

Investing 101: How to Achieve Financial Security



Thrift Creates Wealth

From WW II until the end of the century, the savings rate in the United States was about 10%. As those who remembered the true hardships of the 30s and 40s have died off, to be replaced by those who have experienced only prosperity and good times, the savings rate in the United States has fallen to less than 3%. People cannot even save 3 cents from a buck. No matter how much you make, if you spend it all, you will have no money in the bank. Thrift creates wealth. To quote Lynch and Rothchild¹:

“The Best Investors are the Best Savers”

I believe everyone, no matter where they are in life, should save at least 10% of what they make. The average physician in the United States makes \$300,000 per year. Your goal should be to save at least 20% of what you make. Sixty thousand dollars per year, times the average physician's career of about 25 years, compounded at even a modest return of 6% to 7% per year, should be about \$3,000,000 at age 65. And your home is paid off, your children are educated, and you have no other debts. You have achieved financial security. All that is required is a little discipline. Higher earning physicians should save even more, at least one-third of what they make: one-third to taxes, one-third to living expenses, including the mortgage and the kid's education, and one-third to savings.

I highly recommend Stanley and Danko's wonderful book *The Millionaire Next Door*.² It is not a book on investing, it is a book on thrift. The “millionaire next door” could be a steelworker married to a teacher, an electrician married to a social worker, or a guy who owns the local tire store and manages 20 or 30 units of rental property. They could easily have a net worth of \$5,000,000 to \$10,000,000.

For whatever reason(s), some physicians are ashamed to be thrifty. They think people have the impression because they earn a lot of (very well-deserved) money, they should live in a big house, drive a hot car, and flash their money. These physicians do not want to appear tight, or cheap, or stingy, or chintzy. I prefer to be “careful” with my money. You work hard for it, you do not owe anyone an explanation of how you spend, or do not spend, it.

A colleague once told me:

“I married a gold mine: my spouse is thrifty.”

Debt Destroys Wealth

Debt is a financial 4-letter word. Think of debt as slavery. If you do not send your master a check on the

first of every month, you could lose your home or your car. You may not have much, you may not have anything, but if you have no debt, you cannot be forced into bankruptcy. Debt makes you vulnerable. Debt is compound interest in reverse, working against you. Think of debt as a natural control mechanism. It is telling you that if you have to borrow money, you cannot afford what you wish to buy.

What will you purchase with the debt? You should promise yourself now that you will never borrow for anything besides your home or your education. Say a farmer purchases a tractor, or you purchase an Electrocardiogram machine for the office. The income from the purchase will hopefully cover the debt. If the debt is for consumption, such as going on vacation, you will probably have a life-long struggle with making ends meet. No matter where you are in life, if you have credit card debt, you are in trouble.

A physician should pay cash for a vehicle. If you are still in training and can only afford a \$9,000 near-clunker, then that is what you should buy. A vehicle is a depreciating asset: it will eventually be worth nothing, zero. You do not accumulate wealth by purchasing depreciating assets, and you will *never* accumulate wealth purchasing depreciating assets on credit.

If you want financial security:

- (1) Work hard,
- (2) Save your money,
- (3) Stay out of debt, and
- (4) Live within your means.

It really can be that easy. It just takes a little discipline.

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1. Lynch P, Rothchild J. *One Up on Wall Street: How to Use What You Already Know to Make Money in the Market*. Simon and Schuster; 1989.
2. Stanley TJ, Danko WD. *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*. Longstreet Press; 1996.