Transcript Details
This is a transcript of an educational program. Details about the program and additional media formats for the program are accessible by visiting: https://reachmd.com/programs/clinicians-roundtable/personal-money-management-for-physicians/3487/

ReachMD
www.reachmd.com
info@reachmd.com
(866) 423-7849

Personal Money Management for Physicians

WHERE TO PUT OUR MONEY THESE DAYS.

In every market downturn, the problems are part economic and part psychological. There is no denying our economic problems. Oil vacillates weekly. The declining US housing market has resulted in write-downs of $400 billion worldwide with more to come. What is a physician to do in these turbulent times? Where should we be placing our hard-earned dollars?

Welcome to the Business of Medicine. I am your host, Dr. Larry Kaskel. Joining me today is Bill Cleveland, a CPA and Certified Financial Planner with Preston and Cleveland Wealth Management in Augusta, Georgia.

DR. LARRY KASKEL:

Bill, welcome to the show.

BILL CLEVELAND:

Thank you, Dr. Kaskel.

DR. LARRY KASKEL:

Well, Bill, where should I be putting my money? Should I just shove it in the mattress?

BILL CLEVELAND:

Well, we found a few clients ask us that lately and one of the difficult things right now is obviously the emotions and we see this in extreme up markets as well as in extreme down-markets, and to us, the key is consistency over time, and you know, especially, with doctors who are investing money on a monthly basis, and especially, for those, you know, that are not going to retire tomorrow, these times are actually great times to be investing in the stock market.

DR. LARRY KASKEL:

Let us talk about that. You say they are great times. I have always heard that when the sky is falling and there is blood in the streets, that is the time to buy.

BILL CLEVELAND:

Sure.

DR. LARRY KASKEL:

You want to take advantage of the panic and the herd is usually wrong.

BILL CLEVELAND:

Right! We like to watch what we call the experts, I mean you look at your Warren Buffets, Berkshire Hathaway, your Bill Grosses who is with PIMCO, out in California, and your endowments, and you kind of watch what they are doing. They are the ones that were disciplined and had cash to take advantage of these opportunities, and they are buyers now.

DR. LARRY KASKEL:

Hmm! Hmm!

BILL CLEVELAND:

So, which is typically exactly the opposite of what I would call the average investor does, and there has been a lot of studies done on this, www.dalbar.com has some great studies on this. The average investor actually pulls back right now and then waits for the market to run up and then invest, so they get kind of hurt on both sides.

DR. LARRY KASKEL:

I heard on CNBC, this morning actually, they were trying to imply the difference between an investor and a saver, and they were saying an investor actually takes advantage of leverage. Do you agree with that?

BILL CLEVELAND:

To a certain extent, if it is smart leverage, I would say. I am pretty conservative by nature. I think a lot of our clients are fairly conservative and then they want to use leverage, what I call smart leverage, to a certain extent; maybe having some mortgage debt, they have been trying to buy an office building for the practice, you know, obviously, in the ideal world, I guess you could pay cash for anything, but I do not know too many people that can do that, so you have to use leverage to a certain extent to grow your business, but at the same time, we are moving into a market environment where very few people are going to be able to do 100% loans anymore. You know…..

DR. LARRY KASKEL:

Which is good. That is how we have got into trouble.

BILL CLEVELAND:

Yeah! And credit standards are tightening. If you buy a lot now, you are going to have to put more money down, so you can still use smart leverage, but you are not going to be able to and you do not want to over-extend yourself which I think can hurt you financially, so there is a happy medium, I think, somewhere in between there.

DR. LARRY KASKEL:

What can we learn from the Consumer Sentiment Index? Where it is at currently in relation to history? Do you use that as a good parameter?

BILL CLEVELAND:

We look at it as one tool. You know, we do not put a whole lot of weight into any one stat. We tell clients right now the market by any measure is undervalued. You know if you look at price to earnings ratios, so what have you? Any objective measures? But it can always get cheaper, and you never can pick the bottom. Same thing with consumer sentiment, I mean, most people think of consumer confidence which is really how are we feeling today? You know, how does the average person feel about things today, and it is not so good. Some of the recent measures that have come out on that are pointing to consumer confidence being at all-time lows.

You know, most people look at that and say while things are tough, I really should not be investing now, I shouldn't be buying a house. I shouldn't be investing, but typically that is what most people call and historically has been a lagging indicator versus a leading indicator.

Typically, when consumer sentiment has hit lows before, that has been where the markets tend to bottom out and there has been some nice returns historically when consumer sentiment has hit its lows. I hedge that a little bit by saying who knows that June is the lows of the consumer sentiment. So that just gets us back to our first point that, you know, we strongly believe that the key to being successful over time is being a disciplined investor having a smart asset allocation. You know, people learned a long time ago that you used to think 15 tech companies was a diversified portfolio, but yet to have a well diversified portfolio, we believe these times are as good as any to be an investor, but we definitely do not know if it is the bottom or not.

DR. LARRY KASKEL:

If you have just tuned in, you are listening to the Business of Medicine on ReachMD. I am your host, Dr. Larry Kaskel. Joining me today is Bill Cleveland from Preston and Cleveland Wealth Management from Augusta, Georgia, and we are talking about where to put our money these days.

Bill, you wrote a column in medical economics on dividend paying stocks. Can you kind of define what a dividend is and what is considered a good dividend?

BILL CLEVELAND:

Sure. Sure. You know. If you look at your basic corporation. Simplify it to a certain degree, but they typically are, you know, are earning cash flow – they have earnings; they have the option of reinvesting those earnings in a business, what a lot of your higher growth companies do. So, they will pay no dividends or very small dividend or companies will say, "okay, well, I want to reinvest some of it, but I want to return some of that money to shareholders, so they will actually pay that money out in cash, typically quarterly, and most of the time, if you have a brokerage account, it would just show up in cash in that brokerage account," and then they will pay that dividend out quarterly.

DR. LARRY KASKEL:

Will that dividend automatically get reinvested or do you have to kind of designate if you want it.

BILL CLEVELAND:

Well, there are automatic reinvestment plans out there. I think you can go either way. If you want to have it reinvested, I think you can work with your advisor to do that. Probably, a typical brokerage account most of the time, it probably gets paid in the cash.

DR. LARRY KASKEL:

And, if a physician is near retirement, I would imagine his needs are changing and he probably could use that cash as income.

BILL CLEVELAND:

Anytime, we look at portfolios, we are always adamant about having broad-based diversification and we typically use 7 to 10 different asset classes. When we say asset class, we mean US stocks – large cap would be an asset class, bonds, cash – those would all be different asset classes, but when we look at dividend paying stocks as one of those asset classes that is going to generate some income over time that will work with the other asset classes, we have in the portfolio to kind of meet our goals, you know, to kind of meet the kind of income that we need to live off all

DR. LARRY KASKEL:

Let us do a real life example. I am a 46-year-old physician. I do not plan on retiring for at least another 10 to 15 years. Do I need any dividend paying stocks in my portfolio currently?

BILL CLEVELAND:

I do not see why not. You know, we would obviously want to drill a lot deeper and get to know the details of that individual, but going forward, dividends obviously were not very popular in the late 90s, you know, everyone thought was a new paradigm, and you know we were going to earn 15% to 20% returns indefinitely.

Dividend paying stocks were not popular at all then. Who would want a 3% dividend when you can make 20%, but going forward, and we will always be a little hesitant when we say the experts think that most smart people I read think returns are going to average between 6% and 10%, you know, depending on who you read going forward. So, dividends are going to be a much more important component of your equity return going forward, and I do not see why not, you know, a 46-year-old would not want to have some of his or her portfolio in a dividend-paying company.

DR. LARRY KASKEL:

How would you feel about buying a dividend indexed fund instead of specific stocks?

BILL CLEVELAND:

It is always a difficult time to be an individual stock picker, but this is an even more difficult time because there is so much unknown risk in one stock. There is so much behind the scenes, you can evaluate balance sheets and income statements all day, but there is so much risk out there that it is just unknown. Name your favorite bank right now, Bear Stearns, Enron, Worldcom – all of these companies were darling stocks at one time. Anytime you are trying to pick the best dividend stock, you are always going to run into that unknown risk.

DR. LARRY KASKEL:

So, if a physician is looking for dividend-paying stocks and he finds one that is paying a nice yield, let us say 9%-10%, is that a sign of bad things to come?

BILL CLEVELAND:

Well it could be. I mean it very well could be, I mean, because a 9% or 10% dividend is definitely way above average, I think 2% to 3% is probably average. You know, some companies are now, because their stock prices come down, are paying much higher than that, but you are right, I mean, the company's dividend yield is basically calculated as the expected annual dividend over the next 4 quarters divided by the closing price. So, if you know if company A had a dividend of $1 and a stock price was at 100, you know, it would have a yield of 1%. Company B had a dividend of $5 and a stock price of 100, its yield would be 5%, but lets say, the company B's stock price goes to 50, you know, it would then be paying a 10% dividend which sounds wonderful, but there is a lot more behind the scenes that you need to look into.

DR. LARRY KASKEL:

What happened with Citigroup this year?

BILL CLEVELAND:

Citigroup don't want to you know, just single them out, but all of the banks have obviously have had a tough time and you know Citigroup was paying a dividend of close to 8%, you know, on January 14th, but the reason its dividend was so high, was because the stock was down 50%. You know shortly thereafter, the dividend was cut then 41%. Then and other banks have had to cut, you know, dividends throughout this year in order to try to conserve cash. So, you want to be very leery of high dividend paying stocks and really try to look under the hood and understand why those dividends being paid are so high.

You know, there is no free lunch. So, I think people need to understand that while dividend-paying stocks can be good for a portfolio, the principal is not guaranteed. So, you want to make sure, you understand what you are buying.

DR. LARRY KASKEL:

And, I guess, there is some uncertainty out there also about dividend taxes.

BILL CLEVELAND:

Well, there is. You know, right now, capital gains, basically if I hold, if I buy a stock at 5 and it goes to 10, and I hold it for over a year, then capital gains – long term capital gains taxes are 15% and dividend taxes are at 15% as well. There are certain restrictions within that, but in general, that is the case. We only have basically 2 more years of that – 2009 and 2010, and then that expires, so if nothing is done, you know, we will go back to dividends being taxed at ordinary income tax rates which federally right now are as high as 35%. So that obviously would be a significant disincentive, if you will for companies to pay out higher dividends and depending on your individual tax bracket, you know obviously, you would have to relook at things, you know, if that was the case. That could change next year as everyone knows Congress likes to tinker with the tax laws fairly often, so that is not guaranteed that we even have 2 more years of that.

DR. LARRY KASKEL:

Bill Cleveland of Preston and Cleveland Wealth Management from Augusta, Georgia. Thank you very much for talking with me today and teaching me a little bit about how to be a better investor.

BILL CLEVELAND:

Yeah! Well thank you, Dr. Kaskel.

DR. LARRY KASKEL:

To comment or listen to our full library of on-demand podcasts, please visit our web site at www.reachmd.com and thanks for listening.

You are listening to ReachMD XM160, The Channel for Medical Professionals.