Financial Advisors Aren’t Doctors

We’ve discussed previously how financial advisors don’t generally ascribe to the Hippocratic oath. People don’t go to work on “Wall Street” for the same reasons that other people become firemen and kindergarten teachers. There are no essays where they attempt to come up with a new way to say “I just want to help people.”

A Family Doc For Your Finances?

But there is another reason financial advisors aren’t doctors. Financial advisors like to compare themselves to CPAs, attorneys, physicians and other professionals who spend years in training and pass difficult tests to get advanced degrees and certifications. Most advisors, if they took a test at all, took one that required little training and even less experience. Yet they still use lines such as “You wouldn’t let just anyone operate on you, would you?” or “I’m like your family physician for your finances. I might send you to a specialist for a few things, but I’m the one coordinating it all.” These lines are designed to make us feel good about trusting them with our hard-earned dollars and, more importantly, to think of personal finance and investing as something that “only a professional can do.” Unfortunately, believing those lines can cost you hundreds of thousands of dollars and years of retirement.

A more apt comparison, perhaps, would be something such as this:

“I don’t need a professional to mow my lawn, why would I need one to manage my finances?” Just because there are people who
would like you to pay them to mow your lawn, doesn’t mean you need to hire one. It just doesn’t take much knowledge to run a lawnmower, set it to the right height, and make straight lines. I know, I spent a few summers doing it. My training, like that of many advisors, lasted just a few minutes.

You don’t hire someone to pick out your groceries, select a restaurant for you, pump your gas, clean your house, shovel your driveway, plunge your toilet, organize your garage, plan your vacation, or pick out your furniture. All right, it’s possible you do hire someone to do some of these things for you, but only because you feel your time is better spent doing something else. Unfortunately, when it comes to your finances, your time is not better spent doing something else. It takes so little time to design, implement, and manage a simple yet successful portfolio, that the amount you save/earn by doing it yourself, make these the most profitable hours of your year.

Financial Advice is Expensive Stuff

Let me explain. If you have a $500K portfolio, and your investment costs are 2% as a result of your advisor’s fees and the management fees of the investments he has put you in, that is equal to $10K per year. Let’s say it takes you 10 hours a year to manage your portfolio. (I’d say 5 hours a year is closer to what I spend, but I’m being generous.) That’s about $1000 an hour. I don’t care what field of medicine you’re in, there’s nothing else you can do that consistently makes you
$1000 an hour. That’s after-tax too! Sure, you have to put in some time up front educating yourself, and you have to design and implement a portfolio, but after that’s it’s pretty much on autopilot. And as that portfolio grows to $1 Million, $1.5 Million, and $2 Million you’re now making $2K, $3K, and $4k an hour.

So the next time you hear an advisor’s sales pitch, ask yourself if you’re hiring a trained professional like a doctor, or someone like a very expensive house cleaner.

What do you think? Why do you think advisors like to compare themselves to physicians? In what ways are they similar? In what ways are they different? Comment below!