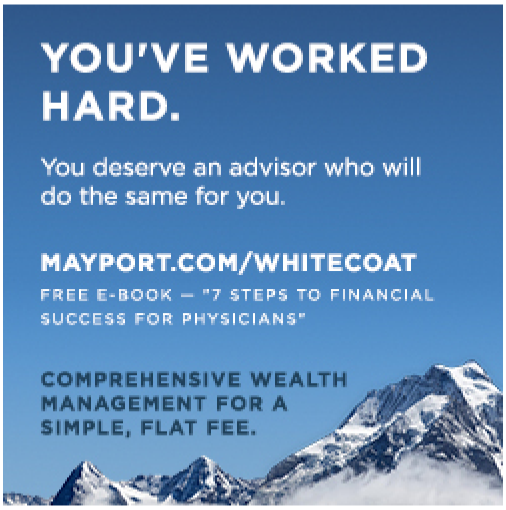
How to Break up With Your Financial Advisor – Podcast #99

Podcast #99 Show Notes: How to Break up With Your Financial Advisor



Both of our guests in this episode have taken the [Fire Your Financial Advisor course] and are taking control of their money. The nice thing about that course is even if you choose not to manage your investments yourself, you're far better after taking it, at recognizing good advice and recognizing when you're getting it at the right price. Every week I get an email from someone who wants to break up with their financial advisor. Sometimes they are upset about high fees, bad customer service, or bad advice, but often they just wish to "take control" and do it themselves in order to minimize investment costs and maximize investment control. It should be very clear to any reader of this blog that I have no problem whatsoever with using an advisor, so long as the advisor charges a fair price for good advice. If the advisor charges too much or gives bad advice (or both as is often the case), you should fire them. You can then either hire a good advisor (I have an entire page of great advisors I recommend), or become your own financial advisor. With one of our guests today we discuss how to terminate a financial advisor relationship when paying too much and getting bad advice.

We had a resident and a medical student on the show last week. This week it is an interview with a dentist and a military physician. Financial concerns are different depending on what stage you are at in your career. Besides discussing how to break up with your financial advisor we also talk about running a dental practice and dealing with your practice loan, asset location, the never ending question of paying off debt versus investing, and how to stay organized if you decide to be a DIY investor.

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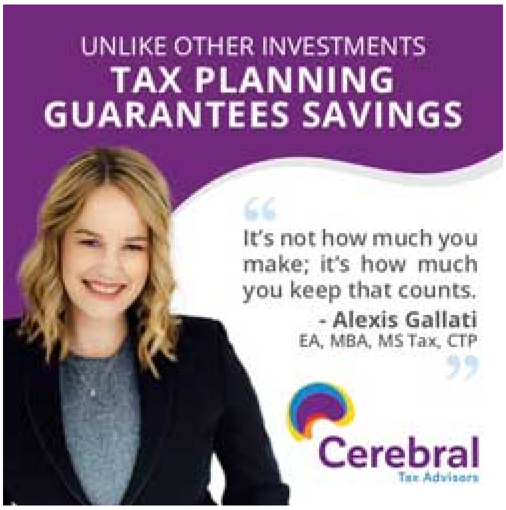


This episode is sponsored by Alexis Gallati of Gallati Professional Services – Alexis is not your typical tax advisor. With over 15 years of experience, she has been helping physicians all over the country save money on their taxes. As the spouse of a busy physician, she understands the burden of high tax payments physicians incur during their lifetime. Not only will she create a high level strategic tax plan for you, guaranteeing money in your pocket, but Alexis will proactively work with you throughout the year to maintain your tax plan, prepare your annual tax returns, and represent you in case of an audit. The investment in her tax planning services is a fixed-price agreement and her tax maintenance packages are a flat monthly fee. If you're tired of complex tax jargon and giving away most of your paycheck to the IRS, visit Alexis' website at www.GallatiTax.com today to schedule your free initial consultation.

Quote of the Day

Our quote of the day today comes from Jack Bogle who said,

> *"I favor the all market index fund as the best choice for all investors. Don't look for the needle. Buy the haystack."*

I miss Jack already. It's only been a couple of months since his passing, but he really was a giant of the industry.

Financial Issues of a Dentist

Running a Dental Practice

Our first guest is a dentist that is a 50% owner of his practice. I asked him what are some of the challenges he has had with being an owner.

As you would expect, just like his physician counterpart, he received no training in how to run a business, how to hire, how to fire, how to market, etc.

> *In the dental world, it's a little bit similar to say plastic surgery in that, and I hate to say this, but your teeth are elective. If people don't want to take care of their teeth*

then they can live without them. I think that poses a unique position in that we have to have patients that value our service and value their teeth. It's a fine line that you're walking between being an oral health provider and also running a business.

One thing that he found very valuable was joining a practice with a senior partner. That has been integral to his development as a business owner along with his clinical skills. It is nice to have someone who has been through it to help you along the way and be your mentor.

I asked how he learned to be HR? How to hire somebody and fire somebody and market the practice on social media, etc?

A majority of what he learned was from his business partner, and the practice has some senior members, front office staff that have been there 20-30 years. They helped guide him in regards to hiring and firing. But it is a work in progress. It is knowing what questions to ask, how to ask them, and what can't you ask. But as a dentist he is fortunate to choose. In the emergency medicine world you can't choose who you work with, and that can pose lots of challenges.

He has found that once you reach a certain point in your clinical career, not that you can't continue to learn new things, which he does, but his focus has been more towards the business aspect of it. Reading books and listening to podcasts about entrepreneurs has helped but there is no cookie cutter like, "Here, read this blog, and then you'll be the perfect boss." It is this revolving door of what will work for you.

"With team members you get to know them, and you can say, "How do I talk to this person? How do I not talk to this person?", so that we can kind of get the best out of them. I think that's the key to being a good leader is you can't treat everyone the same. You have to figure that out. A lot of it's like trial and error I think. That's been my

> *experience."*

When he started at the practice a lot of the benefits were already in place but in the last three years he has had more of an integral role in choosing the benefits. As a small business, when you go to purchase a medical coverage plan for the office, you don't get a deal by any stretch of the imagination. It's pretty expensive. Practicing in the expensive downtown Seattle area, he finds they have to have a good benefits package to have good employees. He is in the process of changing the 401k and just added an HSA last year.

Lots of challenges with owning your own practice. But by owning part of the practice it dramatically increased his income versus being an associate. So he came on the show to talk about his personal finances as his income has increased.

Practice Loans

His salary went up when he bought into the business but now he has a monthly payment on the business loan. He is knocking 240K off that every year.

> *"On paper, I look like I earn a good living, because I do. First world problem. I earn a good living, but a significant portion of that goes towards my business debt. I don't pay myself more, and I keep a reserve in my business account for business emergencies kind of just like home, like your personal emergency fund."*

That's definitely a difference between dentists and most physicians, just because few physicians are going out and buying a practice anymore. A lot of dentists, they come out, they have four or $500,000 in student loans. They have a four or $500,000 mortgage, and then all the sudden they have a $500,000 or million dollar practice loan. It really ends up being a lot of debt very early on, and sometimes they become a little bit numb to it. Then you always end up with this dilemma, pay off debt or invest? That never goes away until you're debt free basically.

Fire Your Financial Advisor Course

He has some significant expenses living in a high cost of living area with a special needs child and then the practice loan. But he is also killing it with a great income and having done really well with his home purchases there. He still struggles with the classic thing that most docs are struggling with. Do you pay off debt or do you invest?

> *"Am I saving enough? I bought your [fire your financial advisor course](). I currently have a financial advisor who charges me a one percent. I have like 11 accounts or something crazy. Three 529s, three UTMAs, I have two IRAs, a 401k. I have a taxable account. My HSA. I have all these accounts, and I've got one guy who's managing them. I look at my accounts, and I'm like, "What the frick am I in?" It's just made me think like, "You know? I need to do this." I'm just trying to find the right learning tools and then manage it myself, which is what you've talked about too a lot."*

The nice thing about that course is even if you choose not to manage it yourself, you're far better after taking it, at recognizing good advice and recognizing when you're getting it at the right price. The title of that is deliberately provocative, "Fire Your Financial Advisor", but I think a lot of people taking it change financial advisors. I mean, the course, although it's one of the most expensive things we sell here at the White Coat Investor, it is dramatically cheaper than paying a professional for financial advice. I think it's helped a lot of people and we've received a lot of great feedback on it.

Pay off Debt vs Investing

His practice loan and mortgage are at 3.85%.

It’s a pretty decent sized mortgage. A decent practice loan. Lots of investments. My recommendation for someone in his situation is 20% of gross income for retirement. Just take your gross income, multiply it by 20%, that should go toward retirement. Whether you have room for all that in your retirement accounts or not is a different question. Some of that might be in a taxable account just because you’ve maxed out to your retirement accounts. Then above and beyond that, whatever you can cut out of your budget, throw that at one or the other loan. I’d probably lean a little more toward the mortgage. I think I’d probably pay down the mortgage before the practice loan because the practice loan is going to be 100% deductible, whereas there are some situations where the mortgage might not be. Plus, if something terrible happens, at least you have a home paid for your family.

In this case, the interest rates are the same, and the mortgage is a little bit smaller. I don’t know if there’s any magic to it whether you do it each month or whether you do it when you have a little bit extra and you throw a big chunk at it. The bottom line is you just have to throw a lot of money at it, and eventually, it does go away. More of those payments go towards principle than interest. You’d be surprised when you really focus on something and make a goal of when you’re going to be done with it just how quickly you might pay it off. Our home we bought with a 15 year mortgage and paid it off in seven. Probably could’ve done it in six. You’d just be surprised. Maybe next year his practice has a really good year, and he has a little more income. He can throw all that toward the mortgage, and before you know it, it is gone.

At this point in the conversation, he mentioned that he is now faced with buying the other half of the business this year because his partner is going to retire. So his business debt is going to double. If it's a good business, and you can get reasonable terms on the loan, it can make sense to borrow that much money even though it seems insane to have these seven figure practice loans. If it will also dramatically increase your income, it's a good investment. That said, when you start getting into these realms that would be a major priority to be throwing a lot of money at and get it paid down. I just would not be comfortable with these million dollar, two million dollar practice loans.

I'd probably lean toward living more frugally and really putting a lot of money at the loans. He is putting $240,000 a year at it now, and they don't last that long when you're putting those sorts of payments at it. Maybe when he doubles his debt, he can double the payments too.

He mentioned that he was just listening to the podcast on [investing in surgery centers]() and one of those doctor's advice was, "If you were going to buy into a surgery center, look at who the productive people are, because if one of them were to walk out the door, then it significantly hampers the business." On the flip side, for him, his business partner and he are both equally productive, so not only is he taking on that debt, but also, if the partner walks out the door, he would have to replace his productivity too. He didn't buy into the practice until his partner was 60 but he may look to take on a partner sooner than that. To have someone else who has skin in the game and offset that significant debt.

Financial Issues of a Military Physician

Bad Financial Advice

Our next guest is a military physician who will be soon leaving the military. He sent me a list of concerns he had with his financial advisor. I went through the list he sent me and was like, “Wow. That’s terrible. That’s terrible too. Oh, that’s terrible too.”

This doctor also took the Fire Your Financial Advisor online course. As he went through that course it made him realize maybe his advisor hadn’t been giving him accurate information. His wife has been an entrepreneur for 8 years but their advisor never mentioned an individual 401k. He brought up a thrift savings plan a couple years ago and the advisor said, “not to get involved in those because I actually had a Roth, which they’re different accounts. It doesn’t make any sense.”

They are paying a 1% assets under management fee which you can see caused their advisor to have a serious conflict of interest.

> *“The last thing was we just never really made a real plan with him. We didn’t want to lose our money. We probably weren’t as involved as we should have been to put the risk forward, and that’s on us. That’s absolutely our fault, but we never really got to make a lot of a plan. It seemed much more to be about insurance and paying down debts.”*

I suppose that’s what you get when you go to an insurance agent for financial advice. What I find most interesting in his list of holdings on the note he sent to me is just the lack of plan there. There’s no overriding plan. He figured out what he owns now but it doesn’t seem like anyone started with any overall arching plan and then picked pieces to fit the plan. I mean, he has $18,000 in Roth IRAs, with 12 holdings in each of them. That’s at most $1,500 per holding on average. It just looks like just a hodgepodge of investments thrown together across the whole spectrum there. And they are flip flopped, having more money in their taxable account than in their tax advantaged retirement accounts. Most of the holdings are high fee, actively managed mutual funds.

Pretty disappointing.

The thrift savings plan is the military's 401k. It has rock bottom expenses. It has some excellent index funds in it. It's clearly where the investing should have been taking place over the last few years rather than in a taxable account. But he is still coming out of the military with a decent little nest egg and ready to get going on his financial life.

How to Break Up with your Financial Advisor

The hard part, of course, in this sort of scenario, is breaking that advisor relationship. When you know someone has been giving you crummy advice for years, especially when they're a family friend, how do you break up with them?

First you need to go through your investments that involve your financial advisor and make a plan for what you want to do with them.

In this case he is starting with their Roth IRAs. The plan is to open Roth IRAs at Vanguard and have Vanguard pull the money over. You need to figure out your desired asset allocation with passive index funds, total stock market index, total bond funds, international, that kind of stuff.

The Roth IRAs, are the easy part, because you can liquidate all those investments for no tax cost. Once you're at Vanguard, it probably won't be that much of a commission cost either, but some of those funds might have a commission. It may be cheaper to sell them before transferring them. It might be cheaper to sell them once they get to Vanguard. It depends on what the holdings are, but I think you could probably negotiate with Vanguard to waive those fees once you move them over. That is worth talking about before you move them. It might be cheaper to liquidate and move cash than to move the assets in kind in the IRA and then liquidate them. In fact, they might not even let you move them in kind inside that account. You would have to check with them.

I'd just check with Vanguard and say, "Can I move these over in kind and then liquidate, or do I have to liquidate before I move them?" Look at both options, if they allow both options, and look what the fee would be. Maybe you can save yourself a few hundred dollars in commissions.

The taxable account is a little trickier, because he has 13 holdings. They are all in things that he really doesn't want to stay in. Over the four and a half years, they have accumulated $78,000 and have $4,500 in unrealized gains. A total investment growth of 6%. If they liquidated that entirely, then they would pay about $684 in taxes.

He has gathered all the information he needs. He knows what his unrealized gains are and what the cost is for getting out. He has looked at the holdings and decided he doesn't want any of them. At that point, it's pretty simple. You sell it all and reinvest it in what you want to be invested in. It's going to cost you the commissions for those trades, whatever they might be, and it depends on where the money is held right now, how much those are going to cost. Again, this is the same thing. You want to check with Vanguard. See what they're going to cost to sell if you move them in kind to Vanguard and then sell them, versus selling them and then moving cash. $684 for stuff you don't want to be in, I think is a good deal. I'd probably just pay that and move it and simplify my portfolio. Talking with Vanguard from the brokerage end regarding the taxable accounts can be helpful to minimize the commissions to sell.

With mutual funds, the commissions can be like $50 a sale. You bring over 13 holdings, and if it costs you $50 a piece, that's 650 bucks. That's a much as you're paying in taxes. It might be cheaper to sell them with the old place. Maybe you can tell Vanguard, "I'm moving my taxable account, I'm moving my Roth IRAs, and I'm a doctor," maybe they'll say, "Well, okay. We'll give you 12 free trades and let you get out of these mutual funds without getting nailed for that $650." You might be able to save yourself a little money there. It never hurts to ask.

Actually talking with your financial advisor and asking them to liquidate it on their end is probably not something that's going to work well. Eventually your friend is going to find out you are no longer going to use him as an advisor. The way to approach this is to say, "Thank you very much. We didn't know much. We didn't have much interest in this stuff. Back when we came to you, you helped us to have some savings." Point out whatever positive you can find in this situation.

Then just say, "We've decided to go a different direction." They understand that. They get fired all the time. Just because it's your first time doing it doesn't mean it's their first time being fired. Because it's a friend, I would probably say something to them. If it wasn't a friend, I might not even talk to them. When they get the request for assets from another company, they know what is going on.

Dollar Cost Averaging Versus Lump Summing

Now that he will have a bit of money to invest this military doc asked,

> *"Clearly the market's done great over the past month and a half. Throwing a bunch of money in at one time might make sense now, but as we go along, I think dollar cost averaging makes more sense. What do you think about that?"*

What most of us do is not really dollar cost averaging. What we're doing is periodically investing. We just invest when we have the money. We get our paycheck, we invest. We get our next paycheck, we invest. You get kind of the same effect from dollar cost averaging. The months the market is down, you buy more shares than the months the market is up. Over time, your average price per share that you paid is a little bit lower. That's not really what dollar cost averaging is.

Dollar cost averaging is what this doctor has now after he sells this taxable account. He has $78,000 in cash sitting there. The question is, "Do you invest it all today, or do you spread it out over three months or six months or a year in case the market goes down?" Since most of the time the market goes up, the best thing to do in that situation, most of the time, is to just invest it all on day one. Given that it was all invested before you sold it, it's really not a significant change. That's what I would encourage you to do.

What a lot of people are trying to do. They're like, "Well, I'll feel terrible if the market goes down next week." Well, that's true, but this is a small percentage of what you're going to put into your account over your financial life. It's really a relatively small sum compared to that. Even though right now it represents your life savings, if you consider your future earning potential, this is a small chunk of money. I would not spend a lot of time lying awake, worrying about what happens the week after you put the money in. I'd just put it in and forget about it, and take a look in six months. I think that's the way to go.

Mathematically that's the right way to go. Behaviorally, if it makes you feel a little better to put it in over three months, you're probably not going to do that much damage. In three months, you're still going to be fulling invested, which is exactly what you'd be now. You're really just postponing the inevitable. I generally encourage people to just invest the lump sum when they have it. Then, as you make money, to just invest as you go along.

Admiral Funds versus Exchange Traded Funds at Vanguard

Exchange traded funds are nice. They are a different share class at Vanguard. Vanguard had investor shares, Admiral shares, and ETF shares. The Admiral Shares and ETF Shares had about the same expense ratio, and the Investor Shares were a little more expensive, but you'd get into them with just one to three thousand dollars; whereas, you needed $10,000 to get into the Admiral Shares.

They changed that recently, so I think the minimum to get into Admiral Shares is now 3,000. Basically, the investor shares are just kind of going away. I mostly use traditional mutual funds, but it's not like Exchange Traded Funds are wrong. These are both good investments. There's not a big reason to go with one over the other. In a taxable account, I think the Exchange Traded Fund version is still slightly more tax efficient. This is despite the fact that these are two shares of the same fund. At Vanguard, it matters at lot less than at other places just because Vanguard has the ability to flush some of those capital gains out of the fund when Exchange Traded Units are created and destroyed. That's kind of a complexity of Exchange Traded Funds. What you really need to know, as a consumer, is they're very slightly more tax efficient than the Admiral Shares.

If that's worth the hassle to you to go through buying and selling when the market is open and putting in orders and dealing with the bid ask spreads and all that, then I think that's fine. Honestly, I just use the funds. It doesn't matter that much to me. That's not going to be the difference in whether I reach my financial goals or not, and so I don't spend a lot of time worrying about it. Certainly, if you're into that sort of thing and putting in orders, I think Exchange Traded Funds are fine, particularly at Vanguard.

Asset Location

Where to put your bonds? To put them in the Roth IRA or the 401k? This is one of those questions that doesn't always have the same answer to everybody and can be incredibly complex.

Certainly, if the investment you want to use to invest in bonds is the total bond market fund, taxable bonds basically, you want to have them in some sort of a tax protected account, whether that’s a Roth account or whether that’s a tax deferred account. The truth of the matter is, if you actually adjust those accounts on an after-tax basis, it doesn’t matter which one you put it in. Whether you put it in Roth or whether you put it in a traditional IRA or other tax deferred account.

The fact is that most people don’t do that. Most people don’t tax adjust their accounts, so what they do is they tend to put things with high expected returns, like stocks, into their Roth accounts, and things with lower expected returns, like bonds, into their tax deferred accounts. What they’re really doing is kind of fooling themselves into taking a little bit more market risk. On an after tax benefit basis by doing that, you’re putting more stocks in the portfolio by putting the stocks into Roth and the bonds into a tax deferred account. You’re really just taking on a little bit more risk, and, yes, you expect a little higher return from that over the long run, but that’s what most people do.

> *“One additional question with the bonds is what percentage should be tax exempt bonds versus a total bond index fund. Through some of the books that I’ve read recently, there seems to be a concern if you have a 30% bond allocation, having all 30% in a tax-exempt bond fund. Is there really a concern there, or do you know what they’re discussing?”*

If you look at the default rates on municipal bonds, the truth of the matter is these defaults are very rare in municipal bonds. Are they higher than treasuries? Yes. They’re higher than treasuries, but they’re way lower than corporate bond defaults. I don’t think it’s a huge concern to have a big chunk of your bonds in muni bonds. I still prefer funds for muni bonds. When I buy muni bonds, I buy them in a Vanguard municipal bond fund. If you feel strongly about having municipal bonds in your portfolio, then obviously you want to hold those in a taxable account. If you are okay just owning basically treasuries and mortgage bonds and corporate bonds, then total bond market would work just fine. Obviously, a typical doctor, in a typical doctor tax bracket, doesn't want to be owning that in a taxable account. That's something that needs to go into a tax protected account.

Lots of different ways to slice bonds honestly. It's more important that you pick something reasonable and stick with it than exactly how much you put into corporates and how much you put into treasuries and how much you put into municipal bonds. This is not going to be the interesting part of your portfolio.

Life Insurance

This military doctor has a term policy with Guardian. A 20 year and a 30 year. Two and a half million dollars total. That seems very reasonable. Guardian usually isn't the cheapest term life insurance company out there. I think he probably owns that because he bought it from a Guardian agent. It may be possible that he can still buy cheaper insurance from a different company. It's probably worth pricing out and seeing. After a few years, at a certain point, you're better off with the policy you bought a few years ago from Guardian than anybody else. You'll have to price it out again and see if it’s competitive to what you can buy today going forward. If it is, I’d just stick with it. If it isn’t, maybe it’s worth trying to get something a little cheaper and saving yourself a few hundred dollars a year in premiums.

His wife bought a whole life policy back when she was 21 and interning for an insurance company. Their cost basis there is $4700. The cash value is 3,900. They pay about $48 per month. He wanted to know what would be some recommendations to do with her whole life policy given that they have a term policy on her that gives them all the life insurance they need.

This thing doesn’t really matter. We’re only talking about four grand here, and we’re only talking about $48 a month. If she really loves this thing, which, having interned at an insurance company she might, she can keep it. Going forward from here, the return probably isn’t terrible. She’s already had it for 20 years. You can get an illustration that you can calculate the return going forward and decide, “That’s worth it to me, or that’s not worth it to me,” and make your decision based on that.

REITs

I own REITs in my portfolio. A lot of people own REITs in their portfolio. We see this as a way to add real estate to the portfolio. If you’ve only got three or four asset classes in the portfolio, this is a cheap, easy way to add real estate to the portfolio without having to buy syndicated investments or invest directly in property. It does have a moderate correlation with the overall stock market. When the stock market drops, REITs usually go down in value, much more so than direct real estate. It’s also very liquid and very hassle free, and there’s something to be said for that.

Certainly, there is some diversification value there in tilting the portfolio towards REITs, but I don’t know whether it’s going to work out well for you, because I don’t know what their future returns are going to be. I think it’s a reasonable asset class to add to a portfolio, but it’s kind of an individual decision. Whatever you choose, stick with it for the long term because REITs will have their day in the sun, and they will have bad times as well when the returns are terrible like in 2008 when I lost 78% of the money I had in REITs from peak to trough.

Organization for DIY Investors

This doctor said the Fire Your Financial Advisor course has helped them to set an asset allocation. Once you have the asset allocation plan written up, whether it’s this much in US stocks, this much in REITs, this much in small stocks, whatever, then it’s really easy to choose investments. Once you have that plan, you basically go pick an index fund that invests in that asset class. That’s it. That’s really all there is to it. Instead of having 12 holdings in an $18,000 Roth IRA, you end up with one or two. You diversify out in the 401k and in the taxable account and that sort of stuff. In the end, maybe you have five asset classes in your portfolio, and it took eight holdings to get it across all those different accounts. It’s really a relatively easy thing to do. You just go to each individual provider. They’re all pretty similar when you are looking at very low cost, broadly diversified index funds.

The program I find most helpful is Microsoft Excel. The simple functions of a spreadsheet are super easy to use, and so I think it’s good for a do-it-yourself investor to get used to using spreadsheets. Other people have found success using things like Mint or Personal Capital. Those sorts of things that will pull all your stuff in and give you an overview. I prefer having a little bit more control over it and not a huge fan of having an aggregate service having all my logins, even though so far it seems like it’s been a pretty safe thing and they have lots of security safeguards. Thus far, I’ve been looking it up individually and updating my own spreadsheet from time to time and using that.

I think either way is fine. Just what works for you is the main thing, however, you can keep track of stuff and implement your plan. This always seems really hard the first time you do, and then you'll look back a year from now and go, "Man, there was ever a time I didn't feel capable of doing this myself?"

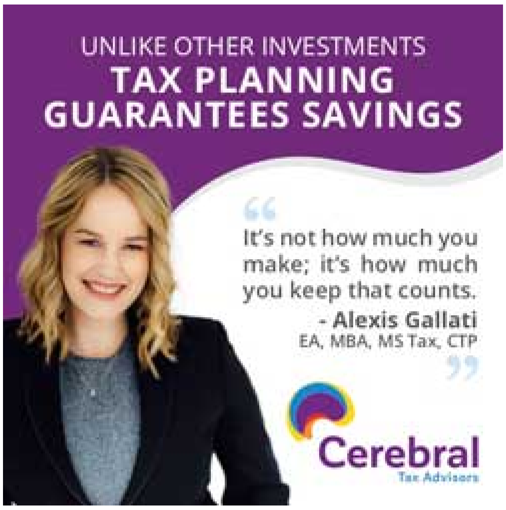
When I talk to people, most of the time they say, "My confidence was about a year behind my knowledge." It took them about a year to realize, "Oh yeah. I really do know what I'm doing." If you have the interest, you can develop the knowledge and the discipline you need to be a successful do-it-yourself investor. If you're just not interested at all, you're far better off finding a good financial advisor that gives good advice at a fair price. It's not like you have to go completely cold turkey though. There are still financial advisors you can go pay by the hour to look over your portfolio and say, "Does this look okay? What would you tweak?" It is okay to hire a professional. You have to make sure you're getting good advice at a fair price, which it sounds like this doctor probably paid too much before and got a bunch of lousy advice. But he is educating himself and taking charge of his money now. He is going to be just fine.

Ending

There are so many resources out there. Take the time to educate yourself and take control of your finances. If you have questions, this is a great community to find the answers. Ask in the WCI Forum or in the WCI Facebook group. Or if you want to have your questions answered on the podcast go record them here!

Full Transcription

Intro: 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: Welcome to White Coast Investor Podcast number 99, a discussion with three attendings. This episode is sponsored by Alexis Gallati of Gallati Professional Services. Alexis not your typical tax advisor. With over 15 years of experience, she has been helping physicians all over the country save money on their taxes. As the spouse of a busy physician, she understands the burden of high tax payments physicians incur during their lifetime. Not only will she create a high level strategic tax plan for you, guaranteeing money in your pocket, but Alexis will proactively work with you throughout the year to maintain your tax plan, prepare your annual tax returns, and represent you in case of an audit. The investment in her tax planning services is a fixed price agreement, and her tax maintenance packages are a flat monthly fee. If you're tired of complex tax jargon and giving away most of your paycheck to the IRS, visit Alexis' website at www.gallatitax.com today to schedule your free initial consultation.

WCI: Thanks so much for what you do. It's important work that you do. It does make a difference. There are people who are counting on your knowledge set, and it’s not just your patients. It’s also your peers. When they send you patients, whether you’re in the ER or whether you’re in clinic or whether you’re a consultant, they really do rely on the expertise you’ve developed over decades. Thank you for that.

WCI: If you haven’t heard, the new White Coat Investors Financial Bootcamp book is out. You can get it now on Amazon. It’s great. It’s getting great reviews. Thank you for those of you who have been leaving five star reviews for it on Amazon. It is really a work that we’ve put a lot of effort into. Started out, as you know, as emails that went out when you signed up for The White Coat Investor newsletter, but has dramatically expanded from that. The chapters are three or four times as long as the original emails were. They include anecdotes from readers sharing their own personal experiences as white coat investors that learned this stuff and applied it in their lives. It’s got a lot of appendices, even a long glossary, that is probably one of the best things out there to learn financial literacy, basic financial literacy. All these terms that you should know, I’ve got a 15 page glossary at the back of the book that just reading that is worth the price of admission.

WCI: Also, if you haven’t heard, WCI Con 20, the Physician Wellness and Financial Literacy Conference, is on. You’ll be able to register starting in July, but if you need to save the dates, it is March 12-14, 2020, with travel days on either side of that. It’ll be three days of classes, the 12th through the 14th. We’ll have a reception the night of the 11th, and you’ll probably need the 15th, Sunday, to get back home after all of that, given that it’s in Las Vegas way on the west side of the country. I hope to see as many of you as possible there. It’s probably going to fill up pretty quickly, so we’ll give you plenty of notice of when registration is going to open, but make sure you don’t miss it. This is not going to take a month to fill this conference. I hope it lasts longer than 45 minutes to fill, but it's entirely possible that the conference could be full that first evening that registration opens.

WCI: Our quote of the day today comes from Jack Bogle who said, "I favor the all market index fund as the best choice for all investors. Don't look for the needle. Buy the haystack." I miss Jack already. It's only been a couple of months since his passing, but he really was a giant of the industry.

WCI: Today we've got three attendings we're going to bring on here. I think we might even have a couple toward the end of the podcast as well, kind of like we did with our last episode where we just brought on regular listeners and tried to answer their questions in a little bit more of a lively discussion than just leaving a SpeakPipe question. Let's get to our first one.

WCI: Our first guest today is Paul. He is a dentist. He's about my age, in his early 40s, and has a lot of unique challenges and a lot of unique interests that I think would be worth a discussion on the podcast today. For the next 15 minutes, we're going to be talking with Paul. Thank you for being on the podcast today.
Dentist: Thank you for having me, Jim. I appreciate everything you do.

WCI: Now, let's talk a little bit about this. Now, you own your own practice, correct, as a dentist?

Dentist: I'm a 50% part.

WCI: 50% owner?

Dentist: Yeah.

WCI: Okay. Let's talk about that for a few minutes. What are some of the challenges you’ve had with being an owner and how that’s been difficult?

Dentist: Well, I feel that similar to the medical world, we’re trained to have a skill, and that skillset isn’t necessarily how to run a business, how to hire, how to fire, how to market. In the dental world, it’s a little bit similar to say plastic surgery is that, and I hate to say this, but your teeth are elective. If people don’t want to take care of their teeth then they can live without them. I think that poses a unique position in that we have to have patients that value our service and value their teeth. It’s a fine line that you’re walking between being a healthcare, oral health provider and also running a business.

Dentist: When I got done with school in 2003, I just worked a couple different offices to find what I liked to do, where I liked to live in the Seattle area, and then I joined a practice with a senior partner. That has been integral to my development as a business owner along with my clinical skills too. I feel that there are people out there who will jump right in and buy a practice, and that’s great for them, but there’s potential pitfalls and challenges that it’s nice to have someone who’s kind of been through it with you to help you along the way and be your mentor.

WCI: How did you learn this stuff? How did you learn to be HR? How to hire somebody and fire somebody and be a marketer and market the practice on social media, et cetera? How did you learn all that stuff?

Dentist: I would say a majority of what I’ve learned was from my business partner, and he and our practice has some senior members. Like our front office has been with us 20, 25, and 30 years, three of them. They themselves kind of helped guide me in regards to hiring and firing. I still think it’s a work in progress. It’s what questions to ask, how to ask them, what can’t you ask, how do find the right person to fit onto your team? We’re fortunate that we can choose. I think sometimes in your world, you can’t choose who you work with, and that can pose lots of challenges in your own regard.

WCI: That’s one big downside of emergency medicine for sure. The hospital gets to … They’re the boss for all the nurses and techs and all that.
Dentist: Mm-hmm (affirmative). Mm-hmm (affirmative). What I’ve tried to do … Once you reach a certain point in your clinical career, not that you can’t continue to learn new things, which I do, but my focus has been more towards the business aspect of it. I know I follow certain podcasts about entrepreneurs and maybe some books that I … I look for books, and say, “Okay, I can read a book and help supplement that,” but there’s no cookie cutter like, “Here, read this blog, and then you’ll be the perfect boss.” I think this revolving door of what will work for you. I think that what I’ve found is that as a practitioner you start … I’m fortunate, as a general dentist, that I see a lot of people on a regular basis, and you start to get to know them and their personality types and how do you approach them to do what you want them to do.

Dentist: Same with your team members. You get to know them, and you can say, “How do I talk to this person? How do I not talk to this person?”, so that we can kind of get the best out of them. I think that’s the key to being a good leader is you can’t treat everyone the same. You have to figure that out. A lot of it’s like trial and error I think. That’s been my experience.

WCI: What about choosing the benefits that are offered to yourself and to the other people in the practice. Was that all set when you came in, or have you had to make decisions about 401ks, and HSA’s, and insurance, and that kind of stuff?

Dentist: You know what? That’s a great question, and now, in the last … It was set when I joined. I practiced here as an associate, so I worked for my business partner for 10 years before I purchased half of the practice, which was five years ago. I've been here 15 years. There was a lot of things that was already in the works, but in the last three years I've had more of an integral role in choosing the benefits, which is great. It's been a learning curve. As a small business, when you go to buy say we all have medical coverage, and when you go to purchase a plan for the office, we don't get a deal by any stretch of the imagination. It's pretty expensive. If you're Microsoft and you have 50,000 employees, you have a lot more clout to negotiate with benefits. For us, we're kind of a victim to whatever the market's going to bear.

Dentist: Practicing in the downtown area, we find we have to have a good benefits package to have good employees, good salaries. We choose, our 401k plan is actually a work in progress right now. We're looking at doing a different 401k, which I'm starting to research now. HSA was something we just added last year, which I'm finding is great as an IRA … Not a backdoor IRA, but a place that you could park some money and invest it, which I think the employees are kind of finding that beneficial too. With that being said, I'm also finding I have three little kids with some medical needs, so I've used … One of my questions was, "Should I leave it and just pay cash, or should I use it for the medical? For what they need?"

WCI: Yeah, well, it turns out those are both great uses. Right? Those are great uses of an HSA. Either spend it on healthcare in retirement or spend it on healthcare now are clearly the two top ways to spend it. You can just take it out at 65 and buy a sailboat with it, but then you'll owe taxes on it. You won't owe any penalties after 65, but you will owe taxes. Ideally, it'll be spent on healthcare. Ideally, in the last year of your life, but you just don't know what your healthcare expenses are going to be later. Certainly, using it on healthcare expenses now is not a bad thing to do. If you decide to leave it in there to compound in a tax protected way, you ought to keep the receipts for everything you're spending now, because all that can come out later. You just got to have the receipts to justify it. There's several ways to skin that cat. Nobody really knows exactly what the best one is.

Dentist: I mean, we also don't have a predictor of how the laws might change either, right? They could potentially change that down the road.
WCI: Although, I think if that does change, that ability to save receipts, I think you're going to have time to pull all the money out using the receipts you have. I mean, that sort of thing doesn't happen in a bubble.

Dentist: Right. That's a good point.

WCI: It sounds like, let's move a little bit more into some of your personal financial challenges here.

Dentist: Sure.

WCI: By owning part of the practice, I assume that dramatically increased your income versus being an associate? That's the usual story.

Dentist: Absolutely. It did.

WCI: That's always helpful to have a higher income, but you're still dealing with some debt as well. When you came out a long time ago, let's see, 15 years ago, you had $185,000 in student loans and $30,000 in credit card. In that time, you've paid off the credit card debt. You still have a little bit of student loan debt. Share your thoughts on why you've decided to still have that. Is that based on the low interest rate?

Dentist: Well, I did … I wish I would've met you 15 years ago. I did what any person who's kind of had years and years of school, I said, "Oh, I'm going to reward myself." First thing I did was when I graduated two things. When I was in school, I was surrounded with some kids, some classmates, whose parents were paying their way and supplementing, so I spent money as if I had it and I didn't. When I graduated with all that credit card debt, that was not because of living and not because of school. It was because of me following the Joneses I guess. My girlfriend, who's my wife now, at the time when I graduated … I had like six credit cards, and I was paying the minimum payment. I had no idea how much debt I had brass tacks.

Dentist: Then I graduated and I started looking at me, and my wife, then my then girlfriend, Rebecca said, "What the hell? What'd you do?"

WCI: It wasn't me that changed you. It was her it sounds like.

Dentist: No. It was her. She kicked in the keister, and she said, "Listen." She had no debt. No student debt. No car debt. No credit card debt. She used credit cards to pay for something and then paid it off. The first thing I did the first six months was I paid off all my credit card debt. The second thing I did was I had private loans, and I had some Stafford subsidized loans, government loans, and I took all my private loans, and I actually paid them off with like a … I don't know if it was a one year interest free credit card or like two year. I can't quite remember. I knocked … That was about 45,000. I knocked the 45,000 of the private student debt off of there within I think it was two years.

Dentist: Once I paid off my credit card within the first six months, then I decided to buy an engagement ring so that … Then I made the doctor dental mistake, and I thought, "I'm going to buy myself a nice car." I did.

WCI: What was it?

Dentist: I bought myself a BMW 540.

WCI: Sounds like a nice car.

Dentist: It was. Yeah. I put a bunch of money into it for fun, and I regret that now, because-

WCI: Are you listening listeners? I want to make sure everyone heard that.

Dentist: Yeah. Exactly. Exactly. If I could pass that onto anyone who'll listen. I'm like I was so dumb. I could've spent $20,000 on a decent car. My wife stopped me. I was going to buy the BMW M5, and it was used. It wasn't brand new, so I was little smarter. She's like, "This is stupid. Why would you buy a used car for $60,000?" I was like, "Okay, I'll buy this 540 for like $38,000." Then I put a bunch of money into it to make it an M5. That's why probably. That and then my wife Rebecca who's a dentist, decided to go back to back to school. She went to community college to do prerequisites, and then she went to dental school. I paid while I was working. I paid for her student. She has no student debt. I paid for her.

WCI: That was probably really smart though, right? To cash flow that?

Dentist: Totally.

WCI: That's not a bad move. That's a good move.

Dentist: I think that was smart. Then we bought a house, a small starter house. This was back when you couldn't do a jumbo loan. You had to have two separate loans, and one of the loans was higher interest on the house. I paid that loan off first, because it was the highest interest I had on anything. I think those were the reasons. If I wipe out that car and all the money I put into the car, I probably wouldn't have any student debt, but it's like a weight on my shoulders. I look at it, and then I'm always thinking like, "Okay, it's 2.75%, and I owe right now like 28,000. I pay more than my minimum payment, but then I'm like, "Well, should I take the difference than I'm paying, and should I put it towards investing? Or should I … When I pay more of my mortgage every month, should I take that money instead and …" I don't know. It's this constant toss up.

Dentist: Like you said earlier, buying into the business, my salary went up. My W-2 salary didn't go up, but my dividends did. I have a $20,000 a month nut that is my business loan. Knock 240 grand off every year of that. I think that's where the difference between owning my business and someone maybe in the medical who might … Their starting salary might be a lot more on their W-2, and they don't have the business loan in the background.

Dentist: On paper, I look like I earn a good living, because I do. First world problem. I earn a good living, but a significant portion of that goes towards my business debt. I don't pay myself more, and I keep a reserve in my business account for business emergencies kind of just like home, like your personal. I have a reserve for personal too.

WCI: Right. That's definitely a difference between dentists and most physicians, just because few physicians are going out and buying a practice anymore. A lot of dentists, they come out, they've four or $500,000 in student loans. They've got a four or $500,000 mortgage, and then all the sudden they've got a $500,000 or million dollar practice loan. It really ends up being a lot of debt very early on, and sometimes they become a little bit numb to it.
Dentist: Totally. I think that's the sad part.

WCI: Then you always end up with this dilemma, right? Pay off debt or invest? That never goes away until you're debt free basically.

Dentist: Right. Right.

WCI: You may always have that dilemma. This is interesting. I see here in your notes that your wife, you put her through dental school. She's a dentist. Not working a lot right now. Doing mostly sounds like the stay at home mom thing. Tell us about the discussion you guys had with regards to that. Was that a … Did you look at the finances behind it, or was it mostly what she wanted to do that made the decision? How'd you make that decision?

Dentist: Well, because I was established in my practice … Even though I was working for my partner and my income was as a certain level, it didn't make sense … We have twins that are six now, and then we have a three and a half year old. When Rebecca was pregnant with our twins, where she was working, which was kind of far … She was like 15 miles away from where we live, and what she was earning, it just … We thought, "Who should stay home, or should neither of us stay home?"

Dentist: Before we had kids, before she went off to school, we had that discussion like, "If we want to have a family, would one of us stay home?" She was a staunch believer in … Her mom is a nurse, and her dad's a contractor, so they worked. They were full time workers, and she wanted to be home. I think that, based on our twins and some of their medical challenges, and now in school some challenges, I can't imagine. I know people do it. I couldn't imagine both of us working full time then managing some of the medical, managing some of the school stuff. That in itself with three kids is just a lot of work. Hats off to my mom. We have four kids in my family. I don't know how she did it, a stay at home. It's a lot of work, and she seemed to have a better temperament than myself to stay home. That was kind of the discussion.

Dentist: We talk about finances. She still moonlights, but she finds that … I love, I love, love dentistry. I'm really into it. It's a great career, and I enjoy it. Maybe she doesn't quite love it like I do, so it was easier for her to step away.

Dentist: I think for you, and you think there's going to be a lot of physicians married to other physicians and dentists married to other dentists, I think that when you look at the financial outweigh to go to school, the potential debt, and then not to use it, there's some guilt. She has some guilt for sure. She's like, "What did I? Should I have not done this?" There's no right or wrong answer. That's a tough one for sure, I'd say, for people.

WCI: You're in a high cost of living area, but you made a killing on your house. You bought a house in 2012, and it's more than tripled since then. You borrowed some, not a ton, for it, but borrowed some on it. That's really paid off. What are your thoughts on that seven years down the road? What do you think about that decision and how you made it? Did you make the right decision? Did you just get lucky? What happened there?

Dentist: I think it was luck. Okay. Track back. 2012. My wife's six months pregnant with our twins, and we had our last house, our mortgage was a lot less expensive. Could we have had our twins in our house? Yes. It was not in a great neighborhood, and it really came down to we had been looking. We had looked, and we couldn't find anything. Finally, I get a phone call and Rebecca's like, "I'm pregnant. I'm not going to move when the babies are born. I found a house, and we're buying it." That's how it came down to really. She's was just like, pregnant, she's like, "I …"

Dentist: It was a neighborhood. It was closer to her parents. Her parents, we're really close to them, and they help a ton. It's in a really quiet neighborhood, and it was maybe not my ideal choice home, but, the location, I love the location. I think it was a lot of luck. In 2012, the market wasn't the absolute bottom, but it was still kind of low. Lower than it is now, because it's been kind of gangbusters. That was, I think, the luck of it. Then on the flip side, then we had a house that was still had a mortgage on. We kept it, and we had renters for a little while, and then the renters trashed that house. Then Rebecca was like managing it, which was like a new mom with twins managing that. Then we sold that house.

Dentist: We didn’t lose. We came out it was a wash, but at the same time, if we would’ve kept it, woulda, coulda, shoulda, that house itself has like doubled. I think it was just a little luck. You know, Amazon’s in Seattle. The average salary that the tech workers are making is a little bit like Silicon Valley. It’s kind of driven the market to go up like crazy. I think that was just fortunate. Now, what’s happened is a lot of tech companies are kind of landed in Seattle because they all poach talent from each other. I find that people like might move to a city and want to stay in a city, but if they can’t get a job, they move out of the city. We’re finding that it’s like a miniature Silicon Valley here, but it’s also made it so that it’s hard to hire people because it’s too expensive. It’s really expensive to live. Where there’s like a dearth of talent to hire for your team, because they can’t afford to live in the city and then have to commute really far. With that great economy comes lack of infrastructure and a lot of traffic.

WCI: You’ve got some significant expenses both living in the high cost of living area as well as with the special needs child between the medical bills and the specialized school for that. You’re basically killing it here. You’ve got a great income. You’re a multimillionaire. You’ve got good savings. You’ve got a whole bunch of home equity now. It sounds like you still struggle with the classic thing that most docs are struggling with. Do you pay off debt or do you invest?
Dentist: Right. Yeah. I’m at that. Am I saving enough? When I was just like … I bought your firing your financial advisor. I currently have a financial advisor, because I currently have a financial advisor who’s at UBS who charges me a one percent. I have like 11 accounts or something crazy. Three 529s, three UTMAs, I have two IRAs, a 401k. I’ve got like a taxable account.

WCI: Are you describing my portfolio or yours? It sounds pretty similar.

Dentist: My HSA. I have all these accounts, and I've got one guy who's managing them. Not the 401k. That's separate. He's given me some advice on it. I look at my accounts, and I'm like, "What the frick am I in?" I'm like, "Should I be in this for my kids?" That's probably a whole separate topic to discuss, but I'm in the process of educating myself more on how to manage all of that and decide, because I listen to Paul Merriman quite a bit, who's actually on your podcast.

WCI: Yeah. I think he's up there by you somewhere.

Dentist: Yeah. He's in Bainbridge Island. I think that it just makes me wonder, "If you save half a percent here or save a quarter percent?" He's always talking about numbers like how it compounds over 40 years of investing. It's just made me think like, "You know? I need to do this." I'm just trying to find the right learning tools and then manage it myself, which is what you've talked about too a lot.

WCI: The nice thing about that course is even if you choose not to manage it yourself, you're far better after taking it at recognizing good advice and recognizing when you're getting it at the right price. The title of that is deliberately provocative, "Fire Your Financial Advisor", but I think a lot of people taking it change financial advisors is what they end up doing, which is a good thing too. I mean, the course, although it's one of the most expensive things we sell here at the White Coat Investor, the regular price is 499, it is dramatically cheaper than paying a professional for financial advice. I think it's helped a lot of people and gotten a lot of great feedback on it.

WCI: I don't know that there's a right answer, right? You've got a big practice loan. What was the interest rate on your practice loan? 3.85?

Dentist: It's at 3.85.

WCI: That's where your mortgage is at too?

Dentist: Yeah. My mortgage is at that.

WCI: It's a pretty decent sized mortgage. You got a decent mortgage. You've got a decent practice loan. You've got a lot of investments. I guess my recommendation for someone in your situation is 20% of gross for retirement. Just take your gross income, multiply it by 20%, that should go toward retirement. Whether you have room for all that in your retirement accounts or not is a different question. Some of that might be in a taxable account just because you've maxed out to your retirement accounts. Then above and beyond that, whatever you can cut out of your budget, throw that at one or the other loan. I don't know. I guess I'd probably lean a little more toward your mortgage. I think I'd probably pay down your mortgage before the practice loan because you know the practice loan is going to be 100% deductible, whereas there are some situations where your mortgage might not be. Plus, if something terrible happens, at least you've got a home paid for for your family.

Dentist: That's a good point.

WCI: In your case, your interest rates are the same, and the mortgage is a little bit smaller. I think I'd probably lean toward that.

Dentist: That's it. Okay. Right now, I'm looking at my principle and interest, and I throw x … I throw another $800 or something towards the principle so that my principle and my interest now are kind of at the same every month. That was just like, "Okay."

WCI: I don't know if there's any magic to it whether you do it each month or whether you do it when you have a little bit extra and you throw a big chunk at it. There's no real magic to how to do it. The bottom line is you just got to throw a lot of money at it, and eventually it does go away. More of those payments go towards principle than interest. You'd be surprised when you really focus on something and make a goal of when you're going to be done with it just how quickly you might pay it off. Our home we bought with a 15 year mortgage and paid it off in seven. Probably could've done it in six. You'd just surprised. Maybe next year your practice has a really good year, and you have a little more income. You throw all that toward the mortgage, and before you know it, you're like, "Wow. This thing's almost gone."

Dentist: Now let's throw a little curve ball, because now I'm faced with buying the other half of the business this year because my partner's going to retire. He's 65. Which I'm planning to do, I feel like it's because knowing the practice and it's a good business, so then my business debt will go up quick.

WCI: It's going to double.

Dentist: Yeah. It's going to double.

WCI: I mean, it's one of those things. If it's a good business, and you can get reasonable terms on the loan, it can make sense to borrow that much money even though it seems insane to have these seven figure practice loans out there.

Dentist: Right. I know.

WCI: If it is also dramatically increasing your income, it's a good investment. That said, when you start getting into these realms that, I say you dentists because it's almost always a dentist that has this sort of debt, boy, I tell you what, that would be a major priority to be throwing a lot of money at that and get it paid down for me. I just would not be comfortable with these million dollar, two million dollar practice loans.

Dentist: Yeah. I know.

WCI: I think I'd probably lean toward living more frugally and really putting a lot of money at those things. You mentioned you're putting $240,000 a year at it now, and they don't last that long when you're putting those sorts of payments at it. Maybe when you double your debt, maybe you can double the payments too.

Dentist: Yeah. Yeah, yeah, yeah.

WCI: Although it's a ton of debt, if you can pay it off in five or six years, that's probably a good investment.

Dentist: Yeah, yeah. I feel like it.

WCI: Certainly better than borrowing a bunch of money to go buy a Tesla.

Dentist: Right. I was just listening to your podcast the other day, and you were just talking about I think the two docs who were like at the surgery center, and one of their pieces of advice were like, "If you were going to buy into a surgery center, look at who the productive people are, because if one of them were to walk out the door, then it significantly hampers the business." On the flip side, for myself, my business partner and I are both equally productive, so not only is it taking on that debt, it is also, if he walks out the door, which has hasn't 100% said he's not going to work back part time, but I have to replace his productivity too. That is something that I have to consider and weigh. I feel like I'm weighing them, and I'm going to do it. I think that what is a difference between myself and, say, someone who's going to buy into a practice or start from scratch is that, like my business partner he started everything from scratch and kind of grew it, is that he didn't have the same kind of debt that I'm looking at.

Dentist: The other day he's like, "You know, I probably would look to find a partner sooner than." I bought in when he was 60, so I don't think I'm going to potentially wait until I'm 60 unless everything was rolling along okay, just to kind of have someone else who has skin in the game and offset that significant debt.

WCI: For sure. If someone else comes and buys in, all of the sudden you get to wipe out a whole bunch of your debt too. Maybe in some ways that's better than hiring associates. Even though you'd get a portion of what the associates are generating, they don't have quite as much skin in the same for a business to succeed.

Dentist: They don't. Right, right. They tend to … It's not necessarily a revolving door, but someone who doesn't have skin in the game, they might stick around for three years and then move on, or five years, or whatever is there. That causes some downturn on the practice. Every time you find a new provider, the patients have to meet them. There's some time to get them to ramp up their productivity.

WCI: For sure. I appreciate you being on the podcast. I think we better cut it off here. If I go this long with all three of the people that I have on today, this is going to be a very long edition, which isn't terrible. People can listen to it over two sessions, but I start getting the stink eye from the people who do the prepping of the notes, because it gets to be a big old chore. We better cut it off here.

Dentist: Sure.

WCI: I appreciate you being on the podcast. I think a lot of people will find this segment interesting.

Dentist: Great, Jim. I appreciate you having me on. Thanks so much.

WCI: Okay. Our second guest here is going to remain anonymous. He is a surgical subspecialist in the military. Will actually be leaving soon, sounds like about a year from now or so, but has lots of kind of intricate financial questions and issues he's dealing with. Welcome to the show.

Military Doc: Hey. Thank you very much for having me, Jim. I'm really excited for this.

WCI: You're very welcome. I thought we'd start kind of at the beginning. Kind of go through your financial life a little bit with a little bit of a fine tuned comb, fine toothed comb, and see what we can improve. It sounds like about three months ago you got really interested in personal finance and investing and are really trying to make some improvements on what's actually a pretty good job you've done so far despite a few minor issues here and there.

Military Doc: No. Thank you. I think without a true plan, we've bumbled through it pretty well. Certainly putting some money into savings, and we've had a financial advisor that we'd like to leave. We can certainly get into that.

WCI: Thank you so much for your service to start with. It is no small commitment to be willing to sign up to go anywhere in the world 10 years from now when you signed up for this a long time ago. You had no idea what the military was going to be doing when it came time for you to be on active duty. It sounds like the last three or four have probably been better deployment wise than the four years I was in from 2006 to 2010. We had a pretty hot ops tempo back then.

Military Doc: Yeah. It has thankfully we've been able to stay stateside more, and certainly that's been a welcome benefit for my wife and me and having a young son. That's been great. Of course, thanks for your service as well. Overall, my training in the military's been phenomenal, and the HPSP program was a good program. Kept me out of debt. I certainly got my money's worth on the front end with my medical school. I thought my training was phenomenal, and it's been a great experience in payback as well.

WCI: So happy to hear people that are happy with it, because I ran into so many docs in the military that didn't understand it going in or had something had happen to it. I think a lot of people are kind of like you and me. We go in there, and nothing really bad happened to us. We had a reasonably good experience, came out debt free, and had a chance to serve our country, even if we only spent four years on active duty.

Military Doc: Yeah. I completely agree. There are some frustrations here and there, but welcome to everything.

WCI: Let’s talk a little bit about some of the issues with what your financial advisor has told you in the last few years.

Military Doc: Sure.

WCI: I mean, I’m going through this list of what you’ve sent me, and I’m like, “Wow. That’s terrible. That’s terrible too. Oh, that’s terrible too.” What have you noticed? You’re our second caller today on this show. There’s three different docs we’ve got on today, and the first one as well as you have both taken the “Fire Your Financial Advisor” online course. What was it as you went through that that you realized maybe your advisor hadn’t been telling you accurately?

Military Doc: Sure. Well, first off, thank you for putting it together. That is an excellent course. We have been so happy with that. It got my wife and I focused in the same direction, which was great. Anything that is measured tends to get better, so as we pay attention to things and go through, we can focus our energy at that each section. Also the importance of a budget has been great on there too.

Military Doc: From a financial standpoint and the assets, we never were told about an individual 401k. My wife runs her own company. She’s an entrepreneur. She’s been on a 1099 for about eight years, and that was never a conversation since we joined, since we hired our financial advisor, back in 2014. We’re under a one percent assets under management fee. He sold us term life insurance. Tried to sell us whole life. He’s actually a family friend, so leaving that’s a little, extricating, is a little tricky. That was one thing.

Military Doc: I brought up thrift savings plans a couple years ago, because amazingly through all of residency I had zero financial lectures. I really mentally didn’t have the bandwidth for it. I wasn’t interested. I didn’t know anything about TSBs, and I brought them up a couple years ago to him, and he had really said not to get involved in those because I actually had a Roth, which they’re different accounts. It doesn’t make any sense.

Military Doc: Then the other thing that has been really frustrating … Well, two things. One, my wife already has a whole life policy from an insurance company, and we have a term life policy on her as well. The last thing was we just never really made a real plan with him. We didn’t want to lose our money. We probably weren’t as involved as we should have been to put the risk forward, and that’s on us. That’s absolutely our fault, but we never really got to make a lot of a plan. It seemed much more to be about insurance and paying down debts.

WCI: Well, I suppose that’s what you get when you go to an insurance agent for financial advice. What I find most interesting here as you list your holdings on the note you sent to me is just the lack of plan here. There’s no overriding plan. I think you’ve looked at it to see, “Well, what do I actually own?” You figured out what you own here, but it doesn’t seem like anybody started with any overall arching plan and then picked pieces to fit the plan. I mean, you’ve got $18,000 Roth IRAs, with 12 holdings in each of them. I mean, that’s at most $1,500 per holding on average. It just looks like just a hodgepodge of investments thrown together across the whole spectrum there.

Military Doc: You’re right. The other thing is I think we’re flip-flopped. We have more money in our taxable account. We have $78,000 in our taxable account. We have 13 holdings there as well. We have more there than we do in our tax advantaged retirement accounts.

WCI: It sounds like most of the holdings are high fee, actively managed, mutual funds?

Military Doc: Absolutely in the taxable. Yes.

WCI: Well, kind of disappointing. For those who don't know what a thrift savings plan is, this is the military of the government 401k. It's got rock bottom expenses. It's got some excellent index funds in it. It's clearly where the investing should've been taking place over the last few years rather than in a taxable account. I suspect the way your asset under management agreement was written up is that your advisor got paid based on what's in the taxable account and the IRAs and not based on what could've been in the TSP. Is that correct?

Military Doc: That probably is, but you're going to get me on being a novice there too, because I really don't know.

WCI: Yeah. Well, I suspect that's the way it is. Obviously conflicted advice that ends up being bad advice for you guys unfortunately. The good news, you're debt free. Your income's about to go up dramatically as you leave the military, and you certainly have plenty of room, plenty of time, to right this ship. It's not like you don't have anything, right? You're coming out the military with a decent little nest egg and ready to get going on your financial life. The hard part, of course, in this sort of scenario, is breaking that advisor relationship. When you know somebody's given you crummy advice for years, especially when they're a family friend, how do you break up with them? Have you given any thought to that? Have you started that process at all?

Military Doc: We haven't started it with them because we wanted a plan in place. That was part of your financial advising course is to be able to go through the aspects that involve our financial advisor and then how to get ourselves out really so we don't get talked back into something we don't want to do. We would plan for the Roth IRAs to open Roth IRAs at Vanguard and have Vanguard pull the money over. Then we can get into asset allocation in a bit, but passive index funds, total stock market index, total bond funds, international, that stuff.

WCI: Those Roth IRAs, are the easy part, because you can liquidate all those investments for no tax cost. Once you're at Vanguard, it probably won't be that much of a commission cost either, but some of those funds might have a commission. It may be cheaper to sell them before transferring them. It might be cheaper to sell them once they get to Vanguard. It depends on what the holdings are, but I'll bet you could probably negotiate with Vanguard to waive those fees once you move them over. That's worth talking about before you move them. It might be cheaper to liquidate and move cash than to move the assets in kind in the IRA and then liquidate them. In fact, they might not even let you move them in kind inside that account. You'll have to check with them.

Military Doc: Okay. Check with Vanguard or check with-

WCI: I'd just check with Vanguard and say, "Can I move these over in kind and then liquidate, or do I have to liquidate before I move them?" Look at both options, if they allow both options, and look what the fee would be. Maybe you can save yourself a few hundred dollars in commissions there to sell funds.

Military Doc: Okay. Then the elephant in the room here is the taxable account, because we have 13 holdings. They're all in things that we really don't want to stay in. Over in the four and a half years, right now we're at 78,000. We've had about 4,500 in unrealized gains. A total investment growth of 6%. If we liquidated that entirely, then we would pay about $684, which you can call a stupid tax, and that's fair. I think we're okay with that. How would you recommend getting out of those taxable account investments?

WCI: Well, I think you've got a good handle on it, right? A lot of people ask that question, and they don't have the information that you've already gathered. You know that you've got $4,500 in unrealized gains. You know what your tax bracket's going to be. You know what the actual cost of getting out is. You've looked at the holdings, and you've decided you don't want any of them. At that point, it's pretty simple. You sell it all and reinvest it in what you want to be invested in. It's going to cost you the commissions for those trades, whatever they might be, and it depends on where the money's held right now how much those are going to cost. Again, this is the same thing. You want to check with Vanguard. See what they're going to cost to sell if you move them in kind to Vanguard and then sell them, versus selling them and then moving cash. $684 for stuff you don't want to be in, I think that's a good deal. I'd probably just pay that and move it and simplify my portfolio.

WCI: If you had told me your basis was $20,000 and the value was $78,000, I might look at those holdings a little more closely and say, "Well, can I build my portfolio around some of this stuff?", but your basis is so close to the value, I don't think I'd do that. I think I'd just buy what I wanted to buy in this case and eat the tax cost.

Military Doc: Talking with Vanguard from the brokerage end regarding the taxable accounts can be helpful as well?

WCI: Yeah. All you're trying to do is minimize the commissions to sell, right?

Military Doc: Right.

WCI: It can, especially mutual funds, the commissions can be like $50 a sale. You bring over 13 holdings, and if it costs you $50 a piece, that's 650 bucks. That's a much as you're paying in taxes, right?

Military Doc: Yeah. I haven’t thought about that.

WCI: It might be cheaper to sell them with the old place. Vanguard might, if you move your money there, and you tell them, “I’m moving my taxable account, I’m moving my Roth IRAs, and I’m a doctor,” maybe they’ll say, “Well, okay. We’ll give you 12 free trades and let you get out of these mutual funds without getting nailed for that $650.” You might be able to save yourself a little money there.

Military Doc: Recommending to actually talk with our financial advisor about asking them to liquidate it on their end is probably not something that’s going to work well.

WCI: The writing’s on the wall, right? Eventually, your friend’s going to find out you’re not going to use him as an advisor anymore. The way to approach this is to say, “Thank you very much. We didn’t know much. We didn’t have much interest in this stuff. Back when we came to you, you helped us to have some savings.” Point out whatever positive you can find in this situation.

Military Doc: I think there are some. There really are. He got us going.

WCI: Then just say, “We’ve decided to go a different direction.” They understand that. They get fired all the time, right? Just because it’s your first time doing it doesn’t mean it’s their first time before fired. I would not … Because it’s a friend, I would probably say something to it. If it wasn’t a friend, I might not even talk to them. When they get the request for assets from another company, they kind of know what’s going on.

Military Doc: Sure. We absolutely want to speak with him, and he got us going in a direction and paying attention, and there’s a lot of worth in that to.

WCI: For sure. Okay. Let’s move onto your next question. You want to talk a little bit about dollar cost averaging versus lump summing.

Military Doc: Right. Clearly, the market’s done great over the past month and a half. Throwing a bunch of money in at one time might make sense now, but as we go along, I think dollar cost averaging makes more sense. What do you think about that relating to contributing to a 401k over the course of a year or something like that?

WCI: Here’s the deal with dollar cost averaging, right? What most of us do is not really dollar cost averaging. What we’re doing is periodically investing. We just invest when we have the money. We get our paycheck, we invest. We get our next paycheck, we invest. All right? You get kind of the same effect from dollar cost averaging. Over time, the months the market is down, you buy more shares than the months the market is up. Over time, your average price per share that you paid is a little bit lower. That’s not really what dollar cost averaging is.

WCI: Dollar cost averaging is what you have now after you sell this taxable account. Right? You’ve got $78,000 in cash sitting there. The question is, “Do you invest it all today, or do you spread it out over three months or six months or a year in case the market goes down?” Since most of the time the market goes up, the best thing to do in that situation most of the time is to just invest it all on day one. Given that it was all invested now, it’s all invested right now before you sold it, it’s really not a significant change. That’s what I would encourage you to do.

WCI: What a lot of people are trying to do. They’re like, “Well, I’ll feel terrible if the market goes down next week.” Well, that’s true, but this is a small percentage of what you’re going to put into your account over your financial life. It’s really a relatively small sum compared to that.

Even though right now it represents your life savings, if you consider your future earning potential, this is a small chunk of money. I would not spend a lot of time lying awake, worrying about what happens the week after you put the money in. I'd just put it in and forget about it, and take a look in six months. I think that's the way to go.

WCI: Mathematically that's the right way to go. Behaviorally, if it makes you feel a little better to put it in over three months or something, you're probably not going to do that much damage. Not going to lose out on that munch in gains. In three months, you're still going to be fulling invested, which is exactly what you'd be now. You're really just postponing the inevitable. I generally encourage people to just invest the lump sum when they have it. Then, as you make money, to just invest as you go along.

Military Doc: Okay. Sounds great.

WCI: Your next issue, you want to talk a little bit about Admiral Funds versus Exchange Traded Funds at Vanguard now.

Military Doc: Right, because we, with the change in getting in Admiral Funds, and because I'm relatively new to this I may mis-say a few things, please correct me, but with the change in making easier to get in with a lower cost, I think it's 5,000, it doesn't seem to make as much sense to look at some of the ETFs. With my wife's solo 401k, we can get those through E*Trade because that's where we opened that. Certainly, at Vanguard, we can get them as well.

WCI: Yeah. I mean, exchange traded finds are nice. They're a different share class at Vanguard. Vanguard had investor shares, Admiral shares, and ETF shares. The Admiral Shares and ETF Shares had about the same expense ratio, and the Investor Shares were a little more expensive, but you'd get into them with just one to three thousand dollars; whereas, you needed $10,000 to get into the Admiral Shares.

WCI: Well, they changed that recently, so I think the minimum to get into Admiral Shares is now 3,000. Basically, the investor shares are just kind of going away. I mostly use traditional mutual funds, but it’s not like Exchange Traded Funds are wrong. Right? These are both good investments. There’s not a big reason to go with one over the other. In a taxable account, I think the Exchange Traded Fund version is still slightly more tax efficient. This is despite the fact that these are two shares of the same fund. At Vanguard, it matters at lot less than at other places just because Vanguard has the ability to flush some of those capital gains out of the fund when Exchange Traded Units are created and destroyed. That’s kind of a complexity of Exchange Traded Funds. What you really need to know is, as a consumer, is they’re very slightly more tax efficient than the Admiral Shares.

WCI: If that’s worth the hassle to you to go through buying and selling when the market is open and putting in orders and dealing with the bid ask spreads and all that, then I think that’s fine. Honestly, I just use the funds. It just doesn’t-

Military Doc: I don’t think it’s-

WCI: It doesn’t matter that much to me. That’s not going to be the difference in whether I reach my financial goals or not, and so I don’t spend a lot of time worrying about it. Certainly if you’re into that sort of thing and putting in orders, I think Exchange Traded Funds are fine, particularly at Vanguard.
Military Doc: I’m a big fan of simple, so as long as my wife and I agree, I think we’ll be heading toward the Admiral Funds.

WCI: Okay. Looks like your next question is about asset location. Where to put your bonds? To put them in the Roth IRA or the 401k? This is one of those questions that doesn’t always have the same answer to everybody and can be incredibly complex.

WCI: Certainly, if the investment you want to use to invest in bonds is the total bond market fund, taxable bonds basically, you want to have them in some sort of a tax protected account, whether that's a Roth account or whether that's a tax deferred account. The truth of the matter is, if you actually adjust those accounts on an after-tax basis, it doesn't matter which one you put it in. Whether you put it in Roth or whether you put it in a traditional IRA or other tax deferred account.

WCI: The fact is those that most people don't do that. Most people don't tax adjust their accounts, so what they do is they tend to put things with high expect returns, like stocks, into their Roth accounts, and things with lower expected returns, like bonds, into their tax deferred accounts. What they're really doing is kind of fooling themselves into taking a little bit more market risk. On an after tax benefit basis by doing that, you're putting more stocks in the portfolio by putting the stocks into Roth and the bonds into a tax deferred account. You're really just taking on a little bit more risk, and, yes, you expect a little higher return from that over the long run, but that's what most people do. Most people put stocks and other high expected return assets into their Roth accounts and bonds and low expected return assets into their tax deferred accounts. It's not a free lunch. That's for sure. You're taking on more risk when you do that.

Military Doc: Well, thank you, and that certainly clears up that issue. One additional question with the bonds is related to doing to what percentage should be tax exempt bonds versus a total bond index fund. I have, through some of the books that I've read recently, there seems to be a concern about having, if you have a 30% bond allocation, having all 30% in a tax-exempt bond fund. Is there really a concern there, or do you know what they're discussing?

WCI: I don't think so. If you look at the default rates on municipal bonds. Everyone's always like, "You know, Illinois' going to default or whatever." The truth of the matter is these defaults are very rare in municipal bonds. Are they higher than treasuries? Yes. They're higher than treasuries, but they're way lower than corporate bond defaults. I don't think it's a huge concern to have a big chunk of your bonds in muni bonds. I still prefer funds for muni bonds.

WCI: A lot of people buy individual muni bonds. You don't sound like the kind of person that wants to deal with that kind of hassle to me, and I don't want to deal with that kind of hassle either. When I buy muni bonds, I buy them in a Vanguard municipal bond fund. If you feel strongly about having municipal bonds in your portfolio, then obviously you want to hold those in a taxable account. If you are okay just owning basically treasuries and mortgage bonds and corporate bonds, then total bond market would work just fine. Obviously, a typical doctor, in a typical doctor tax bracket, doesn't want to be owning that in a taxable account. That's something that needs to go into a tax protected account.

WCI: Lots of different ways to slice bonds honestly. It's more important than you pick something reasonable and stick with it than exactly how much you put into corporates and how much you put into treasuries and how much you put into municipal bonds. This is not going to be the interesting part of your portfolio.
Military Doc: Fair point. Got it.

WCI: Let's talk a little bit about your life insurance. You have a term policy with Guardian. A 20 year and a 30 year it sounds like. Two and a half million dollars total. That seems very reasonable. Guardian usually isn't the cheapest term life insurance company out there. I think you probably own that because you bought it from a Guardian Agent. It may be possible that you can still buy cheaper insurance from a different company. It's probably worth pricing out and seeing. After a few years, at a certain point, you're better off with the policy you bought a few years ago from Guardian than anybody else. You'll have to price it out again and see if it’s competitive to what you can buy today going forward. If it is, I’d just stick with it. If it isn’t, maybe it’s worth trying to get something a little cheaper and saving yourself a few hundred dollars a year maybe in premiums.

Military Doc: Yeah. I think that’s reasonable. I certainly have looked around at some of the term policy costs, and they are a little cheaper. I think my wife and I have a lot that we’re trying to work on right now, and it’s hard to add that in at this moment, but that’s something we’ll circle back to. I think something that we are looking at is that my wife has two life insurance policies on her, and she bought a whole life policy back when she was 21 and interning for an insurance company. Our cost basis there is $47.

WCI: We’ll let the listeners guess which insurance company that is.

Military Doc: Very true. It’s kind of like we’re stepping in all the pot holes along the way. The cost basis, again, is 4,700. The cash value is 3,900. We pay about $48 per month. What would be some recommendations to do with her whole life policy given that we have a term policy on her.

WCI: I mean, the term policy provides the insurance you need, it sounds like. Correct?

Military Doc: Yes.

WCI: You don’t feel like you need more insurance on her?

Military Doc: No.

WCI: Here’s the deal. This thing doesn’t matter. We’re only talking about four grand here, and we’re only talking about $48 a month. If she really loves this thing, which, having interned at an insurance company, she can keep it. Going forward from here, the return probably isn’t terrible. She’s already had it for 20 years. You can get an in-service … What do you call it? Proposal? Not a proposal. Illustration that you can calculate the return going forward and decide, “That’s worth it to me, or that’s not worth it to me,” and make your decision based on that.

WCI: If you decide you want out of it, now is as good a time as any to get out. I mean, you’ve only got a $800 gain in it. You’ll owe ordinary income tax rates on that. This year’s probably the best year for you to pay it since you get out of the military next year. Now is the time to pay all these taxes. Now’s as good a time to get out if she doesn’t want it. The way you decide whether you want it or not is to get that in-service illustration, or in-force illustration a lot of times it’s called, and actually calculate out your return going forward.

WCI: If it looks like going forward you’re going to make five for six percent, well, shoot, maybe that’s a decent thing to hold onto. If you calculate it out going forward, and you’re like, “Well, we’re still only going to make two percent on this, and our return in the has been one percent. I don’t really want this thing,” now is a good time to jettison it. It’s not like you’re going to owe a whole bunch of money in taxes on this one. It’s barely worth more than … Oh no. It’s still worth less. After 20 years, it’s still worth less than what you paid for it.

Military Doc: Yeah. We’re still a little under water on it. Your point is well taken.

WCI: How long has she had it? 15 years now?

Military Doc: Yes.

WCI: 15 years and still with a negative return. Sounds like an awesome policy. I mean, it’s hard to get excited about this stuff when you hear these stories over and over and over again. Chances are-

Military Doc: At least provides us with humor.

WCI: Chances are this isn't a very good policy, right? This is some tiny little policy like the one I bought when I was in medical school. Here it is 15 years later, and you're still not broken even. I don't know. Get out of this thing. This is a joke. You know?

Military Doc: It provides for an entertaining conversation.

WCI: I mean, really. When are you going to break even on this thing? 20 years? 30 years? I mean, this is pathetic. Anyway, that's what I'd do with that. I'd get that out of my life just so you don't look at it every year and kick yourself about it. You want to talk about REITs?

Military Doc: Briefly, yes.

WCI: REITs are one of those things. I own REITs in my portfolio. A lot of people own REITs in their portfolio. We see this as a way to kind of add real estate to the portfolio. If you've only got three or four asset classes in the portfolio, this is a cheap, easy way to add real estate to the portfolio without having to buy syndicated investments or invest directly in property. It does have a moderate correlation with the overall stock market. When the stock market drops, REITs usually go down in value, much more so than direct real estate. It's also very liquid and very hassle free, and there's something to be said for that.

WCI: Certainly there is some diversification value there in tilting the portfolio towards REITs, but I don't know whether it's going to work out well for you, because I don't know what their future returns are going to be. I think it's a reasonable asset class to add to a portfolio, but it's kind of an individual decision. Whatever you choose, stick with it for the long term because REITs will have their day in the sun, and they will have bad times as well when the returns are terrible like in 2008 when I lost 78% of the money I had in

REITs from peak to trough. They can be pretty volatile too.

Military Doc: Well, that’s good to know. Yes, I think because of the asset classes, we would like a little bit in there, but obviously, only allot a five to 10% holding. Quick question on mortgage. Do you think it makes sense to pay down part of our current mortgage, where we have about 400,000 left on it, and we’re still paying a little bit more interest compared to the principle. We pay about 890 in interest and 870 in principle a month. If we put, say, 50,000 toward that mortgage, it really only brings the interest down that we would pay over the next few years by about $1,800. As it’s about 1/8, 50,000 would be about 1/8, of the mortgage to the principal. That would reduce our interest rates by about 1/8 looking at a calculator we did last night.

Military Doc: We actually plan to sell that home over the next couple years. Do you see that there’s an additional benefit to doing that versus taking that 50,000 and putting it in the market?

WCI: What’s your mortgage interest rate?

Military Doc: Currently it’s 2.7% until eight years, and we’re in our fifth year. Then it’s-

WCI: Are you able to deduct that?

Military Doc: Yes.

WCI: That’s all fully deductible interest?

Military Doc: Yes, but whether-

WCI: Really, it’s even less than that.

Military Doc: Right, because with our taxes we still didn’t even beat the standard deduction this year.

WCI: I mean, here’s the deal. This is a place you can put money and make 1.8% on it. That’s the way to look at it. Now, given that you can put money in a Vanguard money market fund and make 2.2 on it right now, it’s hard to get super excited about paying this down. Even if you’re planning on using the money for a down payment on your next house in a year or so. It’s hard to get super excited about paying down that sort of debt. Now, if you get into the position that we were in. We had a 2.75% mortgage we paid off, but we also had no other uses for money other than just investing in a taxable account. That was at a time that interest rates were basically nothing. We looked at it as, “Hey, here’s a chance for us to make 2.75% on our mortgage and to be debt free.” It was a luxury we could afford, and so we did it. We paid off our mortgage, but earlier in my career, we probably wouldn’t have done that. We probably would’ve invested on the side.

WCI: Certainly if I wasn’t maxing out all possible tax protected options, I would not have paid off that mortgage, right? I mean, it really came down to am I going to buy some muni bonds in this taxable account, or am I going to pay off the mortgage? At that point, it just didn’t make sense to have the mortgage anymore in our lives.

WCI: The way to look at it is you get a guaranteed return investment at the after tax rate of your mortgage. That’s what you’re looking at. If that looks attractive to you, then pay it down. If that doesn’t look attractive to you, then invest it elsewhere. Without knowing what the market’s going to do in the next year, it’s impossible for me to give you the right answer to what you should do in the next year. If I thought I needed that money for a down payment a year from now, I would not put it in stocks. I would just keep it in cash. It’d be in a money market fund or I’d pay down the mortgage with it. One or the other.
Military Doc: Well, that’s great food for thought. Thank you.

WCI: Let’s see. You had one other question about analysis paralysis about which funds to use in your accounts? I think that really comes down to your asset allocation. Once you have the plan written up, “This is the asset allocation we want,” whether it’s this much in US stocks, this much in REITs, this much in small stocks, whatever, then it’s really easy to choose investments. Once you have that plan, you basically go pick an index fund that invests in that asset class. That’s it. That’s really all there is to it.

WCI: Instead of having 12 holdings in an $18,000 Roth IRA, you end up with one or two. You diversify out in the 401k and in the taxable account and that sort of stuff. In the end, maybe you have five asset classes in your portfolio, and it took eight holdings to get it across all those different accounts. It’s really a relatively easy thing to do. You just go to each individual provider. For example, this 401k at E*Trade, and you decide, “Well, we’ll just iShares’ ETFs, or we’ll buy Vanguard ETFs and pay the commissions,” or whatever you want to do there. They’re all pretty similar when you are looking at very low cost, broadly diversified index funds.

Military Doc: Yeah. That sounds great. We’re getting a lot closer to actually having that in place, and your course was really helpful in helping us to focus really in a direction, so thank you for that.

WCI: That’s good.

Military Doc: Do you-

WCI: Go ahead.

Military Doc: I apologize. Do you have, for somebody who is or two people who are getting ready to do this on their own, do you have any hacks or words of wisdom in terms of an organizational standpoint of keeping track of everything or some programs that you may have used that you found helpful?

WCI: You know, the program I find most helpful is Microsoft Excel. I just put stuff in a spreadsheet. I use spreadsheets for all kinds of stuff. They're really … The simple functions of a spreadsheet are super easy to use, and so I think it's good for a do-it-yourself investor to get used to using spreadsheets. Other people have found success using things like Mint or Personal Capital. Those sorts of things that will pull all your stuff in and give you an overview. I prefer having a little bit more control over it and not a huge fan of having an aggregate service having all my logins, even though so far it seems like it's been a pretty safe thing and they have lots of security safeguards. Thus far, I've been looking it up individually and updating my own spreadsheet from time to time and using that.

WCI: I think either way is fine. Just what works for you is the main thing. However, you can keep track of stuff and implement your plan. This always seems really hard the first time you do, and then you'll look back a year from now and go, "Man, there was ever a time I didn't feel capable of doing this myself?" You'll be appalled that you ever actually paid somebody to do this for you.

Military Doc: Well, I hope I feel that there. There is some trepidation.

WCI: When I talk to people, most of the time they say, "My confidence was about a year behind my knowledge," that it took them about a year to realize, "Oh yeah. I really do know what I'm doing." If you have the interest, you can develop the knowledge and the discipline you need to be a successful do-it-yourself investor. If you're just not interested at all, you're far better off finding a good financial advisor that gives good advice at a fair price. It's not like you have to go completely cold turkey, right? There are still financial advisors you can go pay by the other to look over your portfolio, look over your plans, say, "Does this look okay? What would you tweak?" A lot of use do-it-yourselfers are so cheap we'd rather go to an internet forum, you know the White Coat Investor forum or the Bogleheads forum, and post our portfolio there and get that kind of stuff for free.

Military Doc: Yeah. I’m planning to do it. There’s a ton of help on there.

WCI: There’s a lot of people out there that will help you, and it’s okay to hire a professional too. You’ve just got to make sure you’re getting good advice at a fair price, which it sounds like you probably paid too much before and got a bunch a lousy advice. Unfortunately, that situation is far more common than the opposite.

Military Doc: Well, this has been really helpful. Thank you so much for your time.

WCI: You’re very welcome. Thanks for coming on the podcast today.

Military Doc: Absolutely.

WCI: All right. We’re over an hour on this podcast already, so we’d better wrap it up. I was going to put actually three interviews in here, and you probably caught a few references to that during the podcast. I’ve decided to cut it to two. We’re going to push the third one back to a different podcast. Still recording it in just a few minutes, but by the time you hear it, it’ll be a week or two later. Retitle our podcast. It was going to be “An Interview with Three Attendings”, but we’re going to call it “A Discussion with a Dentist and a Military Doc” and put the third one off until the next episode. It’s still going to be some really great stuff though, so make sure you come back and hear that one.

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