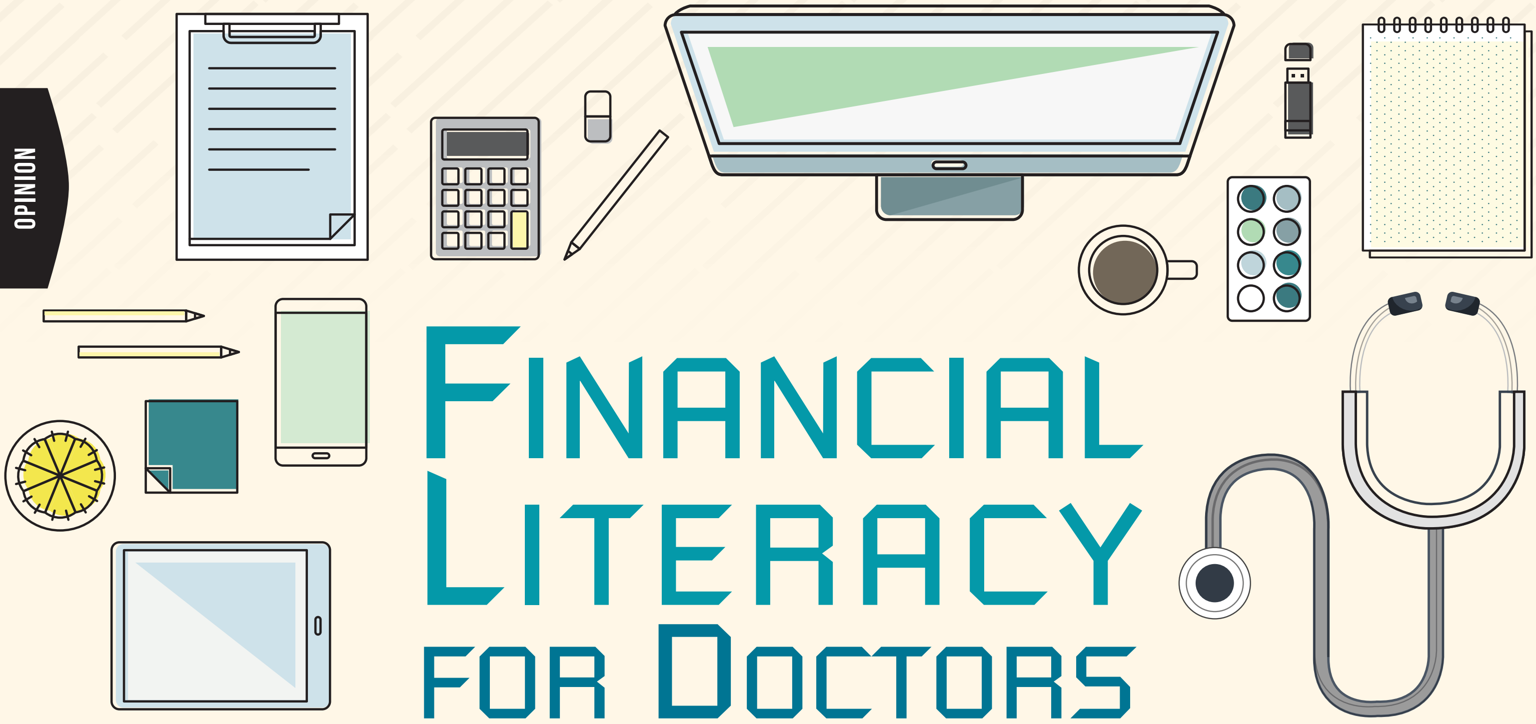

Financial Literacy for Doctors

Text by Dr Jimmy Teo, Editorial Board Member

Prepare your mind

One of the books that everyone should read while they are "poor" or in school is *The Millionaire Next Door: The Surprising Secrets of America's Wealthy* by Thomas J Stanley and William D Danko. The book offers some insights into the habits of the wealthy and common misconceptions about their lifestyles. The bottom line – one does not get rich by spending! Instead, cultivate habits that have an impact on accumulating wealth.

- Begin earning and investing early in your life.
- Budgeting, investing and controlling expenses is the path towards affluence.
- Live well below your means.
- You are definitely not what you drive.
- Do not take on a mortgage that is more than twice your annual income.
- Most millionaires do not spend money on luxury items.

The premise of Stanley's writing is that our perception of what a millionaire looks like in our society is false. The typical millionaire is not the person who has the biggest house, drives the newest cars and lunches at the country club every day. Rather, the true millionaire is the plumber who owns his/her own business, drives a reliable five-year-old Toyota and lives in a modest house. Stanley repeatedly shows through his research that the typical millionaire lives well within his/her means, invests regularly, buys quality products rather than luxury goods and repeats these and other key behaviours to become wealthy. The book is in no way a "get rich quick" scheme but a reminder that simple and deliberate decisions can take a fixed-income employee towards financial independence.

Doctors, lawyers and similar professionals are often assumed to be wealthy due to their high incomes. However, the book cites numerous examples of people with high incomes who really have not saved much money. Millionaires can come from any occupational background, including contractors, pest controllers, farmers, doctors, accountants and so on. But the book points out that many of them are self-employed. Doctors, accountants and lawyers tend to have their own practices and are therefore self-employed.

Investing in Singapore

It is in fact very difficult to be poor in Singapore. Most people have jobs and our taxes are very low. When you consider that there is a one-tier corporate tax rate at 17% and no further income tax on dividends, I pay more in taxes than the hospital I work in! Moreover, there is no capital gains tax, estate duties or inheritance tax. These factors actually incentivise you to start your own medical practice and invest regularly. Furthermore, Singapore's highly developed financial markets offer the average Singaporean easy access to all the major stock markets of the world. This allows us, for the first time in many generations, to truly diversify our geographical and asset risks and become perpetually wealthy, short of a world war.

Many doctors have very little financial training as this is not a subject taught in school (I personally think that it should be an examination-level subject from kindergarten). That said, doctors can easily equip themselves with the knowledge. Punch numbers into a retirement calculator (http://bit.ly/3aDUzAj) for the revelation that you do not need to work for your money but have the money work for you. With the wonder of compound returns, you should seek to replace about 80% of your income by a target time period of continuous investing (http://bit.ly/2RR2diq).

Get educated

The *Straits Times* regularly publishes articles on personal investment and budgeting. You can also find many books on investing in Singapore stocks, real estate investment trusts (REITs), mutual funds (unit trusts), bonds and so on. One of my favourite writers is

Teh Hooi Ling, whom we invited for our Feature piece in this issue. She used to write for the *Business Times*, and her articles have been compiled into a book series titled *Show Me the Money*. You can also download some of her articles at the website of the fund she manages (http://bit.ly/2uNEI1v). Another writer to read up on is Lorna Tan, a financial journalist with the *Straits Times*, whose books are easily available. Lest you think you are studying for the final medicine examination, let me just say that the books are easy reads and will help you to frame a plan. Keeping the plan simple and easy to execute is the best plan for financial success.

Be inspired

There are many financial bloggers in Singapore (http://bit.ly/36IcuCB), with many Singaporeans following their blogs avidly – some of which are superstars who attract many attendees at investment fairs (http://bit.ly/318AayR). Get inspired by AK71 as he is already living off the income generated by his portfolio (http://bit.ly/2S4nTY6), or GH Chua, a full-time investor who invests in many companies listed in Singapore and attends their annual meetings regularly (http://bit.ly/2RX8adw). Men (http://bit.ly/37GyEGN), women (http://bit.ly/2RCa44g) and couples (engaged, married or dating) (http://bit.ly/2VjwjOG; http://bit.ly/3bYYNDv; http://bit.ly/2PlBxpv) blog about their budgeting, smart expenditure and investment returns on a regular basis. You can also check out an investment website targeted for doctors (http://bit.ly/36BhCbF). Everyone's journey towards financial independence is different and there is no one best way; only the way you feel most comfortable and suitable to your goals.

What Warren Buffet suggested

This year, one of my heroes, John C Bogle passed away. He was the founder of Vanguard, an American investment company, and the creator of the low-cost index fund. His research showed that most professional investors are unable to perform better than just buying a broad range of stocks representative of the stock market (an index like the Straits Times Index or the Standard and Poor 500 [S&P 500]). Moreover, high fees for these financial "professionals" in "active" investment companies that pick stocks to buy and sell often lead to poorer returns than just regularly investing into an index fund (transaction costs, taxes and fees reduce total returns). The ideal investment vehicle for Bogle was a low-cost index fund held over a period of a lifetime with the reinvestment of dividends and averaging the cost of investment by buying into the fund on a regular basis. In fact, the legendary investor Warren Buffet suggested that most people without the inclination to study or time to expend on investing should follow this approach. Of course, there is some planning needed to decide on the type of index funds to invest in. That said, if you are really not into thinking more about your retirement investments, you could do no worse than monthly investments into an exchange-traded fund of an index through your bank (http://bit.ly/38MkofG).

Risks of not investing

Just like most things in life, ignorance is risky. Through my conversations with fellow doctors, I realised that many do not have much financial planning for the day they can no longer work or when they require help. The risks of not investing is high. Putting money into savings accounts and earning interest less than general inflation means that the money will buy less in the future. Moreover, technological inflation could result in you dropping out of the advance economy cycle when you retire. What it means is that when you need or want the latest services or goods produced by companies during your retirement, you may not have the savings or income to pay for it. However, had you exchanged your life's labour to become a part owner of many of the world's outstanding companies, you remain very much a part of the advance economy cycle. As the companies make profits off new inventions, you should correspondingly be richer and therefore continue to afford these goods and services. You would usually need a lead time of about 15 to 20 years to earn back the costs of these investments.

Mitigating life's risks

Besides investing, we should consider adequate protection against risks such as personal debility from disease or accidents. Adequate medical insurance, a medical savings account, accident insurance and other supplemental insurance are required. If you have dependants, group term-life insurance offers the best protection at a low cost while you build up your investment portfolio.

I recount a story of a locum family doctor employed by a large medical group who suffered a cardiovascular arrest while working in the clinic. He did not have medical insurance, his wife did not work and they did not have substantial savings or investments! I could not believe that this happened in Singapore with our high rates of educational attainment by global standards.

Write out a plan

It may be useful to write out a plan with your objectives in mind and present it to your spouse (or family), and regularly review that you are sticking to the plan. "Non-compliance" is the surest way to fail. You should "fine" yourself if you slack and put that sum into the investment plan. May your returns be bountiful! ◆

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