# Personal finances and investing for the physician: a Boglehead's approach

**Vinay Mehta, MD**

Allergy, Asthma & Immunology Associates, P.C.

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# Disclosures

- I am not a financial advisor
- The information presented is for educational purposes only
- This a is a non-CME presentation

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# Why is this even important?

- Doctors start their first real job relatively late in life
- Little or no financial experience
- High student debt load (median = $180,000)
- Trusting by nature, we assume that financial advisors have our best interests in mind
- NOT ALWAYS TRUE…

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# Who is a Boglehead?

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# Who is a Boglehead?

- Disciple of John Bogle, founder and retired CEO of The Vanguard Group, the world's largest mutual fund company
- > $5.1 trillion in assets under management
- Created the first index fund available to retail investors
- Credited for driving costs down across the mutual fund industry

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# What do we believe?

- Live below your means
- Use low cost, index mutual funds to invest
- Diversify your investments
- Invest appropriately for your age and risk tolerance
- Maximize tax efficiency
- Develop a simple plan and stick to it

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# #1 Live below your means

- Save at least 15% of your gross income every month
  - Emergency fund (fully fund first)
  - Retirement fund (10%)
  - Big-ticket items (5%)
- Develop a sensible household budget that accounts for needs & wants
- ☞ Median US household income: $59,039 (2016)

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# #1 Live below your means

**Needs**

- Emergency fund (6 mo. of expenses)
- Basic groceries, clothing, housing
- Basic transportation
- Health insurance
- Disability insurance
- Life insurance (term)
- Retirement fund

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# #1 Live below your means

**Wants**

- Everything else
- Money does not buy happiness
- Nobel laureate Daniel Kahneman and economist Angus Deaton's 2010 study found no correlation between income and emotional well-being beyond an annual household income of $75,000

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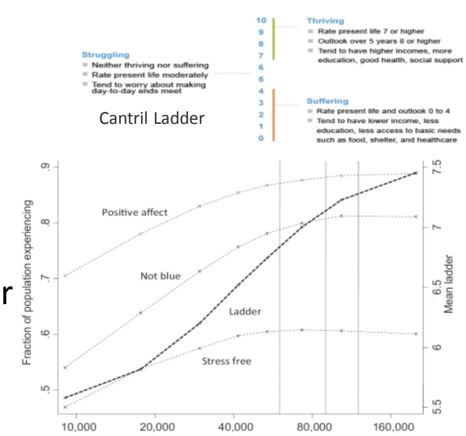
# High income improves evaluation of life but not emotional well-being

Kahneman D, Deaton A. Proceedings of the National Academy of Sciences of the United States of America. 2010;107(38):16489-16493.

- 450,000 Americans polled by Gallup and Healthways in 2008 and 2009
- Participants were asked how they had felt the previous day (emotional well-being) and whether they were living the best possible life (Cantril ladder)

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# #1 Live below your means

- Do not consider your home as an investment
- After factoring in property taxes and maintenance costs, home values have historically remained flat throughout most of the past century

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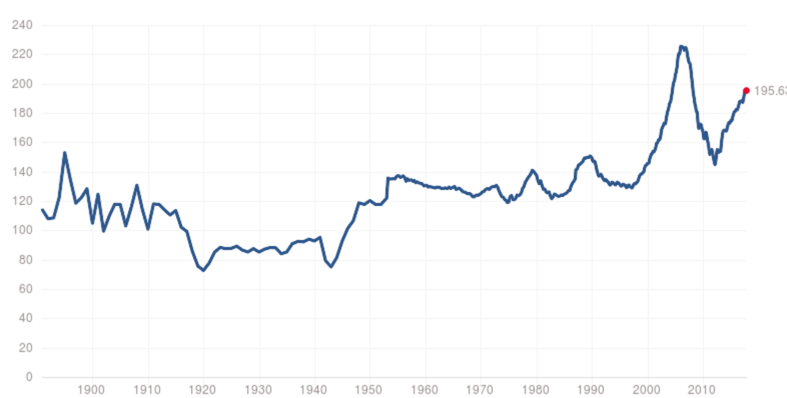
# #1 Live below your means

Case-Schiller home price index (inflation adjusted 2018 dollars)

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# #1 Live below your means

- How much money do you need to retire?
- Trinity Study (1998) suggests a 4% safe withdrawal rate in a 50/50 stock:bond portfolio over a 30-yr period
- Due to low bond yields, recent studies suggest a 3% safe withdrawal rate
- $2M portfolio gives you $60,000 per year (inflation-adjusted) for 30 yrs
- $4M portfolio gives you $120,000 per year (inflation-adjusted) for 30 yrs



# #2 Invest early and often

- Money invested early in life is greatly more valuable than money invested late in life
- "Magic" of compounding

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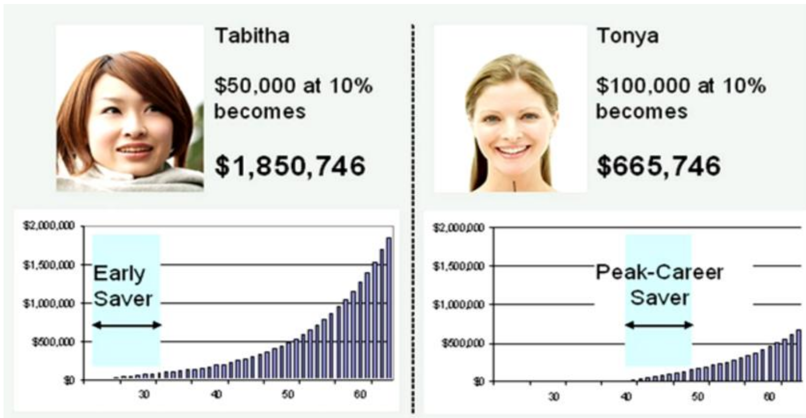
# #2 Invest early and often




Ages 22-32 Ages 40-50

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# #2 Invest early and often

- Work-around for physicians: live on a resident's salary for the first 3 years post-training
- Average salary increases from $60,000 to $160,000/year
- Assume you invest the extra income: $100,000 x 3 yrs x 5% annual rate of return (inflation-adjusted)
- =$1.2 M in 30 yrs
- =$1.5 M in 35 yrs

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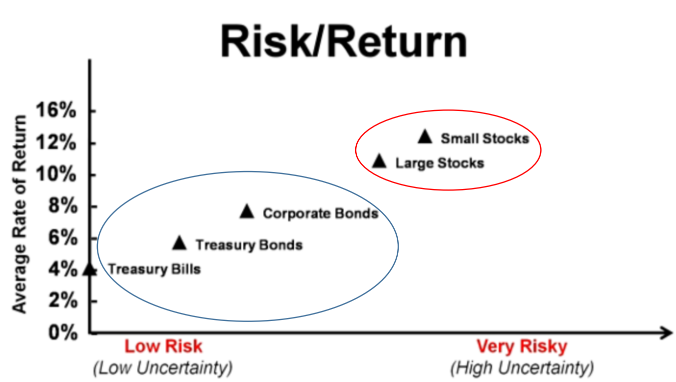
# #3 Never bear too much or too little risk

- Investing = earning a return in exchange for shouldering risk
- 2 major classes of assets
  - Stock: ownership in a company
  - Bond: loan made to a company (or government)
- The higher the risk, the higher the expected return



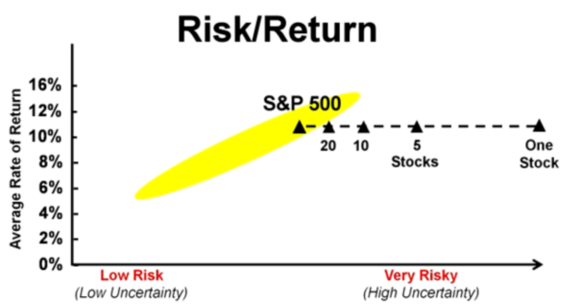
# #3 Never bear too much or too little risk




Capital asset pricing model (CAPM) is a model that describes the relationship between systematic risk and expected return for assets

# #3 Never bear too much or too little risk

- Overall risk of a portfolio is determined by the stock:bond ratio
- Applies to diversified portfolios – not individual stocks or bonds






# #3 Never bear too much or too little risk

- How much risk should you bear?
- Ability to take risk
- Willingness to take risk
- Need to take risk

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# #3 Never bear too much or too little risk

How much risk should you bear?

- **Ability to take risk**
- Willingness to take risk
- Need to take risk

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# #3 Never bear too much or too little risk

Ability to take risk is determined by your investment horizon

| If money is needed in | Invest in |
|---|---|
| • 1-5 years | Treasury bills<br>Bank CDs<br>Money market |
| • 6-20 years | Bonds |
| • 20 years+ | Stocks |

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# #3 Never bear too much or too little risk

- How much risk should you bear?
- Ability to take risk
- **Willingness to take risk**
- Need to take risk



# #3 Never bear too much or too little risk

- How much potential loss can you live with?

| | Asset Allocation Percentage Stock/Bond | Exposure to Maximum Loss |
|---|---|---|
| | 20/80 | 5% |
| | 30/70 | 10% |
| | 40/60 | 15% |
| | 50/50 | 20% |
| Sweet spot → | 60/40 | 25% |
| | 70/30 | 30% |
| | 80/20 | 35% |
| | 90/10 | 40% |
| | 100/0 | 50% |

# #3 Never bear too much or too little risk

- How much risk should you bear?
- Ability to take risk
- Willingness to take risk
- **Need to take risk**

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# #3 Never bear too much or too little risk

- Need to take risk is determined by your financial goals, time horizon, and the rate of return required to achieve them

**Asset Class Returns and Risk 1973-2013**

| Asset Class | Return | Risk |
|---|---|---|
| Government Bonds | 2.9% | 1.2% |
| High-yield Bonds | 4.8% | 8.4% |
| Long-term Bonds | 3.9% | 10.1% |
| Large-cap Stocks | 8.5% | 15.7% |
| International Stocks | 9.1% | 17.6% |
| Real Estate Funds | 7.4% | 19.1% |
| Commodities | 2.0% | 19.9% |
| Small-cap Stocks | 9.3% | 21.6% |

Source: Bloomberg

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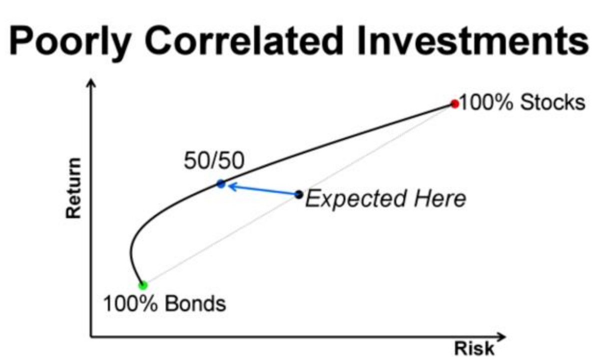
# #4 Diversify

- Buy index funds that hold large market segments
- Broad diversification ensures average returns (as opposed to below average returns)
- Hold investments whose performance correlates poorly (e.g. stocks vs. bonds, US stocks vs. international stocks) → increases returns while decreasing risk



# #4 Diversify




Efficient frontier (modern portfolio theory)

# #4 Diversify

How?

Single-fund

- Buy a single fund that is in itself diversified (i.e. target retirement fund)

Multiple funds

- Buy a few index funds that cover the entire market in their cap-weighted proportions (i.e. Total Stock Index, Total International Stock Index)



# #4 Diversify

Suggested asset allocation:

Stocks (60%)

- Total US stock (60%)
  - Large cap, mid-cap, small cap
  - Value, blend, growth
- Total international stock (40%)
  - Europe, Pacific, Emerging Markets, North America

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# #4 Diversify

Suggested asset allocation:

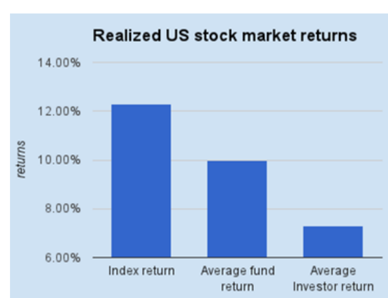
Bonds (40%)

- Total US bond
  - Short-term, medium-term, long-term
  - Treasury, investment-grade, below investment-grade
- Inflation-indexed bonds (TIPS, I Bonds)
  - Principal and interest payments are indexed to the rate of inflation



# #5 Never try to time the market

- Between 1982-2007, the US stock market index fund provided an annual return of 12.3%
- The average equity fund earned an annual return of 10.0%
- …but the average investor earned an annual return of only 7.3%



# #5 Never try to time the market

Mistake #1

- Attempting to predict the future direction of the market

☞ Fool's errand

Mistake #2

- Investing in yesterday's winners

☞Regression towards the mean

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## The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (1995–2014)

| 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|
| S&P 500 Growth 38.13% | S&P 500 Growth 23.97% | S&P 500 Growth 36.52% | S&P 500 Growth 42.16% | MSCI Emerging Markets 66.42% | Russell 2000 Value 22.83% | Russell 2000 Value 14.02% | Barclays Agg 10.26% | MSCI Emerging Markets 56.28% | MSCI Emerging Markets 25.95% |
| S&P 500 37.58% | S&P 500 22.96% | S&P 500 33.36% | S&P 500 28.58% | Russell 2000 Growth 43.09% | Barclays Agg 11.63% | Barclays Agg 8.43% | Barclays Corp High Yield -1.41% | Russell 2000 Growth 48.54% | Russell 2000 Value 22.25% |
| S&P 500 Value 36.99% | S&P 500 Value 22.00% | Russell 2000 Value 31.78% | MSCI EAFE 20.00% | S&P 500 Growth 28.24% | S&P 500 Value 6.08% | Barclays Corp High Yield 5.28% | MSCI Emerging Markets -6.00% | Russell 2000 47.25% | MSCI EAFE 20.25% |
| Russell 2000 Growth 31.04% | Russell 2000 Value 21.37% | S&P 500 Value 29.98% | S&P 500 Value 14.69% | MSCI EAFE 26.96% | Russell 2000 -3.02% | Russell 2000 2.49% | Russell 2000 Value -11.43% | Russell 2000 Value 46.03% | Russell 2000 18.33% |
| Russell 2000 28.45% | Russell 2000 16.49% | Russell 2000 22.36% | Barclays Agg 8.70% | Russell 2000 21.26% | Barclays Corp High Yield -5.86% | MSCI Emerging Markets -2.37% | MSCI EAFE -15.94% | MSCI EAFE 38.59% | S&P 500 Value 15.71% |
| Russell 2000 Value 25.75% | Barclays Corp High Yield 11.35% | Russell 2000 Growth 12.95% | Barclays Corp High Yield 1.87% | S&P 500 21.04% | S&P 500 -9.11% | Russell 2000 Growth -9.23% | Russell 2000 -20.48% | S&P 500 Value 31.79% | Russell 2000 Growth 14.31% |
| Barclays Corp High Yield 19.18% | Russell 2000 Growth 11.26% | Barclays Corp High Yield 12.76% | Russell 2000 Growth 1.23% | S&P 500 Value 12.73% | MSCI EAFE -14.17% | S&P 500 Value -11.71% | S&P 500 Value -20.85% | Barclays Corp High Yield 28.97% | Barclays Corp High Yield 11.13% |
| Barclays Agg 18.46% | MSCI EAFE 6.05% | Barclays Agg 9.64% | Russell 2000 -2.55% | Barclays Corp High Yield 2.39% | S&P 500 Growth -22.08% | S&P 500 -11.89% | S&P 500 -22.10% | S&P 500 28.68% | S&P 500 10.88% |
| MSCI EAFE 11.21% | MSCI Emerging Markets 6.03% | MSCI EAFE 1.78% | Russell 2000 Value -6.45% | Barclays Agg -0.82% | Russell 2000 Growth -22.43% | S&P 500 Growth -12.73% | S&P 500 Growth -23.59% | S&P 500 Growth 25.66% | S&P 500 Growth 6.13% |
| MSCI Emerging Markets -5.21% | Barclays Agg 3.64% | MSCI Emerging Markets -11.59% | MSCI Emerging Markets -25.34% | Russell 2000 Value -1.49% | MSCI Emerging Markets -30.61% | MSCI EAFE -21.44% | Russell 2000 Growth -30.26% | Barclays Agg 4.10% | Barclays Agg 4.34% |

| 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|---|
| MSCI Emerging Markets 34.54% | MSCI Emerging Markets 32.59% | MSCI Emerging Markets 39.78% | Barclays Agg 5.24% | MSCI Emerging Markets 79.02% | Russell 2000 Growth 29.09% | Barclays Agg 7.84% | MSCI Emerging Markets 18.63% | Russell 2000 Growth 43.30% | S&P 500 Growth 14.89% |
| MSCI EAFE 13.54% | MSCI EAFE 26.34% | MSCI EAFE 11.17% | Barclays Corp High Yield -26.16% | Barclays Corp High Yield 58.21% | Russell 2000 26.85% | Barclays Corp High Yield 4.98% | Russell 2000 Value 18.05% | Russell 2000 38.82% | S&P 500 13.69% |
| S&P 500 Value 5.82% | Russell 2000 Value 23.48% | S&P 500 Growth 9.13% | Russell 2000 Value -28.92% | Russell 2000 Growth 34.47% | Russell 2000 Value 24.50% | S&P 500 Growth 4.65% | S&P 500 Value 17.68% | Russell 2000 Value 34.52% | S&P 500 Value 12.36% |
| S&P 500 4.91% | S&P 500 Value 20.81% | Russell 2000 Growth 7.05% | Russell 2000 -33.79% | MSCI EAFE 31.78% | MSCI Emerging Markets 19.20% | S&P 500 2.11% | MSCI EAFE 17.32% | S&P 500 Growth 32.75% | Barclays Agg 5.97% |
| Russell 2000 Value 4.71% | Russell 2000 18.37% | Barclays Agg 6.97% | S&P 500 Growth -34.92% | S&P 500 Growth 31.57% | Barclays Corp High Yield 15.12% | S&P 500 Value -0.48% | Russell 2000 16.35% | S&P 500 32.39% | Russell 2000 Growth 5.60% |
| Russell 2000 4.55% | S&P 500 15.79% | S&P 500 5.49% | S&P 500 -37.00% | Russell 2000 27.17% | S&P 500 Value 15.10% | Russell 2000 Growth -2.91% | S&P 500 16.00% | S&P 500 Value 31.99% | Russell 2000 4.89% |
| Russell 2000 Growth 4.15% | Russell 2000 Growth 13.35% | S&P 500 Value 1.99% | Russell 2000 Growth -38.54% | S&P 500 26.47% | S&P 500 15.06% | Russell 2000 -4.18% | Barclays Corp High Yield 15.81% | MSCI EAFE 22.78% | Russell 2000 Value 4.22% |
| S&P 500 Growth 4.00% | Barclays Corp High Yield 11.85% | Barclays Corp High Yield 1.87% | S&P 500 Value -39.22% | S&P 500 Value 21.17% | S&P 500 Growth 15.05% | Russell 2000 Value -5.50% | S&P 500 Growth 14.61% | Barclays Corp High Yield 7.44% | Barclays Corp High Yield 2.45% |
| Barclays Corp High Yield 2.74% | S&P 500 Growth 11.01% | Russell 2000 -1.57% | MSCI EAFE -43.38% | Russell 2000 Value 20.58% | MSCI EAFE 7.75% | MSCI EAFE -12.14% | Russell 2000 Growth 14.59% | Barclays Agg -2.02% | MSCI Emerging Markets -1.82% |
| Barclays Agg 2.43% | Barclays Agg 4.33% | Russell 2000 Value -9.78% | MSCI Emerging Markets -53.18% | Barclays Agg 5.93% | Barclays Agg 6.54% | MSCI Emerging Markets -18.17% | Barclays Agg 4.21% | MSCI Emerging Markets -2.27% | MSCI EAFE -4.90% |

# #5 Never try to time the market

- Asset allocation determines 90% of a diversified portfolio’s return
- People who chase after performance ultimately lose money from poor market timing and increased transactional costs
- Rather, periodically rebalancing your portfolio ensures that you are selling “high” and buying “low”



# #6 Use index funds when possible

| Active fund | Index fund |
|---|---|
| Try to beat the market | Match the market |
| High expense ratio | Low expense ratio |
| Diversified | Extremely diversified |
| Tax-inefficient | Tax-efficient |
| Risk of style drift | No style drift |
| Change in managers | No managers |

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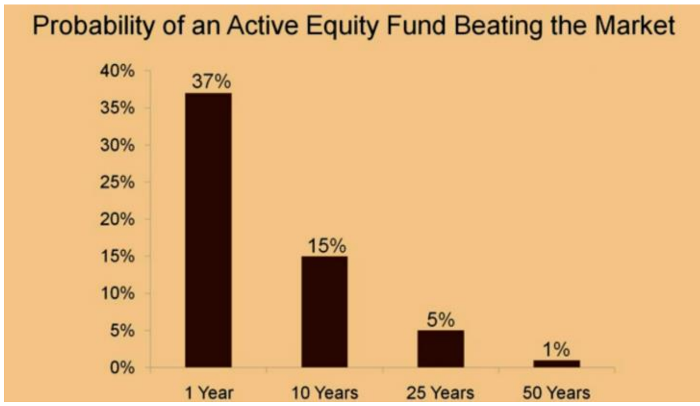
# #6 Use index funds when possible

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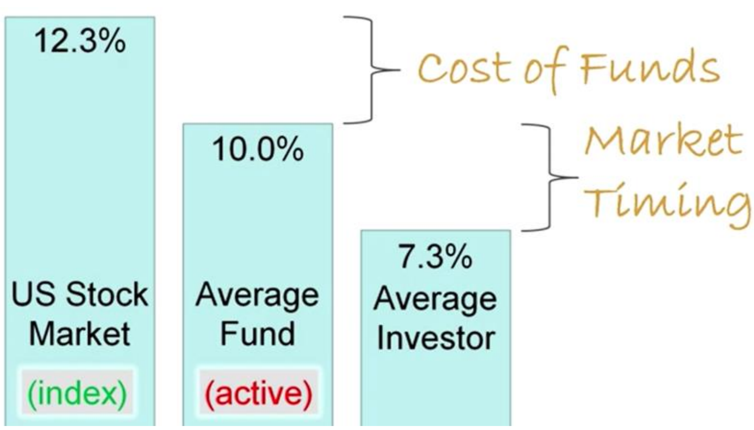
# #7 Keep costs low

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# #7 Keep costs low

- An expense ratio of 1% might not seem like much, but if compounded over a lifetime, it is enormous!
- 1% expense ratio over 50 years will reduce your total net return by 40%
- In addition to expense ratios, some funds charge front-end and back-end sales charges

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# #8 Minimize taxes

- Taxes on investment income directly reduce investor returns
- Take advantage of tax-deferred retirement plans: 401(k), 403(b), profit-sharing, IRA
- These allow your investments to grow tax-free until money is withdrawn

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# #8 Minimize taxes

Roth IRA

- Money goes in “after-tax” ($5,500 limit)
- After age 59.5, withdrawal is completely tax-free
- Ideal for new physicians because they start in a low tax bracket but will end up in a high tax bracket in the future
- Contribution phase-out if income > $120,000 (single) or $189,000 (married)



# #8 Minimize taxes

Work-around

- Open a traditional IRA
- Make a nondeductible contribution to the traditional IRA
- Convert the traditional IRA into your Roth IRA (income thresholds do not apply to conversions)
- Repeat this process every year that your income is too high

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# #9 Invest with simplicity

- "Simplicity is the master key to investment success." -- Jack Bogle
- Advantages of a simple portfolio:
  - Low costs
  - Easy to analyze
  - Simple to rebalance
  - Simple tax-preparation
  - Simple record-keeping



# #10 Stay the course

- Once you have set long-term investment goals, established an asset allocation and invested assets, stick to your plan
- Tune out all the media noise
- Doing nothing is often the best course of action

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# Personal application



# My personal scenario

- 42 yrs old, married, 2 children (ages 8 and 6)
- Spouse does not work

# My investment goals

- Objective 1: To retire by the age of 46
- Objective 2: To have an annual allowance of $120,000 (for living expenses and mission work)
- Objective 3: To pay for our children's college education
- Objective 4: To get involved in Christian mission work overseas (not necessarily medical)



# My personal scenario

- Joined Allergy, Asthma & Immunology Associates in 2007
- Starting associate salary: $132,000/year
- 3-year partnership track
- Lived like a resident the first five years (saved 50% of my disposable income)
- Procured life, disability and high-deductible health insurance
- Bought a "starter" townhouse

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# My personal scenario

- Fully funded an emergency fund
- Fully funded 401(k), ROTH IRA and Health Savings Accounts yearly
- 2010: became full partner – substantial salary increase
- Entitled to profit sharing plan
- 2011: paid off my “buy-in”



# My personal scenario

- Began to contribute to our children’s 529 plans
- Began to save for a “doctor’s” home
- 2014: paid for said “doctor’s” home in cash (no mortgage)
- 2017: announced my retirement in 2022
- Current net worth (excluding home): $2.9M
- Current liabilities: none

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# My personal scenario

Welcome back, Vinay — My Accounts

Last successful login: 02/04/2018 1:00 PM EST

Amit Mehta
$111,459.24
383134866-01
Individual
View Details

Nithin Mehta
$100,362.03
383134866-02
Individual
View Details

Total Assets: **$211,821.27**

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# My personal scenario

Welcome back, Vinay
**Email:** drvinaymehta@gmail.com **edit** **Last logon:** June 15, 2018 9:34 PM, Eastern time

0 New secure messages

The holdings you've hidden in your customized view are excluded from the information displayed on this page.

Balance overview | Recent activity | Performance summary | Asset mix

Total assets $2,885,974.09
Value as of 06/15/2018

Group by owner

| | |
|---|---|
| Self-managed accounts | $2,490,030.21 |
| Dr Vinay Mehta—Brokerage—82113034* | $1,546,250.58 |
| Dr Vinay Mehta—Roth IRA Brokerage—76933667* | $144,300.67 |
| Vinay Mehta—Individual 401(k) | $98,645.35 |
| ALLERGY, ASTHMA & IMMUNOLOGY 401K PLAN Vanguard Retirement Plan Access™ | $700,833.61 |
| Total Vanguard assets | $2,490,030.21 |
| Outside investments | $395,943.88 |

**Current allocation***
My Account View

| | |
|---|---|
| Short-term reserves | 0.0% |
| Bonds | 29.1% |
| Stocks | 70.9% |
| Other | 0.0% |

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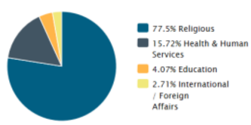
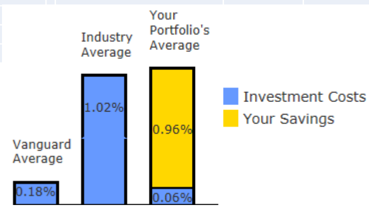
# My personal scenario

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Stocks | | | Bonds | | | |
| Vanguard brokerage | 1,547,250.59 | Total Stock Market | 754,729.71 | 61.0 | I-Bonds | 41,880.00 | | |
| Vanguard 401(k) | 700,833.61 | | 12133.38 | | Total Bond Market | 700,833.61 | | |
| Vanguard Roth IRA (Lakshmi) | 281,779.77 | | 281,779.77 | | Total Bond Market II | 55,241.40 | 98,645.35 | |
| Vanguard Roth IRA (Vinay) | 144,300.68 | | 144,300.68 | | Total International Bond | 23,181.66 | | |
| Vanguard Solo 401(k) | 98,645.35 | | 56,720.75 | | Nebraska Muni | 15,563.35 | | |
| Schwab brokerage | 15,563.35 | Total International | 792,520.88 | | | | | |
| TD Ameritrade HSA | 56,720.75 | | 8,088.92 | 39.0 | | | | |
| I-Bonds (Lakshmi) | 20,940.00 | | | | | | | |
| I-Bonds (VInay) | 20,940.00 | Stock total | 2,050,274.09 | 71.0 | Bond Total | 836,700.01 | | 29.0 |
| Total | 2,886,974.10 | | | | | | | |
| **Goal** | **4,000,000.00** | | | | | | | |
| Annual withdrawal | 86,609.22 | | | | | | | |
| (3% withdrawal rate) | | | | | | | | |




Donor-advised fund allocation

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# Concluding remarks

- Good financial planning is important for late career starters such as physicians
- Living below your means and investing early practically guarantee a secure retirement
- Consider living on a resident's salary for the first few years post-training
- Asset allocation determines 90% of a diversified portfolio's return

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# Concluding remarks

- Consider implementing the Boglehead philosophy
- If you need help, consult a fee-only advisor (flat fee or hourly rate)

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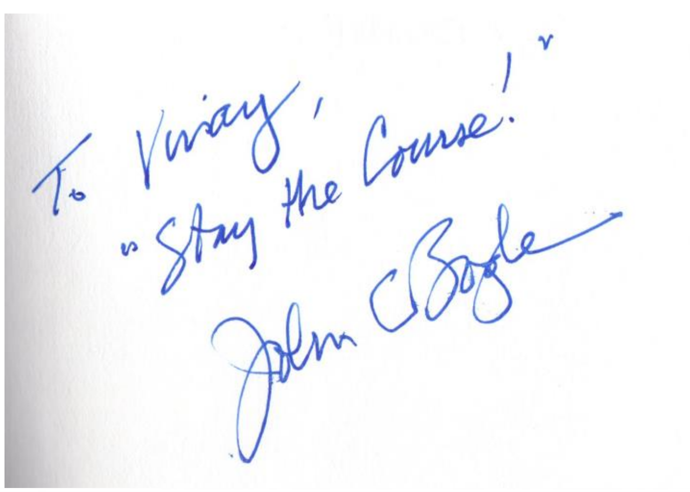
# Happy investing

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