

# The X Factor

I spend a great deal of time on this site imparting knowledge. You know, how the PSLF program works, how to do a backdoor Roth IRA, the best way to use an HSA and the like. What I am not nearly as good at, however, is something that is probably even more important. For lack of a better term, we'll call it "The X Factor."



## The X Factor

The X Factor is that compilation of motivation, willingness to delay gratification, and budgeting skills required to carve out a big chunk of your income to build wealth. There is a great divide among doctors that I interact with. Some of them "get this" almost intuitively. For others, it doesn't matter what I teach them, they just don't have The X Factor and I can't seem to figure out how to give it to them. That is unfortunate, as I am confident it is 80% responsible for my financial success.

## A Tale of Two Doctors

I had a doc leave a comment on the site the other day, we'll call him Doctor A. Doctor A was a primary doc who paid off his

\$150K in student loans in just over a year out of residency by renting a \$600 a month duplex instead of buying a house. I couldn't help but contrast it with a doc I had spoken with the day before who felt crushed by a minimum student loan payment of about 15% of his gross income. We'll call him Doctor B. Doctor B just felt like he couldn't make any progress in his life. He had refinanced his student loans, but only got a minor decrease in interest rate because he put them on a 15 year fixed plan. He talked about wanting to work fewer shifts and to spend more time with his young family, but I could see that he wasn't spending his money in accordance with what he said he really valued and wasn't going to reach those goals anytime soon, if ever.

## **You Have To Want It Really Bad**

How badly do you want to get rich/ wealthy/ comfortable/ secure/ financially independent? How much time do you spend each day thinking about it? What? You don't even think about financial independence once a day and you expect to get there in your 40s? Forgettaboutit. You think you're going to be able to resist spending \$20K on a car when you haven't thought about being financially independent for months? No way.

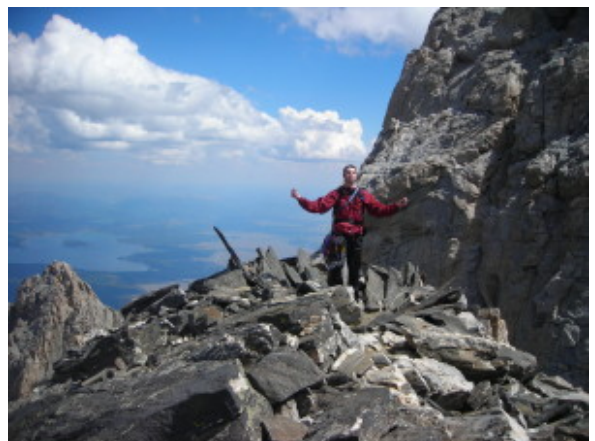
Likewise, what are you willing to give up to do it? It takes sacrifice, and the longer you delay that sacrifice, the larger the sacrifice becomes and the longer you delay the time when you no longer have to make it. For example, someone who is frugal in med school and residency like Doctor A may graduate with only \$150K in loans. That same motivation persists as an attending and he pays off his loans in a year. However, Doctor B not only took out more loans in med school, but made fewer payments in residency, took out additional loans as a resident, waited longer to refinance, refinanced into a loan with worse terms, and despite lying awake at night worrying about the debt burden, spends less time doing something about

it during the day.

## **Stop Spending Money!**

The ability to stop spending money on stuff you don't really value is a bit like a muscle. The more you exercise it, the stronger it becomes. After a while, you realize you can live quite happily on a tiny percentage of your income. That's when you start winning. The loans disappear quickly and the retirement accounts start piling up. But that comes from not spending 20%, 30%, even 60% of your gross income. You're telling me you can stay up all night for days on end making life-saving decisions and giving families terrible news about their loved ones but you can't live in a duplex for a year or two after residency? Really? Say it out loud. How does it sound? Like you're a financial idiot who's going to be poor their whole life? Good, because that's how it sounds to me too.

## **Acquiring Knowledge Takes Sacrifice Too**



Motivation is key! Bonus points for anyone who can name the three peaks in this picture

Once you have The X Factor, the knowledge seems to quickly follow. For instance, it takes some motivation to read a

financial book. I loaned a very short financial book to one of my co-workers (not a doc) a couple of years ago. She tried to return it to me once or twice without having read it. (It takes like an hour to read it.) Each time I gave her more encouragement to try to read it together with her husband. Finally, after a couple of years, I accepted it back unread so I could loan it out to someone else. That works out to be something like 2 pages per month. If you can't come up with enough motivation to get rich to read 2 pages per month, it's just not going to happen. You're going to be living paycheck to paycheck, or worse, your entire life. But if you can spend some time on the internet, reading a few financial books, or even just meeting with some good advisors, I can tell you the rewards will far outweigh the sacrifice.

## **Get Sick of Being Broke**

It's time you got sick of being broke. Yes, I know you make \$250K a year. But you're still broke. Or maybe even worse. You see, for most docs, it takes a certain amount of savings and discipline to get back to broke, where you were when you started school. Until you decide you hate being broke, really hate it, absolutely detest it deep down inside, you're not going to change. Neither Doctor A nor Doctor B enjoys being broke, but it's pretty easy to see which doc hates it most.

## **What You Want Most**



Spend a few minutes thinking about what you really want out of life. Maybe it is to live in a big house. Maybe it is to help your kids get through school without the massive debt burden you had. Maybe it is to be able to spend months every year practicing medicine in a third world country. I have no idea. It is different for each of us. But whatever it is you want most, use that to motivate you to get there. Draw up a plan today to get to your destination. Is it realistic? Is it worth the sacrifice it will take to get there? If not, how can you modify your dream so it will be? Make the plan as detailed as possible, then start taking the steps toward it. One step at a time. It might be throwing an extra \$5K at your student loans this month. It might be logging on to Vanguard today to open those Backdoor Roth IRAs. It might be going down to the library and checking out a financial book. Maybe it is delaying your trip to France in order to put some extra money in the 529s this year.

## You Can Do It

Henry Ford said, "Whether you think you can, or you think you can't, you're right." Have some confidence in your ability to design your financial life in the way that will maximize your happiness. By virtue of your high income, you're already 90% of the way there. All you have to do is scrape together the motivation and learn a few new things, that are way easier than the other 90% of things you've learned, to get the last

10% of the way there.

## **Change Your Mindset**

Student loans and mortgages are not something you live with for decades. We banter back and forth on this site about the merits of investing versus paying off debt. But the truth is I know very few financially successful physicians who have student loans or a significant mortgage. The same motivation and skills that gave them their success cause them to pay off those debts, even if it may have been mathematically advantageous to keep it.

Financially successful docs don't look at how much they have left in December to decide how much to put into their individual 401(k). They maxed it out back in April. They do their Roth IRAs in January of the current year, not April of the following year. They don't worry about whether they should have 5% or 10% in REITs, because they know they're saving enough that any reasonable allocation is going to get them to their goals. They're not struggling to save 20% of their gross income. They haven't had a savings rate that low for years. They set their lifestyle up so saving 20% doesn't take any effort at all.

Financially successful docs compare their lifestyle to their friends who don't make nearly as much as they do, not to the plastics guy doing 12 mommy makeovers a day nor the private equity fund manager. They know the average American household has an income similar to that of a resident's paycheck. If the majority of Americans can live on \$50K a year, they can too. That doesn't mean they have to, or even that they will, but they know that they can.

## **Delay Delay Delay**

It might help your mindset if you stop thinking of it as “something I can’t have because I can’t afford it.” Instead, think of it as “when I can have that.” It’s not that you can’t have it, it’s that you can’t have it right now. For example, when I came out of residency, we lived in a little townhouse. But we didn’t dwell on the fact that we couldn’t have the big fancy house we had always wanted because the military paid me less than half the going rate for my specialty. Instead, we concentrated on the fact that we could have it, but not right then and proceeded to save 50% or more of that measly military salary. Four years later, we owned the big fancy mansion. I’m still driving the \$4K Durango I bought the same year as the mansion. I’d like to drive a nice new SUV like my wife does. (Okay, maybe it’s not so new anymore since it now has more miles than the Durango.) And I will, but not yet. *[Update 6/2016: The Durango died and I now drive a fancy SUV-details in an upcoming post.]* I simply have bigger priorities right now. You all remember the boat we bought last year. We delayed that purchase a couple of years. By doing so, we were able to decide what was really important to us, save up so we could pay cash, and buy it at the best time of year to get a deal. But most importantly, the delay allowed me to max out retirement accounts and other financial goals before buying it.

## **Savings is Like A Bill**

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We treat our retirement accounts like a bill with a due date, just like the mortgage, our taxes, and the utilities. Not maxing them out isn't an option for us. In fact, we've spent a great deal of time and effort trying to max them out as early as possible each year to maximize the benefits of compound interest. If you want to get rich, treat your savings as a bill that must be paid. It's not your money to spend anyway. It belongs to your 65 year old self. You'd be a real jerk to rip off that old man.

If you do not yet have The X Factor, I hope something in this post resonated with you. I just hope that if I encourage you, show you people who have done it, or perhaps even ridicule the silly way you think about money, that something will click in your mind, and you'll light the fire of The X Factor and find some real financial security in your life.

What do you think? Do you have the X Factor yet? Why or why not? What was it that gave it to you? How can it be passed on to others? Comment below!