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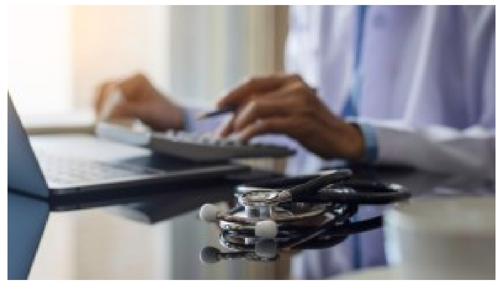
5 improvements doctors can make to their financial portfolios

Naveed Saleh, *MD, MS*|April 5, 2021

Physicians are a smart bunch of folks who possess vast medical knowledge. Optimizing a retirement portfolio, however, may be outside the wheelhouse of most doctors.



“I think the hardest thing for doctors to do is admit they don’t know it all,” said Lauren Gadkowski Lindsay, CFP, of Beacon Financial Planning, Inc. “Some can easily agree they don’t know all they need to about financial decisions, but others are wired to believe that their medical qualifications also convey subject mastery in many other areas. Sometimes you just have to convince them to let you give them a second opinion.”

Here are five improvements that physicians can make to their financial/retirement portfolios, according to certified financial planners (CFPs) we spoke with.

Consider the big picture

According to Sweta Bhargav, CFA, CFP, of Adviso Wealth, physicians can improve their investment potential by considering their retirement and personal investment accounts together to gauge their overall asset allocation.

“I often come across physicians who may have chosen a target-date fund in [residency] training in their retirement account and, over time, made other investments elsewhere,” she said.

“Each piece was developed independently and at different times. It’s essential to have a well-constructed portfolio considering all these accounts. Having a bird’s eye view on the overall asset allocation can help physicians meet their goals and ensure the investments are appropriate for their unique situation,” she added.

Of note, a *target-date fund* refers to a class of mutual funds or ETFs that will rebalance asset class weights periodically to optimize risk/returns during a specific time interval.

Minimize tax burden

Bhargav highlights the need for physicians to choose investments that minimize taxes, a strategy referred to as *asset location.*
“When considering which asset classes to place in which accounts, there are significant trade-offs to consider when making asset location decisions,” she said. “Various asset classes and accounts have different tax characteristics. Higher-return stocks have a compounding effect and tax drag, reducing potential return due to taxes. The viewpoint of just locating stocks to brokerage accounts to get favorable long-term capital gains tax treatment does not always work so well. Physicians must consider investing in a tax-managed way.”

Diversify appropriately

Making the most of your options by proper diversification is an improvement that many physicians can make to their portfolios, according to Lis M. Zimmerman, CFP, CASL, CRPC, of O'Brien Wealth Partners LLC. "Many hospitals have multiple platforms they allow doctors to use when investing their retirement plans (eg, Fidelity, TIAA, Vanguard). By using the strengths of the various custodians, the portfolio can be improved by building one using the best offerings of the various custodians. In this case, it is also important to maintain an appropriate asset allocation in [the] aggregate," she said.

"Many retirement plans through hospitals have limited investment choices, making the changes the doctor makes to their portfolio all the more important. One option is to overweight the better offerings in the 'limited-universe' accounts and offset that in other accounts that have access to broader options. You will end up with a more balanced portfolio in [the] aggregate," she added.

Physicians who are in private practice or have more control over choices in their retirement plans should also use a platform with enough choices to develop a well-diversified portfolio, according to Zimmerman.

Keep an eye on things

Some physicians may desire total control over their portfolios. Others may want to concentrate on other matters. It's a good idea, however, for all physicians to monitor their retirement accounts and other investments, according to Zimmerman.

"The markets have increased significantly over the past 10 years, and in addition to that, [physicians] have likely added funds to their portfolios," she said. "Doctors have busy schedules, and if they don't monitor their portfolio, their asset allocations can become skewed and potentially higher risk than intended. This works fine when markets are rising, but becomes problematic, to say the least, when they fall."

Avoid too many individual stocks

The potential of any individual stock to pop like Tesla—or Qualcomm years before that—can be enamoring. But, individual equities are risky and should be outweighed with more diversified assets, according to Dennis McNamara CFP, AIF, CSLP, of wHealth Advisors.

"I am not opposed to portfolios that have 5%-15% invested in individual equities, but beyond that, concentration risk grows," he said.

McNamara cited research that demonstrated if you owned a portfolio that excluded the top 10% of performers each year, your annualized return was 3.6%, whereas the diversified investor who utilized broadly diversified mutual funds achieved a mean annualized return of 8.0%.

Remember, that as a physician, you have more investment opportunities than other wage earners. Learn more about physician-specific investments tips from financial planners.