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ANESTHESIOLOGY NEWS

YOUR MONEY, YOUR FUTURE

Carefully Choosing a Good Money Manager Among Keys to Successful Investing

This is the first installment of **Your Money, Your Future**, *a new quarterly feature designed to help busy anesthesia professionals best manage their finances and optimize their investment strategies.*

Being a physician can be lucrative—so what you do with your money may be as important as how you earn it, especially because managed care has tightened the financial screws. But you play the Big Board and dabble in some mutual funds that a colleague recommended; so your money is working for you. Right?

Actually, it is doubtful that your portfolio is performing as well as it could be. "The usual mistake that physicians make is that they are so successful in so many areas—they are successful economically, academically and professionally—they think that their expertise should naturally extend to financial investments," said Dr. Louis Mitchell, an anesthesiologist from Lubbock, Tex.

And Dr. Mitchell certainly knows. Investing since the late 1960s, Dr. Mitchell responded to a "cold call" and bought Canadian issue penny gold stocks. Unsure of the integrity of the investment and the broker, Dr. Mitchell soon liquidated his position, posting a $70,000 loss. "There really is not a great deal of time to focus on financial matters so you wind up putting large sums of money into investments that make little economic sense," he said.

Yet Dr. Mitchell's story is not unique by any means. Between the demands of running a successful practice and a personal life, investing becomes a costly hobby for many doctors. Negotiating the investment maze may be difficult, given limited knowledge of investments, tips from friends and the barrage of cold calls and solicitations that the typical physician receives.

Is it time to get serious? If you have more than $250,000 in assets, maybe it's time to hire a money manager, a professional who invests your money for you. If you are heavily invested in mutual funds and not convinced of the need for a money manager, consider that if each of your mutual funds contains a couple of hundred stocks (as most do), you wind up with the same Standard & Poors 500 stocks a number of times while paying a 1% management fee, transaction costs and capital gains taxes each time.

The fact is, the difference between 10% compounded annually (the average rate at which the market has grown over the last 69 years) and 20% compounded annually (a rate of return that only the top-tier money managers achieve) is staggering over a 20-year time span. On a $1 million investment, for example, the difference—if compounded annually—is approximately $22 million after those 20 years.

"When your portfolio has the ability to earn more for you than what you do professionally, you really need to spend significantly more time on it. We see doctors whose portfolios make four, five or 10 times more than their practice and they give it one one-thousandth of the time," said Gary Leet, Senior Vice President of Cowen & Company, an investment banking and research firm in New York City.

So maybe it is time to get serious. What's next? According to Mr. Leet and Steven Abernathy, a Director of the Private Client Group at Cowen, the first step is to learn about the various investment vehicles, which they admit can be a long and arduous process. "Many people get a very surface or cursory understanding of investing and then make their decisions based on [that cursory knowledge] because they say they don't have time. They would never practice medicine with a cursory amount of knowledge the way they practice investing," Mr. Leet pointed out.

Also critical in this process is to learn about yourself as an investor. For example: What is your investment horizon? What is your tolerance for risk? Are you more aggressive or more moderate with your investments?

Then you must decide what you are looking for in a money manager. Looking through various databases like Nelson's (800-333-6357) or Mobius Group (800-662-4874), draw up a list of 20 managers and start making phone calls. Then cut your list to five and maybe go out and spend some time with each candidate.

According to Mr. Leet and Mr. Abernathy, there are four basic criteria for a good money manager: having the proper access to critical information, analytical skills, trustworthiness and whether you like/respect them. A money manager's track record is a good indication of some of these factors.

Additionally, understanding a money manager's methodology is also critical. "When I am giving a major chunk of my assets to someone to manage," Mr. Abernathy said, "I would like to identify with the methods he uses and how much of his own money he is investing with this methodology. Will he show you his personal investment portfolio?" Other factors to consider include whether the manager gets paid regardless of whether he makes money and how closely your portfolio will resemble the manager's personal portfolio.

Also, Mr. Leet and Mr. Abernathy recommend that you should ask for references and make sure that the candidate's results have been audited by a reputable accounting firm.

Mr. Abernathy and Mr. Leet were previously featured in *Anesthesiology News* (September 1995, page 18) in an article explaining Interactive Investing™, a successful investment strategy (founded by Mr. Abernathy and Mr. Leet) that solicits physician advice on the market potential of new medical devices in order to gauge the potential success of the manufacturers.

—Joseph Epstein

Developed from interviews with **Dr. Louis Mitchell, Steven Abernathy** *and* **Gary Leet.** *For more information, contact Steven Abernathy at 212-644-4965.*