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If you are a regular reader of *DocOnomics*, you have seen frequent mention of AARP as an all-encompassing financial framework. *Accumulate, allocate, react and protect*. We hope you are invoking these principles to ensure that your future quality of life is what you expect it to be. AARP is a call to action for reducing uncertainty about one's financial future. If uncertainty is pervasive and one is not confident that proper steps have been taken to eliminate both predictable and unpredictable threats to one's wealth, a sense of disquietude can creep in.

We have spoken about society's obsession with the future and its propensity to ignore the past. We also have observed that many of us tend to view both the present and future according to what we would like to see, and that this can result in serious errors in judgment. However, one thing is clear. Our journey into the future starts today and will continue tomorrow and the day after. For any journey, it is always good to know the true starting point so that one does not set out on the wrong foot or in the wrong direction.

During the past several weeks, we have taken you *Back to the Future* and *Back to the Past*. Now, we are ready to bring you *Back to the Present* where we attempt to identify the starting point for a trip that we all must take.

## **BACK TO THE PRESENT**

As we attempt to gain our bearings for the financial journey ahead, we must recognize that our starting point is marked by the following fundamental if not inconvenient truths:

- The US financial system is hemorrhaging losses due to flagrant acts of greed and fraud and has become increasingly dependent on massive inflation of the money supply and official bailouts to remain intact
- Residential real estate has quickly transformed into an unpredictable and perhaps declining store of value
- Federal and state governments are in dire need of revenue
- Millions of Americans are in dire need of secure and decent-paying jobs
- 80 million aging Baby Boomers are poised to place unprecedented demands on healthcare service providers and the entitlement system
- Tens of millions of aging Americans have grossly inadequate savings to sustain them in their elderly years
- The US Dollar is being downgraded by all major world governments from the *de facto* reserve currency to a secondary currency (following in the footsteps of the British Pound.)

We are not politicians offering solutions to the present dilemma nor do we intend to point the finger of blame. It is best that we spend our time looking for constructive ways to cope with the realities and plot a prudent course, knowing full well that there are many obstructions, hazards and detours on the financial journey ahead.

All of the AARP principles--*accumulate, allocate, react and protect*--must be brought into play, and here are our best suggestions for playing the hand that has been dealt:

### **Accumulate Like Never Before**

The reality is that your purchasing power is being rapidly eroded by rising prices, an array of taxes

and artificially low interest rates. This means that maintaining your chosen lifestyle will increasingly drain your financial resources unless you are able to raise income, streamline expenses or both. We must stress that as the healthcare system is swamped by 80 million aging Americans, high-quality medical care will be available only to those who have accumulated adequate funds. If you want to remain in your comfort zone during your twilight years, you are going to want access to high-quality medical care. Therefore, it is critical that you think about placing less emphasis on your present consumption and more emphasis on developing the wherewithal to meet your future needs, especially high-quality medical care. Simply put, in the decades ahead you either are going to have to make your own bed or make do with whatever the government offers. We are recommending the former.

### **Allocate** According to Changing Investment Dynamics

The global growth compass needle is pointing toward the entire Eastern Hemisphere and various regions of Eastern Europe and Latin America. What we are witnessing from a distance is the birth of new consumption-oriented middle classes. In contrast, the US and European middle classes are shrinking due to job losses and aging demographics. As a result, we generally can expect emerging markets to outperform the US and European markets. In addition, the raw materials and commodities that will be consumed by emerging markets will be practical investments due to demand and scarcity factors. We are concerned that the US Dollar will continue to lose purchasing power due to spending policies that were put into place more than 50 years ago. Diversifying out of US Dollar fixed income investments by utilizing foreign currency ETFs and foreign government bond funds should be considered.

### **React** to Declining Disposable Incomes

The gradual hollowing out of the US middle class and the reality of falling disposable incomes across many regions of the US are sure to give rise to collection difficulties in physician practices. In order for you to defend your income, it is important to introduce more stringent collection procedures in anticipation of greater numbers of consumers becoming delinquent on their debt obligations and more prone to default on their payments to medical providers. These same pressures are likely to be felt by the insurance sector as greater numbers of consumers fall behind on their premium payments. The repercussions likely will be delayed or reduced reimbursements to service providers, so prepare accordingly.

### **Protect** Your Assets from Encroachment

We have long said that your most important asset is your job-related income. The best protection against loss of income is disability and business interruption insurance. Your personal assets will tend to be at risk from physical damage and lawsuits, so make sure that your property insurance has sufficient replacement coverage and that you have adequate personal umbrella coverage. We understand that the expense of maintaining high levels of medical malpractice insurance can be a heavy financial burden. If so, then seek to protect assets with legal structures such as Family Limited Partnerships and Trusts. Finally, maximize the use of retirement accounts to reduce the income tax burden on your investment earnings and gains. For those of you with large or growing estates, invest in a professional estate plan to ensure that the Federal government is not a primary beneficiary of your wealth. If you already have an estate plan, make sure that it is relatively current. If not, then you should contemplate an update. We have found that obtaining an independent audit of an estate plan can be a worthwhile investment. Such an exercise can detect flaws that might deprive your heirs of a small fortune.