Three reasons young physicians need a personal CFO

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If you have a significant income (six figures or more), you are the equivalent of a corporation that is worth potentially millions of dollars. Can you imagine a corporation like this not having a chief financial officer? So why are you any different?

As physicians, you are part of a large cohort of young people in the U.S. that we like to call the “emerging affluent”— a group of young, high-earners that will eventually have millions of dollars in assets, as their human capital begets investment capital.

However, early on in their careers, most physicians are faced with a wide array of complicated financial planning issues — student loan debt, mortgage debt, asset protection, and insurance planning—to name a few. Dealing with these complex financial factors while starting your career and possibly a family can lead to very large financial mistakes.

That is why most young physicians, and others in the emerging affluent cohort, could greatly benefit from hiring a personal CFO.

So, how do you go about finding this personal CFO? Here are three initial steps.

1. Find a CFP

First, you should look for someone who is a Certified Financial Planner (CFP). CFP certificants are the “cream of the crop” in the financial advisory world. Just as you had to jump through certain hoops before you could put the MD or DO after your name, CFP’s must complete a comprehensive course of study and pass a rigorous exam to be able to use the designation.

2. Make Sure He/She Is a Fiduciary

Most importantly, any CFP who practices financial planning is a fiduciary — meaning that they are obligated to put the client’s interests ahead of their own. This level of trustworthiness can be hard to find in the financial advisory world. Limiting your search to a “fee-only” CFP is the easiest way to make sure you end up with an advisor who is talented and trustworthy. Beware however,there is a small loophole. CFP certificants who do not “hold themselves out” as financial planners do not have be fiduciaries to their clients. For example, if someone is “only” selling insurance or “only” giving investment advice, they do not have to put your interests ahead of their own. So, once you find a CFP, make sure they are a full-service financial planner and a fiduciary. You can find someone who meets all of these

requirements by searching through the database for the National Association of Personal Financial Advisors at napfa.org.

3. Start Now

Do this early in your career. Waiting until you "have enough money" risks making long-term expensive mistakes along the way. For example, we have encountered many young and middle age physicians saddled with very expensive whole life insurance policies that end up limiting their ability to save as well as having inadequate death benefits. We regularly see high cost annuities crammed into IRAs as well — this is something that any fiduciary CFP would tell you is a complete scam. Just as often, we have physicians come to us from brokerage firms where they were paying 2% to 4%/year in fees — and had no idea they were doing so. That alone can erode your investment returns and jeopardize your retirement savings. Most fee-only financial planners I know charge around 1% per year and always disclose their fees.

In summary, if you are a young physician, or anyone in the emerging affluent for that matter, you are plain crazy not to have a personal CFO. Doing this early can save you a lot of headaches and is very likely to put you far ahead financially. Just be sure to do your research.

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