate to your adviser. Then conduct research to find an adviser whose investment philosophy properly aligns with yours. The time you invest in this initial search will pay off tremendously in the long run.

Though there is no simple solution to the process of identifying qualified advisers, there are some ways to ease the complexity. Discount broker Charles Schwab and Company has created a program called Adviser Network, which has identified a select group of advisers that work on a fee basis (based on the percentage of assets managed). This network was developed for clients who want to delegate the management of their assets but do not want to use a commissioned broker. Such models eliminate many of the potential conflict areas, such as disclosures of conflicts of interest. Coupled with the due diligence Schwab has exercised to select these firms, this type of model can help you simplify your search for the right adviser, or at least give you a place to start.

A caveat: In choosing a financial adviser, be cautious if the adviser leads with a particular product, such as insurance or investments. Beware of a financial adviser who operates in more of a sales mode than as a true adviser. Seek a nationally registered investment adviser that does not receive income off commissions but is paid to manage assets for a fee or based on a percent of assets.

General guidelines for financial management

As a younger physician, getting started now is far and away the most important factor in laying the foundation for a sound financial future. When the time comes to retire, having years of strategic investment management in your portfolio will allow for maximization of compounding growth opportunities. Though every physician's case varies in the particulars, there are general guidelines that should be considered as core:

- Structure a plan that follows the timeline of your career. Do not favor one strategy over another; that is, do not favor insurance vs. investments or debt reduction vs. protection planning. If you will be working for 15 to 30 more years, do not try to eliminate all your debt or save for all of your children's college expenses in the next three years. Balance is the key.
- As your net worth grows, your needs will become more sophisticated. Realize that your plan will have to change over time to match this reality. Asset protection strategies, e.g., through family limited partnerships and isolating vacation properties in separate limited liability companies, is good planning at some point but may not be needed today.
- Do not "chase returns" as your primary objective. By doing so, you will fall victim to the two deadliest sins of financial management: greed and fear.
- Realize that through good management you can achieve long-term objectives of financial flexibility without constantly swinging for the fence.

Getting it right

For new physicians, finding the right approach to financial management is crucial. If your approach involves working with a financial adviser, be sure to start by clearly defining your goals and needs.

Changing advisers requires considerable time and effort, and may preclude you from optimizing your personal financial situation. Making the effort to get the relationship right, from the start, will be far and away the most important financial move you will make.

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