

Physician's MONEY DIGEST

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Center Yourself with an Investing Policy

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Smart physician-investors tend to have an investment strategy to accomplish their financial objectives. They plan, set goals, and monitor performance. They are not gamblers in search of the big win.

Successful Investors

Investors who chase the silver lining can suffer big losses. An example: Tom received \$450,000 in a court judgment and put the entire sum in the trust department of a bank, where it was wisely invested. Growing bored of the bank's staid strategy, he withdrew the money and began trading in stocks online. His first investment was in an initial public offering for Netscape, with an immediate return of \$75,000. Intoxicated with this initial success, he later lost all his assets in a downward spiral of bad trades. He did not make money on a single investment.

Unsuccessful physician-investors rarely have any sense of strategy or action plan. They tend to follow the herd, rarely challenge broker advice, and may attempt to minimize losses by "doubling up" on floundering stocks. Always chasing the market and reacting to events, they are often uninformed and tend to speculate rather than invest, using money they can't afford to lose.

In contrast, successful physician-investors are disciplined and under-

stand market fluctuations. They don't make rash decisions based on the "flavor of the month's" investment opportunity. They have an underlying strategy and look at financial issues soundly. Successful investors tend to do the following:

- Know themselves;
- Have an exit strategy;
- Move against the herd;
- Use advisors as a sounding board;
- Avoid situations that trigger a "deer-in-the-headlights" reaction; and
- Know that if something seems too good to be true, it probably is.

In addition, successful investors know what they don't know. If they love thrill rides, they go to amusement parks, not the stock market. They look at their investment success over the long term, which usually means opting for a more conservative, if less exciting, approach.

Personal Investment

Most importantly, successful investors have a center point that reflects who they are and helps define their financial objectives. This center point is a "personal investment policy," which should be developed according to the following: your investment horizon, your tolerance for risk, your expected investment return, and matching goals to investments.

Be realistic about how life works. Set expectations according to the law of averages. Make your decisions against a backdrop of practical goals. A successful investor's wisdom comes from knowing what is achievable in the investment world and respecting those bounds.

In midsummer 2002, with the market taking stunning losses, many institutional investors began increasing their equity holdings. Why? If their predefined investment policies required them to have a third of their holdings in equities, this decline in the market triggered increased stock purchases as share prices fell.

Likewise, the balance of assets in a personal portfolio should reflect its investment strategy. Having this investment policy defined in advance helps to make dispassionate decisions, which serve portfolios well in the long term.

Policing a personal investment policy can be done with the assistance of an investment advisor such as a Certified Financial Planner, CPA or trusted and knowledgeable friend. They should understand the investor's goals and be able to make recommendations that align investments with those goals. This reassessment should occur annually or quarterly.



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