Bitcoin From a Trader’s Perspective

[Editor’s Note: The following guest post was written by Donald Wieczorek, President and Founder of Purple Valley Capital, Inc. Don is married to an emergency physician and has guest posted for WCI in the past about managed futures. He clearly has thick skin given the reception his last post here received. We have no financial relationship. Purple Valley Capital is NOT on the list of WCI recommended advisors. See my note at the end of the post for further information or perhaps just to satisfy your curiosity as to why this post was run on this site at all.]

**Today’s guest post has been temporarily pulled awaiting regulatory approval. Our apologies to all for not making sure that was in place prior to publication. The post was followed by a lengthy comment/post of mine, which I have left in place. Eventually, we hope to put the full post back together. If you really want to read the original, check your email box where you will find it if you are subscribed to the blog updates.**
From the Editor:

I don’t buy Bitcoin. I don’t view Bitcoin as a viable currency. I don’t buy futures. I don’t speculate. I don’t trade in the sense discussed in this article. I don’t use technical analysis. Like other humans, I am not particularly talented at predicting the future. Yet somehow, I am a multi-millionaire in my early 40s and am freed from the need to work for money ever again.

So, is trading Bitcoin smart or stupid? Wrong question. The question you should be asking is, “Is trading Bitcoin relevant to your life?” Almost surely not. This is one of many corners of the investing universe that you can safely ignore. There are no called strikes in investing. You can stand there at the plate all day waiting for a pitch you like to come by. Trading, speculating, and buying bitcoin are all pitches that I would let go right by.

Two points about Bitcoin that are worth understanding.

# 1 Bitcoin absolutely was in a classic bubble and that bubble has burst. Bubbles are sometimes difficult to identify while you’re in them, but they’re very obvious in hindsight, and Bitcoin had a bubble. It was the most impressive speculative frenzy of my investing career, and a pleasure to watch. Bernstein identified the following characteristics of a financial market bubble and warned that when you see at least 3 of the 4, steer clear:

1. The asset becomes the subject of conversation at social gatherings
2. People are quitting jobs to speculate in it
3. Skeptics are met with anger
4. Extreme price projections

By December of 2017, all four of those were in place as evidenced by the links. So it should be no surprise that the
Bitcoin chart for the last year looked like the classic chart of a bubble.

Wow! You’d think that second chart was drawn AFTER the first one happened, but no, that second one has been around for years. At any rate, anyone who couldn’t see that there was a Bitcoin bubble, especially in retrospect, has no business managing their own money, much less anyone else’s. Now I have no idea where Bitcoin goes from here. Maybe it goes up. Maybe it goes down. Maybe it goes to zero. Maybe it goes to the cost to produce it. Maybe it never against equals its previous height. I truly don’t know. But it certainly was in a bubble and what happened is what always happens with bubbles. On December 17th, it peaked at $19,783. By June 28th, it was at $5,822, a loss of 71%. That’s a return that makes the first year of a whole life insurance policy look good.

# 2 Bitcoin is not, never has been, and given the current trade, is highly unlikely to ever function as a viable currency. Much of the hype driving this mania was that we were all going to start using Bitcoin as a currency. It was supposedly confidential, reliable, and out of the control of governments. Subsequent developments showed that none of that was the case. Besides, Bitcoin failed in the most elementary way – it simply didn’t function as a currency. Nobody was using it in any significant way to buy anything. Try it! Check your local area to see which businesses you can use Bitcoin at. I found about a dozen in the Salt Lake Valley, the largest of which repairs lawnmowers. Even those early adopters who tried to use it seem to be backing away from their decision. Try it yourself. Try to buy your next 30 purchases with Bitcoin and report back on how many of them you could use it for.
So if it isn’t the currency it pretends to be, what is it? It’s an instrument of speculation. Before costs, speculation is a zero-sum game. After costs, like roulette, it is a negative sum game. Don’t play negative-sum games.

As a high-income professional, you have an income in the top 1-3% of Americans. If you simply put 20% of your gross income away during your career and invest it in boring old stocks, bonds, and real estate, with a very high degree of reliability will have more money than you will ever need. You don’t need to speculate or buy stuff like Bitcoin in order to be financially successful, no matter how many seemingly smart people are doing so. Do yourself a favor and let this pitch go right by.

What do you think? Does trading or Bitcoin have a place in the portfolio of a serious investor? Why or why not? Comment below!

Don’t Fear The Reaper (RMDs)

I’ve now run into a misunderstanding enough times that I think it’s worth writing a post about it. I call this misunderstanding “Inappropriate Fear of Required Minimum Distributions (RMDs).” It is when the fear that your RMDs will be large and cause you a large tax burden in retirement causes you to make a bad financial move. In this post, I’ll discuss RMDs, what an appropriate response is if you truly will have an “RMD Problem,” and why the inappropriate responses are wrong.
What Is A Required Minimum Distribution?

Starting at 70 1/2, you have to start taking money out of your tax-deferred accounts like 401(k)s and IRAs. Technically, RMDs also apply to inherited IRAs prior to age 70 1/2. They also apply to Roth 401(k)s, but since they do not apply to Roth IRAs, the easy solution there is to roll the Roth 401(k) over to a Roth IRA. Voila- no more RMDs. At age 70, the RMD is about 3.6% of the nest egg. That’s amazingly similar to what you actually WANT to pull out of your retirement accounts and spend based on a 4% withdrawal rate unless you plan to be the richest person in the graveyard. As time goes on, those RMDs go up as a percentage of your account. By the time you’re 90, the percentage is 8.8% of the current nest egg. However, that is quite likely very similar to 4% of the original nest egg adjusted for inflation. In fact, just taking out your RMD and spending it is a completely reasonable way to spend down your nest egg in a safe way.

Bear in mind, of course, that an RMD need not be spent. You can simply pull the money out of your IRA, pay the tax on it, and invest the rest in a taxable account. Nobody is making you spend it. Also, bear in mind, if you are a high-income professional, that you likely saved 32-37% when you put that money in and you are likely pulling it out at rates of 0-24%. Saving at 37% and paying at an effective rate of 15% is a winning combination, even if the tax bill is larger on an absolute basis due to a few decades of compounding.

First World Problem

Now, let’s describe the RMD “problem.” A true RMD problem is someone who will actually pay taxes at a higher rate upon withdrawal than they paid during their peak earning years. If ever there were a first world problem, this would be it. If your RMD at age 70 is 3.6% of your nest egg, and your peak
earnings years marginal federal tax rate is 37% (like mine is), how large would your tax-deferred account have to be in order for you to pay 37% on ANY of your RMD? Let’s give you the benefit of the doubt and say you have $100K of other taxable income from your taxable account and Social Security. The top tax bracket starts at a taxable income of $600,000 (married). Let’s say a gross income of $700K to make things easy and $100K worth of deductions. Subtract out another $100K worth of taxable account and Social Security income, leaving $500K coming as an RMD. $500K/3.6% = $13.9 Million. In today’s dollars. That’s right. You may need an IRA of nearly $14M in order to have this first world problem. (Remember that’s in today’s dollars since the brackets are adjusted for inflation.) And that’s just for the marginal tax rate to EQUAL your current marginal tax rate. The effective tax rate in the future would still be less than your current marginal tax rate as that entire $500K wouldn’t be taxed at 37%.

Just another first world problem.

My point is that this is a problem that only super savers are going to have. You’re not going to have it with a $1M IRA and a $36K RMD. I mean, how much do you have to save a year at 5% real over 40 years to get $14M? About $110K. A year. For 40 years. And not spend any of it. Most of us don’t even have access to $110K in tax-deferred contributions.

This is all a first world problem, of course. Assuming no change in the tax code, the only way you’re going to be paying taxes at a higher rate than you paid during your peak earnings years is if you have more taxable income in retirement than you had during your peak earnings years. May we all be cursed with this problem. When you combine it with the usually dramatically lower expenses of retirement, it’s going to be a
heck of a party. Even with significant tax rate increases, if you do the math most are STILL going to be better off deferring taxes during their peak earnings years.

What To Do With an RMD Problem

Now, for the benefit of those rare people who will have a true RMD problem (who admittedly are concentrated in places like this website), let me describe the solution. The solution is to do Roth conversions. A Roth conversion is basically taking tax-deferred money and taxable money and moving them together into a tax-free account. So you might take $50K of tax-deferred money and convert it to a Roth and pay $20K in taxes. In essence, you’re taking $50K of tax-deferred money (actually $30K in post-tax money) and $20K of taxable money and putting it into a Roth IRA. Now there are no more RMDs. If you recognize this is a problem you’ll have, you can even do Roth 401(k) contributions as you go along and then move that money into a Roth IRA before age 70 1/2.

This solution allows your money to continue to grow in a tax-protected manner, eliminates RMDs, provides even more asset protection than you had previously (because some of the money was in taxable), facilitates estate planning through the use of beneficiaries, and allows the use of a Stretch Roth IRA.

This solution also works in a similar way for those who are able to do Roth conversions at a relatively low rate in their 50s and 60s after early retirement, even if they don’t have a true RMD problem. Another possible solution for those who are charitably inclined is to give tax-deferred money to charities in lieu of cash (Qualified Charitable Distributions), a solution I wrote about last week. While you don’t get the usual tax deduction too, you don’t have to pay taxes on the charitable contribution and don’t have to take an RMD, so that’s really
the same thing.

What NOT To Do With an RMD Problem

So now that we’ve pointed out what reasonable solutions are, let’s point out what the solution IS NOT.

# 1 Pull all your money out now.

The solution is NOT to pull all the money out of your 401(k) now, pay the taxes and penalties, and reinvest it in taxable. This solution is generally advocated by someone who wants to sell you something, like whole life insurance. It’s stupid. Not only do you pay the penalties, pay taxes at the highest possible rate, lose the asset protection benefits and lose the estate planning benefits, but you also lose the benefit of that tax-protected compounding for the rest of your life and that of your heirs. And you probably end up with a crummy investment. It’s idiotic. Really, really dumb. Don’t do that.

# 2 Avoid making tax-deferred contributions.

The second bad solution, although not as bad as the first, is the one I hear about more often by people who are trying to do the right thing. This is to quit contributing to a tax-deferred account in the first place and invest in taxable instead. The only reason to EVER pass up a tax-deferred account during your peak earnings years is if you have some investment opportunity that promises much higher returns than something you could buy in the tax-deferred account and you don’t have the money to do both. Minimizing RMDs is NOT a good reason to avoid maxing out that account.

The reason why is that you can simply do a Roth conversion. You might not be able to do a Roth conversion of that money right then due to 401(k) rules. But you can probably do it later. Or you could do what is essentially the same thing in the same tax year by converting a DIFFERENT tax-deferred account. Money is fungible, you see.
Contribute $50K in the 401(k) + Convert $50K in the IRA to a Roth IRA = Contribute $50K to the Roth IRA

Why would anyone choose to invest in taxable when they could invest in a Roth account? It makes no sense whatsoever. But that is what you are doing when you choose to invest in taxable instead of a tax-deferred account due to inappropriate fear of RMDs.


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Why Invest in Bonds? – Podcast #72

Podcast #72 Show Notes: Why Invest in Bonds?

So you are in your 30s, just out of training, and you really want to catch your retirement savings up since the pipeline to get here was so long. And you think, why should I put any investment money in bonds? I understand they are lower risk and every book recommends a minimum of 10% of my portfolio be in bonds but since I won’t be touching this money for decades I can just add bonds to my portfolio in 10 years or so. I mean I could tolerate any changes in the total stock market over the next 10 years before I make my portfolio more conservative by adding bonds.

Well, truth of the matter is that you don’t need to have bonds
to be successful.

Probably………

In this episode I caution you that when you decide not to invest in a major asset class like bonds you’re making a pretty big bet. And so I think it’s probably a good idea for you to at least include a little bit of bonds in your portfolio even when you are after those high returns.

PLUS

More importantly the reason to include bonds in your portfolio is that you don’t really know your risk tolerance when you’re just starting out as an investor. This period of time when you think you can get away with not owning bonds because you want those high returns. That is also the period of time when you are an unproven investor. You’re unproven to yourself. It seems like you could to stay the course in a big bear market but you don’t actually know that you can because you’ve never done it. You’re essentially an investing virgin. And I think it’s a good idea to set your asset allocation up a little more conservatively than what you think you can handle until you go through your first bear market.

But before we get into what else is in this episode, here is our sponsor. Have you downloaded Adam’s free e-book yet?

Podcast # 72 Sponsor

[00:00:20] This episode was sponsored by Adam Grossman of Mayport Wealth Management. Adam is a Boston-based advisor and works with physicians across the country. Unlike most other advisors, Adam offers straightforward flat fees for both
standalone financial planning and investment management. Whatever stage you’re at in your career, Adam can help you get organized with a personalized financial plan and can help you implement it with a low-cost index fund portfolio.

Adam is a CFA charterholder and received his MBA from MIT, but more importantly, you’ll benefit from Adam’s own personal experience with many of the same financial obstacles and opportunities that face physicians.

To learn more, visit Adam’s website mayport.com/whitecoat to download a free e-book especially for physicians.

**Quote of the Day**

And of course our Quote of the Day. So many good quotes to share from Morgan Housel.

[00:01:03] “There is a lot of money to be made in the finance industry which despite regulations, has attracted armies of scammers, hucksters, and truth benders promising the moon” - Morgan Housel

**Introduction**

Three things I cover in the introduction.

1) **Read The White Coat Investor book**

[00:01:23] Seriously though if you haven’t had a chance to read the **White Coat Investor**. It’s a great book. And I’m not just saying that because I wrote it. You should take a look at it. It has had hundreds of reviews, almost all of them are five star reviews, and it is changed a lot of lives. It’s a great way to catch up quickly to other listeners of the podcast or readers of the blog. And it contains information that isn’t found either on the podcast or on the blog. So if you haven’t had a chance to read that, I’d suggest picking up
a copy and reading it. If you know somebody else that could benefit from it, get them a copy while you’re at it. It could change their financial life.

2) Subscribe to the White Coat Investor Youtube channel.

[00:02:04] Check out the WCI channel. We are putting a lot of effort into it, to reach more people with this financial information. There is both audio and video there covering important topics. Be sure to check it out and subscribe.

3) Speak Your Questions Directly on to the WCI Podcast

[00:02:27] And most excitedly, you can now speak your questions directly on to the WCI podcast. Listeners won’t have to listen to me read your question. They can hear it directly from you. Go to speakpipe.com/whitecoatinvestor and press record. You have 90 seconds to ask your question. So if you have a question right now, go here and record it! Okay you can still email me questions but we thought it would be fun to get more voices on the podcast.

Main Topic

Why Invest in Bonds?

[00:02:48] You may do just fine not investing in bonds. Maybe. But since we don’t have a crystal ball I recommend you include bonds in your portfolio because:

- There may be a situation in which bonds outperformed stocks over your investment horizon. Is that situation unlikely? Yes that’s unlikely. You’re more than likely going to do better with stocks then bonds over 30 to 60 years. That said there are significant periods of time in history when bonds have outperformed stocks for
periods of 10 and up to almost 20 years. And that could certainly happen again and it has happened in other countries.

- You don’t really know your risk tolerance when you’re just starting out as an investor. You are an unproven investor. Like I said earlier you’re essentially an investing virgin. So set your asset allocation up a little more conservatively than what you think you can handle until you go through your first bear market. It is a little bit like the Price is Right. You want to have as many stocks as you can tolerate but not any more than that. So you’re trying to get as close as you can to the right amount of stocks for you without going over.

- Specialized kinds of bonds can be important to your portfolio. Municipal bonds for instance kick out tax free income when you hold those in your taxable account. Treasury Inflation Protected Securities or TIPS can also help protect you against inflation. So don’t ignore this asset class.

Q&A from Readers and Listeners

Enough about investing in bonds. Let’s get to some listener questions.

Q) [00:06:56] “I’d love to hear your thoughts on target date retirement funds.”

A) A target date retirement fund is a fund of funds. It’s a mutual fund that buys a bunch of other mutual funds. And at Vanguard they’re basically invested entirely in the Vanguard Total Stock Market Index, the Vanguard Total International Stock Market Index, the Vanguard Total Bond Market Index Fund, and the Vanguard International Bond Market Index Fund. I think as you get into the later stages, toward the less aggressive ones, they even throw their Treasury Inflation
Protected Securities Fund in there. And so it’s a good mix of funds. It’s not like you’re going to go wrong picking a target retirement fund. There are no bad funds in there at Vanguard anyway. Now some of the other companies have some higher expense funds you may want to avoid. But the problem with target retirement funds is not only that you get the higher expense ratios, you can’t get the lower ones you would get with Admiral shares or the ETF share classes of Vanguard, but also it’s probably not available to you in all of your accounts. For instance my 401k at my partnership doesn’t offer target retirement funds so if this is supposed to be a one stop shopping solution, use one fund and forget about it. Well that doesn’t work if it’s not available in your 401k.

The other problem with it is if you are investing in a taxable account you’re going to have some assets in there that you probably don’t want in your taxable account. For example most docs are in a high tax bracket and if you are going to hold bonds in taxable you want to be holding muni bonds or tax exempt bonds. The bonds in the target retirement funds are not tax exempt bonds. And so in that respect you may not want to hold it in a taxable account if you’re looking for the most tax efficient solution possible.

Most people using target retirement funds are looking for a simple solution, a one stop shop, something they can set and forget. They’re not usually the people who are listening to financial podcasts and reading financial blogs and that worry about things like a 10 basis point difference in expense ratios. If you are the type of person who worries about those things you probably don’t belong in target retirement funds. You might as well set your own asset allocation. But are they perfectly fine? Sure they are. It just doesn’t work for most docs because they have all kinds of different investing accounts they’re trying to manage. But certainly when you’re starting out in residency, in a Roth IRA, and that’s your only investment account, throw it into a retirement fund, that’s a
great choice.

Q) [00:10:38] “I have a loan for disadvantaged students where 5% interest is paid for during my training. Should I continue with this loan as is or consolidate all my loans and and go for REPAY or PAY and presumably eventually public service loan forgiveness?”

A) The reader has 150,000 dollars in student loans at 6% with Great Lakes and 80,000 at 5% with heartland. The smaller loan is a loan for disadvantaged students. He was not considering loan forgiveness at the time he deferred the loan for disadvantaged students since 5% interest would be paid for during his training (6 years). He could still make four years of qualified payments. after that. But is unsure whether he will be in a nonprofit after training though is not opposed to the idea. If he consolidates the loan for disadvantaged students he loses the 5 percent benefit.

The most difficult part of this is deciding whether you are going for public service loan forgiveness or not. If you’re going for a public service loan forgiveness you want to get as many of your loans as eligible for public service loan forgiveness as you can. And if consolidating helps you do that. You want to do that. You also want to make as many tiny payments during your training as you can. And so it’s hard to answer this question without knowing the future, whether you’re going to be working for a qualifying institution for Public Service Loan Forgiveness.

If you’re not, there’s no reason to consolidate that loan for disadvantaged students. This is a subsidized loan and they’re covering the interest for you during residency. That is a great deal. However you’re not making payments toward public
service loan forgiveness. So which one’s a better deal? Well the Public Service Loan Forgiveness is probably the better deal. But if you end up working in private practice you will have paid a lot of interest that you didn’t have to pay by taking that loan out of that program and putting it into a typical loan program. So the first thing to decide is whether or not you’re going for public service loan forgiveness. If you are then go ahead and consolidate that LDS loan. If you are not, leave it where it is right now and let the government cover the interest on it.

Q) [00:13:19] “I’ve been saving money in a taxable account just in case something happens with the Public Service Loan Forgiveness program. If I plan to potentially use that money for loan payoff in five years what is the best allocation strategy?”

A) So he’s asking what should you do with your public service loan forgiveness side fund. I’ve got a blog post coming up on this. It really gets into the details of it. But here are a few principles you should consider when looking at this.

1. The first is how likely are you to use this to actually pay off the loan? And in my view you’re pretty unlikely to use it. This money is almost surely going to be used for something else because I don’t think public service loan forgiveness is going away. And even if it does in the next five years I think this doc is going to be grandfathered in. So the most likely thing is that this money is just going to be added to the retirement portfolio in which case it ought to be invested aggressively like the rest of the retirement portfolio.

2. If you think for some reason that you’re very unlikely to stay in a job that’s going to qualify for public service loan forgiveness and you really are going to use this money to pay off your loans then I would invest it
much less aggressively perhaps just in a money market fund or a short term bond fund or a high yield savings account.

Q) [00:15:13] “We have 401k retirement accounts through are current jobs that we max out each year, Roth IRAs and a separate investment account with T.D. Ameritrade. Should we invest in the same low cost index fund for all accounts, the Vanguard Index S&P 500, or is it better to diversify somewhat?”

A) This is one of those questions I get all the time and the answer to it is – you need a written investment plan! If you can draw one up yourself. That’s fine. I’ve got a post about how to do an investing plan. And so does Physician on Fire. If you’re not ready to do that but you want to learn how to do it yourself you might consider taking my online course, Fire your Financial Adviser. It teaches you how to not only interact with a financial adviser but also to draw up your own financial plan if you should want to.

There are basically lots of reasonable asset allocations out there. You need to pick one that you can stick with through thick and thin and then when you go to choose investments you choose them according to that asset allocation, according to your written investing plan.

Q) [00:17:54] After we pay off our loans where should we direct funds? Emergency fund, pay off the mortgage, or invest in funds or property?

A) If you don’t have an emergency fund, you need to get an emergency fund. It is probably okay to have a small one while you’re trying to knock out your student loans but should get a bigger one, three to six months of what you spend, after you pay those loans off. So that’s priority number one. Should you invest or pay off the mortgage? Both are reasonable things
to do. As long as you have additional tax protected space I think you should invest. But once you’re looking at your taxable money I think it’s reasonable to consider paying off your mortgage with all or part of that savings above and beyond your retirement accounts. This assumes you’re putting at least 20% of your gross toward retirement even if that’s being invested in a taxable account.

Q) “We have a long term goal to move to New Zealand. We realize this would lead to much lower salaries. Is there a better time to do this? Would you recommend working 10 years in the U.S. to save as much as possible in retirement before going? Any certain amount we should save up before going or other tips?"

A) [00:20:12] I don’t know if there is a right answer here as far as when is the best time to go to New Zealand. Obviously the more you save first the better off you’re going to be financially. But life isn’t always about money. It might be tough to do that New Zealand thing once kids are in high school. So if you’re going to go temporarily I think I’d go before that. If you’re going to go permanently, I’d probably do it before then as well. So maybe they can work for five years and then go. There is not really a certain dollar amount you should save in the U.S. before going to New Zealand, it’s just too personal of a question for me to answer. But I suggested they send in a guest post about what they decide to do!

Ending
That is all for this week. Be sure to check out the White Coat Investor book if you
haven’t yet. Also check out our YouTube channel. And thank you for supporting.
This is the White Coat Investor podcast where we help those who wear the white coat get a fair shake on Wall Street. We’ve been helping doctors and other high income professionals stop doing dumb things with their money since 2011. Here’s your host Dr. Jim Dahle.

Welcomed to the White Coat Investor podcast number 72, Why Bonds. This episode is sponsored by Adam Grossman of Mayport Wealth Management. Adam is a Boston based adviser and works with physicians across the country. Unlike most other advisers Adam offers straightforward flat fees for both standalone financial planning and investment management. Whatever stage you’re at in your career Adam can help you get organized with a personalized financial plan. He can help you implement it with a low cost index fund portfolio. Adam is a CFA Charter holder and received his MBA from MIT but more importantly you’ll benefit from Adam’s own personal experience with many of the same financial obstacles and opportunities that face physicians. To learn more visit Adam’s website Mayport dot com slash white coat to download a free eBook especially for physicians.

Our quote of the day today comes from Morgan Housel. There’s a lot of money to be made in the finance industry which despite regulations has attracted armies of scammers, hucksters, and truth benders promising the moon. I guess that’s just what happens when you have a lot of money
sloshing around in one industry. You’re going to get people who are just in it for the money going after it rather than people who really want to help you.

[00:01:23] If you haven’t had a chance to read the White Coat Investor, the book. It’s a great book. You should take a look at it. It’s had hundreds of reviews almost all of them are five star reviews and it’s changed a lot of lives. It’s a great way to catch up quickly to other listeners of the podcast or readers of the blog. And it contains information that isn’t found either on the podcast or on the blog. And I’m surprised that I continue to not only sell lots of copies of it each month because it continues to help people but also the feedback I get on it and just how many lives is changed. So if you haven’t had a chance to read that I’d suggest picking that up and reading it. And if you know somebody else that could benefit from them get them a copy while you’re at it.

[00:02:04] Be sure to also check out our youtube channel. This is something where you can not only get some audio and video, covering these important financial topics but also another way in which we can put some really great content together. It really only works in that format so we’re trying to use that more and more. Be sure to check it out and subscribe.

[00:02:27] The first topic we’re going to hit today was sent in by a reader who asked us to cover this important question of why Bonds? And by the way, you are able to leave your own questions, in your own voice soon, that we’ll be able to put on to this podcast. More info on that to come but we think that’s going to be a great addition to the podcast.

[00:02:48] But this doc wants to know why he should have bonds in his portfolio? “Specifically for a 30 something M.D like me. Only one year out of training. Why should I put any of my 401k and other investment money in bonds as opposed investing only in equities and a smaller amount in real estate. I understand that bonds are much lower risk and every book I’ve
read recommends a minimum of 10 percent bonds for anyone. But since I don’t plan on touching any of these funds until retirement it could be reasonable to invest no money in bonds for now and then add that to my portfolio maybe 10 years in the future. Well this would be a relatively aggressive investment strategy. It seems that I could tolerate any changes in the total stock market over the next 10 years before I made my portfolio more conservative by adding bonds.”.

[00:03:29] Well you know this is an interesting question. Lots of people have this. There is no right answer to it which makes it worth a discussion really. The truth of the matter is that you don’t have to have bonds to be successful, probably. You know there may be a situation in which bonds outperformed stocks over your investment horizon. Is that situation unlikely? Yes that’s unlikely. You’re more than likely going to do better with stocks then bonds over 30 to 60 years. That said there are significant periods of time in history when bonds have outperformed stocks for periods of 10 up to almost 20 years. And that could certainly happen again and it has certainly happened in other countries. And so bear in mind that when you decide not to invest in a major asset class like bonds you’re making a pretty big bet. And so I think it’s probably a good idea for you to at least include a little bit of bonds in your portfolio for that reason.

[00:04:28] But a more important reason to include bonds in your portfolio is that you don’t really know your risk tolerance when you’re just starting out as an investor. This period of time when you think you can get away with not owning bonds because you want those high returns. That’s also the period of time when you are an unproven investor. You’re unproven to yourself. It seems like you would be able to stay the course in a big bear market but you don’t actually know that you can because you’ve never done it. You’re essentially an investing virgin. And I think it’s a good idea to set your
asset allocation up a little more conservatively than what you think you can handle until you go through your first bear market.

[00:05:08] My first bear market was the 2008 bear market and I’ll tell you what, By the end of that I was pretty darn glad that I had 25 percent of my portfolio in bonds because it felt like stocks were going to keep going down and down and down forever. But by having those bonds in my portfolio it made it easier for me to tolerate the losses I had had in stocks. And so you may find that you’re in the same situation but if you decided not to own any bonds you may have exceeded your risk tolerance and end up doing the worst possible thing you can do in a bear market which is cashing out and basically selling low. And so you’re far better off holding 10 20 30 40 percent bonds than you are selling low in a bear market. It’s a little bit like the price right. You want to have as many stocks as you can tolerate but not any more than that.

[00:05:59] So you’re trying to get as close as you can to the right amount of stocks for you without going over. So be very careful in that respect. There’s also some other benefits of bonds for example some specialized kinds of bonds. Municipal bonds for instance kick out tax free income. You know when you hold those in your taxable account. Treasury Inflation Protected Securities or TIPS can also help protect you against inflation. And so that’s also another great case for why you might want to own some bonds in your portfolio. But those are my main thoughts on whether you should own bonds in your portfolio or not. I certainly do and have throughout my entire career and I haven’t regretted it. But the truth of the matter is if I went back and had held 100 percent stocks instead of bonds I would have more money today assuming I was able to tolerate the ups and downs than I do now. And whether that continues in the future or not of course is anybody’s guess.

[00:06:56] All right. Second question from the same listener. “I’d love to hear thoughts or even entire episode on target
date retirement funds. For example I have Roth IRA funds and Vanguard target date fund with an expense ratio of zero point one five percent. I can instead put that money directly into the component individual index funds with an expense ratio of about point 04 percent if I use the ETF. I don’t have enough funds to purchase Admiral shares in all categories. So is this difference in fees large enough to justify the time needed to rebalance the account and adjust the asset allocation through retirement? I understand I could choose a different asset allocation and different glide path in retirement but I don’t have any evidence based reason to think that my choices would be better than Vanguard settings for its target date funds.”.

[00:07:40] Well what a target date fund is, it is a fund of funds. It’s a mutual fund that buys a bunch of other mutual funds. And at vanguard they’re basically invested entirely in the vanguard total stock market index, the Vanguard Total International Stock Market Index, the Vanguard Total Bond Market Index Fund. I think they also now have the Vanguard international bond index fund in there as well. And I think even as you get into the later stages toward the less aggressive ones they even throw their Treasury Inflation Protected Securities Fund in there. And so it’s a good mix of funds. It’s not like you’re going to go wrong picking a target retirement fund. There are no bad funds in there at Vanguard anyway. Now some of the other companies have some higher expense funds you may want to avoid.

[00:08:32] But the problem with target retirement funds is not only that you get the higher expense ratios, that you can’t don’t get the lower ones you would get with Admiral shares or the ETF share classes of Vanguard but also it’s probably not available to you in all of your accounts. For instance my 401k and my partnership doesn’t offer target retirement funds so this is supposed to be a one stop shopping solution ,buy one fund and forget about it. Well that doesn’t work if it’s not available in your 401k.
The other problem with it is if you are investing in a taxable account you’re going to have some assets in there that you probably don’t want in your taxable account. For example most docs are in a high tax bracket and if they’re going to hold bonds in taxable they want to be holding muni bonds there or tax exempt bonds and the bonds and the target retirement funds are not tax exempt bonds their taxable bonds. And so in that respect you may not want to hold it in a taxable account if you’re looking for the most tax efficient solution possible.

Now the truth is most people are using target retirement funds are looking for a simple solution, a one stop shop, something they can set and forget. They’re not usually the people who are listening to financial podcasts and reading financial blogs and that worry about things like a 10 basis point difference in expense ratios. If you are the type of person who worries about those things you probably don’t belong in target retirement funds. You might as well roll your own asset allocation in that respect. But are they perfectly fine? Sure they are. Even some very sophisticated investors use those types of funds. For example Mike Piper who blogs at The Oblivious Investor his entire portfolio is in a vanguard life strategy fund which is basically a target retirement fund that doesn’t change its asset allocation as you move toward retirement and so it’s a very simple but elegant solution. It just doesn’t work for most docs because they have all kinds of different investing accounts they’re trying to manage. But certainly when you’re starting out in residency, in a Roth IRA, and that’s your only investment account sure throw it in a retirement fund, that’s a great choice.

All right next question is about student loans, specifically a loan for disadvantaged students. This doc writes in, “I have about 150000 dollars in student loans at 6 percent with great lakes and 80 thousand dollars at five percent with heartland. The smaller loan is a loan for
disadvantaged students. I was not considering loan forgiveness at the time I deferred the loan for disadvantaged students since 5 percent interest would be paid for during my training including fellowships and put the rest in forbearance. I have been making payments on the Great Lakes loans to get the tax deduction over the last two years. I plan on finishing two fellowships that will put me at six years of training. I could still make four years of qualified payments. I’m not sure whether I will be in a nonprofit after training but I’m not opposed to the idea. If I consolidate the loan for disadvantaged students I lose the 5 percent benefit. Should I continue with these loans as is, put the Great Lakes portion into repay or pay and leave the loan for disadvantaged students out? Or consolidate them all and go for repay and pay and presumably eventually public service loan forgiveness?”

[00:11:43] Well here’s the deal. The most difficult part of this is deciding whether you going for public service loan forgiveness or not. If you’re going for a public service loan forgiveness you want to get as many of your loans as eligible for public service loan forgiveness as you can. And if consolidating helps you do that. You want to do that. You also want to make as many tiny payments during your training as you can because the amount that’s left to be forgiven after ten years of payments in the Public Service Loan Forgiveness program is the difference between a full payment that you’ll make as an attending and the tiny little payments you make as a resident and a fellow. And so it’s hard to answer this question without knowing the future, whether you’re going to be working for a qualifying institution for Public Service Loan Forgiveness.

[00:12:29] If you’re not. Well certainly there’s no reason to consolidate that loan for disadvantaged students. This is a subsidized loan and they’re covering the interest for you during residency. That is a great deal. However you’re not making payments toward public service loan forgiveness. So
which one’s a better deal? Well the Public Service Loan Forgiveness is probably the better deal. But if you end up working in private practice you will have paid a lot of interest that you didn’t have to pay by taking that loan out of that program and putting it into a typical loan program. And the first thing to decide is whether or not you’re going for public service loan forgiveness. If you are then go ahead and consolidate that LDS loan. If you are not then you know leave it where it is right now and let the government cover the interest on it.

[00:13:19] Next question comes from an anesthesiologist. “I am finishing my first year in practice as pain management anesthesiologist at a county hospital. I have about five years left to plan Public Service Loan Forgiveness based on my payments from residency and fellowship. I’ve been saving money in a taxable account just in case something happens with the Public Service Loan Forgiveness program.” Good. That’s what you should be doing. “That being said we’ve saved about 100000 so far and planned to have 150000 by the end of the year which is what I expect the remaining balance to be after five years should the public service loan forgiveness program be abolished. If I plan to potentially use that money for loan payoff in five years what is the best allocation strategy?”.  

[00:13:58] So he’s asking what should you do with your public service loan forgiveness side fund. And I’ve got a blog post coming up on this. It really gets into the nitty gritty in the details of it. But here’s a few principles you should consider when looking at this. The first is how likely are you to use this to actually pay off the loan. And in my view you’re pretty unlikely to use it. This money is almost surely going to be used for something else, probably retirement, because I don’t think public service loan forgiveness is going away. And even if it does in the next five years I think this doc is going to be grandfathered in. So the most likely thing is that this money is just going to be added to the retirement
portfolio in which case it ought to be invested aggressively like the rest of the retirement portfolio. However if you think for some reason that you’re very unlikely to stay in a job that’s going to qualify for public service loan forgiveness and you really are going to use this money to pay off your loans. Then I would invest it much less aggressively perhaps even just in a money market fund or a short term bond fund something like that, a high yield savings account. But if it were my money I’d be investing it pretty aggressively. Just because I think it’s unlikely that you’ll actually use it for that purpose.

[00:15:13] All right. Next letter this comes from somebody who has three separate questions we’ll go through them one by one. “My husband and I found your podcast and website a year ago and have implemented several suggestions. We feel we have improved our financial situation substantially.” That’s great. “When we finished medical training we had about eight hundred fifty thousand dollars in combined medical school debt.” Ouch. “We had high interest rates 7 to 9 percent.” Ouch. “So refinanced with Sofi and Laurel Road for interest rates in the 3 to 4 percent range.” That’s great. My husband is four years out of anesthesia residency. I’m two out of allergy fellowship and we’re on track to pay off all our debt by early next year.” That’s awesome. Eight hundred fifty thousand dollars in debt by early next year. “We have achieved this by paying about twenty thousand dollars per month toward the loan since I’ve been in fellowship.” That’s awesome. “I now make about 200000 a year supposed to increase substantially but my group sold the private equity and now pretty much stuck with that salary long term. My husband is in private practice anesthesia makes about 800000 thousand a year but with a pretty grueling schedule. We have four kids and live in the Midwest.” All right. So here are the questions, “we have 401k retirement accounts through are current jobs that we maxed out each year, Roth IRAs and a separate investment account with T.D. Ameritrade. Should we invest in the same low cost index fund
for all accounts, the Vanguard Index S&P 500, or is it better to diversify somewhat?”

[00:16:39] Well. That’s one of those questions I get all the time and the answer to it is you need a written investment plan. If you can draw one up yourself. That’s fine. I’ve got a post about how to do an investing plan. If you’re not ready to do that but you want to learn how to do it yourself you might consider taking my online course. I call it fire your financial adviser which got all my advertisers that are financial adviser kind of riled up when I titled it that but it’s useful in that it teaches you how to not only interact with a financial adviser but also to draw up your own financial plan if you should want to.

[00:17:15] But there are basically lots of reasonable asset allocations out there. You need to pick one that you can stick with through thick and thin and then when you go to choose investments you choose them according to that asset allocation. According to that written investing plan. And so you know if you can’t just call me up and ask me what funds should I invest in? My answer is what’s your plan say you should invest in? If you don’t have a plan, go get a plan. But I get lots of questions like that that people just want to know what I should invest in my 529 or what I should invest into my HSA? And the answer is you need a plan. So go get one.

[00:17:54] All right next question, “after we pay off the loans where should we direct funds? Option 1 is an emergency fund. Is that supposed to be six months of what we usually spend?” Yes, three to six months of what you spend is an emergency fund. “Option two, pay off the mortgage. We currently owe Four hundred Fifty thousand dollars at three point five percent. Option number three investments if so which ones? Option number four investment properties.”.

[00:18:19] OK. Well yes if you don’t have an emergency fund you got to get an emergency fund which is probably OK to have
a small one while you’re trying to knock out your student loans but probably ought to get a little bit bigger one, a real one, three to six months of what you spend, after you pay those off. So that’s priority number one and the next question is should we invest or should we pay off the mortgage. Well I think both are reasonable things to do. As long as you have additional tax protected space I think you should invest. But once you’re looking at your taxable money I think it’s reasonable to consider paying off your mortgage with all or part of that savings above and beyond your retirement accounts. This also assumes you’re putting at least 20 percent of your gross toward retirement even if that’s being invested in a taxable account.

[00:19:06] But what investments should they go into? Again it comes down to what is your return investment plan? That might be more index funds very similar to the ones in their retirement accounts. It might be investment properties. If your plan calls for you to invest in real estate in that manner. So of course there’s no right or wrong answer to that question, what should be done with your money. But they do want to make sure they’re putting 20 percent toward retirement.

[00:19:33] In this case given that her husband is burning the candle at both ends making a eight hundred thousand dollars as an anesthesiologist. I think one of the things they ought to invest in is letting him cut back a little bit. His longevity is pretty critical to their long term financial plan it sounds like, given that he’s bringing in about 80 percent of their income right now. So I think cutting back on that would make it more sustainable long term and give him some career longevity. But all of that’s good to do. Paying down a mortgage. Boosting the emergency fund. Saving for college. And of course getting a written investing plan in place.

[00:20:12] Next question, “we have another long term goal to move to New Zealand perhaps permanently. We realize this would
lead to much lower salaries and are considering this for various reasons such as a better work life balance, simpler lifestyle, less stress, safer environment for our children et cetera. Is there a better time to do this. Would you recommend working 10 years in the U.S. to save as much as possible in retirement before going? Any certain amount we should save up before going or other tips?"

[00:20:36] You know this is interesting and these guys are doing awesome right. They’re making a million dollars a year. They’re paying off eight hundred fifty thousand dollars in student loans within just a few years and they’re asking me for advice. I mean really they ought to be giving the advice. So anyway I don’t know. I don’t know there is a right answer here as far as when the best time to go to New Zealand is. Obviously the more you save first the better off you’re going to be financially. But life isn’t always about money. It might be tough to do that New Zealand thing once the seven year old is in high school. So if you’re going to go temporarily I think I’d go before the seven year old hits high school. If you’re going to go permanently, I’d probably do it before high school as well. So maybe they can work for five years and then go. I don’t know. So there’s not really a certain dollar amount you should save in the U.S. for before going to New Zealand, it’s just too personal of a question for me to answer. Than I suggested they send in a guest post about what they decide to do on that subject.

[00:21:33] So some great questions today. please send in your questions and we’ll cover those in the podcast. I love hearing what you guys are wondering about and what you’re interested in and getting that information here available for you.

[00:21:46] Be sure to check out the White Coat Investor book if you haven’t yet. Check out our youtube channel. And thank you for supporting our sponsors.

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Backdoor Roth IRA Ultimate Guide and Tutorial

[Editor’s Note 9/18/2018: We’ve updated and republished this popular post to include a new infographic and tutorial video to help make the steps to contributing to a Backdoor Roth IRA and filling out IRS Form 8606 even easier to understand and execute. This guide will show you how to get it done right and avoid/identify mistakes that can cost you time and money – even if the mistake was made by your financial advisor. We also cover how to handle late contributions to the backdoor
Roth IRA (if you contribute in the following calendar year). If you've hesitated to make a Backdoor contribution on your own in the past, this post will give you the confidence to finally go ahead and get it done.]

I'm still getting frequent questions on how to do a Backdoor Roth IRA. So I thought I'd put together a basic, step by step, tutorial people can refer to when they do this. Most physicians should be using a personal and spousal Backdoor Roth IRA. Not only does this provide an additional $5,500 each ($6,500 each if you and your spouse are over 50) of tax-protected and (in most states) asset protected space, but it allows for more tax diversification in retirement. That allows you to determine your own tax rate as a retiree by deciding how much to take from tax-deferred accounts and how much from Roth accounts.

5 Steps to Making the Backdoor Roth IRA Contribution

Step 1 Contribute to Your Traditional IRA

Make a $5500 ($6500 if over 50) non-deductible traditional IRA contribution for yourself, and one for your spouse. You can use the same traditional IRA accounts every year, they just spend most of the time with $0 in it. Most fund companies, including Vanguard, don’t close the account just because there is nothing in it. I do this every January 2nd. I just place it into the Prime Money Market Fund to keep the math simple. Since it yields something like 0.04% and doesn’t go down in value, the sum when you convert will be exactly the same as when you contribute. No gains, no losses.
Step 2 Convert the Traditional IRA to a Roth IRA

Convert the non-deductible traditional IRA to a Roth IRA by transferring the money from your traditional IRA into your Roth IRA at the same fund company. If you don’t already have a Roth IRA there, you’ll need to open one. This can be done in a minute or two online at Vanguard and is essentially the same process as opening the traditional IRA. I do this the very next day after I make the contribution. It is very straightforward. When you transfer the money, the website will throw up a scary banner saying something like “THIS IS A TAXABLE EVENT.” That’s true. It is taxable. It is just that the tax bill is zero for it since you’ve already paid taxes on the $5500 and couldn’t claim it as a deduction because you make too much money. You can now invest the money as per your investing plan.

Step 3 Beware of the Pro-Rata Rule

Get rid of any SEP-IRA, SIMPLE IRA, traditional IRA, or rollover IRA money. The total sum of these accounts on December 31st of the year in which you do Step 3 must be zero to avoid a “pro-rata” calculation (see line 6 on Form 8606) that can eliminate most of the benefit of a Backdoor Roth IRA.

You can get rid of these accounts in 3 ways:

1. Withdraw the money (not recommended, as the money would be subject to tax and/or penalties, not to mention DECREASING your tax-advantaged/asset-protected investment space.)
2. Convert the entire sum to a Roth IRA. Only recommended if it is a relatively small amount and you can afford to pay the taxes out of current earnings or taxable investments with relatively high basis.)
3. Roll the money over into a 401K, 403B, or Individual
401K. 401Ks don’t count in the aforementioned pro-rata calculation. Some physicians have even opened an Individual 401K at Fidelity or eTrade (the Vanguard Individual 401K doesn’t accept IRA rollovers) in order to facilitate a Backdoor Roth IRA.

Step 4 Fill Out IRS Form 8606 Correctly

The second part of The Backdoor Roth IRA is done 15 months later when you (or your accountant) fill out your IRS Form 8606 on your taxes. Remember that you need one form for each spouse. You need to double check this to make sure it is done right, even if you hire a pro. Advisors have told me that they have had to help clients fix dozens of these that tax preparers had done improperly. If you don’t do it right, you’ll pay taxes twice on your Backdoor Roth IRA contribution.

[Update 2018: To get this step right, I’ve put together a Form 8606 tutorial video AND a correctly filled out 2017 form. Both show in detail how Form 8606 should be completed in a typical year. Yours will look different if you did your conversion in a different year from your contribution, or if you had an additional Roth conversion this year.]

Page 1 (below) shows a “distribution” from your non-deductible IRA. Since the money was already taxed, the taxable amount on your distribution is zero. Line 1 is your non-deductible contribution. On Line 2, your basis is zero because you had no money in a traditional IRA on December 31 of last year (if you’ve been carrying a non-deductible IRA for years this may not be zero.) Line 6 is zero in a typical year. Note that Turbotax may fill this out a little differently (may leave lines 6-12 blank) but you end up with the same thing. Line 13 is the same as line 3, so tax due is zero.

On page 2 (below), you are showing the Roth conversion. I’m not really sure why you have to do this twice (since you’re
just transferring the amounts from lines 8 and 11 and then subtracting them), but that’s what the form calls for. As you can see, a Roth conversion of a non-deductible traditional IRA contribution without any gains is a taxable event, it’s just that the tax bill is zero for it.

When double-checking your tax-preparer’s work, you want to concentrate on lines 2, 14, 15c, and 18, and make sure they’re a very small amount, like zero, and not a very large amount, like $5500.

Notice how there is no place on the form to put the date when you made the contribution or the date when you made the conversion. It isn’t on the form your IRA custodian sends to the IRS (1099-R) either.

Harry Sit’s blog, The Finance Buff, has a nice tutorial showing how to fill out form 8606 using Turbotax, which, believe it or not, is trickier than doing it by hand.

**Step 5 Repeat Next Year**

**Contribute and Convert Each Year**

You do not have to wait any period of time between the contribution and conversion. Each year, I make my Traditional IRA contribution on January 2, then convert to a Roth IRA the next day. That gets my investment money working as soon as possible and simplifies the record keeping. Vanguard won’t let you do it the same day, so I have to wait one day anyway.

**The Step Transaction Doctrine**

There used to be concern that the IRS would have a problem with the backdoor Roth due to an IRS rule called The Step
Transaction Doctrine. This rule basically says that if the sum of a bunch of legal steps is illegal, then you can’t do it. Some wondered if this backdoor conversion from traditional IRA to Roth was a legal transaction considering this doctrine. Those concerns, valid or not, are no longer an issue. The IRS clarified in early 2018 that no waiting period is required between the contribution and conversion steps of the Backdoor Roth IRA and essentially given its blessing on the whole process. Waiting just makes things more complicated on the 8606, as discussed in Pennies and the Backdoor Roth IRA.

Late Contributions to the Backdoor Roth IRA

While it is “cleaner” to make your contribution and your conversion all in the same calendar tax year, you can make your contribution up until your tax filing date of the next year. Late Contributions to the Backdoor Roth IRA has more details about doing this but hasn’t been updated in a while, so let’s do it now. The key to filling out the 8606 correctly when you make a contribution after the calendar year is to recognize that the contribution step is reported for the tax year and the conversion step is reported for the calendar year. So imagine you did the following during the calendar year 2018:

- Made a 2017 IRA contribution (reported on 2017 8606)
- Did a Roth conversion of that contribution (reported on 2018 8606)
- Made a 2018 IRA contribution (reported on 2018 8606)
- Did a Roth conversion of that contribution (reported on 2018 8606)

Your forms would look like this:

2017 Form 8606 (only have to fill out part I)

Note that all this serves to do is report basis for the next
year. No tax is due. Since no conversion step was done during calendar year 2017, you only have to fill out lines 1-3 and 14.

2018 Form 8606 (must fill out parts I and II)

Notice a couple things here. First, you’ve got to do all of Part I plus Part II for this year because you did the conversion step, unlike last year. Second, don’t get confused by the fact that this form says “2017” and line 4 asks about 2018. This is the 2017 form and you would actually be filling out the 2018 form. But since the 2018 form doesn’t exist yet, I had to use the 2017 form for this demonstration. So add one year to anything you see here. But let’s go through this line by line.

Part I

- Line 1 – That’s the money you contributed for 2018
- Line 2 – This is your basis. Since you made a contribution for 2017 but didn’t do a conversion during 2017, your basis is $5,500
- Line 3 – $5,500 + $5,500 = $11,000
- Line 4 – Remember this is asking about 2019, not 2018 and since you didn’t make the mistake of doing your contribution late again, this will be zero.
- Line 5 – $11,000 – $0 = $11,000
- Line 6 – This is the line that triggers the pro-rata issue. Even though you made a 2017 contribution, you did so AFTER December 31st, so this line would still be zero if had to fill it out for 2017, which you didn’t because you didn’t do a conversion in 2017 and got to skip lines
4-13. But this is the 2018 form and since you converted your entire traditional IRA, this will be $0.

- Line 7 – This doesn’t include conversions. Since you didn’t take any money out of your traditional IRA this year except the conversion, this is $0.
- Line 8 – You converted a total of $11,000 this year to a Roth IRA, so $11,000.
- Line 9 – $0 + $0 + $11,000 = $11,000
- Line 10 – $11,000/$11,000 = 1
- Line 11 – $11,000 * 1 = $11,000
- Line 12 – $0 * 1 = $0
- Line 13 – $11,000 + $0 = $11,000
- Line 14 – $11,000 – $11,000 = $0 Note that when you do this form for 2019, line 2 will be $0. (Line 14 on 2018 form = Line 2 of 2019 form)

Your Roth IRA contributions will need to go through the “backdoor” many times as you build your portfolio.

Line 15a – $0 – $0 = $0

- Line 15b – You didn’t take money out of an IRA to help you survive a disaster, so $0
- Line 15c – $0 – $0 = $0

Part II

- Line 16 – Line 8 is $11,000 so $11,000
- Line 17 – Line 11 is $11,000 so $11,000
- Line 18 – $11,000 – $11,000 = $0

As simple as this all seems, there are a few ways to screw up
the process. Read 17 Ways to Screw Up A Backdoor Roth IRA to see them.


The Mindset of the Wealthy

[The following is a republished, updated post that first appeared as one of my regular columns at MDMag.com. It is about mindset – specifically the mindset of the wealthy. Those who are wealthy, or who are destined to become so, think differently from other people in several important ways. Luckily, there’s nothing keeping you from changing the way you think.

We’ll occasionally be updating and republishing some of our older posts like this in order for new and long-time readers alike to have access to more WCI content. Enjoy!]

There are a number of ways in which the wealthy differ from the poor or even the middle class. When I refer to the wealthy, I’m not talking about super-wealthy celebrities like Donald Trump, Beyoncé, or Peyton Manning. I’m referring to the simple multi-millionaire, a status anyone with a physician-like income can achieve eventually with a reasonable amount of hard work, discipline, and planning. Perhaps the most significant difference between a physician destined to remain poor and one who will become a multi-millionaire is mindset. The wealthy, and those destined to become that way, (often referred to as HENRYs- High Earner, Not Rich Yet), simply
think differently from the majority of their peers in six distinct ways.

6 Ways the Wealthy Think Differently From You

1. The Wealthy Think Long Term

More than anything else, those who are poor and will stay that way aren’t thinking about their life in 20 years or even five years. They’re thinking about Friday night, or worse, what they’re going to have for lunch. The wealthy, as a rule, are planners and started planning their retirement in their 20s when they received their first paycheck. When the middle class gets around to thinking about retirement, typically in their mid-50s, the wealthy are doing estate planning to try to figure out how many generations they can make their wealth last. When an automobile needs to be replaced, Middle Class Mike buys a new one on credit, because he didn’t realize that car would need to be replaced someday. Wealthy Willy purchases the car with cash, with money he’s been setting aside for that purpose for years. When considering whether he can afford something, Poor Peter thinks, “What is the payment and how does that relate to my income?” or “How can I make the payment lower?” Rich Rick thinks, “What is the least expensive way I can acquire this item?” If it must be bought on credit, Wealthy Willy and Rich Rick figure out how to minimize the interest paid, or at least compare the interest rate to their expected investing returns.

2. When Spending, the Wealthy Focus on Quality and Happiness

When a wealthy person purchases an item, he focuses on its
quality more than its price. It is not simply “If you have to ask, you can’t afford it.” He has learned that a quality item will often be less expensive in the long run because it will last longer due to its superior craftsmanship. More importantly, he has *a priori* determined how to spend in a way to maximally increase his happiness. Once he has decided that a nice car will make him happier than a new boat or a vacation or retiring earlier, he saves up for and purchases the nice car. He derives pleasure from the entire experience—saving up and anticipating the purchase, making the purchase, and using the purchase afterward without having to worry about making future payments for it. It isn’t that wealthy physicians don’t spend, it is that they spend deliberately.

3. The Wealthy Have an Ownership Mentality

As a general rule, the *wealthy prefer to be owners*, rather than employees. An employee’s income is always capped at his salary, but a business owner has infinite income potential. A business owner never pays an employee more income than he can generate. If he did, there would be nothing left over for profit. When a business does particularly well, those who own it derive the benefit. When it does poorly, the owners do poorly. But so do the employees, since they lose their job. All the downside and none of the upside. Likewise, the wealthy prefer investments where they function as owners. This means investing in their own businesses and those of other people, whether privately owned or publicly owned (i.e. the stock market). They also invest in real estate, where they can collect (and increase) rent and benefit from appreciation. They invest, rather than speculate, holding their investments for decades rather than hours. Meanwhile, the poor invest in bank accounts, CDs, and similar investments, if they invest at all.
4. The Wealthy Focus on Providing Value to Others

It is almost a universal rule that a successful business owner is far more focused on his customers than on his bottom line. He knows that if he provides value to others, the money will eventually take care of itself. In addition, after reaching a certain level of success, the marginal utility of additional income to the owner declines markedly. If he continues to work, he does it because he enjoys helping others and building something of value. It truly isn’t about the paycheck every other Friday, and that focus on others breeds even more success.

5. The Wealthy Put Themselves in a Position to Take Risk

While it is true that the wealthy are often far more willing to take significant risk in their careers and with their investments than the poor or middle class, they are also experts at getting themselves into a position where they can afford to take that risk. They avoid consumer debt, like credit cards and auto loans. They minimized their educational debt, and paid it off faster than their peers. They live on a fraction of their income, allowing them to have cash continually available for additional investments. They minimize their fixed ongoing expenses through debt reduction and deliberate spending. They keep enough money in safe investments that they can afford to lose a job, start a business, or take care of a family emergency without having to tap long-term investments or retirement accounts. They also know their worth in the marketplace and are continually improving their skills and knowledge so they will be worth more each year to their clients and/or employers. Confidence breeds success which breeds even more confidence. In many
ways, those destined to become rich literally will themselves to become wealthy through the power of focus.

6. The Wealthy Become Financially Educated

The rich learn how to speak the language of finance and investing. That doesn’t necessarily mean that the wealthy don’t use financial, accounting, or legal advisors. However, they know it is impossible to have an intelligent conversation with a financial professional if you can’t even speak their language. Inflation, depreciation, deductions, Roth IRAs, long-term capital gains, and other terms are all just simple vocabulary to the wealthy, but they might as well be Chinese words to most Americans. The wealthy pass this language on to their children, giving them a competitive edge in their schooling and careers.

The wonderful thing about all of these habits and knowledge is that no one is excluded from developing them. While there is plenty of income inequality in our society and undoubtedly factors beyond your control, a certain amount of your own financial success lies entirely within your control. Develop the mindset of the wealthy and achieve your financial goals.

Do you agree the wealthy think differently? Is that innate, or can it be taught? What have you done to change the way you think about money, saving, spending, and investing? Comment below!
Stuff I Don’t Invest In – Podcast #70

Podcast #70 Show Notes: Stuff I Don’t Invest In

In this episode, I talk for a few minutes about stuff that I don’t invest in and why that is. We discuss precious metals, individual stocks, actively managed mutual funds, currencies, bitcoin, start-ups, commodities, options, and insurance. I share with you why I don’t invest in any of these alternatives. Some listener questions are also answered in this episode about what to do when your investments are boring, investing in taxable accounts, and what to do when you over fund your retirement account. You can listen to the podcast here or it is available via the traditional podcast outlets, iTunes, Overcast, Acast, Stitcher, Google Play. Or ask Alexa to play it for you. Or watch the video here or on YouTube. Enjoy!

Podcast # 70 Sponsor

[00:00:19] This episode is sponsored by Bob Bhayani at Doctor Disability Quotes.com. They are a truly independent provider of disability insurance planning solutions to the medical community nationwide. Bob specializes in working with residents and fellows early in their careers to set up sound financial and insurance strategies. Contact Bob today by email at info@drdisabilityquotes.com or by calling 973-771-9100.
Quote of the Day

[00:01:30] “A big enough bonus can convince even honest, law-abiding finance workers selling garbage products that they’re doing good for their customers.” – Morgan Housel

Main Topic

[00:02:12] Correction: Reservist retirement age is 60, not 65.

[00:02:39] Precious Metals

[00:04:36] Individual Stocks

[00:05:38] Actively managed mutual funds

[00:06:37] Currencies

[00:07:29] Bitcoin

[00:08:20] Start-ups/Angel investing

[00:08:59] Commodities

[00:09:37] Options

[00:11:07] Insurance

Q&A from Readers and Listeners

1. [00:14:34] “I’d like to put one to five percent of my income into something fun. How do you learn about investing in new startups? Are their resources to get into such investing? What the heck is crowdfunding? Where do you find out how to do that? Is real estate a safer but more active and risky venture? I would really like to add a small chunk to my portfolio that has some
higher risk in return. What do you think?”

2. [00:18:58] “I just graduated from residency and I’m looking into where to invest at least 20 percent this year. I plan to max out my 403b and do a backdoor Roth IRA. I remember you had a post within the last six months about other places to invest after you’ve maxed these out but have been unable to find it when searching in the blog.”

3. [00:20:24] “In December 2017 I contributed to an individual 401K which is my first time doing so. When my accountant was preparing my taxes he noted that I actually had overfunded the account based on my income and suggested that I contact the brokerage, which was Fidelity, and have them recharacterize the access to the 2018 tax year. I went to the brokerage to ask that they do that and got a basic response: we’re too busy to deal with you but will write a letter on your behalf. I got a call a month later that the information the letter contained was incorrect although written by an employee of the brokerage. I went in to solve this issue and was told I needed to fill out a form and pay a 10 percent penalty on the excess. The accountant says that because we reported the correct amount to the IRS the form is not necessary and he’s planning on reporting it as excess, as a 2018 contribution on next year’s taxes. I’m frustrated with Fidelity because they tell me something different every time I speak with them and am contemplating switching to Vanguard, Ameritrade or E-Trade. I’ve also contemplated opening a totally new 401k for 2018 to keep everything separate. What do you recommend?”

4. [00:23:16] “I’m reading everything you’ve recommended for the past few weeks after it was recommended by my med school roommate. And it appears that I’ve made many mistakes that I need some guidance to rectify.” He is asking for tips and recommendations concerning retirement accounts, student loans, and his savings.
Ending

[00:27:57] Be sure you stop by White Coat Investor Facebook Group if you haven’t joined yet. All high income professionals, but not financial professionals, are welcome.

Full Transcription

[00:00:00] This is the white coat investor podcast where we help those who wear the white coat get a fair shake on Wall Street. We’ve been helping doctors and other high income professionals stop doing dumb things with their money since 2011. Here’s your host Dr. Jim Dahle.

[00:00:19] Welcome back to the White Coat Investor podcast. This is episode number 70, Stuff I Don’t Invest In. This episode was sponsored by Bob Bhayani at doctor disability quotes dot com. They are a truly independent provider of disability insurance planning solutions to the medical community nationwide. Bob specializes in working with residents and fellows early in their careers to set up sound financial and insurance strategies. Contact Bob today by email at info at Dr Disability quotes dot com or by calling 9 7 3 7 7 1 9 1 0 0. I had Bob on the phone just the other day, he is a great guy, and knows his stuff about insurance. I’ve had a lot of very happy white coat investors after they have met with him to take care of their disability and term life insurance needs.

[00:01:04] If you haven’t had a chance yet, be sure to check out the white coat investors Facebook group. This is totally free to you. There are some minimal ads there that you’ll
notice but there is a lot of great discussions going on there. So if you like getting your financial information through Facebook this is a great resource for you. There are already over 4000 members, maybe by the time you hear this there might be twice that many. But it’s really started off with a bang, with a lot of really great people in there.

[00:01:30] Our quote of the day today comes from Morgan Housel who said a big enough bonus can convince even honest, law abiding finance worker selling garbage products that they’re doing good for their customers. And I think that’s really true. Boy have I run into a lot of people who are really peddling the lousy stuff that honestly do we believe they’re helping you. So don’t assume that because someone’s selling you something crummy that they are trying to scam you. They actually do believe they’re doing you a favor even if they really aren’t.

[00:02:01] Thanks for what you do. I appreciate you. I know your patients do. Maybe not all of them but enough of them that it makes your time worthwhile for what you’re doing. So thank you for the sacrifices you have made.

[00:02:12] I’ve got a correction to issue. Apparently, in a podcast I did a few weeks ago, I said the military reservist retirement age is age 65. That is not true. It is age 60. Your reserve retirement starts coming in at age 60. That’s obviously later than if your active duty in which case it starts kicking in as soon as you retire. You know typically after 20 years which could be as early as really 38 years old. But for reservists, it is age 60.
Today I thought I’d talk for a few minutes about stuff that I don’t invest in and talk with you about why that is. The first thing on my list that I want to talk about is precious metals. I get e-mails all the time from people asking, hey should I invest in gold? How should I invest in gold? How much should I invest in gold? And I usually tell them you know if you want to invest in precious metals with five or 10 percent of your portfolio. That’s fine. Knock yourself out. Go ahead and do it. But I don’t invest in precious metals and I’ll tell you the reason why. The reason why is I don’t expect much of a return out of them. If you look at the long term returns of gold and other precious metals you will see that they basically keep up with inflation and that’s it. If you go back hundreds of years you’ll see that an ounce of gold bought a man’s suit and today an ounce of gold basically buys a nice man’s suit. Whereas if that had been something like stocks or real estate it would be worth tons more than it originally was. But because it just keeps up the inflation that’s what you get. To make matters worse it’s extremely volatile. I track a number of investments in my monthly newsletter. If you’ll look at that you’ll notice that perhaps the most volatile of those investments is silver. It goes up and down by 10 or 15 percent every month. It’s just something that people use to speculate and I’m not really interested in speculating. I’m not interested in short term returns. I’m not interested in trying to trade in and out of a market to try to make a buck. I’m looking for long term investments that are going to make me money and precious metals do not qualify in that category. Now you want to limit it to a small portion of your portfolio. I think that’s fine. I think there are obviously times where the return is better than average. Just like there are times when you lose a lot of money in precious metals. So that is why I don’t invest in those.
Next thing I don’t invest in is individual stocks. In fact, I don’t think I’ve ever owned an individual stock. I have no interest in researching Facebook and watching it drop 20 percent based on the fact that some investor doesn’t like Mark Zuckerberg. I really don’t care. I have better things to do than research among the 5000 publicly traded stocks in the country. If I felt like I had to do that to have a successful retirement maybe I’d be more interested in it. But all the data shows that those who buy individual stocks are taking on an uncompensated risk. Sometimes they get lucky and come out ahead. But most of the time they do not, even if they’re professionals. And they end up underperforming the strategy of just buying all the stocks which is basically investing in low cost broadly diversified index funds. So that’s what I do. I buy all the stocks. I own them all. I own Facebook. I own Amazon. I own Netflix, you name it, I own it. I owned it before it got big. But that’s because I buy it through an index fund.

Next category of things I don’t invest in, actively managed mutual funds. Now that’s not entirely true. Sometimes I own a very minimally actively managed mutual fund. For example, some of the Vanguard bond funds technically are not index funds, they are actively managed. But they basically just capture the market return for that particular market. And so they basically act as closet index funds. Again at very low cost. But I’m not going out there trying to find mutual fund managers that I think are going to outperform an index fund that invests in the same investments that they invest in. I just think it’s a loser’s game and I think over 20 or 30 years your chances of doing it are less than 10 to 20 percent. I would much rather take the guarantee of beating 80 percent of the mutual funds out there by investing in an index fund over my time horizon than take a gamble on trying to get you know the top fifth or top 10 of mutual funds that may luckily
outperform an index fund.

[00:06:37] Here’s another thing I don’t invest in I don’t invest in currencies. I don’t buy yen, I don’t try to understand the foreign exchange markets. I don’t buy Euros. I don’t try to speculate on Greek drachmas or whatever they use in Greece. I just have no interest in it number one and number two I look at it as basically a zero sum game before expenses. In the long run I don’t expect one currency to outperform other currencies. I expect them to go back and forth at times one will outperform, other times another will outperform and it’ll go back and forth and over the long run I expect them to basically equal each other out. Of course if you’re trying to invest in them you’re going to incur costs. And so if it’s a zero sum game before cost, it’s a negative sum game after costs. And I’m not really interested in playing negative sum games.

[00:07:29] I extend this into the cryptocurrency space. You know when we were talking about Bitcoin and its hundreds of competitors. This is not something that I am interested in investing in. Number one it has a lot of the signs of a bubble as you saw at the beginning of 2018 when the bitcoin bubble basically burst. I mean it was a classic bubble. It is like you read about in books, it was very impressive. But even now that that bubble has burst I still don’t know where it’s going. It could be going to zero for all I know. But the nice thing about investing is there are no called strikes. You don’t have to invest in everything. So if you don’t understand something, if you don’t really think something’s likely to do well. If you don’t want to speculate on stuff, if you don’t want something that’s particularly volatile, you don’t have to invest in it. There’s plenty of other great investments that you don’t have to use the ones that you’re not a believer in.
Here’s something else I don’t invest in, I don’t invest in startups. I’m not an angel investor. You know some of these guys say well you know I invest in 20 or 30 of these and I get the one home run out of the bunch and that makes up for the losses in all the other ones. Well the data is not actually very good that you have a positive expected return as an angel investor. So if you’ve got a lot of money to throw away and that’s really your hobby, to go out and find startups and meet with startup starters, knock yourself out. You know just realize it’s probably a very expensive hobby because you’re probably losing money on it. Not to mention it takes an incredible amount of effort to do it well.

Here’s something else I don’t invest in and I don’t invest in commodities. All right I don’t go out and buy a bunch of oil futures. I don’t go out and buy a bunch of pork bellies and wheat futures or whatever else you can invest in as far as commodities. It’s not a market I understand particularly well. I don’t see a very positive expected return in that market. And likewise, I just ask myself why? Why complicate my portfolio anymore? It’s complicated enough as it is and I haven’t been convinced that adding any sort of commodities including commodity futures fund is particularly wise for my style of buy and hold investing.

Something else I don’t invest in: options. That’s not entirely true. My first investment was actually an option. My father came to me when I was, I don’t know 10 or 12 years old, and said Hey my buddy says we should buy these and we can make a lot of money in a short period of time. And so we put some money into some options and he convinced me to go along with 500 dollars of my money. That
was money that I’d gotten from the Alaska Permanent Fund dividend or something, that’s the only way I could have come into that sum of money. Needless to say a few weeks later we both lost the entire investment. We lost it all. And you know that’s just the way options work, it shouldn’t have been a surprise to us. But that was literally our only investment at the time. We put everything into options on some stock or something. And it expired worthless. So it’s not that I was particularly burned on that, that I don’t invest in options. I just don’t see any point to it for me. Number one I think there’s a lot of very talented options traders out there that are likely going to take advantage of me knowing less than they do. And I think that’s probably not a good place for me to be where I’m in a market with a lot of people that know a lot more about it than I do.

[00:10:44] But secondly options are basically like buying insurance policies on the value of an investment. The expected return on it is zero. And after expenses the expected return is negative. I mean you’re basically using it to hedge something to make a bet. And I’m not really interested in making bets. Gambling is not the reason I invest.

[00:11:07] Something else I don’t invest in, at least not anymore, is insurance. I find the investing proposition made by insurance companies, You know I’m talking about whole life insurance and variable universal life insurance and other types of universal life insurance, to not be very good bets. I mean if I got to tie my money up for the rest of my life and then I expect returns in the two to five percent range that’s not very attractive to me especially when they’re negative for the first decade. So basically, since I got rid of the whole life insurance policy I was sold as a medical student, have decided not to invest in insurance and maybe somewhere down
the line I’ll have some estate planning reason to buy an insurance policy I don’t know. But for now that is not something that I invest in or plan to invest in anytime soon.

[00:11:55] I basically invest in boring old index funds and real estate. That’s what I invest in. You know a lot of people think investing is a lot like gambling. You know they referred even to the stock market as oh you’re just gambling your money in there. But I think investing is significantly different from gambling. For example in investing, you have a positive expected return. You actually expect to make money which is not the case for gambling. In gambling the house makes money. They’re the ones who have the guarantee over the long run of making money. The people in there rolling the dice, playing craps, or playing cards do not have an expected positive return at least on average. And so that’s one difference between gambling and investing. Also I meet a lot of people who are looking for fun. They find investing to be boring and they’re looking for a little excitement in their life. I’ll tell you what, go get your excitement somewhere else. I got an e-mail today from a doc who does base jumping. You want excitement in your life? Go jump off a 400 foot cliffs with a parachute. That would be exciting for you. But I just have way more fun hobbies than investing. Investing is not that fun of a hobby. So if this is your hobby and you feel like well now I’ve learned a bunch of stuff about it, what am I going to do now? And you find yourself reaching for options and individual stocks and Bitcoin. Well you’ve probably carried it a little too far and you need to find a more fun hobby.

[00:13:18] When I’m buying shares of stock I am buying real businesses with real profits. It’s not a paper investment like the real estate investors like to call it. It is not some sort of throwaway thing. When you buy a share of Amazon your own a
share of those profits that Amazon makes. And every time people go online and buy something from Amazon and Amazon makes money some of that money is yours. And that’s a real live business that’s making real life money not some gambling thing.

[00:13:50] All right let’s get into some questions the first one kind of deals with the subject I’ve been addressing in this blog or this podcast so far. I’m a somewhat new attending a couple of years into practice. I’m doing all the right things financially and I am bored. Yes I know that’s good. This is a first world problem. I know a little about investing. I basically read your site and Bogleheads. I go on the evidence based stuff, maxed out every tax protected account, contribute at least 20 percent index funds closer to 30 percent recently with increasing income. I’ve got my mortgage and student loans at a good low rate and set for a reasonable payoff, 14 years in the House and four on the loans. I’ve got Term life and disability insurance and can coast on this formula to retirement.

[00:14:34] I think it would be more fun to have a small percentage in a more active and or risky investment. I’m in my early 30s I have lots of time. I’ll never be contributing less than 20 percent to the good formula for retirement. I’d like to put one to five percent of my income into something fun. How do you learn about investing in new startups? Are their resources to get into such investing? What the heck is crowdfunding? Where do you find out how to do that? Is real estate a safer but more active and risky venture? I would really like to add a small chunk of my portfolio that has some higher risk in return. I’ve helped kickstart a couple of sweet video games but all I got out of it was the game for free when they launched and I’d like a little more skin in the game
maybe the chance for a higher payoff. What do you think?

[00:15:15] Well I think being bored with your investments is a good thing. Then you can go focus on the other things in your life that matter more than investing. I mean investing just should not be the most important thing in your life, particularly after you win the game. You know once you’re financially independent how much time do you really want to spend on just maintaining financial independence? It’s not particularly fun. So let’s talk about this a little bit. This is a doc that’s saving enough for retirement into smart investments. So truly he can throw away that 1 the 5 percent that he’s talking about investing on other stuff. I mean if he wants to blow it on a wake boat. Fine. If he wants to blow it on angel investments? Fine. You know knock yourself out. As long as you’re saving enough. It’s up to you what you want to use your money for. But I think let’s answer a few of the questions.

[00:16:00] First how do you learn about investing in new startups? One of the best places to go is to some meetings in your town among startup investors, among you know entrepreneurs, and just start doing some networking. And you’d be surprised how many people are out there looking for money for their startups. It might not be wise to invest in them but there’s plenty of startups to invest in all the time in most towns of any significant size.

[00:16:25] Are there resources to get into such investing? I’m sure there are resources out there. I don’t really invest in them particularly so I’m not terribly familiar with the resources. So I cannot vouch to which ones are the best ones and whether they’ll lead you astray or not.
[00:16:39] His next question was what the heck is crowdfunding and where do you find out how to do that? Well crowdfunding refers to a bunch of people putting the money together to buy one thing you know. I mean technically the stock market’s crowdfunding right. I mean a bunch of people that own Amazon or a bunch of people that own facebook. I mean that’s crowdfunding at its best right. But I think what people are usually referring to these days is crowdfunded real estate. We’re talking about going through these Web sites, like some of my web site sponsors, like realty shares and Realty Mogul and equity multiple and these kinds of sites and going in there and buying real estate with dozens of other investors. You know it’s a form of syndicated real estate ownership were you just own a small piece of it. And you can spend as little as five thousand dollars on an investment and that can either be on the debt side where you’re lending money to a house flipper or it can be on an equity side where you get your share of the rents and the appreciation and depreciation and all those kinds of problems or all those kinds of benefits rather. But you know it’s pretty easy to go to these crowdfunding websites. You do have to be an accredited investor. But it sounds like this doc is an accredited investor and that’s a good way to get your toe wet in real estate investing and maybe some of these little bit more risky investments. I do have some crowdfunded investments and they’ve treated me well. I’ve gotten nice returns out of them and expect to continue to get some more.

[00:18:00] Is real estate a safer but more active and risky venture? Yes I think that’s a good description of it. It can be both safer and more risky. The thing about real estate is the market is not nearly as efficient as the stock market is. And so I think there’s room there for somebody who knows what they’re doing to add value to the investment. You know even if
you’re just buying the house down the street, renting it out, if you’re particularly good at finding deals, at managing properties, and knowing when to sell them, at managing tenants, you can really add a lot of value to an investment. Conversely if you’re not good at it you can subtract a lot of value from an investment. So just realize that that street works both ways. But for someone who really wants to be more active maybe increase the returns a little bit. I think real estate is a great way to go. I’m not sure kickstarting new video games is a particularly profitable investment though I’ve never really done that and I don’t plan to.

[00:18:58] All right next question I just graduated from residency and I’m looking into where to invest at least 20 percent this year. I plan to max out my 403b and do a backdoor Roth. I remember you had a post within the last six months about other places to invest after you’ve maxed these out but have been unable to find it when searching the blog. Just wondering if you remember this post and could send me a link. I mean the bottom line is once you’ve maxed out your retirement accounts and you want to save more for retirement you gotta invest in a taxable account. It’s ok, it’s not that bad. A non-qualified or taxable or brokerage account is a perfectly fine place to invest and in fact many people particularly those interested in early retirement do. It makes up the majority of their investments. There are a lot of nice things about it. One you can invest in anything you like. You can use leverage. The rules aren’t nearly as strict as in a retirement account and you can spend the money on anything you like which is great. There’s few other benefits. For example you can donate appreciated shares to charity. Not only do you get the deduction for the donation but you also don’t have to pay the capital gains taxes and neither does the charity. You can also do tax loss harvesting with assets in a taxable account that can lower your taxes as you go along. So there’s
lots of things about a taxable account. Don’t be afraid to invest in it. I mean don’t invest in it before you’ve maxed out your retirement accounts. But don’t be afraid of it. But that’s the main thing you can do once you’ve maxed out other accounts including your Backdoor Roth IRA and your HSA.

[00:20:24] All right next question. In December 2017 I contributed to an individual 401K which is my first time doing so. My accountant was preparing taxes in the spring he noted that I actually had overfunded the account based on my income and suggested that I contact the brokerage which was fidelity and have them recharacterize the access to the 2018 tax year. I went to the brokerage to ask that they do that and got a basic response: we’re too busy to deal with you but will write a letter on your behalf. I got a call a month later that the information the letter contained was incorrect although written by an employee of the brokerage. I went in to solve this issue and was told I needed to fill out a form and pay a 10 percent penalty on the excess. The accountant says that because we reported the correct amount to the IRS the form is not necessary and he’s planning on reporting it as excess as a 2018 contribution on next year’s taxes. I’m frustrated with Fidelity because they told me something different every time I speak with them and am contemplating switching to Vanguard, Ameritrade or E-Trade. I’ve also contemplated opening a totally new 401k for 2018 to keep everything separate. What do you recommend?

[00:21:28] Well this sort of thing can happen all the time. I’m always amazed by people that have an accountant they are paying to help them with their taxes and then they don’t call up the accountant when they have a tax related question. I mean if I had an accountant I’d call the accountant up and say hey how much can I put in my individual 401K? That’s what
you’re paying him for. Right. To answer questions like that for you. Or people that have a financial adviser and then shoot me emails you know asking questions. Why would you hire some yahoo on the Internet if you’ve got a financial adviser that you’re paying 1 percent of your assets to every year. Ask the financial adviser. That’s what you’re paying them for.

[00:22:04] So in this case I think the accountant is right. And I would go with the accountant. But that’s not unusual for one of these mutual fund or brokerage companies to screw something up. That happens all the time and I don’t know that it is any more likely with Fidelity or Vanguard or Ameritrade or E-Trade. I don’t think I’d switch company based on one screw up. Maybe they keep screwing things up I’d change. But you know Fidelity enjoys a pretty good reputation for customer service and so I don’t know that this would have been any different anywhere else. Just get it corrected for this year. By following the directions of your accountant not some yahoo on the phone at fidelity and then move on and ask the accountant next year to make sure you’re putting the right amount in there. Remember with the employee contribution you have until a little bit of time after the first of the year and with the employer contribution you have until you basically file your taxes the next year. So there’s plenty of time to talk to your accountant about how much to put in there if you’re not exactly sure. I know this year with my partnership 401k I wasn’t sure I was going to make enough at the Partnership to actually max it out. So I haven’t actually maxed it out yet this year I’ve left a little bit of space that I can wait to see how much money I make. To see if I’ll be able to max it out this year.

[00:23:16] Next question. I’m out of residency for a couple of years. I’m a child psychiatrist. I’m reading everything you’ve
recommended for the past few weeks after it was recommended by my med school roommate. Thank you to that med school roommate by the way you’ve done somebody a huge favor. Honestly, I can’t thank you enough for everything because I had no clue about savings or how to go about it. I was just totally lost. And it appears that I’ve made many mistakes that I need some guidance to rectify. Well, that’s not unusual. Most people once they found the white coat investor realize that they have made quite a few mistakes. I am both an employee at the hospital and have my own LLC that is an S corp, files as an S corp, and this is what I’ve established in the last couple of months. With my 401k my employer pays up to 11 percent and sounds like also provides a match 50 cents on the dollar so that’s great. They also provide some stock options that I’m maximizing that is about 500 dollars a paycheck and I’ve set up a SEP IRA through my LLC that I’m putting some money into and also have an individual stock account. I plan to put as much as possible once I close on a house into those accounts. I’ve got 50 percent of my money in S&P 500, 20 percent in midcaps, 10 percent in small caps, 10 percent in international, and 10 percent in bonds. Okay, that’s not a crazy asset allocation. An aggressive one but not crazy.

[00:24:42] I don’t like the fact that you’re using a SEP IRA instead of an individual 401k individual. Individual 401K allows you to do Backdoor Roth IRAs as well where a SEP Ira does not. So this doc is almost surely going to want to set up a Solo 401k or an individual 401k, same thing, and roll that SEP IRA money in there as part of getting all this mess straight. He says I’m closing on a nine hundred thousand to a million dollar house in the next two months with a 30 year fixed mortgage. I’m now wishing I’d bought a house half this price after learning what I’ve learned the past few weeks. Well I guess it’s not too late to get out. Now you can always give up your earnest money. I hope you haven’t put too much of
a down. I suspect the doc is going to go ahead and buy the house though. I’ll be setting up 529s for my two children once I close on the home. Yes assuming you have any money after paying their mortgage.

[00:25:37] I do have loans of about a hundred fifty thousand dollars still for myself and my partner that we are paying at 4 percent. We are reasonable spenders, save about a hundred thousand dollars a year. Well that’s good.

[00:25:49] That’s actually a pretty good amount of savings given their two professions. He is just asking for any tips, recommendations from the above mentioned issues. We want financial flexibility, we’re willing to save a lot more than we have been but are now dedicating a lot of time to understanding the stuff.

[00:26:07] Well this is awesome because this doc is becoming financially literate. He feels like it’s too late but it’s not. It’s never too late. He’s very early on. I kind of wish he’d found it a few weeks before put an offer down in that house because a big house especially a million dollar house as a psychiatrist it’s a pretty big rock in your life. But you know better now than later. Can you recover from that? Probably. I mean it depends on how much money they make together and how much they save. But I suspect his goal to be saving a lot more money than he is now is going to be not as easy as he thinks it will be once he’s paying for the mortgage and insuring a million dollar house. That can really eat into your ability to save a lot of money.
I guess I’d also like to see him maybe refinancing his loans and paying them off quickly. I mean a hundred fifty thousand dollars certainly isn’t the hugest loan burden we’ve heard about on here but it is something that requires cashflow to meet each month. And I think getting rid of your student loans within the first two to five years out of residency is going to make you happier than dragging that out for a long time even at 4 percent. So I think this docs doing well there’s a few minor tweaks that can be done.

Maybe they want to back out of that home purchase that’ll be up to him. But you know it may not be compatible with their financial goals once they look at them carefully.

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Be sure you stop by our Facebook group if you haven’t joined yet please do so. All high income professionals but not financial professionals are welcome. Head up shoulders back. You’ve got this. We can help us see you next time on the white coat investor podcast.

My dad, your host, Dr. Dahle is a practicing emergency physician, blogger, author, and podcaster. He’s not
How to Make Changes to a Bad 401(k)

[Editor’s Note: The following post was submitted by Tim Quillin, CFA, flat fee financial planner/advisor, and Partner at Aptus Financial. Aptus is based in Little Rock, AR and has been a long-time advertiser of WCI. Some of you might remember Aptus founder, Sarah Catherine Gutierrez, CFP, who was one of our top-rated speakers at the 2018 WCI Financial Literacy and Wellness Conference in Park City, UT.]

Do You Have a Crummy 401(k) or 403(b) Plan?

In the White Coat Investor’s Podcast #44 “Complicated Aspects of 401(k)s,” Dr. Dahle fields a question “from a doc who’s wondering [how to change] his crummy 401(k) that his employer offers.” Unfortunately, our experience suggests that this doctor is not alone. There’s a pretty good chance your employer retirement plan…well…sucks. Sorry, maybe that’s a bit too blunt and a tad crude. Ahem. There’s a very good chance that your retirement plan has high, hidden fees, poor
investment choices, and conflicted or non-existent financial education. There’s an even better chance that nothing will change unless you make your voice heard. With a little self-education and a proactive, cooperative approach, you can help make your plan better.

Changing the Status Quo

Through our financial planning with physicians, we’ve seen a lot of your qualified retirement plans…the good, the bad and the ugly. Interestingly, most of our clients don’t really consider whether their employer plan is good or bad. You get what you get and you don’t get upset, right? Given the tax advantages and easy payroll deductions, we recommend saving into even relatively bad 401(k)s and 403(b)s. Your employer is not aiming for a crappy plan, though. More likely, the individuals running the plan just don’t know it’s lousy or at least don’t think it’s bad enough to justify a change.

Perhaps the primary reasons you are stuck with a bad plan are inertia—“if it ain’t broke, don’t fix it”—and entrenched, long-term relationships—“our current provider does a great job.” Change is hard and typically there’s additional workload to support a transition, especially for one or two people that help administer the plan and manage related payroll functions.

There are other more troubling reasons that your employer might resist change. The current advisor might be a donor to your employer or a related foundation. Participants, in that case, are unwittingly donors themselves because they are paying above-market fees to the advisor that are funneled back into donations. The current advisor might be a customer, supplier, strategic partner or personal friend. Again, participants then are unknowingly paying to maintain that relationship. We’ve even seen situations where the employer was reluctant to offer a better plan, because it knew savings rates would increase and they would have to contribute more in
Educating Yourself as the in-house 401(k) or 403(b) Expert

Regardless of the reason, the pull of the status quo is strong. You—yes, you specifically—have to be the squeaky wheel. In order to offer constructive criticism, you first have to educate yourself on how your retirement plan works. As my father used to say, in the land of the blind the one eye man is king. You may be surprised how little homework you need to do to become the in-house “expert” on 401(k)s and 403(b)s.

Terminology to understand:

**ERISA**

The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets standards for most pension plans. Some types of 403(b) plans are exempt from ERISA, including governmental plans, church plans and some tax-exempt organization plans that meet certain Department of Labor requirements.

**Sponsor**

Your employer offering the plan.

**Participant(s)**

You and your fellow employees.

**Trustee(s) and Administrator(s)**

Individuals within the company responsible for management and administration of the plan. The individuals accept a fiduciary
duty to run the plan solely in the interest of participants.

Recordkeeper/Third Party Administrator (TPA)/Custodian

Outside providers of plan administration services. These duties are often bundled together and performed by one company. Retirement plan recordkeepers include Fidelity, TIAA, Empower, Vanguard, Voya, Transamerica, VALIC, Voya, John Hancock, Principal, American Funds, Paychex, ADP and Ascensus.

Investment Funds

Outside provider of investment choices for the plan. These funds are often affiliated with the recordkeepers. Large investment fund companies include Vanguard, Fidelity, American Funds, T. Rowe Price, BlackRock and PIMCO.

Tim Quillin, Partner at Aptus Financial

Advisor

Outside provider of investment advice and education to both sponsors and participants. As defined in Section 3 of ERISA, the advisor can be a 3(21) fiduciary, which provides investment recommendations, 3(38) fiduciary, which takes more complete responsibility for investment choices, or non-fiduciary.

6 Things You Can Do To Get a Better Retirement Plan In Place
1) “Unbundle” the plan, if necessary, to discover costs

There are 3 primary hands in the retirement plan cookie jar: recordkeepers, investment funds, and advisors. Often, and especially in lousy plans, all the costs are bundled into the fund expense ratios. One key to reducing fees is unbundling the plan to get a clear view of each.

2) Seek competitive bids

Recordkeepers typically charge a per participant fee and will often lower the fee if you seek competitive bids. The recordkeepers will vary based on the number of participants, from perhaps $125 per participant for a company with 50 employees to closer to $50 per participant for a company with more than 5,000 employees.

3) Select passively-managed index funds and keep fund choices simple

You can minimize investment fund fees—typically stated as expense ratios—by selecting passively-managed index funds, which are appropriate choices for most individual investors. In terms of fund choices, keep it simple. A full slate of target retirement date index funds is often the best default choice for employees. A line-up of perhaps a dozen other index funds should be sufficient to support more tailored portfolios. The expense ratios should be in the 0.03% to 0.15% range, even for relatively small companies.

4) Evaluate advisor fees on a per-employee basis from conflict-free advisors

While advisor fees are often stated as a percentage of plan assets, the more common-sense way to evaluate the fees is on a
per-employee basis and they should mostly reflect time spent training, educating and counseling employees. An important, but often overlooked, element of a high-quality 401(k) plan is tailored, individualized financial wellness education from conflict-free advisors.

5) Persuasion (offer to help)

Armed with your new knowledge about retirement plans, approach an administrator or trustee and offer to help in any way you can. If there’s an investment committee, offer to serve on it. If there isn’t one, offer to form it. Try to persuade the administrator and/or trustee to open up the plan to a competitive bid process and offer to help gather and evaluate proposals. At the least, you could end up with lower prices from the current provider and learn a lot about the options available in the market.

6) Grab the pitchfork and complain!

We were recently talking to the administrator of a large employer plan with high, hidden fees, poor investment choices and no financial education. The administrator was reluctant to even consider a bid for the plan, which he thought was pretty great. Why did he think this lousy plan was pretty great? He said, “nobody complains.” That’s the issue and that’s our challenge to you—yes, you specifically. Lead the change, grab the pitchforks and storm the castle walls.

Have you been stuck with a lousy 401(k)? Were you able to persuade administrators to change to a better option? What would you suggest to a person stuck with a bad 401(k)? Comment below!
Public Versus Private Education Is The Wrong Question

[Editor’s Note: Today is the last day to get your WCI scholarship applications in. We’ve still got room for a few judges too. Email both to scholarship@whitecoatinvestor.com. Also, be aware the September monthly newsletter will be a few days late due to the timing of the end of the month and a family trip. Sign up for that if you haven’t yet, it’s totally free and you get the free Financial Bootcamp email series with it. Now, on to today’s post.]

We have seemingly endless discussions around here in the blog comments section and on the forum about paying for private school, both for K-12 and for college. We had an awesome discussion after a Pro/Con post a few months ago (Should Your Kid Go To A Private School?) that was particularly enlightening. The bottom line in the comments section was that the differences from one public school to another and from one private school to another probably dwarf the difference between the average public and the average private school. Not to mention the entire discussion delves into serious life topics including religion, politics, child-rearing, race, upbringing, culture, and even financial philosophy. Today, however, we’re going to focus entirely on the financial aspect of this decision. Everyone acknowledges that private K-12 is a “big rock” when it comes to your finances so with this post I’m going to discuss just how big that rock is. As you read, keep this caveat in mind: If you can afford private school while meeting reasonable financial goals and you value it, spend your money on whatever you like. That’s economics-
splurge on what matters most to us and (hopefully) economize elsewhere in order to afford it. Okay, on to the post.

Public or Private is The Wrong Question

When discussing private vs public school, I think most people are asking the wrong question. They’re asking a simplistic question:

* Should I put my kids in the public schools or should I pony up and pay for private school?

or

* Should my kid go to State U or Fancy Private University?

I think the right question is this one:

* Would my kid prefer
  
  # 1 A private education or
  
  # 2 A public education and a choice between a free, comfortable retirement at 50 or a luxurious retirement at 60?

The Opportunity Cost of Public vs Private

You see, paying for private school very early in life involves a cost that many don’t consider- the opportunity cost of that money compounded over decades. So while I acknowledge it is quite possible that a private school could provide a superior
education to a public school in many instances, my argument would be that the education often isn’t sufficiently superior to justify the cost. Let me explain.

The local private K-12 closest to my house is $24K a year. If we assume 5% real returns on that money, by the time that child is 60 years old, the cost adds up to $3.5 Million

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&= \text{FV}(5\%, 42, 0, -446367, 1) = 3,464,516.55
\end{align*}
\]

Multiply that by 4%, and that’s an annuity that pays $139K a year in today’s dollars starting at age 60 (or $85K at age 50). That’s like a nice military retirement without that pesky 20 years of military service. Quibble with the numbers all you like, but it’s a massive sum anyway you look at it, especially in a multiple child household.

**What If You Include College in the Cost?**

It gets even worse if you include the cost of college. Consider the cost of in-state tuition at the flagship state university here in Utah. It’s about $7K a year. If you live at home, your living expenses should be very inexpensive, perhaps a few thousand. We’ll call it $10K for ease of calculation. Or your kid could go to NYU at $52K a year, plus another $18K in living expenses for a total of $70K. Let’s consider the difference ($60K per year) How does that change the figures?
Multiply by 4% and that’s $208K a year. Or retire 10 years earlier on $128K a year. I don’t think I need to add grad school into the calculation to make my point. Most physicians don’t retire on $200K+ a year.

So really, it’s your choice. Fund your kid’s private education or fund their public education AND their early retirement. It’s the same price. I know which one I would have chosen as a kid if it had been presented to me like this.

Now, to be fair, most parents with kids in public schools aren’t saving the difference and giving it to their kids for their retirement. They’re spending it themselves on wakeboats, vacations, Teslas, or their own retirement. But they could. And doing the math illustrates just how big a rock that a private school education represents. It likely costs more than your own professional education, your big fancy doctor house, and even your transportation costs. It’s a big resource commitment, so make sure it’s worth it to you.

Comparing Big Rocks

What if we compare this “big rock” to other big rocks? The typical big rocks cited by white coat investors include the following:

- Housing
- Location (State taxes and Cost of Living)
- Transportation
- College Education
- Private K-12
- Vacations
Let’s take them each one by one and try to make some kind of comparison or ranking.

**Housing**

Yes, the ticket price is large and the maintenance cost (typically 2% of its value), upgrade costs, insurance costs, and tax costs are not insignificant. But working in its favor are two factors- # 1 it is consumed over many years and # 2 you get a fair amount of the value back out when it sells. Consider a $500K house. Let’s say there’s a $400K 4% mortgage and a $10K annual property tax bill. The 30 year mortgage payment is \( \text{PMT}(4\%,30,400000,0,0) = -$23,132 \) per year. Add on the taxes and it’s $33,132 per year. Add a couple thousand in insurance and $10k in maintenance costs and you’re at about $45K/year. Maybe it appreciated 3% this year, so that’s $15K added back in. Plus even in year one you paid down about $7K in principal with those payments, so we’ll subtract that too. That leaves you $23K per year. Let’s compare to private school. We’ll just use the local one close to me, although there are obvious more and less expensive schools around the country. $24K/year. I’ve got four kids, but let’s assume this is for a family with just two- $48K/year, more than twice the entire cost of housing.

**Location**

A big part of location-related expenses is the cost of housing, addressed above. If you’re in a place where you have to buy a million dollar house (or more) then that could get you into the range of having two kids in private school. But another big consideration is state income taxes. In Nevada, a doc making $300K is paying $0 in state income taxes. In Utah, that same doctor is probably paying something like $12K in taxes. In California, that tax bill is probably more like $24K in state income taxes. That’s only one kid in private school.
Transportation

What about expensive cars? Well, I think you can drive a beater for a cost of about $1K/year (including depreciation and repairs, but not gas and routine maintenance.) A much nicer car bought new likely costs about $5K/year, a $4K/year difference. Even in a two car household, that’s only $8K/year, 1/6th the cost of private school.

College Education

Let’s say you plan to have a very nice 529 for each kid—$200K, by the time they turn 18. If you assume 5% real returns on your savings and you start when they’re born, that’ll cost you =PMT(5%,18,0,200000,1) = $6,800 per year, or $13,600 for two kids. Far less than the $48K/year private school bill.

Vacations

*You can spend a lot of money on vacation.* If you rarely go, and drive your car and either camp or stay with family when you do, perhaps you can get away with $1,000 per year. Two international trips for four? That could be $30K/year, a $29K difference. Still less than the cost of private school tuition.

So where does that leave us if we’re trying to rank these in some kind of objective way?

Big Rock Rankings

1. Private School
2. Fancy vacations
3. Housing
4. Location/State Income Taxes
5. College Education
6. Transportation

Yes, this is a process that is very individual to every family. Some families will have four or more kids in school. Others are talented travel-hackers who go to Asia for cheap. Others live in Manhattan and scoff at what a mere $1M would buy and don’t think a $75K car is “nice.” But any way you slice it, private school is nowhere near the bottom of the list of “big rocks.”

What do you think? Is it fair to look at it this way? Would you actually consider giving your kid the money you would have spent on their private education? Why or why not? How would you rank the big rocks in your life? Comment below!

Are/were your K-12 children enrolled in private or public schools?

- ○ Exclusively private
- ○ Mostly private
- ○ About half and half
- ○ Mostly public
- ○ Exclusively public

Vote

View Results

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Retirement Savings Over College Savings

It is widely recommended in the financial world that you prioritize your retirement savings over college savings for your children. I agree with this advice. Yet, I run into people all the time who are not following it. Perhaps it is because college often arrives a decade or more earlier than retirement so it seems natural to save for college first and then turn your attention toward retirement. To make matters worse, I find some people prioritizing saving for their children’s college over paying off their own education! Now, if you’re milking along some 1.1% student loan while investing aggressively in a 529, fine, but for the most part, prioritize paying for your own education first, then your retirement, then your children’s education. In this post, I’ll give seven reasons why.

# 1 You Can’t Borrow For Retirement

One of the best reasons to save for retirement first is that you (and thus your child) can borrow for an education, but you can’t borrow for retirement. That’s not entirely true; you can borrow against your portfolio, your life insurance cash value, and your home, but you can’t borrow without collateral (at least not very much, I suppose lots of retirees die with credit card debt) like you can with student loans.

# 2 There Are Four Pillars of
Paying For College

Regular readers have heard me talk about the four pillars of paying for college. Despite reason #1 above, none of those pillars involve debt (although I suppose some debt is okay for professional/graduate school so long as it brings a degree with high earning potential.) The pillars are:

1. **School selection** – Pick a school you and your child can afford to pay for without debt.
2. **Student Contribution** – This includes merit scholarships, the child’s savings, summer work, and part-time work during school. The children of most high-income professionals won’t qualify for need-based aid.
3. **Parental Savings** – ESAs, 529s etc.
4. **Parental Cash Flow** – A high-income professional can likely contribute something from current earnings toward college

Since there are three other pillars to rely on, even if pillar three is minimal, college can still happen. That’s less and less the case with retirement, as Social Security’s full retirement age is slowly climbing and pensions are going the way of the dodo bird.

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**# 3 You Help Others From a Position of Strength**

As a general rule, you can only pull people up to where you are. It is difficult (not to mention unwise) to provide significant financial help to someone else when you are financially insecure yourself. Like in the airplane when the oxygen masks drop – put yours on first, then help your children.
# 4 You Can Use Retirement Money to Pay for College

Here’s another novel thought- money is fungible. If heaven forbid, you save too much for retirement and don’t have enough to cover what you want to pay for college, you can take retirement money and use it for college. Some of it is probably in a taxable account, so no penalty to withdraw it (plus you may even get some tax deduction or credit for paying directly.) Roth IRA contributions can be taken out for any purpose at any time penalty-free and tax-free. IRA earnings can be taken out penalty-free to pay for education. You could borrow against a 401(k) if you wanted, although I don’t recommend it. You could even withdraw retirement account money and pay any taxes and penalties due.

# 5 Retirement Tax Benefits Way Better

There are some tax benefits associated with saving for college, they’re pretty minor though. In many states, you don’t get a deduction/credit at all, just the tax-free growth and withdrawals. Retirement accounts, on the other hand, are often the best tax break available to doctors. If you need another reason to prioritize retirement over college savings, the tax breaks are a big one.

# 6 Retirement Accounts can be Stretched and Get Better Asset
Protection

While 529 account beneficiaries can be changed, allowing the money to continue to grow in a tax-protected way for another decade or two, that pales in comparison to the benefits of a stretch IRA, or even better, a stretch Roth IRA. 529 accounts also have limited asset protection in the rare event you are sued for more than policy limits. It really varies quite a bit between states. Retirement accounts, on the other hand, receive excellent protection in nearly every state.

# 7 Much Greater Variability of Price for College than Retirement

Definitely not planning on any of these cousins supporting me in retirement.

The price of a college education is amazingly variable. It can range from a mid-four figure amount per year to a mid-five-figure amount per year, a 10 fold difference for a similar product! Retirement costs do have some variability (notice how many retirees downsize or move South to a lower tax state), but not nearly as much. Unlike college, spending dramatically less on retirement often results in a “less attractive product” (i.e. lifestyle).

There you go. Seven reasons why you should prioritize retirement savings over college savings. As always, moderation in all things, but don’t make the mistake of pouring all your resources into your children and then expecting them to support you in your old change. They may not be able to, may resent it, or simply may not do it at all!
What do you think? How do you balance retirement vs college saving? Comment below!

Questions from an Old Friend

[Editor’s Note: Don’t forget the deadline for submission for the WCI scholarship is August 31st. We’re giving away over $60K in cash and prizes; don’t miss out on your share.]

I occasionally jot down some thoughts about a post that I’d like to write. Sometimes, I lose that note. Sometimes I lose it for years. This post comes from a note I recently found. I have no idea when I wrote it or who the email came from that triggered it, but I titled the note “Questions from an Old Friend”, so that’s what we’ll call this post. There were apparently four questions, all of which would be helpful to discuss on the blog.

Q. Can we do an IRA? Our accountant says we can’t.

A.

Your accountant is wrong. If you have earned income, you can contribute to a tax-deferred traditional IRA. However, if you wish to DEDUCT any of that contribution, one of two things must be true:

1. You must either have a modified adjusted gross income
(MAGI) of < $73,000 ($121,000 married) or
2. You do not have access to a retirement plan like a 401(k) either at work or through your self-employed work

With regards to a **tax-free Roth IRA**, you can make your full $5,500 ($6,500 if 50+) contribution under two circumstances:

1. You have a MAGI under $120,000 ($189,000 married) or
2. You do so indirectly, by contributing first to a traditional IRA and then converting it (i.e. a Backdoor Roth IRA).

If you are married, your spouse doesn’t actually have to have earned income, as long as you have as much earned income as was contributed to both of your IRAs. This “spousal” traditional IRA has slightly different rules for deducting contributions. If the working spouse has a retirement plan available at work and your MAGI is < $189,000, you can deduct the full contribution.

As you can see, your accountant is wrong if he really said what you think he said, but he probably didn’t. He was probably referring to your ability to deduct your traditional IRA contribution or your ability to contribute directly to a Roth IRA.

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**Q. Is my S corp salary too low?**

**A.**

The real tax benefit of an **S Corporation** is to save on payroll taxes, since you can split your income into salary and distributions and only owe payroll taxes (theoretically Social Security and Medicare but in reality for high earners, just the 2.9%-3.8% Medicare tax). Obviously, the less of your
income you designate as salary, the less you owe in Medicare tax. However, if you set that salary too low, you also may not be able to max out your individual 401(k) or other self-employed retirement account. It can also affect the amount of the new pass-through entity deduction.

The IRS doesn’t want you to set your salary too low, so it has set rules about how low you can set it. Basically, you have to pay yourself the going rate for your job. In the event of an audit, you need to be able to convince the IRS auditor that you had a good reason to use that figure. That might be a salary survey or an amount you pay an employee doc in your practice or something similar. As a general rule, The IRS rules are that the following factors should determine reasonable compensation:

- training and experience,
- duties and responsibilities,
- time and effort devoted to the business,
- dividend history,
- payments to nonshareholder employees,
- timing and manner of paying bonuses to key people,
- what comparable businesses pay for similar services,
- compensation agreements, and
- the use of a formula to determine compensation.

Sources of information on comparable compensation for services include the U.S. Department of Labor’s Bureau of Labor Statistics, employment agencies, and a market analysis.

Bottom line, as a doc working full-time, I think you’d have a very hard time justifying a salary under the amount of income subject to Social Security ($128K in 2018), much less a five figure amount. That’s okay, because you’ll need a salary larger than both of those amounts just to max out an individual 401(k). ($55,000 – $18,500)/25% = $146K in 2018
Q. Can I employ my spouse?

A.

Yes. You can employ anybody you like, as long as they can legally work in this country. The question, however, is SHOULD you employ your spouse. Lots of docs have this idea in their head that somehow employing a spouse gives them some huge tax deduction. In many cases, it actually COSTS them money to hire their spouse. Now, if you legitimately need someone to help you, your spouse is qualified to meet that need, and your spouse actually wants to do the work, then go ahead and hire your spouse. Remember you have to treat them like all your other employees. That means you have to pay their payroll taxes, which is where most docs realize this isn’t a great idea for them. If that income was paid to the doc, it would only be subject to Medicare tax (and maybe not even that in an S Corp) but if it is paid to a previously non-earning spouse, it will be subject to Social Security tax too, which is 4 times higher than Medicare tax.

Of course, if your spouse earns money, they are able to contribute some of it to a retirement account. If things are set up properly, your spouse might even be able to put as much as $55K in there. But that’s going to require you to pay a lot of payroll taxes, and the cost may not be worth the benefit. Run the numbers in your situation to see if it makes sense.

Q. Can I have a SEP-IRA and a Solo 401(k) at Vanguard?

A.
Again, the answer to this question is yes, but the question you should have asked is “SHOULD I have a SEP-IRA and a solo 401(k) at Vanguard?” and the answer to that is probably not. In fact, there are precious few reasons for most readers of this blog to have a SEP-IRA at all. The problem with SEP-IRAs, at least when compared to an individual (solo) 401(k), is that you may need more income to max them out since there is no employee contribution component (the $18,500 for those under 50 and $24,500 for those 50+) and they screw-up your Backdoor Roth IRA pro-rata calculation. (See line 6 of IRS Form 8606). And for what? Maybe you get a slightly lower ER (a Vanguard SEP-IRA is eligible for admiral shares but a Vanguard individual 401(k) is not) and slightly less hassle (don’t need to spend 3 minutes getting a free EIN, don’t need to fill out a few pages of paperwork, and don’t need to do a Form 5500-EZ after it hits $250K).

Many docs have made this mistake, and unfortunately, the solution to it is NOT to open a Vanguard Individual 401(k), because their 401(k) doesn’t allow IRA rollovers. You actually need to open one at eTrade or Fidelity (which do take IRA rollovers.) Then, if you really want it at Vanguard, roll it over to a Vanguard individual 401(k).

What do you think? Have you had any of these questions before? Do you have an S corp or a solo 401(k)? Have you employed your spouse? Comment below!

The Mechanics of Portfolio Management

I get a few questions from time to time from readers that basically boil down to “how do I manage my portfolio?” They’re
not asking questions about what investment accounts to use or what their asset allocation should be or what funds to buy. They’re literally trying to figure out the nuts and bolts of portfolio management. So today, I’m going to walk you through some recent transactions I did a few months ago and why. This represents no change in my investing strategy or asset allocation. It is simply doing the “chores of investing.” Will this be a boring post? Intensely. But if you’re struggling with managing your portfolio yourself, hopefully, it will be instructive.

Here’s the issue:

*I have maxed out my 401(k)s, Roth IRAs, DBP, and HSA for the year. All additional investments will go into the taxable account. I have $165,000 to invest. Where should it be invested?*

When people ask me this sort of question, the first thing I usually reply is “What does your written investing plan say?” Well, I have a written investing plan. This is what it says:

**Our Investing Plan**

60% Stocks, 20% Bonds, and 20% real estate

If you dive into the details, it breaks down like this:

- US Stocks 40% (25% Total Stock Market, 15% Small Value)
- International Stocks 20% (15% Total International Stock Market, 5% International Small)
- Bonds 20% (10% TIPS, 10% Nominal Bonds)
- **Real Estate** 20% (5% REITs, 10% Equity, 5% Debt)

So how is this plan currently implemented across our various investment accounts? It basically looks like this:
TSP (Old military 401(k))
- G Fund

Partnership 401(k) at Schwab
- Total Stock Market ETF
- International Small ETF

His White Coat Investor 401(k) at Vanguard
- Vanguard TIPS Fund
- Vanguard Total International Fund

Her White Coat Investor 401(k) at Vanguard
- Vanguard Total International Fund
- Vanguard Small Value Fund

His Roth IRA at Vanguard
- Vanguard REIT Fund
- Vanguard Small Value Fund

Her Roth IRA at Vanguard
- Vanguard Small Value Fund

The Taxable Account
- Equity Real Estate (various holdings)
- Debt Real Estate (various holdings)
- Total Stock Market Index Fund
- Total International Stock Market Index Fund
- Intermediate Term Tax-exempt Bond Fund

Hiking in Geiranger Fjord, Norway
This might seem odd to you at first glance, but to the experienced eye, it will not. There is a method to the madness here. You’ll notice that there is overlap in most of the accounts. That is to say, at least one of the funds in each account is held in another account. The reason for this will soon become obvious.

**Where Do You Stand?**

Once you have a plan, the next step is to figure out where you stand. In my case, that means updating my spreadsheet with my current values. My personal spreadsheet is ridiculously complex as it contains every single investing transaction for the last 15 years. But the relevant part for this discussion can be visualized in this particular screenshot.

Whoa, that’s heavy. Let’s talk about what it all means. The line at the top is the total. That space on the spreadsheet shows this:

\[\text{=H13-BL13+165000}\]

where H13 is the square on the spreadsheet with my total retirement assets and BL13 is the square with the total of my defined benefit account, which I exclude from my asset allocation since that asset allocation isn’t under my control. The 165,000 is the amount I’m adding to the portfolio.

There is one black line for each asset class and the red lines are totals of other lines. The first column lists the various asset classes. The second column is simply the percentage I want in each asset class, as noted above. The third column shows the actual percentage of the portfolio, including that $165,000 currently sitting in cash, that is actually invested in that asset class right now. That basically works out to be the number in the fourth column divided by the total at the
The fourth column shows the dollar amounts in the various asset classes. The fifth column is how much I WANT in each of those asset classes, or the number in column three multiplied by the total at the top. The sixth column is simply the difference between the fourth column and the fifth column. That’s the column I really care about because it tells me what I should do with that $165,000.

It tells me I need to put about $49K into TSM, $39K into Small Value, $52K into TISM, $23K into TIPS, $7K into nominal Bonds, $33K into REITs. It also tells me that I’m already overweight in international small as well as two categories of real estate.

Now that I know where I stand, I can move on to the final step.

**Figuring Out The Transactions**

This is the part that actually takes a little bit of thought. Let’s take it asset class by asset class and determine what it is going to take to get that $165K invested and keep the portfolio in some kind of balance.

**#1 Total Stock Market**

I have this fund (the ETF version) in my Schwab 401(k). But I can’t add any more money to that. I also have it in the taxable account. So it looks like I’ll need to use $49K of that $165K to buy this fund in taxable.

**#2 Small Value**

This fund is in her 401(k) and both of our Roth IRAs. However, her Roth IRA is 100% small value and we’re not adding any new money there. So unless we’re going to add the fund to taxable,
which I’d prefer not to given that it is less tax-efficient than TSM and TISM, we’re going to have to transfer some money into Small Value within her 401(k) or my Roth IRA. The right answer is her 401(k), for reasons that you will soon see. So the needed transaction is selling $39K of TISM in her 401(k) and buying Small Value with it.

#4 Total International Stock Market Index Fund

This is the most complicated piece of this process. This fund can be found in all kinds of places in the portfolio. It’s in his WCI 401(k), her WCI 401(k), and the taxable account. We’re already $52K short on this fund. Plus, we know we’re selling another $39K of it in her 401(k). My mind is exploding. Let’s leave this one and come back to it.

#5 International Small

This one is held entirely in the Schwab 401(k). It’s a little out of balance, but not bad. And I really don’t want to add it to any other account within the portfolio if I don’t have to. Nor do I want to sell any of it to buy the TSM ETF since there are (admittedly very small) commissions involved in doing so and I’ll likely just end up reversing that transaction in a couple of months. So I’m just going to let it ride for now.

#6 TIPS

These are held entirely in my WCI 401(k). That’s already maxed out for the year, so if I want more, I’ve either got to add it to another account or I’ve got to sell something else in the account and buy TIPS with it. The only other thing in the account is TISM. So I guess we’ll sell $23K of that and buy TIPS with it.
#7 Nominal Bonds

My entire nominal bond allocation used to be just the TSP G Fund. It’s a cool little fund that pays treasury yields while taking money market risk. As I write this (back in April) it’s paying 2.75%. Unfortunately, my TSP account became 100% G Fund, and I can’t add any new money to that account. So I had to add nominal bonds to another account. I chose to do so in taxable, for reasons discussed here. Since I’m in a high tax bracket, if I’m going to hold bonds in taxable, I should hold tax-exempt bonds. So the fund I’ve chosen in the Vanguard Intermediate Tax-Exempt Bond Fund. The spreadsheet says I’m a little over $7K short in this asset class, so I’ll use $8K of that $165K to buy this fund.

#8 Real Estate

I’m still overweight in the two less liquid real estate asset classes, due to having to meet the minimums for some of my real estate holdings a few months before. But I’m actually underweight in REITs, which I use for rebalancing this major asset class since they are much more liquid and in a tax-protected account where transactions have no tax consequences. But I don’t actually want to completely rebalance this sub-asset class. I simply want to rebalance the major asset class. That is $6K short, so I’ll add $6K to REITs. The only place I hold those is in my Roth IRA, so we’ll sell $6K of Small Value and buy REITs with it. We’ll let the other two asset classes ride for now and they’ll slowly come back into balance as I add money to the portfolio in coming months. This also explains why buying small value in her 401(k) was the right move instead of buying it in my Roth IRA- I needed that money for REITs.
...Now, back to Small Value

Since we sold $6K of Small Value in my Roth IRA, we need to add that to that transaction in her 401(k), where we were selling $39K of TISM to buy Small Value. In reality, we need to sell $45K of TISM to buy Small Value.

... And now, back to the “head explosion” that is TISM this month

Not only do we need to add $52K to this asset class, plus the $45K that is being sold in her 401(k), but we also need to add the $23K I used to buy TIPS in my WCI 401(k). That adds up to $52K + $45K + $23K = $120K. The problem is I’ve only got $165K to invest, and I’ve already earmarked $49K for TSM and $8K for the muni bond fund. $165K – $49K – $8k = $108K, not $120K. Okay, I can live with that. We’ll just put $108K in there and we’ll be a little low until next month.

Making the Transactions

So the transactions that need to be completed are:

Taxable account

- Buy $49K of TSM
- Buy $108K of TISM
- Buy $8K of Intermediate Tax-Exempt Bond Fund

His WCI 401(k)

- Exchange $23K of TISM for TIPS

Her WCI 401(k)

- Exchange $45K of TISM for Small Value

His Roth IRA

- Exchange $6K of Small Value for REITs
Whew! We survived! Managing a complex portfolio across multiple accounts requires a little bit of time and effort and some basic math skills made much easier with a well-designed spreadsheet.

**Portfolio Management Learning Points**

There are a few lessons about portfolio construction and management that were demonstrated here. Let’s list them out.

# 1 Nothing is ever perfectly balanced

Rebalancing should be done at least once every 1-3 years. But if your portfolio is still relatively small compared to your new contributions, you can just rebalance with the new contributions. If you’re a little off, no big deal. The market itself will knock things out of whack the next day anyway, and you can fix it up next month. Just try to get close.

# 2 Minimize transaction costs

There were 6 transactions this month. None of them required a commission to be paid. Don’t kid yourself- investment costs come out of your pocket (i.e. your returns) so minimize them whenever possible.

# 3 Rebalance in tax-protected accounts

You’ll notice nothing was sold in the taxable account. In fact, I try very hard to never sell anything in a taxable account, at least anything with a gain. If it has a gain, I use it for my charitable contributions. If it has a loss, I tax loss harvest it. But mostly, what I previously bought just sits there and I buy more. If there are rebalancing transactions (exchanges) that must be done, I do them in the 401(k)s or Roth IRAs.
# 4 Keep it as simple as possible, but not simpler

Remember that goofy set-up I showed you at the beginning, with a single fund or two in each investment account? It kind of looked dumb didn’t it? But look how easy it made rebalancing the portfolio! The method to the madness. Can you imagine if I had all nine asset classes in all seven accounts? That would be 63 holdings. Instead, I’ve got 13 plus the illiquid real estate stuff. Way easier. This is about as simple as it can be while allowing me to maximize the use of retirement accounts, invest in nine asset classes, and have relative ease of rebalancing. Be aware that this changes from time to time as different accounts become larger and smaller percentages of the overall portfolio. The latest trend is slowly moving asset classes out of tax-protected accounts and into the taxable account.

# 5 Pay attention to asset location

There are some basic principles to asset location, and this post demonstrates them relatively well.

- High expected return, tax-inefficient asset classes (like REITs) go in tax-protected accounts
- Low expected return, tax-efficient asset classes (like muni bonds) go first into taxable accounts (if something must)
- High expected return, tax-efficient asset classes (like TSM, TISM) and/or low expected return, tax-inefficient asset classes (like nominal bonds when rates are low) go into taxable accounts next
- Take advantage of the best available funds in each account (such as the G Fund in the TSP, ETFs in the Schwab 401(k))
- High expected return assets preferentially go in Roth accounts (acknowledging that this isn’t a free lunch, it technically represents taking on more risk after-tax)

I hope this has been a helpful exercise and that I didn’t
put you to sleep. You can do this. It’ll take a little bit of time, effort, and thought, but when the alternative is paying someone else $25K a year to do it, it’s probably a good use of your time. It is best to start doing this when your portfolio is small and simple. A 7 figure portfolio might be intimidating to manage, but it really isn’t if you’ve already managed a 4, 5, and 6 figure portfolio over the last decade or two.

What do you think? Do you have any other portfolio management tips to share? Comment below!

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How Doctors Should Apply the Cashflow Quadrant

[Editor’s Note: This is the second post of a two-part series on the cashflow quadrant from WCI Network partner Passive Income MD. The first explained what the cashflow quadrant is and this one is about how doctors can define goals, educate themselves, and take actions to get to the right side of the quadrant as business owners and investors. This post contains PIMD affiliate links.]

In my previous post, I explained the concept of the “cashflow quadrants” and where most doctors fit into it.

We also divided the quadrants into two sides: the “active income” side (left) and the “passive income” side (right).

In short, most physicians live on the left side of the quadrant, where we trade time for money. (Time in = Money
Out). Unfortunately that often puts us in a situation where we might make a decent income, however, we’re short on the most precious resource, time. If this doesn’t sound familiar to you, please go back and read the first post! Once you have, let’s dive right into part two.

From Left to Right

I’ve said it before and I’ll say it again: I believe that for most of us, the secret to a happy career in medicine is to make it a hobby. If you can achieve this, then you’ll be practicing medicine on your own terms, and for the pure love of treating and caring for patients.

But to accomplish this, we need to be able to rely on other, more passive forms of income. The right side of the quadrant is where financial freedom sits.

So now the all-important question. How do we move from the left side of the quadrant to the right side, where we want to be? Here are some practical steps to get there:

Step 1 – Understand the Cashflow Quadrant

It’s key to be very familiar with the concept of the cash flow quadrants and to understand it well. Make sure you’ve read my first post, and for even more info, read Robert Kiyosaki’s book.

Step 2 – Identify Where You’re At
Identify your position in these quadrants.

- Are you an employee?
- Self-employed?
- Or have you already begun your journey to the right side?

Additionally, you need to know what your net worth is, as well as your expenses. I suggest using Personal Capital if you don’t already.

**Step 3 – Define Your Goals**

Without your eyes on the finish line, it’s hard to know what direction to run in. In reality, the journey will never be a straight line, but in order to continually course correct, it helps to know where you’re trying to go.

So ask yourself these questions:

- Are you happy where you’re at, and do you desire financial freedom?
- Do you want to retire early? At what age?
- Do you want to be a business owner, investor, or both?
- How much time and effort do you want to put into this?
Write these things down and keep them always in your mind. Give yourself something to work toward.

**Step 4 – Educate**

Educate yourself—and understand the risks. I can’t stress enough how important it is to read every financial book you can get your hands on. And not only books—check out blogs, listen to *podcasts*, and find success stories of those that have reached the goals you want for yourself. The more informed you are, the smoother your journey will be.

Here is also a [list of my favorite investing, business, and finance books](#) to help you take this an all-important step.

**Step 5 – Take Action**

Go for it. Whether it’s starting your own business or [investing in real estate](#), at some point, there’s only so much analysis you can do. As physicians, we’re trained to take all the information we can find and make an evidence-based decision.

Unfortunately, when it comes to investing and starting your own businesses, it’s not always so clear cut. There’s always too much noise out there from so many different sources that we don’t know what to believe or what the next steps are. We often get stuck in “analysis paralysis.”

The truth is, you’ll never find one definitive risk-free answer. You have to make the best-educated leap you can make and get your hands dirty. That might mean buying a rental property, getting into real estate crowdfunding, etc. Whatever you choose, follow up on those goals with action.
**Wrap-up**

I was introduced to the concept of cash flow quadrants after finishing my training, and once I read Kiyosaki’s book, I saw the importance of pursuing additional streams of income as early as possible. Yes, it would’ve been easier to simply go to work think about passive income later in life. My goal was to achieve financial independence about fifteen years after training. Thankfully, I was able to reach it in six.

Unfortunately, as physicians, we’re taught one path to the top and when we achieve career success… then what? At that point, will you have the time and resources to live your life how you want?

As mentioned in my previous post, as high-income professionals, we do have the opportunity to save, invest wisely, and more quickly move into the right quadrant—particularly as the investor. I’ve heard story after story of physicians doing that very thing. Some used the stock market to get there and some have used real estate.

Ultimately, once your research is done, the key is to make a plan and commit to it. You may reach financial freedom faster than you think.

What’s your plan to be on the right side of the cashflow quadrant?
An Interview with Passive Income MD and Physician on Fire – Podcast #67

Podcast #67 Show Notes: An Interview with Passive Income MD and Physician on Fire

The WCI Network all together in one podcast episode! We answer as many of your questions as we could get to. From random ones like bone in or boneless wings to more financial related ones like what is the recommended net worth allocation for a high income professional? Passive Income M.D. addresses the question of buying a REIT vs buying a rental property and shares lots of wisdom about investing in real estate. Physician on Fire tackles questions like what advice would he give docs that are considering FIRE without the supplemental blog income? And can doctors really retire early without a side gig? This episode is entertaining and informative. You can listen to the podcast here or it is available via the traditional podcast outlets, iTunes, Overcast, Acast, Stitcher, Google Play. Or ask Alexa to play it for you. Enjoy!

Podcast # 67 Sponsor

[00:00:21] This podcast is sponsored by Nomad Health. Nomad is a fast, easy, online way to find great doctor and nurse jobs. Looking for a freelance locums gig? Come to Nomad! Looking for
a new full time job? Come to Nomad! Looking for a travel nursing job? Come to Nomad! And best of all, there are no brokers. It’s all online, self-service, and totally transparent. No more phone calls and spam emails from agency recruiters. You can check out Nomad at nomadhealth.com.

Quote of the Day

[00:02:07] “I have no first-hand knowledge of the depression. My family had one of the great fortunes of the world and it was worth more than ever then. We had bigger houses, more servants, we traveled more. I really did not learn about the depression until I read about it at Harvard.” - John F Kennedy

Q&A from Readers and Listeners

1. [00:04:44] “Bone in or boneless wings?”
2. [00:05:28] “Do you feel you are helping your coworkers to better handle their finances?”
3. [00:07:01] “When did you realize you had a better understanding of finances than the average doc?”
4. [00:09:32] “If you lost your current MD job would you seek a new one?”
5. [00:11:50] “If your three blogs (and connected social media empire) did not exist, what would be your go-to resources for up-to-date, accurate, and easily digested personal finance information?”
6. [00:15:24] “If your child were going into medicine and asked advice what field to choose (and actually listened!), where would you steer him/her?”
7. [00:19:03] “I’m interested in starting a real estate investment club with other physicians. Do you recommend partnerships and how do go about doing this?”
8. [00:21:12] “How do you tackle finances with your wives?”
9. [00:25:10] “With a saturated physician blog market currently, what would be your side gig/project/hustle if you were starting one today?”

10. [00:27:21] “With serious money-producing blogs, do you think your advice (ie. retiring early) is still germane to physicians with no outside income source? It sounds great to retire at 45 (ie. PoF) but not all of us have 200k-2mm/year in blog income. What advice would you give docs that are considering FIRE without the supplemental blog income?”

11. [00:28:44] “WCI recently quoted his annualized returns as 293% and 2500% in PoF and PIMD, respectively. What are their returns?”

12. [00:30:02] “Considering there was a phenomenal amount of debate on this question/post – why do you recommend investing in the S&P 500 by default instead of any other index? What makes market cap weighting so special when it over weights tech so disproportionately with potentially unnecessary sector concentration risks in a potentially late economic cycle and prolonged long term debt cycle? What to factor in when considering Vanguard thinks expected real returns on equities will be very low in next 10 years?”

13. [00:33:45] “Buying a REIT vs buying a rental property. Always felt I was missing out not owning rental real estate but it seems a good dividend REIT isn’t much different than buying a property. The property can appreciate but so can the stock—both can tank. Thoughts?”

14. [00:37:55] “What is the recommended net worth allocation for a high income professional?”

15. [00:41:57] “How do you evaluate the legitimacy
and confirm results of a private equity firm?”

16. [00:44:31] “I’m very intrigued with Vanguard releasing their new commission free ETF list. Would love to hear a discussion about how this affects the industry and ultimately your individual portfolios, if at all.”

17. [00:46:25] “For each person, if you had to be one of the other 2, which would you rather be and why?”

18. [00:48:16] “What is a simple plan or path that we can all follow to invest in real estate?

19. [00:51:26] “Where’s the best place that you’ve traveled with children?”

20. [00:53:53] “With the increased market valuations, and many projecting below average returns the next decade, would you more strongly recommend paying down student loan debt over investing in a taxable account after all tax adv are maxed?”

21. [00:55:56] “Do you think that being born into wealth was integral in shaping your financial literacy? Considering that your children likely will not have the same financial pressure you experienced. What approaches are you planning to take in teaching them financial stewardship?”

**Ending**

Make sure you join the discussion!
Passive Income MD Face book group and the Physician on Fire Face book group if you
You are a physician. The WCI Facebook group is open to all high income professionals.
Intro: [00:00:00] This is the white coat investor podcast where we help those who wear the white coat get a fair shake on Wall Street. We’ve been helping doctors and other high income professionals stop doing dumb things with their money since 2011. Here’s your host Dr. Jim Dahle.

WCI: [00:00:21] Welcome to podcast number 67 an interview a physician on fire and passive income MD. Today’s podcast is sponsored by Nomad health. Nomad is a fast easy online way to find great doctor and nurse jobs. Looking for a freelance locum’s gig. Come to nomad! Looking for a new full time job? Come to nomad! Looking for a travel nursing job? Come to nomad! And best of all there are no brokers. It’s all online self-service and totally transparent. No more phone calls and spam e-mails from agency recruiters. You can check out Nomad at nomad health dot com.

WCI: [00:00:53] Thank you so much for what you do. I know you’re probably on your way into work your way home from work maybe you’re jogging or doing chores around the house as you listen to this but I want you to know that your work matters and you probably don’t get thanked as often as you should be. So I want to be the first to say thank you for the time and dedication you put into your career. For all the time you’re willing to be on call and work at night and holidays and weekends and evenings. It really is a special thing you’re doing.
WCI: [00:01:19] We’re going to be having couple of my favorite people on this episode. The physician on fire and passive income M.D. I think both of them are kind of gradually coming out of the closet as far as who they are and becoming a little bit more well-known rather than anonymous people on the Internet. But I think in today’s episode we’re going to be just referring to them as physician on fire and passive income MD. We’ve got passive income MD coming from the west coast and it turns out that the physician on fire is a little backwoods cabin up in Michigan. Unfortunately that affected a little bit of his sound quality during this interview. We’ve cleaned it up as much as we can. We’ve had to cut a little bit out of it. So bear with us when he’s given some of his answers and know that we did all we could improve that sound quality.

WCI: [00:02:07] Oh yes. Before we get into this interview though, let’s do a quote of the day. This one is kind of an interesting one. This comes from John F. Kennedy who said, “I have no firsthand knowledge of the depression. My family had one of the great fortunes of the world and it was worth more than ever then. We had bigger houses, more servants. We traveled more. I really did not learn about the depression until I read about it at Harvard.”

WCI: [00:02:29] OK we’ve got a special podcast today. I’ve got both passive income M.D and the physician on fire with me today and we are going to be doing nothing today but answering your questions. We’ve had dozens of questions submitted over Twitter and in our various Facebook groups as well as on the white coat Investor Forum and we’re planning on getting to these as many as we can today and maybe we’ll have to have a part two get so many of these questions. But I think this is
going to be a lot of fun a really enjoyable episode.

**WCI:** [00:02:57] If you’re not familiar with these two guys you need to become familiar with them. Passive income M.D is probably the most popular physicians specific blog out there focused on passive income, real estate ventures, et cetera. So if you haven’t check that out be sure to look at passive income MD dot com. Likewise with physician on fire. That’s a play on the words financial independence retire early. That is a great place to go to learn more about how you too can retire early or at least become financially independent and get the freedom that comes with that legendary status of your finances. Passive Income M.D. and physician on fire welcome to the show.

**PoF:** [00:03:41] Thank you very much. I’m excited to be here recording with you once again. And I know we’ve gotten a lot of questions like you said and I think really a lot of fun to dig into these.

**PIMD:** [00:03:49] Yeah. Thanks for having us.

**WCI:** [00:03:51] Before we get too far into it, passive income M.D, let’s have you give us just a little update on what’s going on in your life and with your Web site.

**PIMD:** [00:04:01] It’s been exciting last couple of months. By the time this thing airs I’ll have come out public so that’s kind of a little bit of a scary but exciting venture for me. I think the reasons why I’m doing so will be explained pretty
well in the blog. And I hope that it’s received well.

**PoF:** [00:04:20] Cool. I’m excited and look forward to reading that one. And I’m not really doing the reveal post that I believe passive income M.D is planning but I’m slowly letting my my name and face appear in different places online so it will be subtle but if you go to my site right now you’ll see my smiling face and FinCon speaker ad. So it’s a little bit at a time.

**WCI:** [00:04:44] Cool. Well let’s get into the question. So the first one that came in on the white coat Investor Forum was from Coard McNally, bone in our boneless wings?

**PoF:** [00:04:53] I’ll go first. You know wings are wings that have bones in them they don’t work as wings if they don’t. And so if I’m going to have chicken wings they’re going to be bone in and you know you’re not fooling me with the you know the chopped up chicken breast in the squares and calling that a boneless wing No no thanks. Oh no breading that’s too much carb.

**PIMD:** [00:05:18] Yeah. Yeah. All natural too. I like the bone in, no breaded. I Like to hold my wings there and yeah that’s only way I’ll do it. How about you Jim?

**WCI:** [00:05:28] I think I prefer the bone in as well. So that’s that’s a unanimous vote there. Let’s move on to a little more relevant question to this financial podcast. How about this one. Do you feel you’re helping your co-workers to
better handle their finances? I think they’re talking about the people you interact with at the hospital.

**PoF:** [00:05:52] I do a little bit. Having been largely anonymous not everyone knows that I’m all that savvy with money although they do know that I’m going to be retiring early and I’m in a financial position to do so. So I guess they do have some sense of that and there are a couple coworkers that have come to me with specific questions about taxable accounts and tax loss harvesting and I can talk them through that but until my persona is known and people know about the website I guess I haven’t really pointed them to specific posts on my site but I have pointed them to both white coat investor and passive income MD.

**WCI:** [00:06:29] Hey that’s what I like to see a little bit of cross promotion there.

**PIMD:** [00:06:33] Yeah I’ve done the same. I mean I’ve been anonymous so I pretty much refer people to your guys site. I felt kind of weird sending people to my site anonymously. So. But I will when I get there in the hospital especially when I’m around residents and fellows we often have these financial talks so sometimes my co-workers are around and so they hear and kind of get engaged and hopefully that’s my way of spreading the word about passive income and just working on your finances as a physician.

**WCI:** [00:07:01] Let’s go on to another one of Hatton ones questions. She also asked when did you realize you had a better understanding of finances than the average doc?
PoF: [00:07:13] For me I guess in medical school I wrote a book that helped kind of set the tone and that was the only investment guide will ever need. And once I finished residency I saw a lot of docs spending a whole bunch of money and buying life insurance, the whole life that is and doing things that I knew weren’t necessarily a great idea. So probably I would say it was shortly after residency when I saw some of my friends and colleagues making financial mistakes that I knew to avoid.

WCI: [00:07:47] How about you Passive Income MD?

PIMD: [00:07:53] For Me a couple of years after being an attending. When I started getting into real estate. And you know that that’s really changed my mindset about where I wanted what my finances to be. And it’s also my career. I started asking people in the hospital what they were doing and really most people had no idea they really didn’t have any answers.

PIMD: [00:08:13] I said What are you doing for your finances? Are you using financial adviser? Or you know looking into real estate? other sources of income? And honestly I found so few people that were actually doing it and I realized wow I was the only one doing this stuff, except for a few people that I did find and you know we got together and ultimately honestly we formed a group and hopefully we’ll talk about that a little later. There’s only a small subset of physicians that are actually interested in this whole subject.

PoF: [00:08:39] It is a bummer that such a taboo topic to
really talk about. We all make plenty of money. We should feel comfortable talking and speaking freely you know behind closed doors at least about this stuff.

WCI: [00:08:49] Yeah you know for me it was very early on and it was very early in my financial education process. You know I had my first financial book I read toward the end of my intern year and within a few months I think I knew more than the average doc. I mean it really is such a low bar to get over to know more than the average doc about finances that you know it doesn’t take very long once you start showing any interest at all.

WCI: [00:09:13] But I can remember distinctly teaching other residents in my residency about finances. And you know very shortly thereafter other attendings that were just absolutely clueless about it.

PoF: [00:09:23] And I think we are raising the bar though and we have you to thank Jim for starting starting us down this path. You know I learned quite a bit from your sites before I started mine.

WCI: [00:09:32] Well good I was glad to be helpful obviously for everybody you know. OK let’s move on to a question from vagabondM.D. If you lost your current M.D. job would you seek a new one? You want to take this one first PIMD?

PIMD: [00:09:50] I actually want to hear what physician on fire has to say. But for me I would definitely find another
job. I still find a lot of enjoyment in it and I don’t want to give it up completely. Especially at this point it’s way too early for that for me. So I would definitely go out seek another job but I’d be very very specific as to what I’m looking for and I definitely wouldn’t settle.

PoF: [00:10:16] For me I bet you you guys could guess the answer but I would say no I would not look for another job. I hit financial independence About three years ago now. And yeah. And we’re in a good position. And yeah I lost my job. I would not be looking. But I do plan on working part time and actually time a little bit here over the next year or so.

WCI: [00:10:40] And I understand that’s to cover one of our military members that’s out serving you’re kind of backfilling for him as I understand.

PoF: [00:10:47] That is correct. One of our one of my colleagues is heading to the Middle East for four months so from November to February I’ll be working full time.

WCI: [00:10:55] Well thank you for your service. In my case I like to think I would go get another physician job. Obviously I don’t need it at this point but I do enjoy practicing. The problem is I have a unicorn job. It’s awesome. I have a great job a great group of people. The pace isn’t too bad. I’m not working nights I’m working about 8 8 hour shifts a month now. I mean it’s an incredible job and so it feels like any other job I took would be a significant step downward.
WCI: [00:11:28] And so I think I would hesitate at least a little bit before doing that. I would certainly take some time off. I don’t know three months six months maybe a year even that would allow me to do some stuff that maybe I can’t do just because I got to get my shifts in every month but I’m not ready to be done with medicine. I expect will be practicing medicine in some form for the next 10 to 20 years.

WCI: [00:11:50] All right. Let’s move on to another question here. Also from vagabondM.D. on the white coat investor forum. If your three blogs and connected social media empire did not exist what would be your go to resources for up to date, accurate and easily digested personal finance information.

PoF: [00:12:12] That’s a good question and I guess I’ll go back to what I was looking at before I discovered white coat investor and before I started my own blog. I was on Bogle heads quite a bit and learned from the Forum and the wiki there. I read some other blogs like well Mr. Money Mustache. I wouldn’t say that’s maybe a go to resource for accurate personal finance information although in some ways it is. There are so many other sites you know besides that we have ours that are blogs that are great and then you’ve got sites like Morningstar, maybe Kiplinger’s, got money magazine. You know you’re getting personal finance for maybe not getting heavy duty investing information there but personal finance comes as a pretty wide space and there’s a ton of places. How about you PIMD? What would your go resource be?

PIMD: [00:13:02] You know it’s funny before I started my blog. I didn’t read a lot of other personal finance blogs besides you know once in a while Look at the white coat investor and when yours came on the scene I started reading that.
PIMD: [00:13:15] But I think the only other one that I kind of looked at was bigger pockets .com especially because it’s real estate related. It’s not personal finance per se. That’s the only other site that I use to really get a lot of information about passive income. I was on the forums there. And besides that probably once in a while on CNN Money and that’s about it.

WCI: [00:13:35] You know I’m Bogle heads I’d have to name. I mean I was the eighth most prolific poster on that before I started the white coat investor. So for sure that’s a great resource if you’ve never checked out the Bogle heads forim. It is the largest and most top notch highest quality investing forum on the planet. So I’d highly recommend that. But truthfully I think rather than go into the Internet or worse radio and TV, I think the best place to go to get good investing information even if maybe not up to date, is the library. I really think books are the best way to learn about investing. Because here’s the idea, even inherit in that question, What’s your most best place for up to date information. You don’t need up to date information. You know the principles of investing are the same five or ten years ago as they are today. So this idea that you need absolutely current information. I think you know maybe with regard to the tax code but that’s about it. I think and so I’d recommend you hit the recommended bookless you know on good blogs and forums. In addition you know as I noted in a post I ran recently shoot there’s another 50 active physician financial blogs out there. So I guess if ours didn’t exist I’d check out some of those you know. But that’s where I’d go.

PoF: [00:14:51] All right. You’ll like this Jim, let me just
interject quick. So today we biked from our cabin here in Northern Michigan into the public library five miles away and took our kids with me. And then I jogged back but we go to a library several times a week I would say no matter where we are.

**WCI:** [00:15:10] Yeah I think the library is great. All right. Here’s one more from vagabondM.D. who incidentally I think is going for the record for most podcast and guest post appearances on physician financial blogs without starting a blog himself.

**WCI:** [00:15:24] But he asked if your child were going into medicine and asked advice. What field did choose where would you steer him or her?

**PoF:** [00:15:33] Passive income MD you want tell us what you think?

**PIMD:** [00:15:40] Yeah I think choosing your field is so oh man it’s so specific to the person and what you’re looking for and what your goals are in life. I mean if if lifestyle is a concern and I obviously noted that they they love the freedom and they love to Yeah that they weren’t 100 percent into their career of course I’d have them choose one of the more lifestyle specialties and I think they’re still out there. I mean anesthesia, emergency medicine. We’re both. We’re all in this field. Even ophthalmology.

**WCI:** [00:16:12] Yeah we never work nights or weekends or
holidays all really lifestyle special?!

**PIMD:** [00:16:18] Well you can choose that’s the cool thing right. You’ve done it today to create your career. I think it’s much harder for someone you know like a surgeon who is like a brand. Right. And they need to be there for their patients at all times. I mean for us luckily in some ways we’re all interchangeable so that’s allowed for, Ultimately if you have other sources of income and that sort of thing can actually create the type of life and career that you want. And yeah I mean that’s probably one of those I probably have them go into. How about you guys?

**PoF:** [00:16:47] I would choose anesthesia again if I were to do it again. But I can’t see that it would be necessarily what my child would choose. So I would just tell them to go into third and fourth year, third year in particular of medical school with an open mind. And you know when I went in I thought maybe I do pediatric you know and. Ended up. Trying anaesthesia and thought I would not and I loved it. So it just got to keep an open mind.

**WCI:** [00:17:14] I think that is a very real question for me. I’ve got two kids that are talking about medical school. And so you know one of them says he wants to be an emergency Doc and become the white coat investor. So I’m not sure how seriously to take him. But the other one’s been talking about medicine for quite a few years and she’s already 14 so this may very well be a conversation we have.

**WCI:** [00:17:33] And I think the first point is do you talk him
out of medicine at all. You know rather than just out of specialty or into a certain specialty. I know there’s a lot of doctors out there that would they just see all the downsides of medicine and all the hassles that are there now with the EMRS and all the government regulation and all that kind of stuff and they literally would encourage your children not to go into medicine. I don’t think I feel that way. I think it’s a great career. I think it’s a wonderful profession. You still make pretty darn good money that if you manage it well you can become financially independent very quickly with nothing but your medical income. So I think I would be encouraging my kids to go into medicine. But I do like the fact that some of these shifts specialties have allowed me to pursue other interests and I think are easier to mold your life around as your as your desires and what you want to do with your life changes through the years. You know you can cut back and raise kids or drop your nightshifts or you know start a business on the side or whatever. I think a lot more easily with shiftwork specialties and you can with others. That said if you hated emergency medicine I would not do it just for the shift work. You’ve got to love the medicine first and foremost.

PoF: [00:18:45] Definitely. I would I would have a problem with such a day surgery center Earlier in my career if I could go back and redo that. But I’m happy with the way things have gone. But 12 13 year career good enough for me.

WCI: [00:19:03] Truly the physician on fire. All right. Next question comes from I don’t even know how to pronounce it Saji mon from the forum and this one is specifically for passive income M.D says, I’m interested in starting a real estate investment club with other physicians. Do you recommend partnerships and how do you go about doing this?
PIMD: [00:19:23] Well I can speak out of experience. I think I mentioned before that when I started learning about real estate investments I was on fire and I was trying to find you know anybody in the hospital any other physicians who were doing these kinds of things and luckily I did find a very very small subset of people doing it. And the cool thing is that I was an ENT surgeon, one was a plastic surgeon, a couple other anesthesiologists and an internist. And we started getting together actually as a group and there was 10 of us and we started doing this on maybe like once a month and we you know throughout that process we actually found that deal. We all wanted to jump in. So we all got together and signed the paperwork and formed a group. The deal fell through and which is fine actually I think it was the best thing for us because all these life changes happen all of a sudden and we all had different plans in mind and goals. And next thing you knew we stopped meeting. So I’m actually I actually think the best thing that happened was that the deal fell through. The best part of the whole thing was that we actually got together.

PIMD: [00:20:28] We all started learning the ones that actually wanted to learn more actually branched off from there and continued on just like nice path and a bunch of us have you know rental properties. A few of the people that actually weren’t that interested actually fell off. And so I do think it’s a great idea to get together with other physicians to talk about it to learn this sort of thing and I would absolutely recommend that. As for trying to go into business together. I think that’s a totally different thing. And I think I wrote a post on it something about going to a business with friends. You definitely have to be very very careful. Make sure you’re obviously do it right. You know you’re totally aligned. You do the paperwork right. And these kinds of things so it’s a specific situation I can’t always
WCI: [00:21:12] OK. Next question. This one is for both of you but not for me apparently because I’ve written about it before but this question was How do you tackle finances with your wives? I think they’re getting to you know how do you get on the same page with your partner is basically the question being asked here.

PoF: [00:21:31] Great question. My wife and I. I guess I handle the finances in general. I do the investing and pay bills and earn the money my wife stays home with our kids for the most part. She has done some substitute teaching that sort of thing. But I keep her very much informed as to where we are. We both know what we spend because we’re on mint dot come once a week. Just looking over the transactions. And I really like the idea although I haven’t done this and Jim I believe you had a guest post on this. But the idea of a monthly meeting where you review one’s finances and it’s not something we’ve done but I think if you’re on your path to financial independence and you’re starting out early you really want that same vision. It’s a great way to make that happen.

PIMD: [00:22:22] Yeah my wife and my wife is also a physician and she also runs her own business as well. So we actually talk about finance quite a bit like on an overall level like how are our businesses doing these kind of things. I think I handle most of the investment side. And luckily she’s been super supportive. Basically she just told me just don’t lose money. That’s what she told me. So she’s give me a lot of freedom in terms of what type of investments to go and.
**PoF:** [00:22:50] That’s a difficult directive though not lose money!

**PIMD:** [00:22:57] You got to give me time. That’s why I tell her. This is a long term game. So give me time I’m trying to be strategic and smart about it.

**PIMD:** [00:23:04] I think overall as long as long as we win I think that’s what she cares about. But yeah I mean we. I’ll be honest we’re not super super tight with our budget. We don’t talk about it on a super regular basis. I handle pretty much all the accounts and watch over. She’s a you know she spends some money here and there but she also makes a good amount of money so she’s very smart about it and I trust her in that sense and she trusts me with that. And so I think that’s the most important thing. We know it can be kind of a source of marital discord or the number one cause of divorce. So I think we’ve been careful about how we deal with money and making sure we’re both on the same page. I want to hear about you Jim how do you do it?

**WCI:** [00:23:46] You know I think I’ve written about this before but we actually have a monthly budget meeting and we go over all our expenses and you know and talk about where we want to invest the extra each month you know whether it’s going into the 529 or you know a 401k or rather into saving up for a house remodel or whatever so we’ve met once a month for our entire marriage. You know 19 years now we’ve got a spreadsheet for every month of our marriage and that’s worked for us. highly recommended if you’ve never tried it. Granted it’s got you know the law of diminishing returns applies to it. I think the first six months you do it are incredibly useful and then maybe not quite as useful to do it after that.
But I do encourage anybody who has never sat down and actually looked where every penny is going to do it’s a good exercise.

**PIMD:** [00:24:35] You know what came up recently is we started you know we were revising our trust and we’re talking about these issues. And you know one thing I realized is if somebody is totally out of the loop like my wife in terms of our investments to kind of explain what we’re doing this this or that and say How do I find this thinks of something you know something happens to you. And so I was like You know I understood the importance of actually having that discussion having both partners know exactly where the finances are coming from where they’re going where can they find out this kind of information. So that’s something I definitely recommend that people kind of talk about.

**WCI:** [00:25:10] OK. Next few questions are a little bit more about blogging I think which I don’t want to spend too much time on. I think that was actually one of the criticisms of the blogger panel that the White coat investor conference was it wasn’t enough finance and it was too much about blogging. But a lot of people were asking blog stuff so let’s let’s do a couple of blog related questions. Here’s one from Wanka 31 with the saturated physician blog market currently. What would be your side gig project or hussle if you were starting one today.

**PoF:** [00:25:41] I See myself starting a brewery someday I think of a ton of fun and I know a little bit about the business side of it. So that would be one possibility. And I’d also look into real estate sort of thing and fortunately have a site like PIMD to learn all about it.
WCI: [00:25:58] So booze and land huh?

PIMD: [00:26:07] I mean I’m doing the real estate thing you know doing the blog but I’m going to do one. Well it seems like the most fun today is that it’s being a social media influencer. I mean I just when I see when I see other physicians doing this and they seem to be having a great time they’re taking pictures they’re interacting with people than getting paid for it.

PIMD: [00:26:26] And I don’t think I’d be good at it. But that one just seems like the most fun to me right now.

PoF: [00:26:31] And we need to talk about that in our business meeting later that sounds like something I might enjoy as well.

PIMD: [00:26:38] People that are traveling are getting paid to travel or go to these places or shop or do these kinds of things to get paid for it looks awesome.

PoF: [00:26:47] Yeah. For me I’m just not getting paid to do it. I got to fix that.

WCI: [00:26:52] Yeah for me it was real estate my plan from the beginning if I wasn’t making a thousand dollars a month within two years with the white coat investor I was going to
WCI: [00:27:01] And and you know I’m glad it worked out but it just barely worked out. You know that’s about what I was making two years into it. So you know there’s a lot of great things you can do that aren’t blogging. And if I looked and saw that there were 80 physician financial blogs in the niche I don’t think I’d start with I’ll be honest.

WCI: [00:27:21] Okay next question is kind of related to that. And we actually got this one from two separate people on the forum. Basically they’re asking if a physician without a serious money producing bloggers side gig you know does your advice. Is it still germane. Can you still retire early without an outside income source you know or what advice would you give docs that are considering fire without the supplemental blog income. Why don’t we have you start with this one physician on fire.

PoF: [00:27:53] And I’ll say absolutely. You know it really just boils down to do you actually believe in the concept of a safe withdrawal rate. And do you believe that you have the ability to control expenses are going to be. But you know it’s fun. It is extra money but I donate half my profits you know. So if you if you believe that you can make your money last with let’s say a three and a half percent or more withdrawal rate and I believe you can and there’s evidence to support that then absolutely you don’t need a lick of a side gig or a blog or on anything else. And the same thing with passive income if you have passive income coming in that exceeds your current and presumably will continue to exceed your future expenses then yeah you can totally do it. And it’s anything actually do. It was just that extra.
WCI: [00:28:44] All right. Next question comes from ENT doc. And this is directed at both of you saying white coat investor recently quoted his annualized returns has 293 percent in physician on fire and 2500 percent in passive income M.D respectively. They want to know what your returns are?

WCI: [00:29:01] I’m not sure this question can actually be answered given that it’s earned income for you but you want to take a stab at that?

PIMD: [00:29:09] Maybe for physician on fire. Yeah that’s the best one.

PoF: [00:29:12] You know share what my portfolio returns are and they’re pretty darn close to the returns of the S&P 500. I always kind of compare and contrast and they’re pretty similar with 1 percent or so typically and my return on investment on PIMD is the same as yours.

WCI: [00:29:30] Yes it’s been quite a good return hasn’t it. I got to love getting passive income from passive income MD.

PIMD: [00:29:37] I’m happy for you guys. Honestly though my returns here is not. You’re right I don’t have anything monetary to show for it but honestly just being part of the network being part of this community learning from you guys. I mean the returns have been obviously amazing. You know it’s obviously increase the income of the blog the readership and
even just my enjoyment of it overall. So it’s been great guys.

**WCI:** [00:30:02] All right physicians on fire you mentioned the S&P 500. So let’s take a question from the White coat investor Facebook group. This is from KE Tom who asks considering there was a phenomenal amount of debate on this question post Why do you recommend investing in the S&P 500 by default instead of any other index? What makes market cap weighting so special when it overweight tech so disproportionately with potentially unnecessary sector concentration risks in a potentially late economic cycle and prolonged long term debt cycle? What to factor in when considering Vanguard thinks expected real returns on equities will be very low in the next 10 years. That’s really two questions there. Anybody want to take a stab at that one.

**PoF:** [00:30:45] Go with recommending investing in the S&P 500 by default. I don’t do that. I don’t think Jim does. I do talk some about the 3 fund but we all have the total stock market which is about 80 percent S&P 500. But I don’t really think it makes that particular index special. It is the 500 largest U.S. stocks publicly traded and it makes cap weighting so special. I don’t know that it is super special. It’s just that you’re going to own each the portion they have value is determined by people trading both stocks.

**WCI:** [00:31:26] Yeah I mean I don’t use the S&P 500 index unless I’m doing some tax last harvesting. I prefer Total Stock Market Index Fund. I’ve written a post before about my favorite mutual fund. It’s the Vanguard Total Stock Market Index Fund. I’ve held it basically the whole time I’ve been at least a knowledgeable investor. And so I think this is a common criticism of index investing. You guys just invest in
the S&P 500 and that couldn’t be further from the truth. You know I’ve got a bond index fund. I’ve got a real estate you know real estate investment trust index fund. I’ve got small value index funds I’ve got international index funds I’ve had emerging markets index funds you know. So I’ve got all kinds of index funds that are things you know. And so I think that’s a false criticism of index investing that people are just investing in the S&P 500. I mean technically the S&P 500 isn’t actually the 500 biggest companies it’s you know in some ways it’s actively managed. I mean there’s a committee that chooses which companies go into the S&P 500 and which ones come out. I think they rearrange it once a quarter or something. And that’s part of the reason I don’t really like that index that much to start with.

WCI: [00:32:33] But I think the question here is diving into something a little bit deeper. This idea he’s hinting at that we’re late in the economic cycle and we have prolonged long term debt cycle and when people start asking questions like those what they’re really getting that is what’s going to happen in the future. And one thing I love about index investing and particularly cap weighted index investing is it doesn’t require you to predict the future to be successful. You’re basically buying the market and you get the market’s returns. Now might there be other ways to invest. There are almost surely better ways to invest but it’s difficult to identify those in advance. And so I think your best default investing method is using capitalization weighted index fund because that is giving you the market return. You know that you’re going to beat over the long term 90 percent of other investors. And so I think that’s a great place to start. And I think we shouldn’t be quick at all to throw that out in favor of some of these you know equal weighted index funds which are really just tilted your portfolio to small and value stocks.
WCI: [00:33:45] Let’s move onto the next question. This one I think would be best for passive income M.D to take. This comes from Joseph Brown on the white coat investor Facebook group. Buying a real estate investment trust versus buying a rental property. I always felt I was missing out not owning rental real estate but it seems a good dividend reit isn’t much different than buying a property. the property can appreciate. So can the stock both can tank. Your thoughts?

PIMD: [00:34:11] Yeah we get this. I mean I’ve seen this question a bunch. You know what’s better Reit or Rental property? And I think the answer really goes back to what your what your goals are. And I think they’re totally different. I’ll be honest with you and it’s kind of unfair to compare the two. I mean just go for some pros and cons real quick. I think when you’re talking about a reit the pros there are that you know it’s there’s the liquidity factor. So you can buy and sell that thing publicly it’s easy it’s diversified which is great. And it’s definitely more passive. Right. We don’t spend as much time kind of managing the situation. The thing is though. It is. I mean to me it correlates with the stock market everything that I’ve seen. And the problem is you don’t get some of the great benefits of owning rental property which is I mean the tax I mean some of the tax benefits. I mean amazing. You know there’s a ten thirty one exchange there. There’s the whole depreciation factor and you’re missing one of the biggest things which is for me one of the big pluses investing in real estate is the concept of leverage.

PIMD: [00:35:16] I know Jim you’ve talked about that being like a two headed snake. I’m sure it can work against you. But I mean I also think it’s one of the greatest things of investing in real estate. One of the greatest advantages this is the fact of using leverage to really help multiply returns
and then you really have control over it yourself. And there’s something nice to kind of being able to control the asset. In my opinion yes. You don’t get the liquidity yes you don’t get the diversification. But I think for me personally when I look at overall returns and kind of developing and building wealth I really think there’s no better way in the real estate sector than to buy rental property. Now that doesn’t mean I won’t invest in a reit or I won’t invested real estate funds or syndications or something. And crowdfunding. I’d like to do all of them. So I don’t really necessary see one versus another. I mean they definitely have their advantages and disadvantages. What do you guys think?

WCI: [00:36:19] I think you just got to realize these are different animals. You know they’re not necessarily substitutes for one another. And but here’s what people don’t realize is there’s no called strikes in investing. You don’t have to invest in everything you know I don’t invest in currencies I don’t invest in options I don’t invest in precious metals. I could do an entire blog post on the stuff I don’t invest in. So I don’t know why someone would feel like they had to invest in both Reits and direct real estate and syndications. You know I mean maybe if you’re writing a blog about it you want to invest in a little bit and all these different things. But that’s the only real reason that I think. you might as well pick what you like best and stick with that and realize that yes diversification is important. And yes I think real estate is a great asset class but you don’t have to invest in real estate in every possible way you can in order to get the benefits of that asset class so I think you can pick and choose a little bit. And if you prefer having a lot more liquidity and diversification then maybe you lean toward a reit. If you like having more control over your investment and a few more tax advantages and don’t mind the hassles that come with direct ownership. Maybe that’s the
direction you want to go in.

PoF: [00:37:23] You know it’s at Reits Vanguard Index Fund lost I believe seventy eight percent of its value Back with the housing crash. And you know not many rental properties would have lost much of their value. 50 percent. Yeah easily. But also those rental properties continued to have rents that probably didn’t change that drastically whereas of course the dividend from the Reit fund went down right along with the value at 78 percent.

WCI: [00:37:50] Yeah. Thanks for. Thanks for that reminder. That was a really pleasant experience.

WCI: [00:37:55] All right our next question is a really good when I think this comes from Zach Chastian also on the Facebook group. What does the recommended net worth allocation for high income professional stocks to bonds to home equity to real estate to cash etc? Not an investment allocation but a net worth allocation. You want to try taking a stab at that passive income M.D

PIMD: [00:38:17] Yeah I think this is going to be definitely different for the individual. I mean I live in a high cost of living area and and in terms of net worth my just over time is the fact that it’s appreciated quite a bit. It’s kind of disproportionately gone up versus some of the other assets that I have and that’s not really something I can control. It doesn’t mean that I’m going to go ahead and go out there and necessarily change where I live to the alter that.
**PIMD:** [00:38:44] I actually am a little bit probably different from you guys in the fact that I’m definitely going to be a little bit more. I prefer to be weighted a little bit more real estate. You know I cringe. I don’t know. I see when I see people talking about 10 percent in alternate vestments and they put real estate in there. To me that doesn’t. It’s not something that I necessarily subscribe to. I personally am at least at least 50 percent if not closer to 60 to 70 percent real estate. And that’s just something I’m comfortable with. I consider that a business in a way just especially the real estate investments that I have something that I can control and I feel comfortable with that versus some of the other assets you mentioned like stocks or bonds. Who knows. By the end of this I might be 90 percent in real estate and that’s something necessarily I recommend to everybody but that’s something that I’m very comfortable with.

**PoF:** [00:39:44] You nailed it with the individual. You know where you live it ends on what you value and depends on how you prefer to invest. For me I live in a house that has low housing costs and I also have cabin and lake front property but altogether that’s less than 20 percent of our net worth and that’s just a byproduct of where we live and then how we invest most of our money for retirement.

**WCI:** [00:40:14] Yeah in my case my retirement portfolio is 60 percent stocks 20 percent bonds 20 percent real estate. But if I looked at my entire net worth I’m about half in the White Coat investor LLC. That’s about half our net worth I figure is in the business and about 10 percent is probably in the value of our home. You know our cash needs are simply you know money that our either our emergency fund or is going to be paid out in taxes shortly money that we just made this month. That’s all we keep in cash.
WCI: [00:40:45] We don’t have a specific allocation to cash other than that. But I think that’s about how our net worth breaks down. Obviously you know putting 50 percent of your net worth into a single business can’t be recommended to anybody but most entrepreneurs are pretty comfortable with that sort of networth allocation. I think just because they have control over it you know it’s the whole thing where you either don’t put all your eggs in one basket or you put them all in one basket. You watch that basket very closely. And I think it just depends on the person in which you’re more comfortable with.

PoF: [00:41:17] Well and if you’re financially independent you know separate from that business then you can be as risky as you want with the other. You know that other portion of your net worth. So you know I think you want to have your own money. And you know if you treat them in a way that will last but also be somewhat safe. But with any additional money do whatever you want. Buy bitcoin. Wait I didn’t say that. I don’t want to do that. But you know you can be risky with the money that is in excess of what you need to be financially independent.

WCI: [00:41:57] All right let’s move onto the next question. This one comes out of the passive income M.D Facebook group which if you haven’t checked out you ought to. All three of us now have a Facebook group so join them all. They’re all great. And there’s a little bit different personality in each of them which is a lot of fun too. But this one comes from Mike Mullins And he asks How do you evaluate the legitimacy and confirm results of a private equity firm. And let’s have you start with this one Passive Income.
PIMD: [00:42:25] Cool. I mean this is definitely not necessarily easy. It is relevant though considering some of the posts that I’ve written recently about private equity funds in particular. I’m assuming that’s what he’s referring to. Number one it helps that. I mean for me personally this is how I do it. I’m part of a few investor groups now at this point since I’ve invested quite a bit and I’m able to speak to other investors that have been invested for quite a while. I mean that’s the number one thing for me. The referral, they have personal experience with how that operation runs how those operators run whether they’ve been on time with their payments and their dividends whether they follow through and stuck with what they’ve said.

PIMD: [00:43:16] The other thing is you have to get a look at their history. I mean they should provide it for you. Every fund and every syndicators should do that and be transparent about that and hopefully some of these bigger funds. You’ve asked whether they’ve been audited by an outside agency and most of the legit ones are not all of the legit ones have been by some of these bigger firms like Deloitte or something like that. So make sure to ask about that whenever you’re kind of vetting out a fund. And that’s for sure that it’s been externally audited. Beyond that again part of it’s you got look at the history you’ve got it look at the actual people running the funds. One question that I always ask is if there’s a criminal history. I mean it sounds kind of crazy to do that you feel a little bit awkward but it’s important to know is there a criminal history here and a background that I need to know about. And if there’s any sort of inkling that maybe not getting a straight answer you got to check that especially you know these type of businesses in cases. But again to go back to it it really helps to reach out to previous investors and these companies will give you those
referrals to call. So that’s how I do it.

**WCI:** [00:44:31] All right let’s jump into that Physician on fire Facebook group. I’ve got a question here from Matthew Allison who’s asking I’m very intrigued with Vanguard releasing their new commission free ETF list. I would love to hear a discussion about how this affects the industry and ultimately your individual portfolios If at all. Want to take a stab at this physician on fire?

**PoF:** [00:44:54] Sure. I am not an ETF investor. There’s not a whole lot of difference between ETFs and mutual funds. I use mutual funds and I’m happy with the ones that Vanguard offered. So right now it’s not really going to change anything for me.

**PoF:** [00:45:09] I guess I would do a little experimentation with play money maybe. I want to be a ETF that does equal weighting. You know we had a question earlier about cap weighting. Maybe I could do a comparison invest in one versus another. It is neat that it opens up a whole lot of different ETFs that won’t cost investors anything but as a flagship member I think I got like 25 free trade before this happened so it doesn’t really change much for me.

**WCI:** [00:45:42] Yeah I agree it’s not changing anything for me either. Maybe it’s a little bit easier to use some tax loss harvesting if you have to make two or three exchanges in a given month because the market keeps dropping but that’s really the only use for buying non Vanguard ETF at vanguard that I can really think of.
WCI: [00:45:57] I prefer buying Vanguard ETF with my money that is other places besides vanguard like at Schwab where I’ve got my 401k or at T.D. Ameritrade where I’ve got my HSA. I was a lot more bummed by the fact that I had to start paying commissions there to buy Vanguard funds than I was overjoyed to find out the Vanguard wasn’t going to charge me to buy other ETF At the vanguard brokerage. But this was basically a non-event in my investing life.

WCI: [00:46:25] Okay next question this one from Victor Minggon for each person, if you had to be one of the other two which would you rather be and why. You want to take a hit at that one passive income?

PIMD: [00:46:38] Oh man I thought. It’s not fair. There’s parts of both your lives that I definitely appreciate. I mean jim obviously what you’ve grown here with a white coat investor and you know you’re the life that you’ve built as a result of that. It’s definitely enviable but the physician on fire. Obviously his I mean the life that he’s built recently with all the slow travel. And that’s something that I’ve always wanted to build into my life and I just haven’t been able to do that yet. So I watch those posts like a hawk and I’m trying to figure out how he does it. And honestly that sounds like an amazing life to me. Both. So is that fair?

WCI: [00:47:25] Well I’m going to take a similar angle I’m going to say half of each right. All summer long I’ll be physician on fire and all winter long I’ll be passive income M.D How’s that sound? I enjoy the good weather year around and get to experience both aspects. This one’s pretty hard to pin
down. I mean here’s the fun thing about being financially independent as you get to build the life you want. If I really wanted to go live in you know a high cost of living area and have awesome beach time and stuff like that you know that’s where I’d live. And instead I prefer living in the mountains and so I think we’ve each built the life we want for a reason and that’s one of the awesome things about financial independence and we hope for all of you listeners that you’ll be able to build the life you want such that you don’t look at somebody else’s life and go I wish I had that they have exactly what you want.


WCI: [00:48:16] Okay let’s try this one. This one apparently is from a questioner, BL Quinto. I think I’m pronouncing it right. He says I think I’ve tried to ask this question to passive income M.D before but he asked What is a simple plan or path that we can all follow?

PIMD: [00:48:36] You know what makes this tough. I think on the white coat investor you’ve laid it out pretty well for people through your books and your course. How to build the life that you want through this nice roadmap. Unfortunately I don’t quite have the yet for people when I’m trying to do is I mean I’m the guy who’s want to try a lot of different things. I think I’m not at the point yet where I can necessarily say this is the proven path. Not that there necessarily is one. I’m trying all sorts of different things just to see what works and what doesn’t and I think out of that. Hopefully after doing this for a little while a little bit better idea of some sort of path or way for a to take a physician. Maybe right out of his. I mean this is a goal of
mine anyways. Take a physician right out of residency training and say look here’s a ten year plan for you by investing in real estate and developing your own business and these kinds of things. Unfortunately it’s not that easy to do that. The closest thing I got to that in one of my posts is the concept of buying one rental property or one house a year and I come to show people what some of the numbers might look like. Now again these things vary quite a bit. I might have to revisit that and maybe try some you know a combination of whether it’s a house or an apartment building there’s variations that I might build on top of that but that’s probably the closest that I’ve seen. I mean I think if you are able to buy investment property once a year I think you’re doing something right and I think by the end of it in 10 years I think you’ll be in really good shape. So that’s pretty much how I can answer that.

WCI: [00:50:22] Yeah I think it’s very difficult to write a how to manual for entrepreneurship or business ownership in general and that’s what that’s what real estate properties are.

PoF: [00:50:32] Actually missing an important piece he says. What’s a simple plan to follow and they’re missing. What is the destination and what is the simple path you can follow to what? Yeah I’ll go ahead and assume financial independence and a simple plan for that is simply to live and invest the rest in something simple like a three fund portfolio and let time do it’s thing.

PIMD: [00:50:57] Yeah I think so too. I mean I think you’re exactly right. When I start talking to people about this like one on one I think the first thing I asked them is exactly
were what kind of life are they looking for in 10 years in 20 years if it’s five years. You gonna have to make some different moves to get there. And so I think it has to be individually crafted but it kind of starts at people’s why and what they’re looking for before you are able to create that roadmap.

WCI: [00:51:26] Next question from David Driginess is where’s the best place that you’ve traveled with children? you want to take a stab at that first physician on fire?

PoF: [00:51:33] The best place we’ve traveled with children and my boys are 7 and 8 years old currently. I think it was our trip to Guanajuato Mexico. eight weeks it was a slow travel that PIMD was talking about. It was low key. we didn’t need a car everywhere it was walkable. The weather was perfect it was in the 70s in the day in the 40s and 50s at night and we just had a great time as a family and learned a lot and just pretty cool stuff took in Spanish language classes and we would go back in a heartbeat.

PIMD: [00:52:10] So we have almost five year old and a 2 year old so we haven’t really been too adventurous in picking really cool spots to travel as a family especially with that 2 year old. Those with kids Now how painful a long plane flight might be. But actually the best place that we’ve traveled as a family is when we went to Salt Lake City and Park City for the White Coat Investor Conference. I took the whole family. We got to go out and play in the snow together which is I mean just a unique thing for us being out here in California and especially where I live. I mean that was the best trip we took as a family and it really is amazing pictures and just a great time.
**PoF:** [00:52:57] I think it’s so much easier when you don’t have to worry about naps and diapers. And I think I’m the only one out of the three of us that is out of that position right now.

**WCI:** [00:53:05] Yeah well we are just about out of diapers she’s almost done our 3 year old so we’ll be there soon. But our favorite place to go with the kids is Lake Powell you know whether we’re camping or staying in a houseboat.

**WCI:** [00:53:16] Basically when they come out of bed we put a lifejacket jacket on and forget them for the rest of the day. You know they can do whatever they want and they love having that kind of free time. There’s no screens around it’s you know beautiful mother nature and it’s also a lot of fun boating and playing in the water and just having adventures so that’s where we like take the kids.

**WCI:** [00:53:35] And we’ve we’ve had them all over the place. But I think it’s pretty hard to travel internationally with small children. So I kind of like the stuff that’s a little bit closer to home.

**WCI:** [00:53:46] All right just time for a couple more questions. Let’s take this one from Life of a med student.

**WCI:** [00:53:53] With the increased market valuations and many projecting below average returns the next decade would you
more strongly recommend paying down student loan debt over investing in a taxable account. After all your tax advantaged accounts are maxed out. I’m currently doing 60 40 but I’m conflicted.

PoF: [00:54:12] I think its great he’s doing both and I mean I do think paying down debt is a great thing to do. It’s a guaranteed return. The fact that valuations are relatively high period in history and people like Jack Bogle saying that returns will be lower over the next decade and they may very well be right. So but he’s doing both. He’s doing 60 percent taxable 40 percent student loans. You want to flip that I don’t think that would be an issue. But you know most people paying down their student loans aren’t even thinking about taxable account if they are even maxing out all of the tax advantage space they have. So kudos to to Charlie.

WCI: [00:54:56] I think that’s perfectly reasonable thing to do. Honestly though if you’re maxing out your tax advantaged accounts I’d just throw the rest at your loans. But I’m a little more anti debt I think than most people. I just think people make different decisions in their lives when they’re done with their student loans. I think that’s something you really ought to get rid of early in your career. Hopefully within the first two to five years and I’ve had lots and lots of white coat investor listeners and readers that have done that I know it’s entirely possible you just have to set up your life so you can be done with it that way. There’s plenty of time to invest in a taxable account later. I think your first few years out of residency are the time to get rid of your student loans. Now if you got them a one point five percent or something maybe you can justify investing in taxable account. But if you are a pretty standard 6 and 7 percent student loans that’s a fantastic guaranteed return on
your money. You know you’re not going to get that out of any sort of conservative investment. You might as well pay off the loans as I see it.

WCI: [00:55:56] Let’s do another question here. Let’s make this the last word. I think we’re pushing up against an hour for this podcast already. This one comes from Rich MenAnnaik. Do you think that being born into wealth was integral in shaping your financial literacy? Considering that your children likely will not have the same financial pressure you experienced. What approaches are you planning to take in teaching them financial stewardship? And why don’t you start on this one. Passive Income.

PIMD: [00:56:23] Well actually I was born into a physician family so living in the suburbs of Maryland in a pretty nice area. I guess I was I was born into wealth. You know it’s but it’s funny because I think I suffer. I think I’m going to deal with that I dealt with the same things that my children will have to deal with if I am not smart about how I teach them about finances. I mean I actually never spoke to my father about finances growing up. I don’t think my children will have that same issue with me. I think I never learned about credit card debt. If you read some of my stories I got easily got into tens of thousands of credit card debt. While I was in college especially to med school and that’s something that I’m definitely not going to let my children get into it possible. I think I’m going to teach them a little bit early on about the whole concept of saving money giving money. Those three buckets I think I forgot where I read that but it’s a book that they talk about three buckets of having money where you know they’re able to earn money. They have to save some of it and also give some of it away and I think that’s an awesome thing for children to teach them at an early age. I mean we’re
not there yet. She’s only 5 years old but yeah I mean I think for me I think I went through the challenges of having the same that my children will go through as well. So luckily and hopefully I’ll be better about it.

**PoF:** [00:57:54] My answer is probably similar. My father was a dentist. Classic millionaire next door type. So we definitely shopped around for good used cars and went thrift stores. And my dad did talk about money. You taught me the rule of 72, brought me to a financial advisor and he showed me what the future value of x amount of dollars invested per year will be in 30 years and the a compound interest and all that.

**PIMD:** [00:58:25] For my children were doing the give, save, and spend. And I did read that same book which escapes me. But it was good. And I also have what we call the bank of mom and dad and the spreadsheet update monthly. They started getting pretty good amount of money in their piggy banks and so we put it on a ledger instead of the balances number on a spreadsheet and every month they get 1 percent interest from us. Want to spend some money we take from their accounts and pay for whatever it is they decide to spend money on but we have that conversation first.

**PoF:** [00:58:58] We’re very open about money. They’ll know about my site and when the time is right and yeah I think they’re going to be in pretty good shape.

**WCI:** [00:59:07] Yeah I mean this is something I can really relate to the question I certainly came from middle class family but there wasn’t a lot of extra money sloshing around
for sure. My father was an engineer and my mother was a stay at home mom. You know my wife Katie her father was a military officer and her mom was a teacher and a stay at home mom depending on the time in the career. So neither one of us really came from a lot of money and neither one of us got a ton of financial teaching and so it’s really been an experience to kind of learn all of this on our own and I think there’s a lot of doctors out there that can relate to this. They just you know they’re first generation rich really and so some we worry about a lot. how we can teach our kids to be just as good with money without them having to go through the experience of donating plasma for food money in college. You know which I don’t necessarily want them to have. And so I think part of it is instilling financial literacy in them. So we’re always teaching them about finances. You know they all know that they want to be paid interest not be paying interest and you know they’re well versed with things like mutual funds. And those sorts of things long before they ever even get into high school. So I think just teaching them the basics of finance is worth a lot but I think there’s also an important aspect here of providing a good example and part of the way we do that is when it comes to giving. And we have a year end annual giving meeting where we all sit around the table and decide what organizations we’re going to give money to. And I think realizing that money is something that isn’t necessarily to be hoarded or to be spent on yourself but something that can enrich the lives of those around you is really passing on values that I think the kids will appreciate and hopefully that will help them to have a good a good sense of money as they get older. They will neither be Scrooge’s nor spendthrifts and hopefully find some sort of middle ground.

WCI: [01:01:03] Well I thank you both for being on our podcast today. I think this will be a great one. I’ve got at least half our questions still left here that we didn’t even touch
so maybe we’ll have to do a part two down the road of these. But I appreciate you both being here and for those who want to learn more about passive income M.D go to passive incomeM.D dot com. Also be sure to join his Facebook group there and if you would like to learn more about early retirement and financial independence from the physician on fire check out physician on fire dot com and join his facebook group Physicians on fire and as well as his other Facebook group he’s got two, also called fat fire which kind of refers to retire in on a little bit more than a bare bones retirement. But thank you both for being here today and we’ll see you next time.

PoF: [01:01:50] Thank you so much for having us. It was a great chat.

PIMD: [01:01:52] All right thanks. All right take care guys.

WCI: [01:01:57] Today’s podcast is sponsored by nomad health. Nomad is a fast easy online way to find great doctor and nurse jobs. Looking for a freelance locums gig? Come to nomad. Looking for a new full time job? come to nomad. Looking for a travel nursing job? come to nomad. And best of all there are no brokers. It’s all online self-service and totally transparent. No more phone calls and spam e-mails from agency recruiters. You can check out nomad at nomad health dot com.

WCI: [01:02:22] Be sure also to check out physician on fire at physician on fire dot com and passive incomeM.D at passive incomeMD dot com. You can also join all three of our Facebook groups. The physician on fires group as well as passive
incomeM.D community those are both physician only groups. And then of course the white coat investors group is open to all high income professionals and their spouses but not to finance professionals.

**WCI:** [01:02:51] Thank you for what you do. Keep your head up and your shoulders back. You can do this and we can help. See you next time.

**Disclaimer:** [01:02:58] My dad your host Dr. Dahle is a practicing emergency physician blogger author and podcaster. He’s not a licensed accountant attorney or financial advisor. So this podcast is for your entertainment and information only. And should not be considered official personalized financial advice.

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**Recommended Real Estate Crowdfunding Companies**

Over the last few years, I’ve been asked many times for recommendations for the best real estate crowdfunding websites. It was difficult to make a recommendation because they were all so new, I had not invested with very many of them, and there was not a lot of data to use to analyze them. However, over the last 5-6 years since the JOBS act passed and these companies showed up on the marketplace, especially as I’ve watched my own investments perform, it has become a
little easier to sort out the stronger ones from the weaker ones and I now feel comfortable making at least some preliminary recommendations about the top real estate crowdfunding companies.

Before we get into the list, it’s important that you first understand the pluses and minuses of using a crowdfunding website/company to invest in real estate.

**Pros of Investing in Real Estate Crowdfunding**

1. Mailbox Money – a very passive, high-yield investment
2. None of the hassles of direct real estate investing
3. Ability to choose your investments
4. Convenient way to invest in syndicated real estate
5. Low minimum investments
6. Accredited investor status not always required
7. Assistance in due diligence of syndicators
8. Tax benefits (depreciation) passed through to the investor (unlike REITs)

**Cons of Investing in Real Estate Crowdfunding**

1. Sometimes an extra layer of fees compared to going directly to syndicators
2. Accredited investor status usually required
3. Less diversification than a REIT or fund
4. Best syndicators may not need to raise money through a crowdfunding website
5. Many different investments/payments to track
6. Can be difficult to do 1031 exchanges
Three Main Types of Investments

These sites basically offer three different types of real estate investments – equity, debt, and private REITs or funds, each with their own pluses and minuses. There are also instances where preferred equity (kind of a combination of equity and debt) is offered.

Equity

Pros

1. Highest potential return
2. Depreciation shelters income
3. Potential 1031 exchange
4. High level of control in selecting investment

Cons

1. Highest risk
2. Illiquid for 3-7+ years
3. May require state tax returns to be filed
4. Payments may be only quarterly, semi-annually, or annually
5. Usually requires accredited investor status
6. No control in management of investment or timing of sale

Debt

Pros

1. Lowest risk
2. Short time period (typically 6-18 months)
3. Typically backed by the asset in 1st lien position
4. Typically monthly interest payments
5. No state tax returns required
6. High level of control in selecting investment

Pros

1. More diversification than individual investments
2. May not require accredited investor status
3. More liquidity than investing directly
4. No need to select individual investments

Cons

1. No control in selection of investments
2. No control in management of investments

Okay, let’s discuss the companies that I think are worth considering for your investment dollars. Note that I’m not going to discuss individual funds in this post (coming soon) nor individual syndicators. Be aware I have a financial relationship with each of these companies – i.e. if you invest after going through these links, I may get paid.
Top Real Estate Crowdfunding Companies

# 1 RealtyShares

Offers equity and debt investments to accredited investors

RealtyShares is on all of these lists, usually at or near the top, for good reason. Not only were they among the first of these companies, but they have consistently one of the highest volumes of both debt and equity investments. If there is a granddaddy in this space, it’s RealtyShares. RealtyShares has deployed more than $700 million over more than 1,000 investment opportunities across 39 states, and has returned more than $130 million in principal to investors since 2013. RealtyShares is a one-stop shop for those looking to diversify in real estate. The company offers investment opportunities across office, hospitality, healthcare, multi-family, retail, residential, and industrial properties. They offer low minimums and superior bankruptcy protection.

On the day I wrote this, there were 5 open investments, three equity and two debt, with minimums ranging from $10K-25K.

I have had six properties purchased through RealtyShares, one equity and five debt, all with $5-10K minimums. Three have gone round trip but all have performed and paid as expected.

Invest with RealtyShares today through this link using code PARTNER100 and get $100 back with your
first investment!

# 2 CrowdStreet

Offers mostly equity, some debt investments, and funds to accredited investors

Although it hasn’t been around as long as RealtyShares, Crowdstreet is now the highest volume provider and is highly-ranked by those “in the know.” They offer a wide variety of types of investments. Unlike RealtyShares, it charges fees to the sponsor/syndicator rather than the investor. It also allows you to interact directly with the sponsor rather than having to go through the crowdfunder. They provide a free 176-page ebook to teach you about real estate investing. Minimums tend to be significantly higher than with most companies.

On the day I wrote this, there were nine equity offerings, with minimums of $25-50K and eight funds (including a debt fund) with $10-50K minimums.

I have no current or prior investments with CrowdStreet.

Invest with CrowdStreet today!

# 3 RealCrowd

Offers mostly equity, some debt investments, and funds to accredited investors

Like RealtyShares and Crowdstreet, RealCrowd is a relatively high volume provider. They don’t do debt deals, at least not very frequently, but like Crowdstreet they don’t charge you platform fees (the sponsors pay advertising fees) and allow
you to interact with the syndicator a lot more directly. They also offer RealCrowd University, a free six-week course on real estate investing that will teach you everything from focusing on risk first to what questions to ask real estate sponsors.

On the day I wrote this, there were three available equity investments on the site, with $25-50K minimums, plus five funds with $25-100K minimums.

I have no current or prior investments with RealCrowd.

**Invest with RealCrowd today!**

**# 4 RealtyMogul**

Offers equity and debt investments to accredited investors and REITs to non-accredited investors

I have been partnering with RealtyMogul for years, having met their CEO back in 2013, and have been investing with them for nearly as long. At one point they had pretty good volume for accredited investor investments, but seem to have shifted their focus toward the non-accredited market. Platform fees are average to slightly higher than average. Minimums can be a little on the high side for the individual deals (but are very low for the REITs).

On the day I wrote this, there was one equity investment being offered ($30K minimum), along with their two MogulREITs ($1,000 minimum.) There were six more deals open to pledging, with $25-35K minimums.

I have one current investment through RealtyMogul, which has had a few issues but is almost back up to proforma (expect 6%, getting about 5% due to late payments.)
Invest with RealtyMogul today!

# 5 EquityMultiple

Offers equity and debt investments to accredited investors

My favorite two things about Equity Multiple are their transparency and the fact that they invest alongside their investors on every deal. Since they have skin in the game, I expect them to be a little more conservative with their due diligence. Their volume is not as high as the three sites above, however. Minimums are typically only $5-10K though.

On the day I wrote this, there were no investments available on the platform.

I have one current investment with EquityMultiple, performing as expected.

Invest today with EquityMultiple! (Management fee waived on your first investment when using this link)

# 6 Fundrise

Offers REITs and funds to non-accredited investors

Fundrise has completely transitioned over to a REIT/fund structure offered to non-accredited investors, although the one investment I’ve had with them was prior to this transition
(and in fact, the asset was sold to one of the REITs!). They now have seven REITs/Funds with various focuses, including income, growth, and various geographic areas. Minimums are the lowest I’ve seen, just $500.

I have one past investment (preferred equity) through Fundrise, which performed exactly as expected.

**Invest with Fundrise today!**

# 7 **PeerStreet**

Offers debt investments to accredited investors

PeerStreet is perhaps the top-ranked site out there today, particularly for debt investments. They offer excellent transparency (every past deal is displayed), low default rates (1%), and low minimums ($1,000.) It has never actually lost investor principal on any of its loans. Volume is pretty good too. It charges a pretty typical 1% fee. They also offer a 1% bump in yield to WCIers if you invest through this link.

On the day I wrote this, there were 10 available investments with $1,000 minimums, offering yields of 6.5-8%.

I have had and currently hold dozens of PeerStreet investments, although purchased indirectly.

**Invest with PeerStreet today** and get a 1% bump in yield!

Other companies worth a mention include **Fund That Flip**, **1031 Crowdfunding**, **Carlton Crowdfund**, **Roofstock**, **Sharestates**, and
Zeus Crowdfunding.

What do you think? Have you invested in crowdfunded real estate? Which companies have you used? What did you like or dislike about them? Comment below!

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**Best Retirement Accounts For Independent Contractors**

[Editor’s Note: The following post was originally published as one of my regular ACEPNow columns and can be found here. Just because you may not be an employee with a 401(k) doesn’t mean you don’t have options for retirement savings. Here’s a rundown of the best options available.]

**Q. How can an independent contractor continue to save for retirement?**

I am starting a new position as an independent contractor. My former employer had a 401(k). I want to continue to save for retirement, but I’m not sure how to do it without that 401(k).

**A.** Good news! There are many advantages to being self-employed when it comes to saving for retirement. As an independent contractor (ie, paid on a 1099 instead of a W-2), you are considered to be running your own business. Just like your employer gets to pick the benefits it offers, you now get to choose (and pay for) your own benefits. While you will no
longer get a 401(k) match from the employer, you are also no longer limited by the employer’s contribution limits, plan fees, or often poor investment options.

**Individual 401(k)**

The mainstay of retirement saving for an independent contractor should be an **individual 401(k)**, sometimes called a solo 401(k). These plans allow you to make an $18,500 “employee” contribution ($24,500 if older than age 50) and then make “employer” contributions of 20 percent of your net income up to the plan contribution limit of $55,000. While you only get one employee contribution no matter how many jobs or 401(k)s you have, the $55,000 limit is a per-plan limit. That means if you have an employee job with a 401(k) and do some work as an independent contractor, you can still open an individual 401(k) and just contribute the employer contribution to it.

**Where Do I Open an Individual 401(k)?**

Solid **individual 401(k) plans can be easily opened** at any of the large mutual fund or brokerage companies such as Vanguard, Fidelity, Charles Schwab, eTrade, or TD Ameritrade. While all of these plans are good plans with diversified, low-cost investments available, some plans offer features that others do not. For example, Vanguard doesn’t allow IRAs to be rolled into their plan. Fidelity and Charles Schwab don’t offer a Roth 401(k) option. eTrade and TD Ameritrade charge (admittedly low) commissions to buy and sell many mutual funds and exchange-traded funds.

**What Plan Features Should I Look for and What Do I Need to Open an i401(k)**
Be sure the plan you choose has the features you need, such as Roth contributions, IRA rollovers, or 401(k) loans. You will also need to get an Employee Identification Number from the IRS to open an individual 401(k), but this is free and only takes a few minutes online. You do not need to form an LLC or corporation to use an individual 401(k). By virtue of receiving a 1099, you are automatically a sole proprietor, and that is enough to start a plan.

Another Option is the SEP-IRA

Some doctors, and even their accountants, consider using the slightly simpler SEP-IRA instead, which has the same $55,000 total contribution limit. However, thanks to the employee contribution feature of an individual 401(k), you can hit the maximum contribution of $55,000 with a much lower income. In addition, using the i401(k) instead of a SEP-IRA allows you to do a backdoor Roth IRA since the balance of a SEP-IRA is included in the required pro-rata calculation (explained below) but the balance of an i401(k) is not.

Backdoor Roth IRA

Whether you are employed or self-employed, you can also contribute to a personal backdoor (indirect) Roth IRA and, if married and you have sufficient income, a spousal backdoor Roth IRA. These became permitted in 2010 when Congress began allowing high-earners to do Roth conversions. Instead of a direct Roth IRA contribution, you first contribute to a traditional IRA, which is not deductible due to your high income, and then move that money to a Roth IRA.

There are still plenty of great retirement savings options if
Since you never received a deduction, there is no tax cost for the conversion, and the end effect is the same as if you had contributed directly to a Roth IRA. Annual contribution limits are $5,500 if younger than age 50 and $6,500 if older than age 50. Be aware that due to the pro-rata rule, the conversion is only tax-free if you have no balance in a SEP-IRA, SIMPLE IRA, or traditional IRA on Dec. 31 of the year of the conversion. If you do have one of those accounts, you may wish to roll it into a 401(k), such as your new individual 401(k), to facilitate future backdoor Roth IRAs.

**Health Savings Account (HSA)**

A health savings account (HSA) can also function as a stealth IRA and is an excellent account to use for retirement savings. Not only does it give you an upfront tax break and tax-protected growth like a 401(k), it also provides for tax-free withdrawals if the money is used for health care. This makes it the most tax-advantaged account available to the investor. These funds can be invested in mutual funds like a typical retirement account. The contribution limit for 2018 is $3,450 for individuals and $6,900 for families. If you end up not needing it for health care, you can withdraw the money penalty-free after age 65. However, you would need to pay taxes on that withdrawal, just like a 401(k).

**Defined Benefit/Cash Balance Plan**

Another option for independent contractors, although more rarely used, is a personal defined benefit/cash balance plan. This retirement account is best thought of as an extra IRA masquerading as a pension. It has higher expenses than an individual 401(k) due to a requirement for annual actuarial calculations and typically is not invested as aggressively.
However, the contribution limits can be quite high, particularly for physicians in their 50s or 60s. It is an option worth exploring for someone interested in saving large amounts for retirement.

**Taxable Brokerage Account**

Investing in a nonqualified, taxable brokerage or mutual fund account for retirement is also an option. While the tax and asset protection benefits are much more limited, the additional flexibility can be a useful feature. Alternative investments, such as real estate, are also much easier to invest in outside of retirement accounts.

As you can see, an independent contractor has plenty of excellent options to use for retirement savings. While the main pillar should be an individual 401(k), a Roth IRA, HSA, cash balance plan, and taxable account provide additional options.

Are you an independent contractor? Which retirement accounts have you used to save for retirement? Comment below.