Investing for Physicians:

Here is the simple prescription.

If you focus on 5 things that you can control, you will likely be better than many of your colleagues.

These magic investment principles are:

- Risk: Are you taking on just enough risk so that you can meet your goals, and are you getting compensated in terms of return, on the risk you are taking?
- Diversification: The simplest way to decrease risk is not to put all your eggs in one basket. Diversify across asset classes (stocks, bonds, real-estate investments etc.), and within asset classes. Do this through investing in baskets of securities via mutual funds and exchange-traded funds (ETFs).
- Investment Expenses: The bottom line is that costs matter. Studies have consistently shown products with low expenses have provided better returns than those with higher expenses. Lowering your investment expenses should be a high priority in your evaluation of investments/investment managers, and advisors.
- Taxes: Taxes reduce investment returns and your net-worth. It pays to minimize taxes by investing tax-efficiently. What does this mean? Invest in retirement accounts, utilize backdoor Roth IRAs, and Health Savings Accounts. Also consider using flexible spending accounts and health reimbursement accounts that may be offered by your employer. Certain investments are better located in tax-free or tax-deferred accounts, and others are better located in taxable accounts. Gaining an understanding of how your tax-bracket interplays with your investments, and investing expertly to minimize your taxes, will significantly enhance your net-worth.
- Your behavior: This is perhaps the most important area for improvement. Most physicians stare at their own worst investment enemies when they look in the mirror. Among the several documented behavioral biases physician investors face, the most common one is selling long-term investments at low prices, emotionally responding to a short-term, current negative event. And the converse, buying investments at high-prices, emotionally responding to a short-term, current positive event. Avoid this behavior.

If you are not able to perform these activities yourself, it will be worth it to engage an advisor.

What type of advisor should you engage?

I would recommend one who is fee-only, a fiduciary, a CFP, who can help with investments as a part of an overall financial plan, and who has third-party credibility (press, news quotes etc.) and good communication skills. A good place to start is the NAPFA website (http://findanadvisor.napfa.org/Home.aspx) – followed by due diligence to interview 2 or 3 financial planners.

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