SEVEN STEPS TO FINANCIAL SUCCESS FOR PHYSICIANS

ADAM GROSSMAN, CFA

Dear Physician,

Thank you for your interest in *Seven Steps to Financial Success for Physicians.*

I created this ebook – and founded my firm – for one simple reason: Because I believe that the financial services industry too often makes personal finance seem more complicated than it needs to be. Yes, as a successful professional, your financial life will inevitably have many moving parts. But I also believe that there is a set of universal principles that apply whether you are in your first year of residency, in your first year of retirement or anywhere in between. In the following pages, you will find those principles.

I hope you find this information helpful, and please contact me at any time with questions.

Best regards,

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STEP 1: START FROM THE END

Stephen Covey, author of *The Seven Habits of Highly Effective People,* often stresses the importance of beginning any project with the end in mind.

What does this mean for you, as a physician who wants to ensure a safe and secure financial future for yourself and your family? It means that you should start by sketching out your own vision of your ideal future. For some people this means retiring early, while others are happy to wait until 65 or 70. Some want to move immediately to Florida, while others imagine a more active retirement, including part-time work. Everyone has their own picture of "success" so it is important to get this on paper as your first step.

If you are married, it is also important to ensure that your vision of a successful retirement is in sync with your spouse's. Beyond the obvious reasons, it is important to have your goals aligned because it will be much easier to get where you are going if you are both applying your efforts in the same direction. In particular, if you have the same goals, it will be easier to share in the necessary sacrifices along the way. For example, you may choose to forego a vacation one year in order to make a larger contribution to your 401(k). You will both be happier making this sacrifice if you share an understanding of how those added savings will help you realize your

retirement vision. If, on the other hand, you don't share that understanding, then these kinds of decisions may become more difficult, and as a result, your savings will be more haphazard.

The last step is to attach numbers to your vision. As a physician, you work long hours serving your patients and building your career. The risk, however, is that, because you are so busy, financial planning may become an afterthought. That's why it is important to slow down and take some time to make a plan. Planning for the future can, of course, be difficult because so many things can change over time, including your income, the stock market and the value of your home. No one can predict all this. But, fortunately, *you don't have to*. The English philosopher Carveth Read once wrote that it is better to be "vaguely right than exactly wrong." You should let this philosophy guide your own approach to planning. Just start with a plan that gets you heading in the right general direction, and recognize that it's OK to make adjustments along the way.

STEP 2: SAVE EARLY

"When should I start saving for retirement? Should I wait until I have paid off my student loans?" That's a question I hear frequently, and my answer is always the same: today. Regardless of your financial status, the best time to

start saving is now. While you might worry that it is not worth saving anything if you can only afford to save a small amount, the fact is that any savings is better than none, for three important reasons:

An earlier start gives you more time to reach your goal. Even if you are just putting away 1% per year, those contributions will begin to add up over time. So, as soon as you are earning any money at all, you should start saving, even if you are still in residency or if you are still paying off student loans. Save as much as you can, as early as you can.

Savings is a habit. Just like diet and exercise, saving is a habit. It's not easy, but once you form the habit, it becomes much easier to stick with it. You will quickly get used to living on your remaining income and won't miss the dollars that are going into your retirement account. In fact, not only will you stick with it, but as you begin to see the benefits, in the form of a rising bank balance, you will feel energized to build upon this habit and to increase your savings. Many people who begin saving just 1% of their income soon realize that they can afford to put away 2% – thereby doubling their savings. A good strategy here is to increase your contribution rate every time you get a raise. That way you won't ever see your paycheck go down, but your savings will steadily increase.

The most powerful reason to start early is the concept of "compounding." In simple terms, compounding is money you make on the money you've made. Consider a simple example: Suppose you invested $100 in the stock market, and after one year it appreciated by 10%. It would be worth $110 at the end of that first year. Now, assume the market does the same thing the following year and returns another 10%. At first glance, you might think that your investment would increase by another $10 to $120, but you would be overlooking the $10 you made in the first year. You would gain 10% on both your original $100 *as well as* on the $10 you made in the first year – that's the money you make on the money you've made. So, in the second year you will earn $11, not $10. That is the power of compounding, and that is the most important reason for starting to save today.

STEP 3: SAVE OFTEN

The stock market is nothing if not an unpredictable roller coaster. Over the past twenty years the market has been cut in half twice and doubled three times. What does this mean for your retirement plans? The chart below illustrates the S&P 500 Index of stocks between 1926 and 2015.

The stock market goes "on sale" fairly regularly

S&P 500 Index 1926-2015

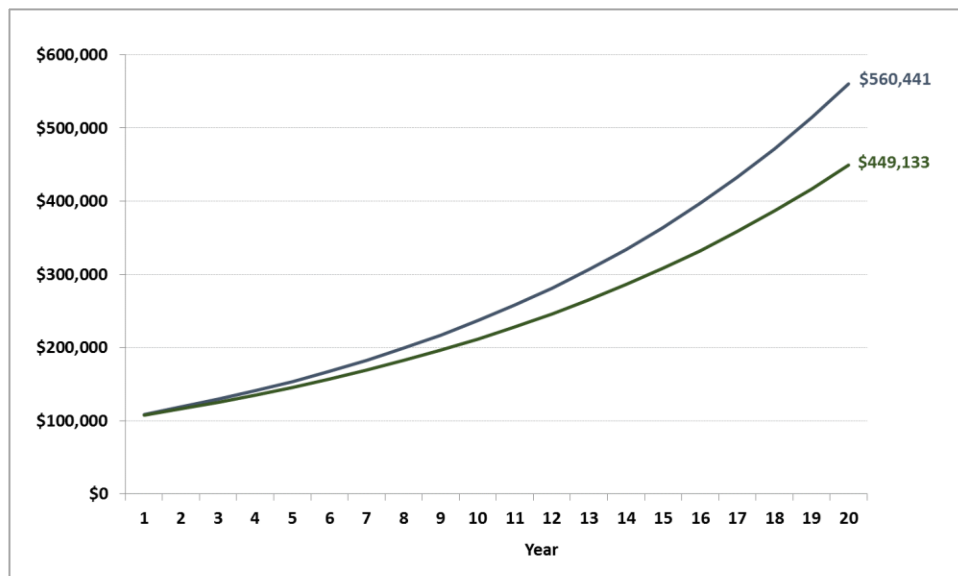
The big moves, including the crashes in 1929, 2000 and 2008, are clearly visible. Look more closely, though, and you will notice lots of little variations. And, sometimes those variations aren't so little. In the middle of 2011, for example, the market dropped 19% before resuming the multi-year upward trend that had begun two years earlier. Following that temporary decline in 2011, the market resumed its upward move. By the end of 2014, the market had risen 87% from its low point in 2011.

The lesson for you: Be sure that you are always saving regularly – ideally, by withholding automatically from every paycheck through your 401(k), 403(b) or Profit Sharing Plan. Why? Because you want to be buyer when the "market goes on sale" as it does, unpredictably, from time to time.

STEP 4: PAY ATTENTION TO FEES

> *Wall Street makes its money on activity; you make your money on inactivity. If everybody in this room trades their portfolio around with every other person, you're all going to end up broke, and the intermediary [the broker] is going to end up with all the money.*
>
> \- Warren Buffett

It's hard to argue with Warren Buffett's success as an investor, and there is a lot of truth to his statement about investment expenses. The chart below illustrates the corrosive impact of seemingly minor differences in fees.



In this example, two accounts start out at $100,000. They are both invested in the stock market, which has historically grown at 10% per year, on

average. Over the next 20 years, both accounts grow very nicely, but as you can see, there is a big difference in ending value. What was the difference? **Just the fees.** The account that got up to $560,000 was paying just 1% per year in fees, while the $449,000 account was paying 2%. That "small" 1% difference in fees would have resulted in a 25% higher standard of living in retirement. So, it is worth spending some time to look at all of the fees that are directly (and indirectly) impacting your investment results.

STEP 5: LOWERING YOUR TAXES IS EASIER THAN YOU MIGHT THINK

Wouldn't we all choose to lower our own taxes if we could? The answer to this question seems obvious, and yet most people don't take advantage of valuable tax benefits that are well known and available to virtually everyone. Below are suggestions to streamline your tax obligations, giving you a good shot at increasing your income in retirement:

Be sure to contribute as much as you can to retirement accounts. Depending upon your work situation, this might be a 401(k), a 403(b) or an IRA. As you probably know, any dollars your contribute to a retirement account are deductible from your current year's income, meaning that those dollars are not taxed. However, those dollars (including any appreciation) *are* taxed

when with you withdraw them in retirement. As a result, at first glance, this might just look like a wash – that is, you are just shifting the tax burden from today into the future. The math behind that conclusion makes sense, but it overlooks two major benefits – one potential and one certain:

The potential benefit: When you are at the peak earning years of your career, it is likely that your tax bracket will also be at its peak. Assuming no changes to the tax laws, most people can reasonably assume that their income, and therefore their tax rate, will be lower in retirement. If that is the case, then you would realize a nice tax savings by deferring income from your peak earnings years until retirement, when it would be taxed at a lower rate. This is not guaranteed because no one knows how tax rates might change in the future, but right now it is not an unreasonable assumption.

The certain benefit: There is another, more subtle but extremely important benefit in contributing to retirement accounts: any income generated by investments in those accounts is not taxed in the year that it is earned. It is only taxed upon withdrawal in retirement. This is important because, historically, dividends have accounted for up to 40% of U.S. stock market returns. So, there is a lot of value in being able to shield that 40% from taxes. It means that, first, your overall tax rate during your working years may be lower. And, it means that you are able to keep more dollars in your account,

compounding for the future. In the end, you can never fully avoid taxes, but there is quite a bit you can do to manage and optimize your tax burden.

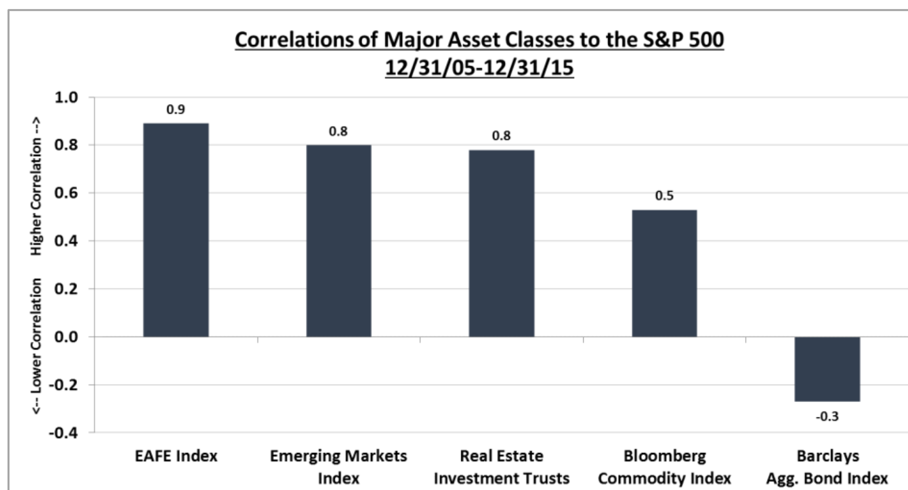
STEP 6: UNDERSTAND THE IMPORTANCE OF ASSET ALLOCATION

Many years ago I met a married couple who had recently sold their small business for more than five million dollars. After many years of hard work and long days, they were looking forward to a comfortable retirement, free from financial worry. But, with the ink barely dry on their deal, worrying is all they were doing. The husband – let's call him James – wanted to put the whole $5 million into stocks. Meanwhile, his wife – let's call her Susan – wanted to put the whole amount into government bonds. And to complicate things, one of their neighbors – let's call him Skippy – told them that they were both wrong. Skippy said the right approach was to put a little bit of money into lots of different things – a little into stocks and bonds, for sure, but also some into gold, real estate, international stocks, international government debt, bank loans, and more.

This question of how to divide up your investments is known as "asset allocation." According to research going back thirty years (Brinson, 1986),

asset allocation is the single most important decision you can make when structuring your investment portfolio.

Within asset allocation, the most important decision you can make is between stocks and bonds, as the chart below illustrates. Wall Street, in its never-ending competitive derby, prefers to focus on the performance of individual funds, but this debate is a relative waste of your time. Yes, it is possible to find investments that will do significantly better than average, but the data are clear that this is very hard to accomplish because past performance is not a guarantee of future results. Yesterday's winner is unlikely to be tomorrow's winner. As a result, you are far better off controlling what is within your control, and that is your asset allocation.



STEP 7: KEEP IT SIMPLE

"Risk" is a topic that gets a lot of discussion during conversations about investments. The reality, though, is that risk is multi-faceted and goes far beyond the simple risk of losing money on an investment. In fact, there are so many different risks out there that it would be impossible to even conceive of, let alone protect yourself against, them all.

Just because you can't protect yourself against all potential risk does not mean, however, that you should not protect yourself as best you can. As a starting point, I recommend these three steps:

Buy plenty of insurance. Health, auto and homeowners insurance are the basics. Beyond that, you should also be sure also have sufficient life and disability insurance. And, importantly, you should have umbrella insurance that dovetails with your other coverages, providing seamless coverage, in the event of an accident, that stretches into the millions.

Be sure you have a comprehensive and up-to-date estate plan in place at all times.

There is no one standard estate plan; plans can have many different components. A will is obviously mandatory. You should also have a health care proxy in place, should you become incapacitated. Depending upon your

circumstances, a trust or trusts may be appropriate. Depending upon your age and family situation, you should also think about long-term care.

If you employ help with your finances, trust, but verify. In my experience, the most serious risk to high net worth families' financial security comes from theft, fraud and the like. Ordinary investment losses, in my opinion, can only do so much damage; financial crime can result in irreparable damage. Consider the case of Peter S. Willmott, for example. Willmott was the president of Federal Express in the 1980's and has been a respected investor and business leader for decades. Nonetheless, in the 1990's Willmott found himself being defrauded by his personal assistant. Over the course of just five years, in fact, the assistant stole more then $9.5 million from Willmott. How did she do this? By having complete control over Willmott's checkbook. **The lesson:** if you are going to employ someone to help with your finances, it's fine to trust someone, but always verify that the information they are giving you is complete and accurate.

A FINAL STEP ESPECIALLY FOR PHYSICIANS

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so many different risks out there that it would be impossible to protect yourself against, them all. **But, just because you can't protect yourself against all potential risk does not mean that you shouldn't protect yourself as best you can.** As a starting point, I recommend these three steps:

Buy plenty of insurance. Health, malpractice, auto and homeowner's/renter's insurance are the basics. Beyond that, if you have a family, you should have sufficient life insurance. Disability insurance, especially own-occupation insurance for physicians, can be expensive, but it is nonetheless important to carry enough disability coverage until you are effectively self-insured. Finally, as a high-income professional, it is imperative to have umbrella insurance. This should dovetail with your other insurance, providing seamless coverage, in the event of an accident, that stretches into the millions.

Be sure you have a comprehensive and up-to-date estate plan in place at all times. There is no one standard estate plan; plans can have many different components. In my view, a simple will and a health care proxy are the bare minimum during residency. As your income grows, and if you have a family, a trust or trusts may be appropriate.

If you employ help with your finances, trust, but verify. In my experience, the most serious risk to high net worth families' financial security comes from theft, fraud and the like. Ordinary investment losses, in my opinion, can only

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NEXT STEPS

- **Looking to learn more?** Visit Mayport's website to download other ebooks in this series.

- **To discuss how these principles apply to your own portfolio,** you can schedule a call with Mayport principal Adam Grossman.

- **For a complimentary review and analysis of your portfolio,** please get in touch.

ABOUT THE AUTHOR

ADAM M. GROSSMAN, CFA

Adam Grossman is the founder of Mayport Wealth Management. Adam founded Mayport with the goal of providing comprehensive service at a fair price. Specifically, this means that Mayport charges simple, fixed fees, rather than the typical 1%-of-assets fees that most firms charge.

Adam is a graduate of Williams College and holds an MBA from the Sloan School at MIT. He is a Chartered Financial Analyst and a member of the CFA Institute. Adam has several years of experience working with high net worth individual and families to help plan for a safe and secure financial future.

If you would like to discuss your individual needs, please contact Adam at adam.grossman@mayport.com or schedule a call at your convenience.

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