Investing: Where to Put Your Money Now

[Editor's Note: We have five sponsored posts a year on this blog. 100% of the proceeds from those posts go to the WCI Scholarship recipients, who will be announced in just a few more weeks. This is one of those posts. However, the scholarship sponsors have learned that it's better to just submit a post that would have been accepted as a guest post anyway rather than one that reads more like an advertisement. That is the case with today's post from W. Ben Utley CFP® of [Physician Family Financial Advisors](). In this post, he answers the question we see around here all the time, usually asked by the less than financially literate investor-"Where should you invest your money now?" It turns out this post is a lot more evergreen than one might think. Please be sure to thank Ben for sponsoring the scholarship and if you are in need a great advisor, contact him at [PhysicianFamily.com]().]

You make more money than you spend. It's the right problem to have but it's still a problem. In fact, every new dollar of savings seems to call for a new investment strategy, but you don't know where to begin.

When you ignore the problem, cash piles up in your checking account—first $25,000… then $50,000… then more. Now you're getting nervous. If it was hard to invest a smaller sum, it seems impossible to invest six figures.

Then one day, you stumble upon the headline that brought you here, hoping to find the answer. And if this were any ordinary article, you might be well on your way to making the same mistake that most of your colleagues have made at least once: they pile their money into a hot investment touted at the time.

First, they buy it. Then they watch it drop like a rock. And months later, when the promised results fail to materialize, they sell everything and feel foolish.

It gets worse as the cash continues to pile up and your question goes unanswered: "Where should I put my money now?"

The best investment strategies are not new, but they are reliable. Here are three investment strategies you can use over and over again, decade after decade, to make your savings last.

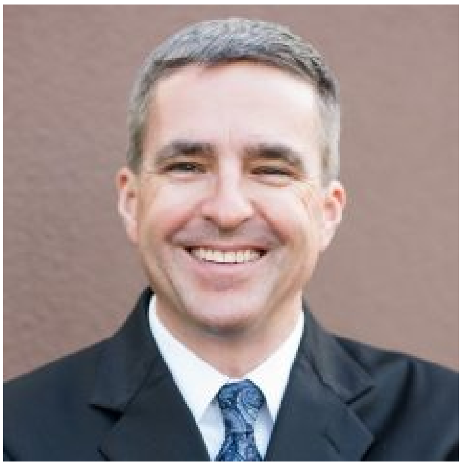
3 Investment Strategies for the Long-Term

#1 Stop trading stocks. Start owning markets.

I know you've heard stories in the break room about how your colleague's latest stock pick shot up 147 percent or how he nabbed a tax-free bond paying five full percentage points above average.

Sounds like he's making a killing, right?

Not exactly. It's likely he's gotten killed on plenty of trades, but physician culture won't allow him to tell you about his blunders. I've seen plenty of doctors who stock-picked their way to a small fortune but most started out with a much larger one.



W. Ben Utley

Instead of taking on a bunch of risk by betting on one stock, keep risk in check by owning a whole bunch of them—the easy way. Single stocks can go bankrupt and single bonds can go into default, wiping you out completely. Index funds, which represent ownership in hundreds if not thousands of companies, make it easy to gain instant diversification, diluting the uncompensated or "bad" risk while retaining the "good" risk that leads to rewards over the long haul.

Index funds are cheap. With carrying costs (a.k.a. "operating expense ratios") as low as 0.05 percent, you can buy an index fund and gain exposure to bonds or stocks around the world for a pittance. That tiny carrying cost also buys you the freedom to stop acting like a stockbroker and get back to serving as a healthcare provider.

Savvy investors prefer mutual funds for their tax efficiency. Since they follow a buy-and-hold approach to investing, index funds are more likely to realize tax-favored capital gains and (in some cases) tax-qualified dividends than more highly taxed short term gains. This keeps your tax bill in check.

#2 Stop timing the markets. Start owning them… all.

If you have heard about index investing, you probably know about the S&P 500, a basket of stocks that represents the 500 biggest companies in the U.S. The index was made famous in the ‘80s and ‘90s as it ran up to the dotcom bubble, then vilified in the ensuing “lost decade” when the ten year return on that index was close to zero.

What index hecklers fail to realize, even to this day, is that there’s more to indexing than the S&P 500. In fact, you can gain exposure to practically all the stocks and bonds on the planet by owning a single target-date index fund. Had investors done this during the past ten years, they would have found the lost decade, avoided some of the tech wreck, and enjoyed very decent returns after all.

Unfortunately, the average investor seldom receives average returns. According to Morningstar’s 2019 “Mind the Gap” study, the average investor underperformed by 0.45 percent over the past decade, while those in the bottom deciles underperformed by five or ten times as much.

Why did investors miss out? It’s simple. They did the same thing with their funds that your colleague did with his stocks: they traded in and out of the market causing self-inflicted wounds with each bad timing decision. To garner the returns advertised over the past decade, or even the last three decades, you would have to own your funds through thick and thin, no matter how dramatic nor dire the news.

#3 Invest like a Nobel Prize winner.

The main argument against an index-only strategy is exactly that it generates merely average returns in the best-case scenario. This logic appeals to doctors who have never once settled for things that are merely average, and that's pretty much all the physicians I've met.

Thanks to the research of Nobel laureate Eugene Fama, we now know it's possible to reliably beat the averages over the long run—but it comes at the price of higher volatility.

Fama, a financial luminary who founded the first small-cap index mutual fund way back when fax machines were the size of washing machines, discovered that the smaller a company is, the more likely it is to outperform a larger one. This is known as the "small cap effect," and it's robust, having been observed in U.S. market history as well as the return series of developed foreign stock markets and even emerging markets.

Fama and colleague Kenneth French, both researchers who hail from the University of Chicago's renowned Booth School of Business, also found that the stocks of cheap companies, known as "value stocks," tend to outperform their more expensive "growth stock" peers in what is known as the "value effect." This effect is also robust in markets domestic and foreign, and is available to investors using index funds.

While a small-cap value tilt may add a few percentage points more than the average untilted portfolio over long periods of time, it also brings more volatility. When equity markets decline, those index funds filled with cheap little stocks take it hard, and you may wish you had never owned them. The only way to reliably garner the higher expected returns from small-cap value stocks is to remain fully invested and stay the course, even when times are tough.

This too is old news. Even though Fama won the Nobel Prize in economics in 2013, his research on the small-cap and value effects has been public knowledge since the 1980s.

These perfectly decent strategies are so mundane—so incredibly boring—that you and your colleagues may never have heard of them. After all, words like "diversified," "tax-efficient" and "cost-effective" make wimpy headlines. The good news is that you can start using a solid investment strategy and keep using it year after year, decade after decade, secure in the knowledge that you have found a permanent answer to a nagging question. Remember, the answer to good investing is more than where you put your money now. It's where you keep it over the long haul.

About the Author:

W. Ben Utley CFP® believes invested money is like soap: the less you touch it, the more you have. [Physician Family Financial Advisors] is helping over 100 of your colleagues save time and taxes as they pay off student loans, buy a home and save the money they need for college and retirement.

As fiduciaries exclusively focused on medical doctors, Physician Family welcomes both well-heeled and deeply-indebted attending MDs and DOs. No matter how much you make or how much you owe, Physician Family delivers financial advice based on a fixed monthly subscription fee.