TOP 10 MISTAKES DOCTORS MAKE ON THEIR PATH TO FINANCIAL FREEDOM
Top 10 Mistakes Doctors Make on Their Path to Financial Freedom

Introduction

Mistake #1: Not knowing the difference between a broker, a financial planner and an independent investment advisor with fiduciary responsibility

Mistake #2: Not understanding and appreciating compound interest

Mistake #3: Not knowing the rules for IRA Rollovers and Distributions

Mistake #4: Not approaching financial matters in a comprehensive manner, including integrated processes for items such as updating estate planning on a regular basis

Mistake #5: Failing at Retirement

Mistake #6: Focusing on Short-term Investment Performance or the Investment Philosophy Du Jour

Mistake #7: Not proactively managing investment portfolios and income taxes

Mistake #8: Concentrating on what advice “costs” rather than the “worth and value” it affords doctors

Mistake #9: False confidence and then inertia in areas outside one’s expertise

Mistake #10: Waiting to insure your biggest assets and failing to lock in when you are in good health

Bonus Mistake: Not knowing or admitting some of your deepest desires and goals for true personal happiness. Or knowing but fearing it is too late for change.

Conclusion
INTRODUCTION

Maintaining balance and achieving our full potential in all aspects of our lives is not a one-time event, but a lifelong quest. I became an independent advisor to help people make informed, rational decisions and avoid repeating errors in judgement along the way.

We are not all things to all people. In helping clients attain personal and professional fulfillment on their own terms we are most things to some people, the majority of whom are doctors.

In my practice, I’ve worked with doctors for over 30 years. Their intelligence, curiosity, desire for knowledge, compassion, and diagnostic skills are always evident. But I’ve also come to realize that medicine, not finance, is their passion and area of knowledge. They’re well trained in their field of medicine, but in most cases, they haven’t received any formal financial education. Furthermore, their positive traits can sometimes lead to a misplaced confidence, or worse yet, a condition I call “analysis paralysis” in the financial arena.

There are doctors, however, whether from the beginning or through trial-and-error realize this is an area where seeking help is the right diagnosis.

For those doctors we have developed and refined an integrated five-step process to guide them on their personal Path to Financial Freedom while following their passions and making work optional. That requires not only knowing how much you need in order to not outlive your money, but also what you make of your life and what will be done with the remainder of your assets. Ultimately, it is not just about your investable net worth, but who you become and the legacy you leave behind.

The Top 10 Mistakes I have seen in over 30 years of practice are presented here in no particular order along with curative action(s) and / or concept(s). Implementation usually requires more education, additional or changing procedures and most importantly an adviser to provide leadership and discipline to eliminate your greatest threat – human emotions.

These emotions include two of the strongest, and what could be the most harmful, attributes – greed and fear. It has been empirically proven that while greed can be a very strong motivator, the emotion of fear is three times stronger. On the flip side, elation and overconfidence can prove just as harmful. Unfortunately, emotions can lead to uninformed and irrational thinking, actions and results.

Keep in mind, often even minor adjustments to your financial strategy can result in major improvements. In fact, as we discuss possible changes in a first meeting, we often see immediate results of less anxiety and apprehensiveness, which is visible in both body language and demeanor.

The following are scenarios based on actual client interactions and facts. The names, specialties, gender and certain details have been changed for confidentiality, as your trust is a gold standard. These stories form the basis of the Top 10 Mistakes Doctors Make on their Path to Financial Freedom.
Almost every doctor has “a guy”, meaning someone at a brokerage firm, a mutual fund company, an insurance company, a financial planner or an independent investment advisor with a fiduciary responsibility. But many do not really know the difference to their regret.

Meet Gene, a Surgeon. Gene’s partner suggested that he reach out to us for a no-obligation Diagnostic Assessment of his current situation.

We met Gene for his initial consultation. As always, we begin by exploring a series of questions to get to know him and his situation a bit better. One of the questions we posed to Gene: “Do you know the differences between the firm you currently use and our firm?”

He honestly did not. He shared that another colleague had referred him to his current “advisor” (and, yes, this term and similar ones are used almost interchangeably by some to blur the lines) years before, and he really had not asked many questions at all.

It turns out, the differences in Gene’s case were many:

1. Gene’s current “advisor” was a broker, beholden to his employer / broker-dealer who was only required to meet the “suitability standard” when making investment recommendations to Gene. The suitability standard simply requires that investments must fit the client’s investment objectives, time horizon and experience at a single point in time. Gene thought that sounded reasonable until we explored some potential conflicts of interest.
2. His broker’s compensation was based largely on commissions that he would be paid at the time of trades and/or future bonuses, which vary greatly from product to product and among the various types of products. Therefore, he could be incentivized to recommend investments that, while they may have met the suitability standard, could have also earned him substantial commissions.

3. Gene’s broker was not an independent investment advisor, a Registered Investment Advisor (RIA) held to the “fiduciary standard.” This standard, in essence, requires the advisor to put the client’s interest ahead of their own, period. Because we RIAs most often work on a fee-basis, meaning we are paid a fee to manage your portfolio, conflicts of interest regarding product selection, compensation, or disclosing where there may be conflicts which cannot be avoided, are typically removed. Faced with two identical products with different fee structures, RIAs are compelled to recommend the one with the least cost to the client, even if it means less income for their firm and/or themselves.

Once those questions were answered, we began the review of Gene’s portfolio. We found small quantities of individual bonds (fewer than 25), mutual fund purchases below aggregate breakpoint levels and above-average commissions. We also saw annuities with surrender periods.

While there did not appear to be “churning” or excessive trading, when I asked Gene how often he heard from his guy, he realized there was a pattern to the calls. Either enough cash had built up to warrant a new purchase or his broker recommended replacing an investment with a new one (which had its own new commission).

I asked if there were ever discussions as to income tax consequences, charitable funding opportunities, college or retirement savings goals or the like. Gene realized that usually after a little banter about the wife and kids, the conversation was usually product-driven and with a sense of urgency to make a decision.

Gene was intrigued with the fuller range of financial needs that could be addressed for about the same expense he was paying for only investment advice under the suitability standard with his broker. But how could he leave a multi-year relationship?

We advised, one solution could be asking the following questions:

- Are you acting under the fiduciary standard?
- Can you put that in writing?*
- Which licenses and credentials do you have? (Series 6 or 7, Certified Financial Planner (CFP®), Accredited Investment Fiduciary (AIF®))
- Are you a Registered Investment Advisor?
- Can I get a copy of your Form ADV (Securities Exchange Commission SEC) / state regulators form)?
- If you are not acting as a fiduciary, are you willing to fully disclose all conflicts of interest and the amount of compensation by you and your company received from advice and products you have recommended?

Gene’s current advisor was unable to answer these questions to his satisfaction.

He then asked that we make recommendations for his consideration. Our recommendations included our five-step refined process for getting started, and bringing together all the pieces of his financial puzzle - beyond investing. Those pieces could include life and long-term care insurance, estate plans, business succession plans for the medical practice, and more. Regardless of how complex, we present and monitor each financial plan in a way that’s digestible, prioritizing what’s most important and helping clients make educated decisions.

We provided specific action steps, the promise of on-going quarterly reviews and a firm that has his best interests at the heart of the relationship. Using this process, Gene was able to look at his financial life in a way that he hadn’t before.

*Note: Simply working on a fee-basis does not ensure the fiduciary standard is being applied. Asking all the questions noted above will give you the information you need to come to your own conclusion.
MISTAKE #2: Not understanding and appreciating compound interest.

The simple fact is this: the longer your money has to grow, the more it can grow due to compounding interest over time. Yet over the years, I’ve seen this mistake manifested in at least three major errors in judgment:

1. After quite a delay before actually having a paycheck, many young doctors feel entitled to catch up on “spending”. They promise themselves that they will start saving later after they do and buy all the things they “need” and have had to postpone. This is wrongheaded on two levels:
   - It often results in a sustained period of overspending during one’s working years
   - It sets up unachievable expectations for retirement.

2. Many doctors who come out of their medical training with student loans focus entirely on paying them down as quickly as possible. Again they promise themselves that they will start saving later after they pay off their loans and get a good start on buying their first home, etc. This makes common sense in a vacuum, but it denies the laws of mathematics.

3. Many doctors believe they will always make good money, and that they will work as long as they like. Therefore, they delay savings or do not save enough early on. Unfortunately, this is really only a form of denial. The delays cause the goal posts of saving for retirement to constantly move further out into the future. This tragically often results in doctors having to work beyond early or normal retirement age, an age at which many doctors may not be in the best health, or cannot perform all the duties they once did. They may have to change the type of work they perform, which may result in significant changes in income, which then results in a decrease to their years of full retirement. They can experience significant stress in their personal and professional lives.

“Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn’t...pays it.”
- Albert Einstein
And all these circumstances could have been mitigated or eliminated if one understood and utilized compound interest and exercised fiscal-discipline.

Anytime a client starts or revises his or her savings plan, we do our best to forecast what will be needed for fulfillment of all their goals. You cannot know the path without knowing the target. That is why every plan and every person’s savings rate is different. But we will leave that aside for purposes of discussing this Mistake and focus solely on the mathematics.

Case Study: Therefore, let’s examine two hypothetical situations without regard for taxes or goals or other factors. We will only consider savings amount, years of savings and a compound interest rate:

Rangeen, a Pathologist, who got her first paycheck at age 28, began saving in her first year of practice. She saved $1,000 per month with an 8% rate of return for 10 years and then stopped adding money to her savings, but she let her nest egg grow until she was 68 years old.

Unlike Rangeen, Mark, a Radiologist, did not begin saving until age 38. He also saved $1,000 per month at 8%, and he kept saving until his retirement at age 68 or for 30 years.

The results for these two hypothetical doctors were the following at their ages 68:

**Rangeen:** $2,000,648

**Mark:** $1,490,360

Simply put, Mark could not catch up even though he added to his savings for 20 years more than Rangeen. Put another way, if he wanted to have the same account balance at age 68, he would have had to save $1,342 per month or 34% more every month for all 30 years.

Put still another way, if Rangeen had invested the same $1,000 at 8% for each of the 40 years before age 68, she would have an account worth $3,491,008.

When new prospective clients say they haven’t started saving yet, our #1 goal is to “find the money” to do so. This forces them to develop the habit of “paying themselves first” and keeping their expenses and savings within the limits of their incomes throughout their working years.
Let’s start with the rule, as it stands today: Beginning in 2015, only one IRA Rollover is allowed for all IRAs owned by a taxpayer per 12-month period.

How did this rule come into play?

Well, there were many strategies and tactics that IRA owners had been using by leveraging what’s traditionally been allowed for IRA Rollovers. The definition of an IRA Rollover is this:

Owner takes a distribution from one of their IRA’s (includes Traditional, Roth, Non-Deductible, SEP and SIMPLE in the aggregate) payable to the account owner, used by the account owner and returned to that or another IRA within 60 days.

Only one in any 12-month period has always been the rule, which historically for a number of reasons the IRS has applied on an IRA-by-IRA basis. So let’s assume a doctor had two IRA accounts. If he took money from IRA #1 and redeposited it in 60 days back into IRA #1, he could take money from IRA #2 six months later and redeposit it within another 60-day window. This allowed you to have the use of the money as something similar to a 60-day loan with repayment as many times as you had IRAs.

Some taxpayers took this strategy further. As an example: they took a distribution of funds out of one IRA, then within the 60-day window they took money from a second IRA to redeposit the exact amount back into the first, with another distribution from a third to repay the second and before the 180th day the taxpayer redeposited the original amount from personal funds.

This kind of sequential loan strategy was allowed until Bobrow v. Commissioner. Bobrow took the strategy still further but made several mistakes which got the attention of the IRS which determined his transaction was in fact started with the initial rollover and not completed until the money was ultimately redeposited with outside funds in violation of the 60-day rule.

MISTAKE #3: Not knowing the rules for IRA Rollovers and Distributions.
This ruling clarifies that only one IRA Rollover is allowed for all IRAs owned by a taxpayer per 12-month period. Yes, we mentioned this above, but it’s so important, misunderstood, and unknown that it bears repeating.

If a Rollover is made in violation of the rule, income taxes are due on 100% of the Rollover amount. A penalty of 10% for early withdrawal is levied if the taxpayer is not yet 59 ½ years old. Also, a penalty of 6% per year is due on the money that was redeposited for as long as the funds remain in an IRA under the excess contribution rule.

**Case Study:** I have been sharing this recent IRA development with clients since I learned of the ruling in 2015. Understandably, not one of them was aware of it.

One of them mentioned that a colleague who manages his own investments had described using what sounded like the sequential strategy that is no longer allowed in 2015. Of course, he wanted to know if there was a remedy to avoid the taxes and penalties. I told him there are very limited circumstances where this could be allowed.

To avoid this mistake:

1. Only make Trustee-to-Trustee transfers between IRAs which are not limited
2. Convert traditional IRAs to Roth IRAs with full payment of income taxes which also are not limited.

As I alluded to earlier in this mistake there are many other traps in managing IRA accounts, Rollovers and Withdrawals. Those can include, but are not limited to the following:

- Rollover from a Qualified Plan with Loans Outstanding
- Failure to Review a Roth Conversion for Recharacterization
- Not Segregating After-Tax Contributions
- Untimely Inherited IRA Required Minimum Distributions
- Inherited IRA Rollovers to Beneficiary IRA
- Required Minimum Distributions Miscalculation
- Trusting a Bank Employee or Broker for Guidance

Note: Transfers from or to employer-sponsored, qualified retirement plans to IRAs are not included in these rules. However, different best practices need to be applied to those.
It’s accretive: $1 + 1 = 3$

Case Study: Janet, an OB/GYN, and her mother, Gladys, who was recently widowed, came to us to review her mother’s finances. Gladys had moved from California to Missouri after the death of her husband. Janet knew about us because of a colleague and former partner who is a client, and we had attended charity events together.

Janet, who had power of attorney for her mother’s financial matters, felt good about having found a local CPA who had reviewed past years’ tax returns.

An estate planning attorney had been referred, and he had reviewed all her parents’ documents. The attorney said all was in order under Missouri estate planning laws (applicable statutes and case law are state-based). Her mother’s estate would be divided equally between Janet and her only brother as her father had established with his trust, on the advice of their attorneys years before. Each heir was to serve as their own Trustee of their Lifetime Trusts.

Finding an independent investment firm was the last item on Janet’s list.

When she started to show me her mother’s investment account statements, I said there would be time for that later.

I then asked Gladys, age 90, to share with me more about her goals for herself and the rest of the family, including their relationships, their experiences with financial matters, and their health, along with her expectations and concerns for settling her estate.
Gladys asked why I wanted to discuss all this. No one had asked her these questions before. After I assured her all the information would remain confidential, and that it would help me help them, she began.

The most complicating facts involved Janet’s brother. Gladys knew her son had been a spendthrift all his life, that he was currently disabled, that his wife who managed their finances was terminally ill, that he lived in a house inherited at his father’s death and that she expected Janet to see that her brother managed his inheritance wisely in their parent’s absence. A look into Janet’s eyes revealed volumes.

As is often the case, Janet’s focus on managing the wealth in its “silo” had overlooked risk management, tax management and legacy planning for the equitable and prudent distribution of the sizable estate accumulated by her parents. Although she had no clue how she could possibly protect her brother from himself, as well as manage to enjoy her career and family, she thought she had no choice but to try and most likely fail at all three.

Among all the issues raised that day, estate planning seemed the highest priority given Gladys’ age and all the facts. While we do not practice law, we have assembled a team internally and externally to review, coordinate and help manage a family’s whole picture, not just its parts.

I mentioned in this initial meeting that I thought the standard plan of equal distribution and identical treatment of two very different heirs was problematic. The solution was an offer to personally facilitate a meeting with an estate planning attorney with whom we work. Janet and Gladys agreed. So even as other team members worked up the rest of this case, I arranged the meeting.

With my knowledge of the family history and generally of estate planning, I was able to quickly review the background and then keep the meeting on track with the occasional question or comment.

Gladys felt guilty at first even considering treating her children differently. But once she honestly dealt with the possible outcomes of her current planning presented by a compassionate legal professional who had witnessed similar situations first-hand in her practice, we began our discussion. With an atmosphere of knowledge and trust, ideas flowed with options available in Gladys Revocable Trust and even for her husband’s marital trust. Decisions were made and documents were drafted within days.

The result was protection for Janet’s brother’s residence and the balance of his inheritance for his lifetime independent of her involvement.

And Gladys, who had not even known what questions to ask, had answers for her son’s future financial concerns in light of his inability to work or to manage his future wealth.

Other areas for consideration for estate planning purposes include, but are not limited to the following:

- **Beneficiary Reviews, Updating and Confirming** (failure to change a sister/brother/parent prior to your marriage or an ex-spouse post-marriage)
- **Updating Guardians for Children** (perfect until they got divorced)
- **Probate Avoidance for all Property Types**
- **Heirs with Special Needs need Special Planning** (without it all support programs could be lost)
- **Divorce, Remarriage, Ante Nuptials**
- **Charitable Gifting, GRATs, etc**

Note: While many doctors’ think their situations are not as complicated as Janet’s, there is, in my experience, no “simple / straightforward” estate planning. It all warrants discussion and routine review of asset protection from malpractice and other claims, all the parties named, related facts, taxes and current laws. The rules change daily as do our lives, and there are no “Mulligans” when it comes to estate planning. We keep our clients on track with our process which includes a formal estate planning review no less often than every two years.
MISTAKE #5: Failing at Retirement.

Reality: Advisors don’t control financial markets, client’s savings and spending habits, much less the interpersonal dynamics of their individual lives. What we can do is help clients be aware of numerous pitfalls they may face when there are radical transformations in their lives and experiences.

Our Regular Review Meetings, which leverage our refined process, allow us to help our clients monitor, anticipate and plan for contingencies. This proactive, not reactive, approach lessens anxiety along the way and allows for rational rather than emotional responses when inevitable changes do occur.

While those happen often during one’s working years sometimes resulting in delayed or less enjoyable retirement, these are only exacerbated if they occur in one's post-work era. Often people take things on not thinking ahead and recognizing there will be an evolution of their own and others’ needs over time.

So we have conversations with our clients periodically to review what might go wrong in retirement. Here are a few that if not avoided or handled deftly could sabotage even the best of plans.

Divorce: This is never pleasant to talk about, but we do bring it up as a possibility which could cause retirement failure.

Entered into as a solution for two people who are many times failing to navigate a transition together, the result of divorce is nearly always disruption of financial independence and / or significant changes in lifestyle.

The major financial problems come when what was a comfortable amount of assets for a couple in retirement is split 50/50, and then the expenses are not.
Too often the expenses have not been examined or estimated accurately. On top of that the expenses of the proceedings themselves can spiral out of control if emotions and lack of rational thinking rule the day.

We do have several client couples who have separated and then found a way to reconcile, usually with professional help and over time. Their stories lighten our conversation. Unfortunately there are others who have not.

These situations are only made worse if one partner has not been participating in meetings with us. That partner’s lack of understanding and trust over the financial situation creates even more tension and stress.

*Second Homes: While very appealing during one’s working years, many threats to that enjoyment lurk.*

Vacation homes are often near water or mountains with a chance of natural or man-made disasters. Income tax benefits are not what they used to be for some of our wealthy clients. Going to the same place year after year may become less than exciting over time. Maintenance expenses can be burdensome once cash flow is reduced in retirement, and your ability to handle some upkeep may diminish.

And in a downturn such as we recently experienced in 2008 and 2009, many second homes in their “desirable locations” were even more illiquid than other real estate markets.

Timeshares with flexible terms and multiple location options, an RV which can be towed, parked and left while you explore your destination in a separate vehicle, or just renting are often better solutions.

*“Continuing Maintenance and Support of Anything That Weighs More than 50 Pounds and Requires Feeding”: I picked up this terminology at a Retirement Conference in 2015, and I have used it often since. It covers a myriad of problems, and it usually brings a smile of recognition to the faces of our clients.*

This typically covers adult children, siblings and others who have no shame in asking for continuing support. Never mind that the “need” is the result of overspending, bad judgment, poor investment acumen or any number of other causes of human failure on their part.

The assumption is that you, the doctor, can afford to help. Compounding the issue in the case of parents may be embarrassment about an unsuccessful off-spring and a failure to address the underlying problem(s) years before. Unfortunately, spending dynamics, especially in the case of children, can be an emotional minefield.

Worse yet is the case of a surviving spouse who may not have been as financially involved, not a savvy investor or even cognitively impaired being pressured, even coerced, into support of others.

One of the most-reported requests that should be denied immediately and repeatedly is co-signing a loan. While seemingly simple and limited in scope, this can lead to disastrous unintended consequences. Once done, there is no going back.

Maintenance and feeding of large animals (small pets are an exception), and the like may also eventually be unsustainable.

If after considering all our clients’ possible future wants and needs, including especially health expenses, they do not have or are in danger of not having the money to continue, we have to advise the support to stop. If there is enough money, it becomes a matter of choices, conditions for continuation and terms for possible cessation.

*Starting a Business: Some retirees who have not planned well for a work substitute become restless and/or want to help a family member. Since they are not the most attractive candidates for returning to work as an employee, they often think starting a business is the answer. If they can get it up, running and profitable without a substantial capital and time commitment we applaud them. However, this is seldom the case.*

Even what seemed to be a no-brainer to some doctors, buying rental properties at the low of the devastated real estate market in 2009, was not. Giant investors with deep pockets and great connections had the same idea and did it better. Even those individuals who did manage to make money usually did not do as well as they would have if there funds had remained in their portfolios. The passive investment option also does not involve the headaches of managing real properties, which might include maintenance calls at 2 AM.

Possible health problems at advanced ages, a shortened time horizon for return on investment (ROI) and significant impact to retirement savings are all serious realities.

Finding consulting or service work drawing on your training and experience as a doctor without a capital commitment is a far better solution. Tony, a former ENT, now reviews disability cases for a state agency three days a week, while
Sam, a former GP, regularly serves as a cruise ship doctor. Sam and his wife travel the seas with only their gift shop account, bar tab and gratuities as their expenses.

If, as in one case, the financial commitment for funding the purchase of a business for his children was made without our consultation, we built a 100% loss of capital into our projections as part of our due diligence. Thankfully, the retirement projections held up with some modifications of spending plans. In this case, we also facilitated a meeting with the client’s CPA to think through and ultimately decide against a further capital contribution one year down the road. Time will tell.

*Overspending Assets: Many doctors with sizable portfolios never imagined they would have that kind of money when they were starting their careers. And the rules you hear (4% withdrawal rate; 80% of pre-retirement income) are hard to relate to and often unrealistic. So you need a plan.*

The only way to know when you can make work optional and enjoy the lifestyle to which you aspire is to know what you will spend in the future. Then you make some assumptions as to rates of inflation, rates of return and life expectancy. Until I know all that, I cannot answer the question of “How much will I need?”

Even then, there is an element of art, not just science.

Each year we have helped Ted, a former Ophthalmologist, and his wife Alice review their pre-retirement actual expenses in detail for what changes (both decreases and increases) in spending they might experience in retirement. After all, they will have more free time and flexibility in their schedules.

We also made separate goals in our projections for certain extras in their early retirement years when we expect they will be healthiest and most active. That translated into more travel, more vehicle replacements and more entertaining/dining out than their later years.

We also determined their best Social Security strategy and employed a Health Care Module in our financial planning software. The latter calculates not only their Medicare premiums at different income levels (there are increases when certain thresholds are crossed), but also plugs in national averages for out-of-pocket expenses which we can choose, or we can use their own estimates.

Once they retire, we will monitor their actual expenses every six months to see what we got right and what needs adjustment for the first two years. After that we will go back to reviewing expenses only annually.

Each year we have helped Ted, a former Ophthalmologist, and his wife Alice review their pre-retirement actual expenses in detail for what changes (both decreases and increases) in spending they might experience in retirement.

After all, they will have more free time and flexibility in their schedules.
Every month in retirement they will receive a “paycheck replacement” for an agreed-upon amount via direct transfer to their checking account. So wherever they are in the world, they “get paid”.

Victim of Elder Fraud: With more money in the hands of those over age 60 than ever before, fraud and abuse were sure to follow. A survey conducted in August 2012 by the CFP Board of Standards estimated that senior victims lost on average $140,500.

Scams involve sweepstakes, cash prizes, free meals and unsuitable products. A variable annuity may be appropriate for many investors, but not usually one who is age 90.

The survey revealed that 20% of advisors knew seniors who had been exploited by a guardian or power of attorney. Sadly, 35% of those reporting abuse said the incidents encountered were the work of someone the senior knew, often a family member in financial straits.

Declining Health: Health care is the biggest wild card in retirement. As doctors know, while there have been breakthroughs in biotechnology and immunotherapy turning once-fatal diseases into chronic conditions, the costs of the new treatments are escalating. Some doctors who have not experienced a serious illness themselves or in a family member are surprised how much things cost when they are on the receiving end of health care.

As doctors you know at the same time costs are increasing, Medicare is reimbursing less of those expenses. Wealthier retirees are sharing more of the burden through increased premiums. Eventually, the less affluent may also pay more.

Equally important is quality of life in one’s later years. There is a lively debate and review going on regarding end-of-life best practices, procedures and dollars spent. With the extension of Medicare reimbursement for doctor-patient discussion of these issues, progress should continue.

Beyond just discussing these threats to retirement, we provide Family (Information) Organizers for use in emergencies and regularly provide educational articles to all our clients. We actively encourage them to consider their options and share their desires with their families and loved ones. We also facilitate intergenerational meetings regarding retirement and estate planning.

Note: What to do if you are behind in saving for or managing in retirement? There are really only four solutions:

- Save More
- Spend Less
- Work Longer
- Take More Risk

None of these are without negative factors, and some may be out of the realm of possibility for you. Rather than continue in denial, health-debilitating stress or analysis paralysis, get professional non-judgmental advice on how to get back on track.

Our integrated process, including not just Straight-line Investment Return Assumptions, but also Stress Tests and Monte Carlo Simulation, will help map out a plan that will work for you and your unique situation. You can be confident on your journey.
Doctors are really good at diagnostics. And you are really good at research. Problem is investing and markets involve so much more.

And in today’s world we are bombarded every moment of our waking hours with advertising, talking heads, “Best and Worst Performances (for whatever cycle)” and articles (the Rising Dividend Theory).

These all too often focus on product, pricing, performance and what you should do now!

Add to that the very human financial behavior around these key elements:

- Anomalies
- Anchoring
- Mental Accounting
- Confirmation and Hindsight Bias
- Gambler’s Fallacy
- Herd Behavior
- Overconfidence
- Overreaction and Availability Bias
- Prospect Theory

You should have an investment philosophy for all seasons. Acknowledging cyclical ebbs and flows, admitting there are things out of our control, and allowing no deviation from the plan are critical. As an advisor my biggest challenge and responsibility is to provide the discipline to manage the emotions of fear and greed.

**MISTAKE #6:**
Focusing on Short-term Investment Performance or the Investment Philosophy du Jour.

“I can’t stop checking the markets between procedures and appointments. It’s driving me crazy!”
Case Study: Early during the downturn of 2008, I was in a Quarterly Review meeting in October with Dave, a Colorectal Surgeon, and asked how he was handling the market turmoil. “Not well” was his response. “I can’t stop checking the markets between procedures and appointments. It’s driving me crazy! You always tell me not to dwell on the short-term, but it is really hard right now”.

I asked if he wanted to sign up for our weekly Monday email “Market Week” which would recap the market for the prior week as an alternative to his obsession. That was in addition to the Quarterly Market Commentary we were already sending him. He said he would like to try it. I followed up three weeks later, and Dave shared that he had not completely broken the habit, but that he was greatly improved and less anxious.

We had reviewed his plan for contingencies many times in the prior 15 years and in that October meeting. The next step was a minor tweaking which gave him more risk aversion capacity for new deferrals into his Profit Sharing 401(k). He had a plan he could stick to and wait out the continuing decline. The equity allocation of his portfolio took a hit, but Dave stayed in the market, weathered the storm and eventually recovered all his “paper losses”.

Note: The Rising Dividend Theory et al, have never outperformed over time. Even the very few folks who were right when they called the Great Recession have by and large failed to call event(s) since. There are just too many variables, so a sound all-weather philosophy is the best strategy and one you can stick to when the times are most troubling.
MISTAKE #7: Not proactively managing investment portfolios and income taxes.

Working with a CPA is usually not enough for the complexities and opportunities a doctor’s plan for financial freedom presents. Engaging an independent advisor who has developed and refined a process for tax management and works closely with your CPA is the best practice.

Case Study: Paul, a former Radiologist, and his wife Judy, had worked with a wirehouse broker before they were referred to us for a no-obligation diagnostic assessment by a colleague. They had Realized Capital Losses of over $400,000 during the 2008 – 2009 meltdown when they insisted on selling out of hedge fund investments that had been recommended by their broker.

During our first meeting I asked Paul and Judy why they had insisted on selling at that time. Paul said he had never really understood how these investments worked. And since there was not much information/reporting for him to review, they were never comfortable with them.

They did remember the broker had told them that these products were designed to perform differently than other stock market investments that weren’t “hedged”. Therefore, they expected when the general equity markets declined that these investments would not decline in value or at least would not decline as much.

Imagine their surprise when that did not work as advertised. Paul and Judy did not hear from their broker, so they called him. They weren’t really satisfied with his answers to their questions. Left on their own to watch that portfolio’s continued slide for months on end, it was just too painful. So they instructed the broker to sell to “stop the hemorrhaging”.

Since then, their CPA with whom they met every February in anticipation of preparing their income tax returns for the prior year, had taken the allowable $3,000 Capital Loss for the period with a continuing Capital Loss Carryforward still in excess of $390,000 by the time we met in 2012.

By that time, much of the remainder of their taxable portfolio had recovered and had significant Unrealized Capital Gains which no one had reviewed or discussed with Paul and
Judy. We outlined our process for taking advantage of those Capital Loss Carryforwards by harvesting offsetting Capital Gains on a regular basis and reporting them to their CPA throughout the year.

Within three years we had applied all the Loss Carryforwards and reset the Cost Basis on a significant portion of their taxable portfolio while possibly reducing future Capital Gains in the process.

Other areas requiring proactive tax planning include, but are not limited to the following:

- Medicare Excise Tax Relief
- Roth Conversions
- Charitable Gifting Strategies
- Retirement Income Delivery
- Real Estate Transactions
Most doctors know a colleague who does things on their own or is intrigued by robo advisors. They aren’t ready to “pay 1%” for advice. Another example is the doctor who gets to retirement age and thinks the hard part (saving) is behind them. They then conclude they can manage things themselves from that point on and save on fees.

It is true that to a great extent investment management has become commoditized leading some to believe only the cost analysis is needed.

However, the benefit analysis is lost here. That is short-sighted and often does not work out well. A couple of doctors come to mind.

Case Study 1: Jerry, an Internist, aged 50 with a daughter in college and planning a second marriage came in for a diagnostic assessment. We had spoken over the years at least three times at an annual gathering of doctors we sponsor.

As part of our well-refined process, we begin our initial meetings with a discussion of future goals and concerns as well as past experiences. Jerry’s path to financial freedom was a balance of work, including a myriad of passions for outdoor activities, with a goal of early retirement at age 55. He was the picture of health, so we were anticipating longevity. He and his fiancé had agreed to keep and manage their finances and investments separately.

Without my asking, he went on to say he had not contributed to his practice Profit Sharing 401(k) Plan until the last few years for a number of reasons, one of which was a lack of trust of his employer. He went on to say he lost 50% of his assets in 2010 in his divorce.

He had been investing on his own in domestic large-cap index funds outside his employer-sponsored plans in a taxable account for many years.

MISTAKE #8:
Concentrating on what advice “costs” rather than the “worth and value” it affords doctors.
I went on to ask Jerry a series of questions:

- Have you ever engaged a financial advisor? No.
- Had he invested in a 529 Plan for his daughter’s educational expenses? No.
- Had he ever projected what he might need for retirement? He thought it was too early for that since he was not retiring for five more years.
- Had he done an estate planning review in the last few years for any changes, including his anticipated marriage. He had not.
- Had he had an income tax review by anyone other than his CPA? He shared that his CPA did not even do a tax review. The firm just prepared the return and sent it to him for signing and payment, if any. He did like that his CPA did not charge as much as what he heard colleagues were paying theirs.

Jerry then asked what services we provided and our fee structure. He admitted our services covered all the things he should be doing. He knew he was too busy and did not have the knowledge to navigate those waters. He even knew he was probably overpaying on income taxes and losing out on the benefits of diversifying his portfolio. But ultimately, he stated he just was “not ready to pay 1%”. Not yet.

What did Jerry lose out on by not being “ready to pay 1%?”

There are many possibilities that could have been beneficial in Jerry’s case:

- Maybe he would have taken advantage of all the income tax savings of deferrals.
- Perhaps he could have experienced the benefit of employer contributions and tax-deferred growth of his investments, if he had understood how Qualified Plans are protected from his unfounded fears.
- Maybe he would have taken advantage of tax-deductible savings in a 529 Plan for his daughter’s college expenses which could have saved him $480 ($960 if two tax payers) per year in Missouri income taxes and substantial federal and Missouri taxes due to the tax-free growth and distributions.
- Maybe he could have benefited from things not revealed in our brief conversation. But not yet.

Case Study 2: The second doctor who comes to mind is Bob, a friend of a client. He did attend the meetings held by his group’s investment advisor for their 401(k) Plan during his working years. He had taken the risk tolerance questionnaire in the beginning, diversified his portfolio at work and carried over and applied these principals in his taxable portfolio. However, he had not sought advice in other areas on his path to financial freedom because he thought he could save on fees.

Bob and Mary, are both age 70, and have been retired for five years now. Our client, Bruce, plays golf with Bob twice a week, and of late the discussion turns more often than not to financial concerns. Bob has recently confided his fears:

- He fears he and Mary will outlive their savings.
- He is overwhelmed by the thought of where and when he should be taking distributions out of his IRAs.
- He does not even know what other questions he should be asking.

Not wanting to concern her or admit he does not know the answers, he continues to tell Mary everything is fine. He was not sleeping well and feared Mary was not either.

This is the case with so many Do It Yourselves (DIYs). Surveys show that on average, within three to five years of retirement, these doctors and the population in general are completely overwhelmed as they attempt to manage their finances. Aging, changing social and economic circumstances, illness render most of us less able to keep up with an ever-changing landscape.

When our client asked Bob if he would consider working with a fee-based advisor, he admits he should have done that a long time ago. He thinks that now it’s too late, and that he does not know how or where to find someone they can trust. Luckily for Bob, his friend Bruce, our client, did.
In your practice, you have a level of excellence and confidence in areas for which you are trained. However, this confidence can lead to blind spots and a tendency to ignore financial warning signs.

Case Study: In 2009 Alex, an Orthopedic Surgeon and client, and I were meeting as a part of our refined process for a Quarterly Review. When we came to the Dollar-Cost-Averaging Summary page, I noted that he had not called for the last two months with an amount for his routine after-tax deposit for investment. He had always preferred calling in the amount because his income and expenses varied.

He confided that he had “qualified” to join some of his colleagues in a unique investment involving a highly sophisticated arbitrage trading method that no one else was using. The minimum investment was $50,000 which he had forwarded two weeks before our meeting.

I asked Alex how he knew this was a good investment for him. I wanted to know how much he knew of the details, and whether he had received a prospectus. His responses were all in the negative.

Respecting him I asked again why he knew this was a good investment for him. He said his colleagues are really smart people, financial successes and savvy investors he had known for quite a long time. I waited for more.

He added, “They are all getting rich, while the traditional investments you are providing have not done all that well lately. I’m not going to change everything we have done for over 15 years, but I think taking a little more risk for really great returns is a good idea”.

Concerned, I asked how he knew the returns were great. Alex shared that he had seen “statements” showing balances with significantly higher balances over several months. Were these statements like those he received from Schwab and other custodians who hold your other investments?
“No, because this is a ‘unique’ investment, and it is not registered on an exchange or held by traditional custodians.”

Asked if he would like me to do some independent research as a courtesy, he responded, “That would be good”. Our research revealed there were numerous investor complaints and several pending lawsuits surrounding this entity. Undeterred by our report, Alex remained committed and although he had not yet received a statement for his account said he would monitor the situation on his own.

Over the years the equity markets recovered, Alex’s paper losses disappeared and gains returned in his portfolios that on our advice had been kept in the market.

Alex also continued to add to his investments on a Dollar-Cost-Averaging basis, and with our assistance rebalanced on a semiannual basis.

As our process dictated, we performed numerous reviews of accounts for Capital Gains/Losses harvesting in the larger context of Income Tax Strategic planning.

On one occasion I broached the subject of Alex “arbitrage” investment. He admitted that unfortunately things had not worked out well. That, in fact, he thought his total investment was lost. He never did receive a statement and repeated attempts to communicate with the investment company had failed. His colleague’s stories were the same. “And”, he said, “I don’t even want to talk about how much I lost.”

Understanding his embarrassment and hoping to make lemonade out of lemons, I offered that this potential Capital Loss could be used to offset Capital Gains and even Income. All we needed was his original confirmation of the investment to get started. You guessed it, he never even got a confirmation. Game over.

Note: You know you can substitute “cattle”, “commodities”, “tax-free whatever” for that “unique” investment.
**MISTAKE #10:**
Waiting to insure your biggest assets and failing to lock in protection when you are in good health.

This area of panoramic, process-driven wealth management is often ignored, treated only in passing or handed off to an outside agent. We do not believe any of these are best for our clients.

Insurance. Nobody likes the thought of it. Human nature leads to denial and procrastination. And we definitely don’t like to pay for it. “It costs too much”, “I don’t make enough yet”, “I’ll always be able to work as a doctor”, “We have enough to self-insure”, “He/she will get remarried”, “I won’t be here anyway”.

We cannot tell you how many times we have heard the denial extended with likening it (being uninsured or underinsured) to a “gamble worth taking” while quoting some magazine’s study or colleague’s experience as the basis for that reasoning.

And even though doctors see people become disabled, deteriorate to the point of needing assistance with Activities of Daily Living or even die on a regular basis, some of them are no different.

Many of us don’t want insurance right up until, due to a life event or medical condition, we can’t get any or at least not any more of it. Then it’s wanted at any cost.

Rather than taking on that debate, I share a few statistics and true stories with my clients to move the conversation to one of facts and research away from anecdotal and irrational. Here are just two:

**Case Study 1:** Early in my career, John, a Pediatrician and father of five, was in the picture of health. He was informed his new life insurance policy for $1,000,000 was approved on Friday. Rather than let someone stop by his office to pick up the premium, he said he wanted to think about
it over the weekend he was spending with his family at the Lake. Even a reminder that accidents happen could not change his mind.

Nobody foresaw the ski boat accident with his wife at the wheel that killed John on Sunday.

Case Study 2: Debbie, a Psychiatrist, was convinced she could always practice. After all, her mother was still practicing psychiatry in her late 70’s. And although at first she was not sure she needed it (her husband, Henry, a surgeon, was the real breadwinner), she did agree to disability income protection insurance at age 40. Henry actually encouraged this by reminding her that her income was the reason they could afford their second home.

But even though we reviewed consumer publications’ statistics on how many millions of people under age 40 were receiving long-term care and the fact that 70% of those over age 65 will need some care, Debbie chose to postpone considering long-term care planning at that time. She had read the article Money Magazine featured on the cover which proclaimed people don’t need to buy this insurance until age 60.

However, two years later when we met for one of our Reviews I asked, as I always do, what she would like to talk about before we started our presentation. She immediately said she wanted to talk about and apply for LTC insurance. Afraid to hear the answer, I asked what had happened. She told me she had an appointment to see her doctor about what she thought might be a neurological problem. Knowing we could not apply, I waited for her call a few weeks later. Diagnosis: Early-onset Parkinson’s disease. At age 42.

Note: Regrettably, we have not been 100% successful in motivating our clients on a timely basis and have unfortunately heard on occasion, “You were right, we were wrong”.

BTW - little known secret about insurances:
The cumulative amount you pay in premiums to the date/age the actuaries determine you will need the monetary benefits is roughly the same no matter where you start on the continuum. In other words, whether you take out a policy at age 30 or 40 or 50, the total amount you pay in to the date of probable need (i.e. age 80 for long-term care) is the same. Therefore, the premium increases the longer you wait.

So why not take out insurance at a younger age when the premium is more manageable and you are, most likely, in the best health of your life. Think about it!
BONUS MISTAKE: Not knowing or admitting some of your deepest desires and goals for true personal happiness. Or knowing but fearing it is too late for change.

Saving and investing are only a part of your journey, and no amount of money will create a life of meaning. Saving memories, investing in relationships and preparing your body, mind and spirit to be open to opportunities and challenges pays huge dividends.

Periodically stepping back from work and finances for a bit of self-reflection and life planning along the way provides a new prism for viewing one’s life.

With that benefit often a minor tweaking that has been completely overlooked or merely set aside in the past can be discovered and make a big difference in your personal satisfaction.

This mistake’s remedy requires individualized analysis and planning beyond the scope of this White Paper. As I noted in my introduction, ultimately, it is not just about your investable net worth, but who you become on your journey and the legacy you leave behind.

Everyone needs a Coach. Rest assured, we can help with our active listening, refined integrated process and creative solutions if you aspire to:

- Not merely invest, but knowing year in and year out what’s needed to not outlive your money
- Feel competent and confident in saving income and estate taxes and protecting your assets
- Pursue your passions
- Seek a work-life balance
- Make work optional on your terms
- Promote and sustain your good health
- Plan for the alternative
- Thoughtfully renewing and keeping up to date with your legacy

In other words: A Path to Financial Freedom
CONCLUSION

As in medicine, markets, tax laws, investment products, retirement plans and the like evolve. We reserve the right to update/amend this White Paper in future editions.

First, if any of these mistakes resonate with you, a deeper dive into your current track may be warranted. You do not have to be a Krilogy-The Sher Group client to take advantage of our Diagnostic Assessment. Providing a sounding board is part of our process.

All of our current client relationships are the result of there being a good fit and alignment of needs and solutions - now and in the future.

Even if we never formalize a client relationship, you will leave with independent and well-reasoned feedback on your current track. I have witnessed the often-immediate result is less anxiety and apprehensiveness in both body language and demeanor.

Second, if you do not think it is the right time to investigate your current situation, but you know of a colleague or family member who might be anxious or apprehensive about situations similar to those we have covered above, please feel free to pass this White Paper on to them, or direct them to our website at Krilogy.com or TheSherGroup.com.

Lastly, we are based in St. Louis, but our work is available throughout the United States. So whether you are in New Haven, CT or Astoria, OR or anywhere in-between, we can talk.

I look forward to speaking with you soon.