PHYSICIAN'S Money Digest®

THE PRACTICAL GUIDE TO PERSONAL FINANCE

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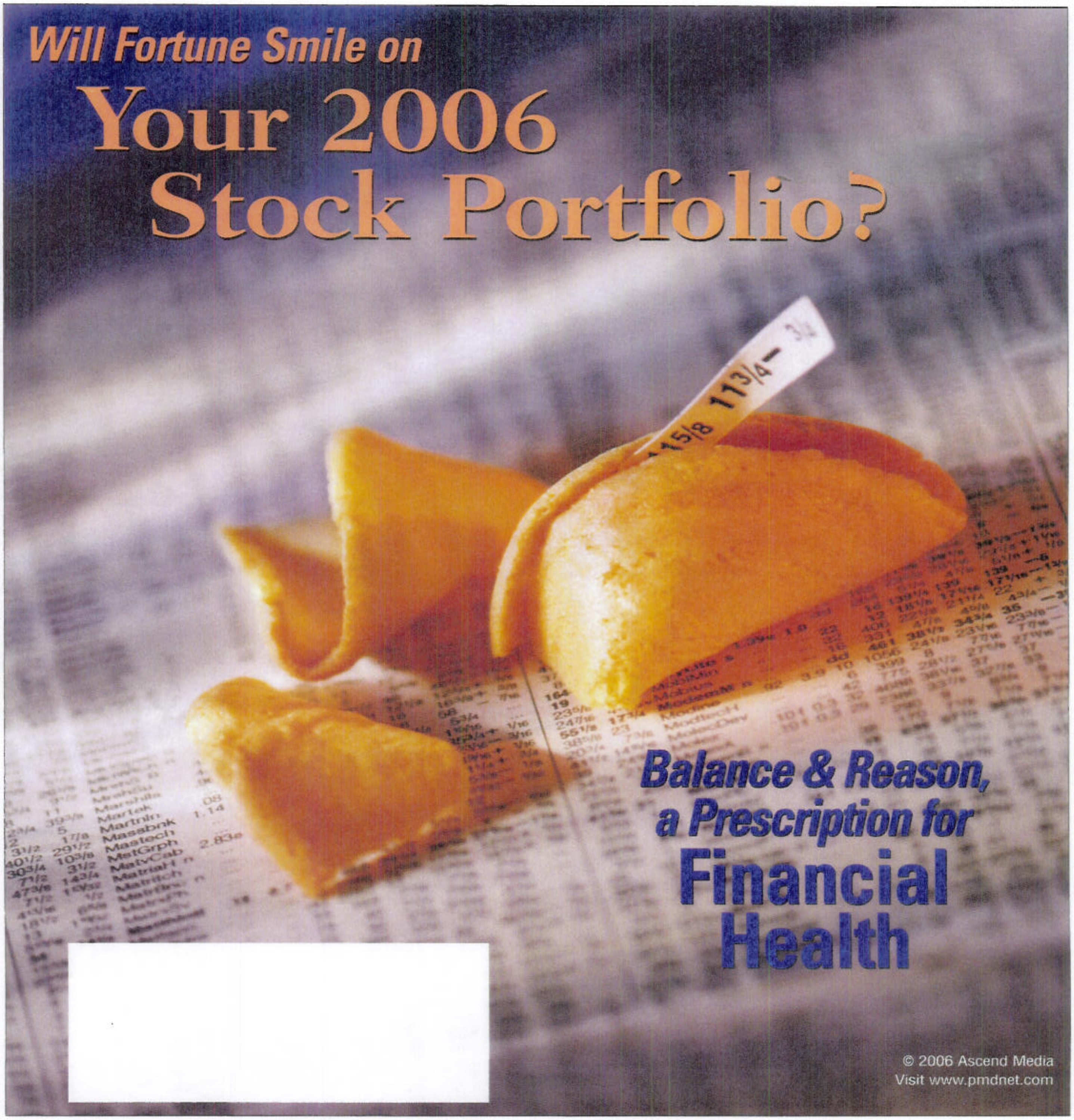

Will Fortune Smile on Your 2006 Stock Portfolio?

Balance & Reason, a Prescription for Financial Health

Will You Retire as Comfortably as You Want?

Most physicians who expect to retire comfortably are headed for a rude awakening. It's going to take a lot more money than you think to retire at the level you had intended. Not only will living expenses cost more than you think, but your assets probably will not grow as fast as you would like.

Consider these figures. If you currently require monthly living expenses of $10,000, you will need an additional $5000 each month in 10 years, based on a modest 3% inflation rate every year. Given an after-tax annual return of 3% to 5%, it will take $5 million to $6 million in liquid assets for most doctors to retire comfortably. This amount excludes nonliquid assets that tend to be

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included when calculating an individual's total net worth. Physicians must also factor additional health expenses into their future monthly income.

In addition to underestimating their monthly needs, many investors tend to overestimate their future portfolio returns, and many think their portfolio will earn annual after-tax investment returns of 15% or more, which is unrealistic. As physician-investors near retirement, their portfolio allocations should focus on stability rather than growth. Historically, the annual rate of return for bonds is 5% to 6%, and stocks earn 9% annually before taxes—averages that are unlikely to change much in the future.

Very few portfolios avoid the occasional losing streak. Although an aggressive investor may make 50% in a year when the stock market only gains 8%, they may lose 50% the next year when their speculations crash. Despite this loss, the investor figures that they broke even over the 2-year span, which is not the outcome they had hoped for, but certainly not a disaster. Yet what the investor does not realize is that the time required to make up for a single losing year is far longer than expected.

In order to reach the comfortable retirement you want, you must form a team of competent advisors. An investment advisor will help construct various retirement scenarios, determine necessary annual contributions, and manage assets within your personal risk tolerance. While there is no one right investment advisor for everyone, you certainly want to know that you, your advisor, and the other members of your team are all on the same page. Advisors with large amounts of money under their management can seem like a safe choice, but the more money a manager takes in, the harder it is to deliver performance above broad market returns. While typically not a physician's first consideration in choosing an investment advisor, a record of avoiding large losses may be the most important aspect of an advisor's resume.

Investors must always keep in mind that without safeguarding their investable asset base, there is no opportunity for future returns. In most years, it's better to have a 15% return with only 30% of your capital at risk rather than risking 100% of your capital with a 20% return. That's because if a natural disaster, act of terrorism, currency devaluation, interest rate or inflation spike, or any other event creates a market tremor, the portfolio with the least capital at risk is best insulated.

Seek out ways to introduce undervalued assets and additional income into your retirement plan. Many physicians own their practice's building with a low cost basis, which can be purchased and incorporated into their retirement plan. This strategy shelters the income as well as the proceeds if the building is sold. Often, debt on various assets can be financed by a pension plan, which generates tax-free interest that is nonetheless deductible. If you and your advisory team review your assets and come up with a feasible retirement plan, the future you want will be possible. ■

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