



\$ Investing Basics \$

Evergreen Consulting Group Inc. - Richard A. Green, DDS, MBA

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Dear Reader: I would enjoy hearing from you. Spread the word about these articles. I think you and your friends will find them helpful.

– *Richard A Green DDS, MBA*

Financial Freedom

Financial freedom occurs when you have learned to live on less than you make. Financial independence occurs when the earnings on your invested assets have replaced your hands as an income stream. Applying financial fundamentals to create financial freedom and independence is an important task of the professional. If you have a bank account and the patient needs you more than you need the patient, you have begun a practice lifestyle consistent with choice. The dynamics of the relationship have changed and you are free to lead and offer others choice.

New Year's Resolution – About Time

A week doesn't go by that a participant doesn't ask, "What's new in the world of investing strategy – will we ever recover from the dismal performance of these last three years?" An old adage holds true, "no one cares for your money like you do!"

So what were your New Year's Resolutions? Are you going to find some time to get rock-hard abs? How about finding time to study finance, or money and markets?

I came across a story recently that had some thoughts for the New Year concerning the gift of time" that I think applicable. We all have the same opportunity of time in 2003 (God willing), so how will we use it?

What if we lived in a strange place where each day we were allowed to have \$86,400 but we were not allowed to save a penny of it? By midnight we were broke but, when the new day dawned, we had another \$86,400 to spend. Sounds crazy, doesn't it?

In an article about our use of time, an author suggested that we each have 86,400 seconds daily to do whatever we choose to do. We cannot "save" even one of these thousands of seconds to use in the future. If we do not use the seconds and minutes and hours productively and creatively as good stewards of this *gift of time*, those twenty-four hours are lost forever. Makes you think, doesn't it? Time is indeed precious. Wise people make the most of time. Based on what you know, then how will you choose to live?

I was often impressed by the wide scope of Dr. Pankey's learning and

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understanding in many diverse fields of endeavor. Under questioning, concerning his acquired insight, he would often talk about the people he had met, the classes he had taken, the travels he had engaged in and the lessons learned both inside and outside of dentistry. He did the discipline and in time uncovered the learning. His curiosity opened his mind to learning and growing.

So, if you accept the *task* of developing your own retirement funds whether or not you choose to be aided by a professional, your responsibility is to expand your understanding of money and markets over time. So then, how will you live in 2003?

Since many of you are spending time on the web, I thought it would be helpful to converse about a few inexpensive tools and where you might find them.

First, we should ask the question, "Are you on track?" Over the past three years, has the bear market thrown your portfolio into turmoil and savaged your savings plans? Are you wondering if your goals for retirement or paying for a child's education are within your reach? Such concerns have resonated in thousands of Americans causing them to wonder what their alternatives are for repairing shattered accounts.

Recent research has found that one-third of consumers are more likely to

seek financial help today than they were a year ago. At the same time, planners are making their help more affordable and accessible for middle to high income, low net worth families ("Big Hat, No Cattle"). A growing number now charge for advice on an hourly basis instead of taking a percentage of the assets (something we have been encouraging you to look at and ask for through the years).

While many feel the need to consult with a professional money manager, this may not necessarily need to be a part of your immediate future – it depends! Those of you, who are just beginning, align yourself with a low cost family of funds, beginning with market index types (see Investing Basics – July 2002). Read the Wall Street Journal for a start, or watch which of your patients do! For those with the inclination, a host of sites exist on the Internet that offer solid advice and analysis-free of charge or at a nominal cost to help you determine where you are and how to steer a path to where you ultimately want to be. Here are some questions you should be asking yourself today and some potential online destinations, as well as other destinations to help you find the answers:

Am I properly diversified? Everyone thinks they're diversified because they own a bunch of mutual funds. But that doesn't necessarily mean anything.

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Many funds hold very similar investments, meaning they move almost identically as the markets move. Consider a tool called Portfolio Xray from Morningstar. Plug in your list of mutual-fund holdings and you'll quickly see how well your funds are split among large, medium and small companies, and how much the funds overlap in the stocks they own. Morningstar charges \$11.95 a month for its Web site but you can use *Portfolio X-ray* free by registering on T. Rowe Price's web site.

Such knowledge allows you to rebalance your portfolio to match the asset allocation that best fits your age and risk tolerance. A recent T. Rowe Price study shows why allocation is important, especially in a tough market like today's. "Had an investor put \$100,000 into the market in 1994 – split 60% stocks, 30% bonds and 10% cash – and never rebalanced the portfolio, the stash would've grown to more than \$271,000 at the market's peak, only to plummet to about \$204,000 by July of this year. By contrast, had the investor rebalanced the portfolio any time the investments got more than five percentage points above or below the target allocation, the money would have grown to \$255,000 by the peak, and fallen to just \$215,000 during the bear market."

Don't know what allocation is best for you? One of the better sites for this is Financial Engines, which offers a

detailed analysis of the funds you currently own, and then offers guidance on how to rearrange what you have. But, it will cost between \$150 and \$300 a year. Fidelity Investments, meanwhile, has a fairly good questionnaire to help determine, free of charge, the allocation that suits your tolerance for risk.

Am I saving enough for retirement? If they have started, this may be the biggest question participants at The Pankey Institute ask, since it can mean the difference between the retiring life you dream about, and working through retirement to make ends meet. A number of simplistic calculators, including ones found in the Pankey Financial Tools spreadsheets, are available via Excel and litter the Web, but they determine only how much money you get if your investment earns an average annual return over a period of years.

While this is a wonderful starting point, since the majority needs just that – TO GET STARTED, an inherent problem exists in this type of linear calculation. **The problem:** The markets don't move in average annual fashion. They bounce all over the place. And the sequence of returns is critically important to whether you retire to an island or to your backyard.

One of the best tools performs what is called "Monte Carlo analysis" and employs probability theory to measure,

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much like a weather forecast, the probability that you'll reach your goals. Morningstar.com has a retirement planning tool, ClearFuture, which is one of them. Once again, T. Rowe Price offers free access to ClearFuture.

If you like to do business with a person attached to the other end of the phone line, consider another access point for the Monte Carlo analysis through Dr. James Jackson, CFP. Jim was greatly influenced by Drs. L.D. Pankey and Harold F. Wirth; encouraged by them to become a student of money, markets, and investments. He has been a positive voice and influence to the dental community concerning the need for financial planning in a balanced life. Dr. Jackson has offered his insight through courses, consultation, and a newsletter for well over 25 years. His annual April Life Planning seminar is always informative (nice location and weather, too). If you are willing to do "the discipline" to learn, his perspective and insight help you make the seemingly "Complex, Simple". He can be reached at (800) 752-2354 or emailed at jbj@jackson-financial.org.

Am I saving enough for my kid's college education? Many college-planning calculators base their estimated future college costs on a single national average cost for attending a public university. But there's a huge difference in sending a kid to the

University of Michigan and, say, New Mexico State University-Alamogordo.

Our Pankey Financial Tools offer a college-planning calculator that helps you determine the tuition you'll pay at a specific school in a given number of years, based on whatever inflation factor you choose. Online brokerage firm E*Trade has one, as well, that can make it easier to adequately plan.

Meanwhile, savingforcollege.com provides an education in the world of 529 college-savings plans, the tax-advantaged college savings accounts. The site offers detailed information on every plan in the nation. Because they all differ in various ways, you'll have to download the individual state results and data to compare which is best for you. The site's "5-Cap Rating" offers a guide to the overall usefulness of each state's 529 plans based on a variety of considerations such as eligibility requirements or investment strategies. It doesn't rank plans based on investment performance.

WARNING: Please make sure you are fully funding your retirement investments, both tax-deferred and after-tax, prior to funding for college. The reason: Bankers allow borrowing for education; they typically do not encourage borrowing for retirement!

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Here are some sites that will help you get on track financially:

www.morningstar.com

(Register as a free user and click Retirement for various tools and worksheets. You won't have access to some tools unless you pay.)

www.troweprice.com

(Register as a free user and search the Investment Planning & Tools link.)

www.etrade.com

(Search the Plan & Advice link for Saving for College link.)

www.financialengines.com

(This is a pay site for those who want very detailed analysis and advice.)

www.fidelity.com

(Search the Planning & Retirement link for the Planning Center link. There, you'll find the Asset Allocation Planner under the Calculators, Planners and Worksheets link.

www.jacksonfinancial.org

(This site has information about The Jackson Investment Newsletter, consultation and seminars offered.)

www.savingforcollege.com

(Search on "Compare 529s" for the 529 Evaluator, Performance Results and 5-Cap Ratings links.)

I hope a few things are very clear. (1) You are in charge of your time! How will you use it this year to benefit you, your family, and your patients in the long-term? (2) Resources are abundant for your guided discovery! Will you do the discipline? (3) Your financial health and future are dynamic! Will you visit or revisit these issues at appropriate intervals? Once in a lifetime is not enough!

For those of you left with the feeling of "too much to do, so little time"—take heart! Here is an opportunity to develop your computer skills while gaining familiarity with the World Wide Web (www), money and markets, retirement planning, investment risk (and your tolerance for the same), portfolio balance, how much is enough, and will it last for the duration. My hope is that you will start or continue your guided discovery.

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