



From Chaos to Clarity: A Financial Prescription for Specialty Physicians

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Key Takeaways:

- The biggest challenge physicians face today is the lack of financial expertise and time required to best ensure financial independence on their own terms.
- Physicians are prime targets for financial advisors, many of whom are ill equipped to address physicians' unique financial issues.
- You need to be aware of the unique challenges you face and arm yourself with the right team of experts to address those challenges and develop ideal wealth management strategies.

Imagine observing an operating room and seeing the surgeon, the anesthesiologist, the orderly, the patient's mother and the cashier from the hospital gift shop all standing around arguing about the best way to perform a surgery. Then you notice the patient—wide awake, with a scalpel in one hand and an article about “do it yourself surgeries” in the other hand.

The surgeon decides to forge ahead. “I think I’ll remove his spleen,” he says to the group. “I feel like doing spleens today.”

An absurd scenario, to be sure. As a specialty physician, there is no way that you would let such a grossly irresponsible and dangerous environment continue—and you certainly wouldn’t allow such a procedure to occur.

A chaotic approach to managing wealth

Yet, scenes like this play out all the time in personal finance. Far too many physicians’ financial lives are being managed in ways that are strikingly similar to the conditions in the fictitious operating room we just described. For example:

- They are sold a random assortment of investment products, with no overarching plan and no criteria to guide their decisions, by financial advisors who aren’t experts at helping physicians be as successful as possible.
- They receive financial advice from multiple sources—from financial product salespeople to their friends and colleagues—and often end up with opposing views about the correct course of action. This leaves them confused, frustrated and highly uncertain about their ability to achieve their goals.

- Some “self diagnose” by reading hype-driven articles in the popular financial press and on blogs, and use that “knowledge” to make decisions about their portfolios.

To overcome these challenges and achieve all that is most important to them, physicians need to take a new approach to managing wealth—one that helps them go from chaos to clarity

A lack of financial guidance

Our experience working with specialty physicians tells us that the biggest challenge they face today is a lack of the right guidance to ensure they achieve their financial goals on their terms. Despite having worked incredibly hard throughout their careers and having earned significant incomes, physicians commonly find themselves unable to retire as early as they'd like. Instead, they are forced to keep their white coats on for years longer than they would like to.

This dilemma typically stems from a lack of financial clarity that plagues almost all investors throughout their lives. Physicians often aren't shown by their advisors how a large financial outlay in one area can impact other areas of their lives. In Vancouver, for example, physicians often take out substantial mortgages and end up struggling to fund other priorities. In addition, most physicians aren't made aware of how much they need in order to fund their retirements and maintain their desired lifestyles after they've left the workforce. This is due to a lack of long-term, integrated planning—identifying key financial goals for themselves and their families and building a plan around those goals. Without a target to hit, retirement and other important goals and all they require financially remain as fuzzy as a bad X-ray.

What's more, portfolios often are a random collection of “one-off” investments—a patchwork of individual securities, funds, partnerships, real estate and other assets that they've been sold over the years. All these disparate investments don't work in concert with each other to help them meet their needs. Such portfolios tend to deliver subpar returns over time—especially if the investments are traded frequently. That lack of coordination also results in higher investment costs that further eat away at returns.

What's driving the problem?

Physicians aren't unique when it comes to being unprepared for the retirement they hope for. These days, many investors regardless of profession and income level are not set up for retirement success.

But the fact is, physicians are especially at risk of not achieving their goals for numerous reasons, including:

1. They get inferior financial advice. The biggest reason physicians struggle to retire on time is due to the poor quality of financial advice they receive. The financial advisors that most doctors come in contact with throughout their careers tend to be product pushers. Instead of giving physicians what they truly need—well-crafted financial plans that reflect their specific needs and goals—these “advisors” focus on convincing physicians to buy a slew of financial products. This product focus often leads to an inappropriate alignment of their capital. It's a lot like prescribing pills to a patient before examining him. You could cause great harm by implementing a treatment plan without first understanding the patient's situation.
2. They start their careers later in life—and with more debt—than other professionals. By the time doctors enter the

workforce, they're often in their late 20s or early 30s and many feel a struggle between rewarding themselves for all their hard work and catching up with their friends versus starting to save or invest. This struggle is compounded greatly among those physicians who face substantial levels of debt. According to the Canadian Medical Association, one third of Canadian medical residents expect to carry debt of more than \$100,000 and 19 percent expect debt of more than \$160,000. This starts physicians out at a disadvantage that can stay with them throughout much of their careers.

3. They experience “sudden wealth syndrome” that encourages dangerous spending habits. Adding to the problem above is that, after struggling financially for years while in school, doctors suddenly find themselves earning large incomes without the knowledge or tools to manage that money carefully. This makes it easier to succumb to bigger, costlier spending mistakes than the average worker makes—such as buying extravagant homes, automobiles and pricey “toys” while failing to save for longer-term goals. In short, their above-average incomes make it easier for doctors to make major financial mistakes right out of the gate that can take decades to recover from.

4. They are experts in medicine, not finance. Specialty physicians devote their time and energy to becoming experts in their chosen field and building on that expertise. They are not experts in investments, budgeting, wealth transfer and retirement planning—nor do they have the time needed to master these and other key areas of sound financial management.

5. They engage in guilt-based wealth transfer. Older physicians often feel guilty about the amount of time they have devoted to their careers at the expense of their families. As a result, they tend to give their older children significant sums in hopes of “making up for lost time.” This type of wealth transfer can significantly impact their financial stability and future prospects if they give away more than they can afford to.

6. They take excessive risk with their investment capital. Physicians are magnets for sales people offering every kind of investment. As such, they are exposed to—and tend to make—risky investments that often do not pan out. They assume that they can always continue to work and make money to replace any big losses. But over time, the investment losses from many of these “opportunities” can build up and leave them without the money needed to fund their retirements and other key life goals.

Four steps to financial clarity

The good news is that there is a way to overcome these challenges and put yourself on the right path regardless of the stage of your career. The key to financial clarity is a four-stage process:

1. Diagnose: Identify goals and needs. You wouldn't treat a patient or start a procedure without making an initial diagnosis. Likewise, you should find an advisor who is prepared to take the time and has the expertise to help you first identify where you are today financially and where you want to be down the road. They can then work with you to develop a plan to close any gaps and best ensure you reach your destination. Having this type of financial roadmap will get you to your goals sooner and with the least amount of stress. By engaging in a thoughtful and detailed “discovery process,” you will be able to articulate your financial goals and values that will be the basis for all future financial decisions.

2. Prescribe: Create a plan. Once you've identified your financial goals, you can set out to create a plan that aligns your wealth with those key objectives. Obviously that plan will involve investment capital—an investment portfolio must be

designed so that every component part serves a defined purpose and works in concert with the others to generate the investment return you need with the least amount of volatility along the way. But it also involves addressing important advanced planning issues that go well beyond portfolio management. These include mitigating taxes and maximizing cash flow, protecting assets, how best to transfer wealth to future generations, and charitable giving planning. Only such a comprehensive plan will maximize your probability of success.

3. Implement the treatment: Work with the right team. No one would walk into an operating room and expect to see just one specialist doing all the tasks involved in a procedure. In the OR, the patient needs a group of specialists and professionals who bring their complementary skill sets together. Likewise, when managing your financial life, it's crucial to work with a team of top experts such as accountants, tax lawyers and investment counsellors.

And just as it is imperative in the OR that someone be in charge of the team, it's important to have an advisor that acts as your personal chief financial officer. A personal CFO's role is to coordinate the efforts of all of those top experts to ensure that objectives are met on schedule and that everyone involved in managing your financial life is up to date and on the same page.

4. Follow up: Monitor and adjust. It's also crucial to review your plan regularly and the progress you are making toward your goals. Just as patients who have regular physical checkups have more peace of mind and tend to stay healthier over time, individuals who do "financial checkups" have more confidence in their ability to meet goals and are more likely to stay on track during volatile market environments that cause many investors to panic and make rash decisions. Regular progress meetings can help reassure you that your plan is working as it should—or help to spot any aspects of your plan that need to be adjusted in order to create the highest likelihood of success.

The choice is yours

Being financially healthy, just like being physically healthy, comes down to having a plan built around your goals. By understanding the financial challenges you face and then aligning yourself with the right team of top professionals to address them, you can put yourself on the path to financial health—and help ensure that you hang up the stethoscope on your terms.