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The following is a compilation of our flagship *DocOnomics* series entitled "AARP". This serves as an introduction to the cornerstones of contemporary wealth management, i.e., *accumulate, allocate, react and protect*. We encourage our readers to review this material as it serves as a foundation for our ongoing *DocOnomics* commentaries.

March 7, 2007

"AARP" - THE REAL CHALLENGES OF TURNING 50

We've borrowed the familiar acronym "AARP" to catch your attention. You recognize AARP as the American Association of Retired Persons. In our vernacular, AARP helps us to easily remember the ongoing action steps involved in building and maintaining long-term wealth--*accumulate, allocate, react and protect*. If you plan on living to a ripe old age, you will need financial resources. Thus, aligning the pursuit of long-term health with the pursuit of long-term wealth makes excellent sense. One is not very meaningful without the other.

In the ensuing series of commentaries, we'll illustrate what we mean by *accumulate, allocate, react and protect*. Our immediate goal is to let you know what you can start doing tomorrow to ensure a comfortable lifestyle well into the future. This endeavor will be influenced in varying degrees by health industry policies and procedures, quality of practice management, attitudes toward retirement and longevity, perception of risk, exposure to risk, inflation rates, government tax policies and events that are occurring halfway around the world.

ACCUMULATE

Accumulate is a call to action. It begins in the workplace and continues in the home. It is the discipline of spending less than what one earns and acquiring the skills to grow the surplus. In practice, the ability to accumulate is a very challenging series of tasks and often requires outside assistance.

Here are what we consider to be the key elements of **accumulate**:

- 1. MAXIMIZING BUSINESS REVENUE.** Have you done an in-house or independent audit of your contracts, billing software and procedures, collection methodology and accounts receivable write-offs?
- 2. MINIMIZING BUSINESS EXPENSES.** Have you done an in-house or independent audit of your high overhead items, e.g., insurance, equipment, travel, telecommunications, employee benefits?
- 3. CONTROLLING PERSONAL EXPENSES.** Do you have a personal spending plan and the tools to track where your money goes?
- 4. DEVELOPING AN INVESTMENT ACUMEN.** Do you have an understanding of key investing concepts, the myriad of global trends that are driving portfolio returns and a thorough knowledge of the investment tools and vehicles at your disposal?

There is an end game to this exercise of accumulation. We all desire longevity. Many of our readers have a good shot at living a healthy life into their 80s and 90s. Some will even hit the century mark.

However, the capital must be there or at some point the quality of life will deteriorate. The choices that you make today will determine whether your future years will be a stroll through the park or a walk through the cactus patch. Personally, we prefer to be masters of our own destiny, taking the necessary steps today to become as self-sufficient as possible for the next 30, 40 or 50 years of our lives.

In our next commentary, we shall delve into the concept of **allocate**. Between now and then, consider taking some form of action that will improve your power to **accumulate**.

March 30, 2007

ALLOCATE

In our previous commentary, we introduced the topic of **accumulate**. Now we delve into the principle of **allocate**, which involves the dual dimensions of time and money.

It goes without saying that the allocation of time is a persistent juggling act. Given the demands of work, family and continuing education, it is a challenge to keep one's personal affairs in order and one's financial plans on track. Yet, failing to allocate time to these tasks will result in an eventual disconnect between expectations and reality. You owe it to yourself, your family and your employees to keep a financial road map close at hand. It is OK to stop every once in awhile and ask for directions. In other words, seek planning help if you can't get there on your own. Neglect in this area will cost you many a night's sleep.

Similarly, if you do not properly account for and allocate your financial assets and liabilities, you are tempting fate. Every form of investment involves a level of risk. Even the money that you have borrowed has a built-in risk. Will the underlying collateral maintain its value? Will you be able to repay debt in a timely manner from cash flow and/or asset sales? A proactive diversification of assets and liabilities will compensate you in ways that you may never fully appreciate. There is no shortage of people, laws and potential catastrophes that are trying to separate you from your money. One needs a systematic way to assess risk and control asset and liability exposure.

To wisely allocate time and money is a thinking person's exercise. Like a game of chess, it involves moving pieces into strategic locations on the board, minimizing losses along the way and avoiding checkmate. It is a game that needs to be replayed at frequent intervals. Your best opponent is the devil's advocate himself. To play the game well, it helps to be a student of politics, economics and history. If you can't find the time to keep up with the dynamics of our rapidly changing planet, seek out discussion groups, plug into an independent think tank or hire someone to keep you informed.

In order to **allocate** wisely, here are what we consider to be the key elements:

1. INVENTORY YOUR ASSETS AND LIABILITIES. This generally is known as preparing a balance sheet. You wouldn't attempt a home remodeling project without a formal or informal blueprint. The balance sheet is your financial blueprint.

2. INVENTORY YOUR INSURANCE COVERAGES. Include death protection, disability, healthcare, property & casualty and business interruption. This is neither a plug nor a subtle hint to purchase more insurance. Simply, you need to know what you and your family members are worth alive or dead, healthy or sick, employed or unemployed.

3. GET A HANDLE ON INVESTMENT RISK. The essence of allocation is risk management. You need to know if you are standing directly or indirectly in the path of harm's way. The odds are substantial that you have either a modest or extensive exposure to investment risk that you are not in a position to gauge due to personal biases, lack of awareness or not having the tools to separate fact from fiction.

4. UNDERSTAND YOUR CASH FLOW RISK. This is more than scribbling numbers on the back of an envelope. It entails constructing a range of possible incomes and determining what it will take to

pay your living expenses, service your debts and save for the day when there is little or no income. How much do you really understand about your business and household spending? Most people don't know ... and some don't want to know. If you are one of these people, you had better call 911!

April 13, 2007

REACT

In our previous commentaries, we have introduced the topics of **accumulate** and **allocate**. Now we delve into the principle of **react** as it pertains to wealth management.

We live in an age of rapid change. Some would even call it turmoil. In times such as these, the words of Scottish poet Robert Burns ring true, "The best laid plans of mice and men often go awry."

As individuals, we are the "mice." The "men" are a vast and complex array of governments, corporations, military organizations and religious movements, all with specific and often secret agendas. And, let us not forget that Mother Nature has an agenda all her own. Alongside these agents of change and turmoil, we periodically must deal with circumstances in our individual lives that materially impact family health or income.

Is there a systematic way in which to react to change? Not really. The best action to take is to be aware of material changes that might be occurring and account for them in your wealth accumulation and allocation strategies. Here are some illustrations:

- If you are a physician, you might suspect that in response to the demands on the health care system by the aging Baby Boomers, your future reimbursement rates from insurance companies and government entitlement programs are going to be reduced. As such, would you become more vigilant about the productivity of your staff and the operating expenses of your practice?
- What if you feel that the debt, deficit and entitlement mentality of the Federal government and American taxpayer eventually will result in a very difficult period for the US economy, stock market and the Dollar? Would you stick with a "buy and hold for the long term" investment strategy or start moving some of your assets out of harm's way?
- Suppose that in 2002 you bought a nice piece of oceanfront property on the Gulf Coast. Your purpose for making the investment was to build a second home or an eventual retirement home. After several consecutive years of intense tropical storms and hurricanes, would you stay the course or actively start looking for another place to build that home?
- If you are worried about what will happen to your wealth after you die, what if it became increasingly clear that taxes on your estate (i.e., wealth transfer taxes) were likely to increase because Federal and state governments needed the additional revenue? Would you take the time to reformulate your wealth transfer strategy so that less of your hard-earned money wound up in government coffers?

There is a foundation of reality in all of these examples, yet it is surprising how many people will fail to recognize that the light at the end of the tunnel might be the dreaded onrushing train. Even if people do hear or see the train coming, the reaction time is judged to be much more ample than is warranted. A sense of urgency just is not what it used to be. Through the years, most people have become too complacent and are not inclined to plan either because they have too many demands on their time and don't have adequate time to think, or they believe that Big Brother will nudge them off the tracks just before the train comes hurtling past.

In order to react prudently and wisely to events both external and internal, we recommend the following:

- Do a personal self-analysis to assess whether or not you are a perpetual optimist or a realist. Use family members and friends as sounding boards. Chances are that if you fall into the "optimist" category, you are going to tune out negative indicators and miss the critical times to **react**. As a result, you are a good candidate for the ongoing services of professional advisors that fall into the "realist" category.
- Once or twice a year, schedule some time with your investment manager, CPA, attorney, financial advisor and insurance agent to assess financial trends and changes in tax laws that could have a material impact on your wealth, both positive and negative. It is acceptable to pay for this consulting time as it is no different than having your tax return prepared, having your car serviced or spending a few hours with a therapist.
- Just as frequently, give some thought to your contemplated lifestyle 10 or 20 years from now and assess what you will need to live on. Then, get introduced to some sophisticated analytical software that will map out your various scenarios in dollars and cents and enable you to make changes based on new information and circumstances.
- Do not have a knee-jerk reaction and take an "all or nothing" approach with your investment portfolio. Rather, start with a baseline allocation between risk-oriented and risk-averse assets (say 60-40, 50-50 or 40-60) and move up or down in 5-10% increments according to what you and your advisors see on the horizon. Going to an allocation of 100-0 or 0-100 is the equivalent of betting the farm on an outcome over which you have no influence or control (like the weather.)

Make changes promptly. Timing investment markets is an exercise in futility due to the above-mentioned agendas of governments, corporations, military organizations and religious movements. Leave market timing to professional gamblers.

May 4, 2007

PROTECT

In our previous commentaries, we have discussed the topics of **accumulate**, **allocate** and **react**. Now we delve into the principle of **protect** as it pertains to your personal wealth.

In the Middle Ages, lords of the manor fortified their castles with moats, drawbridges and sturdy iron doors. The objective was to safeguard their wealth and protect themselves from their avowed enemies and less-than-loyal subjects. In today's world, it is no less important to build perimeter defenses for the protection of personal wealth that has been accumulated over many years. Yet, it is unfortunate how little time is devoted to the thoughtful pursuit of wealth protection. Consider the following:

- The majority of households with annual incomes of \$100,000 or more do not have wills.
- The majority of personal estates values at \$5,000,000 or more do not have a plan designed to minimize estate taxes and maximize wealth transfers to heirs.
- The majority of closely-held family businesses do not make it to the next generation. Whereas some fail due to the basic laws of attrition in a competitive world, others are the victims of forced sales that arise when (1) insufficient funds are available to pay the business owner's estate taxes, (2) a family business has failed to set up a succession plan or (3) family or marital discord makes it impossible to continue the enterprise.

The basic desire to protect wealth is a response to an array of perceived risks. Essentially we look to protect our assets from casualty losses (e.g., natural disasters and man-made

disasters), investment losses (e.g., adverse political and economic events, fraud and errors in analysis and judgment), confiscation by the government (e.g., income taxes, property taxes, sales taxes, estate taxes and inflation of the money supply) and the court system (e.g., legal judgments).

The essence of wealth protection is to safeguard family assets and cash flows at reasonable cost. The details are found in a mix of insurance policies, wills, trusts, investments and other strategic remedies. We always are quick to point out that many people forget that their income-earning ability is their major asset. Disappearing income will undermine most long-term wealth plans. Therefore, life insurance and disability insurance are often the first areas that need to be addressed in a wealth protection plan.

Casualty loss protection is well administered by the insurance companies of the world and needs little explanation here. Investment loss protection is a different story. The time-honored principles of allocation, diversification and fundamental analysis must be invoked to guard against investment loss. If risk aversion is a primary objective, there are plenty of ways to achieve it (starting with money market funds, US Treasury bills and fixed annuities).

To protect against confiscation by the government and the court system, you need a functional framework for maximizing income tax deductions, a professionally-prepared estate plan (as simple as a will and as complicated as multiple trusts), an investment mix that can produce returns commensurate with cost of living increases while utilizing acceptable risk parameters and a comprehensive mix of corporate veils and liability insurance pertinent to your level of assets, level of income and profession.

In order to develop a plan to protect personal wealth, you must allow yourself to be interviewed. Unless all of the right questions are asked, the plan will be vulnerable to attack. The questioning exercise is a highly personal undertaking designed to reveal what keeps you awake at night and what strategic remedies are available.

Obviously, outside assistance is required. Involve your accountant, attorney, investment advisor, insurance agent, spouse and grown children and choose one of the experts from your network to ride herd over the development and drafting of a comprehensive plan. Then, give the mandate to execute the plan. Once the plan is executed, you will sleep better. Be advised that the execution phase can take several months to a year.

What we have outlined in this narrative represents a significant undertaking. If you are intimidated by the effort that must be expended to achieve an adequate degree of wealth protection, just remember that today's world is designed to separate you from your money. The main threats to your wealth are taxes, legal judgments, a devaluing US Dollar, global and domestic economic unrest, questionable political agendas, fraud and unethical conduct within investment markets, the corporate world and high-ranking government circles. And let us not forget Mother Nature.

All of the time and energy that goes into **accumulate**, **allocate** and **react** could be for naught if **protect** is properly implemented.