Savings and Investment Strategies: What Surgeons Need to Know

Mark I. Aeder, M.D., F.A.C.S.
Associate Professor of Surgery
University Hospitals Case Medical Center
Cleveland, Ohio

CASE Surgery

Thoughts

- How often do you think about your financial planning?
- During your training, you probably did not have the time or the money to even consider savings and investments.
- You know that financial planning needs to be addressed but it is a time consuming process.
- You have spent years devoted to your education and training and now need to catch up.

Financial Planning and Saving: Where do you Start?

- You need to have a basic understanding of the planning processes and priorities
- You need to understand the vocabulary
- You need to associate yourself with an expert in the investment field who will care for your family as you would surgically care for theirs'

Any important decisions in your life have required discussion, investigation, and careful consideration. Saving and investing for your future is an important decision.

Definition of Risk-Reward

- Risk
  - Exposure to danger, harm or loss; incur the chance of an unfortunate consequence; the possibility of financial loss
- Reward
  - A fair return for good or bad behavior; receive what one deserves

Investment Goals

Short term goals

Funds to be needed in the next 1-3 years

Home – auto, day to day expenses, contingencies

Children – child care, education, daily needs

Medical – if needed, emergency for down time

Discretionary – travel, special projects

This is your basic fund. You have to have enough liquid resources available to meet expenses

Investment Goals

Medium term goals

Planning for the next 3-10 years

- Home – social, life events, home improvements
- Children – education, travel
- Loans – consider the payoff schedule and address the highest interest loans first
- Parents – need for support

These are the resources that you will use as you plan for your family's future.

Investment Goals

Long term goals

Planning 10 or more years ahead

- Lifestyle changes
- Retirement savings
- Loan obligations
- Children – education, support

This is the money that will fund your long term comfort and needs. Contribute to these funds regularly and do not be concerned with the fluctuations in value

Debt

- Many surgeons have over $50,000 in college loans
  - Over 70% of all college grads with debt live paycheck to paycheck – and cannot afford to miss one
  - Over 50% of college grads place their basic living expenses on a charge card
- Medical school loans add significant sums such that many doctors entering residency have over $200,000 in total debt
- This debt paradigm and the need to pay off large loans has changed the way many young professionals are living

Before You Borrow any Money

- Be realistic about the amounts you need to borrow – do you really need this?
  - As a doctor, you will be offered many loan opportunities, even in a tight market
  - Always adjust your personal budget first
  - Negotiate loan costs and terms as possible
- Do not take on insurmountable debt
- A loan at a fixed rate may be preferable to a line of credit

How to Handle Outstanding Debt

- Compare the interest cost of the borrowed money to the anticipated rate of return if invested.
  - If loan rates are high, pay them off first
    - Credit cards, lines of credit
  - If rates are subsidized or low, invest instead
    - Subsidized loans, tax deductible expenses
- Never borrow money to pay for a non-deducible, depreciating asset – such as a car
- Avoid taking out one loan to pay another
- Do not miss any payments – maintain credit rating

Creating Your Financial Plan

- A good financial plan requires three legs for success:
  - Investing advisement
  - Legal input
  - Accounting expertise
- All financial planning is predicated on:
  - Time – how long it will be until you need the money – short, medium and long term goals
  - Risk – different levels depending on goals
  - Goals – where you want to be and when

Initial Steps

- Clear your schedule for private time with your spouse or significant other
- Make a list of your assets and liabilities
- Write out your monthly budget
- Talk about your individual goals, family goals, extended family options, short term needs, long term desires

You cannot do this in one session

Choices for Financial Advisor

- Stock Broker – advisement or discretionary management
- Certified Financial Planner
- Investment Advisor
- Accountant
- Investment Bank
- Insurance Agent

Each has their strengths and weaknesses

Keys to Finding a Financial Advisor – Before Starting

- Develop a list of your initial priorities and goals
  - Spend time developing an outline based on your family size and age
  - Note your extenuating circumstances, i.e. loans
  - Have a complete list of your assets and liabilities
  - Have a top 3 “Concerns that keep me awake at night” list
- Ask others for their recommendations
  - Advisor should have a perspective from your profession.
  - Colleagues, family and friends should have at least a 4-5 year track record with the advisor.

Keys to Finding a Financial Advisor – The Assessment Process

- Conduct an initial phone or personal interview
  - What is the degree of their professionalism? Do they seem to be a “slick salesman?”
  - If they immediately promise outstanding returns and gains, be skeptical
- Do your due diligence on your list of prospects

Keys to Finding a Financial Advisor – The Assessment Process

- What is their personal confidence level?
- What is their philosophy about financial management?
- See if they are passionate about their profession – you are passionate about yours
- Compensation considerations
  - Percentage of portfolio value - <1% - (mutual interest)
  - Annual retainer (capitation)
  - Hourly rate (fee for service)
  - Commission (conflict of interest potential)

Keys to Finding a Financial Advisor – The Final Selection

- Goal oriented – a good financial advisor will keep your personal aims in focus
  - A good advisor will coordinate your investments with your insurance products, your retirement account, your attorney and your accountant
  - Develop a task list to prioritize your changing obligations and new life events
  - Keep in mind the “long haul” philosophy with your advisor to judge their performance

Mistakes Physicians Make – Again and Again

- Lack of due diligence in making decisions
- Emotionally react to information or situation
- Think they know more than the experts
- Think they understand the investment markets
- Need to portray an image of prosperity
  - Spend excess money on some items (car, showcases, etc) that should be saved
- Invest in “get rich quick” ideas

Buying Equities

- Stock ownership is generally rewarded
- Market downturns or corrections have historically rebounded with time
- You cannot always assume a certain rate of return in the market
- If well managed, you can invest your funds with a reasonable chance of financial gain
- The market as a whole loses value about once every 3.5 years which increases to one out of 3 years when accounting for inflation

Equity Investing Do Nots

- Stock pricing depends on multiple factors, many of which are unpredictable. The price is it's value.
- Do not get yourself immersed in a single stock or sector. Stay diversified.
- Do not invest defensively.
  - There is no such thing as a safe stock.
- Do not become subjective about a stock.
- Do not set an unreasonable benchmark.
- Do not try to time the market.
- Do not buy on the way down.
  - As in anything, the momentum is key

Making Money on Stocks

- Adhere to a principle of dollar cost averaging
  - Invest a fixed amount of money each month
- Buy, hold and reinvest the dividends
  - You are cost averaging your dividends into more stock and you will gain equity even if the stock price is flat.
- Rebalance your security portfolio with new funds
  - There are “in favor” and “out of favor” trends.
  - Prevents overweighting in sectors with the potential for troublesome losses and gives you new opportunities for gains

401(k), 403(b)

- Maximize your retirement contributions
  - Currently $15,000. (+ $5000. if age 50)
  - Many employers will match or supplement contribution
- Keep account self directed as much as possible
  - Should fit into the rest of your investment-allocation plan
- If you borrow against your plan, repay the loans
- Don’t necessarily cash it out when you change employers – it may be a good investment

IRA

- Use your IRA retirement investments to compliment your other accounts
  - Use these accounts for tax inefficient investments like mutual funds
- If your IRA contribution is not tax deductible, it will still grow tax deferred
  - Tell your accountant so that the appropriate forms are filed (to avoid double taxation).
- Young surgeons should consider a Roth IRA where all the withdrawals are tax free

Diversification

- As in any aspect of life, balance is important
- A good strategy is a weighted mix of different investment vehicles
- Not every sector is ideal in any given year as there will be cycles
- The key is to have a stake in multiple areas so that you are sheltered against a fall

How to Allocate Your Income

1. Pay off your highest debt load – credit cards and any high interest rate loans
2. Invest in your employer's savings plan – 401k, 403b
3. Invest in a house – it depends on the price and market and how long you will live there
4. Look at other savings or insurance investment options
5. Pay off your low interest loans

Lessons Learned

- It is vital to have a plan to address your finances – short and long term
- Spend time when selecting a financial advisor
- It is important to start saving regularly early in your career
- You need to stay invested and maintained in a diversified portfolio
- You should have priorities and contingencies