

Doctor's guide to **financial advice**



WealthAdviser

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Before you get started

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Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

We are delighted to offer you a free copy of Doctors' Guide to Financial Advice.

The aim of this eBook is to help you understand why medical professionals on the whole may be disadvantaged when it comes to creating wealth and suggest a range of strategies that could help to overcome these disadvantages.

Most of us have money-related concerns, and addressing them moves us towards a more secure future, and creates peace of mind – something we all want! Regardless of our stage of life, a solid financial plan, and sound financial advice can prove beneficial.

We look forward to helping you work towards a more prosperous future.

What makes doctor financially different?

Many outside the medical community believe that a medical degree is a license to print money. Of course, this assumption is made in ignorance of the many years of study and relatively poorly paid internship and residence required to achieve a general or specialist degree.

The main reasons why medical professionals are unique in the quest for wealth creation:

- Extended training requirements – Almost every doctor is a late starting earner, often years behind non-medical friends and relatives in the search for future security. In financial terms, a newly qualified specialist could be 9-12 years behind a schoolmate who became an accountant or a real estate agent within 3 years of leaving school.
- You frequently enter the workforce with debt – The early years of finally earning are often spent paying off a large HECS debt.
- The high costs of establishing and running a practice – ongoing expenses such as patient liability

insurance and many other factors that hinder a doctor's ability to accumulate wealth and achieve financial freedom.

- You are time-starved – which means you often do not have the time (or desire) to focus on financial matters.
- One last point: those in the medical profession are apparently one of the longest-working too – many often practicing until they are well into their 70s. But the question is: are these doctors practising at an age when most other professionals are retired and taking life easier doing so because they want to or because they have to? With some forethought and planning, the choice can be yours – and that's essentially what financial freedom is all about.

The four ages of doctoring

Doctors are financially different from other mainstream professions. They study longer. They tend to marry and start families later. They are older than the average professional when they reach their peak earning years. And they often retire later.

On the other hand, every doctor is a distinct individual and differs in terms of his or her financial circumstances, prospects, needs and ambitions and it would be unrealistic to pigeonhole any doctor into a rigid category. We believe, however, that there are four basic financial phases in a doctor's life, even though there are many variations within them. Can you recognise yourself in one of these categories?

The Young Doctor

Most newly qualified doctors are late starters in financial terms because of years of study and the high establishment costs of setting up or buying into a practice. Some will continue as registrars and plan to specialise as soon as possible. Others will look for ways to gain practice experience and earn a living, such as becoming an employee of a private practice or undertaking locums. A fortunate few, usually with financial support from family members, might be in a position to buy into

an established practice and a brave minority might put up a shingle and go it alone. It is also common for many married female doctors to prefer to work for an established practice on a part-time basis, allowing for quality family time while providing a relatively high part-time income and maintaining their professional status.

One of the biggest hurdles facing young doctors is entry into the residential property market, having started several years behind non-medical friends and relatives while beginning a career in the red, if financing was needed for study fees. And then there is the hurdle of capitalising a practice, or a share in an established practice.

The Family Doctor

Once the hurdles of first home purchase and investment in a practice have been cleared, doctors in their late 30s and 40s are generally in a favourable financial position. Most doctors enjoy a comfortable or more than comfortable middle class income. On the other hand, one consequence of achieving a good income at a slightly later date than their non-medical contemporaries is that many doctors start their families later. When many professionals are 'empty nesters' with income to spare for investment and the accumulation of assets, doctors may be at the peak of their family expenditure years, coping with private school fees and many other expenses associated with raising a family.

Since the 30s and 40s are critical periods in wealth creation – the decades before the superannuation imperative becomes a dominant feature in many people's lives – a doctor's future prosperity, security and freedom could well depend on a sound planning and investment strategy initiated in this period.

The Pre-Retiring Doctor

Pre-retirement is the age when the realisation sets in that unless you accumulate a certain amount of superannuation and other assets within the next 15 to 20 years, you will not have enough to live on after you stop working. Panic often ensues.

Obviously the earlier a doctor starts a rational and disciplined wealth creation strategy, the less reason there will be to panic, but even for

those who have been less committed to investment and accumulation of assets in the past, all is not lost. Fortunately for doctors, most of them will be in their peak earning years during this stage of their lives and with a well thought out plan and a measure of financial self-discipline, it should be possible to accumulate enough capital and assets to retire on. On the other hand, while it is never too late to plan for retirement, the later you start and the less well thought out your investment plan, the smaller your chance of a comfortable retirement.

The Retired Doctor

Australians today have the second highest life expectancy in the world a baby born in Australia today can expect to live for 81.4 years*.

Australians are certainly taking advantage of this longer lifespan; it is not unheard of for doctors in their 70s to still be practising and seeing patients. That's well and good if these individuals want to go on working, but how many are still hanging on simply because they were late starters and have not yet accumulated enough to retire on?

The other important outcome of living longer is that the assets you retire with are going to have to last longer and buffer you against many more years of inflation and rising living costs, and this means that active investment should, in many cases, continue into retirement.

*Sources: ABS Cat No. 3302.0; ABS Cat. No. 3105.0.65.001.

Getting started – Playing catch-up

Imagine you are 30 years old and join a general practice as the most junior doctor. The pay is not bad – \$100,000 a year and the owner-partners really believe in you. So much so that they make you an unusual offer:

They want you to work for the practice for the next 35 years and have offered to pay you your entire 35 years' salary on day one as a show of good faith. So they hand you a cheque for \$3.5 million... you think about it for three seconds and you decide to accept.

The deal is done. This is all you are ever going to earn, not a penny more and not a penny less. So what do you do now? You would probably start by thinking about how to make sure that the \$3.5 million actually does last you for the rest of your life, even if you live to be 80 or 90. And how you're going to pay for all life's essentials along the way, including somewhere to live, and maybe raising a family, and still have some left over for your old age.

And then, as you are an intelligent person, you realise that if you invest a proportion of the money sensibly, it could be earning you more money, helping you to afford more of the things you want out of life, with enough left over to support yourself when you retire. It all makes sense so far doesn't it?

But here's the catch: As a doctor, you will probably earn more than \$3.5 million over your lifetime. The difference is that it will be paid to you in dribs and drabs every month instead of as a lump sum.

The big question is the same whether you are working for a salary or in private practice:

How do you make sure that the money you earn in your lifetime will stretch to cover all the things you need and want over the years and still finance your life when you stop working? And the answer is to make the right financial decisions as part of a larger, well thought-out plan that is regularly reviewed to suit changing circumstances. The easiest way to achieve this is by finding

an experienced financial adviser – early on in your career – who you can see yourself working with over the long term.

Building wealth in the first decades of prosperity

Let us assume that you are in your 30s or 40s and earning a good income. You are probably paying off a residential or investment property and have invested in a practice (if you are in private practice) or have a well-paid private practice or public sector job and it is quite likely you have a growing family to support.

At this stage of your life you are probably earning more money than you ever have before, and also spending more money than you ever had before. School fees. Family holidays. Cars. Boats. You have the money to pay for them all and, after years of study and deprivation, why stint yourself or your family?

There is a very simple answer to this question. School fees and prestige cars are all short-term objectives, but wealth creation must be a long-term objective. Short of theft, fraud and inheritance, holding quality assets over time is the only known way to accumulate wealth.

If you would be wealthy, think of saving as well as getting. – Benjamin Franklin

This does not mean that you have to give up every pleasure in the present to finance your future, since life would not be much fun if you did. But it does mean that you need to motivate yourself to take a disciplined approach to setting some of today's income aside to create future assets and this is much more easily done if you have an objective to strive for.

On the other hand, just wanting something badly enough will not make it happen. You also need a plan. A bridge that will take you from where you are now to where you want to be. A good financial plan will help you to visualise your wealth creation goal, study your current financial situation, and then work out a way to bridge the space between where you are now and where you want to be.

Our experience as financial advisers teaches us over and over again that the difference between having just enough to retire on and having the financial security to enjoy retirement to the fullest depends on building a solid wealth creation foundation as early as possible. Time is an essential ingredient of any investment and the extra decade or two makes a quantum difference.

The pre-retiring doctor (and what happens afterwards)

The anecdotal evidence is that there are many more doctors than other professionals still practicing medicine in their 70s. How many are still seeing patients (full or part-time) because they want to, and how many because they have to in order to create an adequate retirement fund? We don't know. But we do know that adequate financial planning is the key to being able to retire when you want to, rather than when you have to, and to having more options in life when you do stop practising.

How much is enough to retire on?

In September 2008, the New York Times interviewed 'poor millionaires' in Silicon valley for a feature. These were wealthy individuals in the information technology business who were still working stressful 50 hour weeks in spite of the fact that they were worth millions. When asked why he had still not given up his day job, in spite of the fact that at age 51 he owned a \$1.3 million house, had another \$2 million in the bank and was in the top 2% of American incomes, one of them replied: 'I know people looking in from the outside will ask why someone like me keeps working so hard, but a few million doesn't go as far as it used to'.

Another factor that makes the 'how much is enough' equation invalid is that your life and your need to grow your assets is not going to end or change on the day you retire. Thanks to modern medical research you could easily have at least 25 to 30 years ahead of you at age 50, hopefully in good physical and mental health. In fact, you may not actually stop working until your 70s,

though not at the same job you were doing at 60. This means that you will need to nurture and grow your assets just as diligently when you are 70 as you do at age 50.

The need for active investment management lasts as long as you do, so we should correctly regard financial planning as one long continuum stretching from around age 25 or 30 when you have your first serious job until your 70s or 80s.

High income doctors who are low investment achievers

It is very tempting to spend a lot of money when you earn a lot for money. You can afford to indulge. You don't want your children to do without things you could not have as a child. Your hard work and your status deserve tangible rewards. But – and it is a big but – you are very likely at the peak of your earning power right now, and if you cannot divert some of that money into growth investments that will keep on working for you when you want to take it easy or do something more interesting and less demanding, your life could hit a wall in your sixties or seventies, instead of opening up into a new horizon.

In fact, if you are earning a couple of hundred thousand a year or more, and have not yet managed to accumulate any significant assets beyond your family home and your superannuation plan, you are cheating yourself of future security and the chance to choose a new challenge at an age when a change could help keep you young, active and interested in life.

There are only two ways to accumulate enough wealth to achieve your personal freedom. One is to inherit it. The other is to have a goal in mind, draw up a plan to reach it, and have the discipline to stick with it.

How many lifetimes will you actually have?

Many doctors who have devoted decades to study and building up professional practices feel emotionally unable walk away from their life's work, yet would like to have more time for themselves, the people who are important to them and the experiences they missed out on.

A carefully planned transition to retirement can result in a financially painless strategy that will enable you to ease yourself out of your practice over a period of time.

Make time for a financial health check

It is never too late to create wealth, but by the time you hit your 50s, every year is critical in terms of the ultimate financial outcome. You may already have a superannuation plan in place, own a practice, or have invested in property and other assets – but there is always the nagging concern that you may not have quite enough to live as you would like to after retirement or could not have done a lot better.

The anatomy of wealth creation

You cannot become a doctor without an understanding of human anatomy and the pathology of diseases. You cannot become a wealthy doctor without a grasp of the six basic concepts of wealth creation and the way they interact.

1. Wealth demands discipline

Wealth is created through investing in assets that appreciate over time, and this requires capital. Unfortunately, there are only two legitimate ways to accumulate capital – saving or borrowing.

The right decision at any stage of your life depends on your personal assets and liabilities, your goals and your position on the lifetime clock. Making the right decision (rather than hoping for the best) demands that you sit down and define a clear life goals and a plan that will help you achieve them. Once you have a goal and a plan, it becomes much easier to evaluate the pros and cons of a saving or spending decision.

2. Just having a plan makes you more likely to become wealthy.

One of the main differences between successful people and the rest is that they have personal goals that are important enough to strive for. If there is a price to be paid, they will pay it in order to reach their objective. At the same time, just wanting

something badly enough will not make it happen. You also need a plan that will help you reach those goals.

An effective financial plan is like a bridge that will take you from where you are now to where you want to be, except for one vital difference. Instead of being fixed and immobile like a real bridge, a financial bridge has to be flexible. The reason for this is simple. When your life or the outside world changes, your goals change too. If they do, the plan has to be adjusted to take the changes into consideration.

3. Debt can make you wealthy

In Hamlet, one of William Shakespeare's most famous plays, fussy old Polonius advises his young son Laertes, 'neither a borrower nor a lender be'. This could be good advice for an inexperienced young man leaving home to go to university in another city, but if we all followed it many of us would end up a lot poorer.

Most of us would never own our home unless we borrowed a substantial amount of money from the bank to finance it. And since buying a home allows us to stop paying rent and start paying for an asset that will one day almost certainly be worth a lot more than we laid out in home loan repayments, it is obviously a good thing to do.

So if we agree that borrowing is not always a bad thing to do, the question is when is it good to borrow and when is it bad?

So if we agree that borrowing is not always a bad thing to do, the question is when is it good to borrow and when is it bad?

Bad debt is borrowing simply to spend, either on day to day things like clothes or cars i.e. things that lose value from the day you buy them. Neutral debt is when you borrow money to buy an appreciating asset, but are legally unable to claim any tax rebate on the interest you pay. Standard home mortgages fall into this category.

Positive debt is borrowing that can actually fuel personal wealth creation and is when you borrow to buy an appreciating asset such as land, real estate or shares. Not only is the asset you buy likely to increase in

value over time, but the interest you pay on the loan is tax deductible. So depending on your income and your tax bracket, you could end up borrowing for investment virtually tax free.

Borrowing money to invest is just one answer to investing wisely. It is not the answer to every investor's prayers, but it can be a very rewarding strategy if it is done correctly.

4. Time, not timing, is everything.

Our mantra is to buy quality assets and let time do the rest. A handy rule of thumb is the Rule of 72, which estimates how long it will take for an investment to double in value. Divide an investment's annual return into 72, and you will get a rough idea of the number of years necessary to double your money.

Let's say you were a 30-year-old with \$10,000 at your disposal, an inheritance from your great uncle. If you apply the Rule of 72, placing the money in a fund that has historically produced an average return of 10 % will mean that you'll potentially double it in 7.2 years and build it into \$174,000 by age 60, your reward for having the discipline to invest it and not spend it.

Being 30, you may decide that your windfall is there to be spent on the overseas trip you have been denying yourself for so long, but at the very least, applying the Rule of 72 forces you to think about the true long-term cost of doing so. It can persuade us to invest money early and leave it alone, and encourage us to behave with the long term in mind.

5. It's not effective unless it is tax effective

Because they are wealthier they not only pay more tax, but can also make a substantial difference to the tax free or after tax part of their income just by the way they organise their affairs. It is certainly true that the tax burden on wealthier Australians has eased considerably over the last decade, but it is still there and, in a tightening fiscal climate, it could rise again.

While it may be fair that those who have

more pay more, there is no need to pay more than you have to. Seeing a financial adviser ensures you are fully aware of the tax implications before you make a decision.

6. It really does not matter much whether you buy shares or property

This sounds like a heresy, but in spite of the fact that you can Google 'real estate vs. shares' and come up with at least 50 web sites telling you to do one or the other, we at Moneytree Partners always tell our clients they are welcome to do either, because we believe that it does not make too much difference whether you invest in real estate or shares – if you pick the asset wisely, time will do the rest.

Conclusion: there is no miracle cure for poverty

Let us assume that you are in basic agreement with premise that the majority of doctors have to work very hard to compensate financially for the many years invested in study and establishing a practice.

In that sense, the ideas expressed in this eBook are intended to assist you in catching up with the fat cats who avoided all those years of study and have accumulated significant wealth and assets in the time you were studying, earning a registrar's salary and seeing patients on weekends.

At the same time, you should appreciate that there is no standard prescription for wealth creation. In fact, wealth creation and the practice of medicine have a one or two of things in common in that a successful outcome depends on accurate diagnosis and appropriate prescription and a cure cannot be effected without the cooperation of the patient. You can tell a heavy smoker he is courting death and advise a nicotine replacement therapy to help him quit, but you can't force him to follow your advice.

In the same way, a good financial adviser will take a careful case history, help you define and rank your personal goals and prescribe a plan or strategy that will enable you to achieve them, but none of this will be

effective without your commitment to the goal and your determination to make the strategy work.

Take the next step

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We look forward to meeting you soon.

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Date

Time am/pm

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