For Time-Starved Doctors *By Shirley M. Mueller, MD*

Published on April 7, 2008 **Physician's Financial News**

Get up, have a cup of coffee, go to work, see patients, attend a meeting, go home, eat dinner, crash. The next day—repeat the cycle. The only thing between you and a nervous breakdown is your resolve. Doctors don't have time to think about investing.

Enter the effortless, stress-free new option of **Life Cycle funds**. These are low cost and pay attention to you—not only what degree of risk feels best for you, but also your age. Just decide what is comfortable for you, pick your fund, invest your money and you are done. Then, you can pay attention to your life and let your money grow.

There are other advantages too. These funds are no slouch. They put your money to work where it historically has counted. Each pays attention to asset allocation, the process of combining stocks, both US and international, with bonds and cash. According to Markowitz, Miller and Sharpe, who won the 1990 Nobel Prize, this strategy accounts for 90%+ of an investors' return. The funds also are diversified, another important investment concept, the equivalent of not putting all your stock or bond eggs in one basket.

Two Ways to Go

Reading this might be easier if you think about your potential return for doing it. Like, maybe lopping a couple of years off your planned retirement date because you invested your expendable dollars and make them grow, while you were practicing medicine. Then, the return buys you a few extra years of retirement so you don't have to work as long.

Life Cycle funds are divided into **strategy funds** and **target funds**. Their names pretty much indicate what they do. Strategy maintains investments appropriate for your risk tolerance until you take your money out. Target funds change investments with time and become more conservative as you age so that you have ready monies at retirement. If you are young (less than age 35) a life strategy alone might work for you. As you age though (more than age 35) adding a target fund is a good idea and in an increasing proportion as you reach retirement age.

When you invest in a Strategy fund, you pick the tactic that fits your needs and the fund maintains it for you. There are generally four to select from—income, conservative growth, moderate growth, and growth. In choosing which is best for you, remember that bonds are considered less risky than stocks and that generally US stocks are considered less risky than international stocks. For example, let's look at the Vanguard options. This fund company offers life strategy for the most conservative investor (top below) to the least (bottom below):

Life Strategy Income Fund—30% stocks, 50% bonds, 20% short term reserves (like cash).

Life Strategy Conservative Growth—50% stock including international, 30% bonds and 20% short term reserves (like cash).

Life Strategy Moderate Grow—70% stocks, 30% bonds.

Life Strategy Growth Fund–90% stock including international, 10% bond.

Notice that the top most conservative fund contains 50% bonds whereas the bottom least conservative contains 10% bonds. Since bonds are generally considered the least risky component of an investment portfolio, they are a major component of a conservative one. The two funds that are sandwiched between the least and most conservative contain a figure mid way-between 10% and 50%, 30% bonds.

A cautious or older doctor may choose the more conservative funds in an effort to sleep at night. This careful person is fearful of losing money in an economic downturn and this possibility is less likely with conservative funds. The older person, who is nearing retirement, can't afford to lose money because then it won't be available when needed. Therefore, this person has to be more conservative.

Others feel more comfortable with the less conservative funds, knowing that historically they tend to bring a better return over time or because they are young and have time to recoup losses, should they occur. Alternatively, if you are the type of person who cannot decide which camp you are in, an investment advisor may be more suitable for you. We will take that option up in another blog.

On Target
Most people invest in target funds because they are building up their nest egg for their golden years. Target funds become more conservative as the investor reaches retirement age. The target date for the fund is the date at which you plan to retire. For example, if you are age 43 and plan to retire at 65, you could safely choose a target retirement 22 years from now, which would be 2030. If you are age 50 and plan to retire at 60, you would want a target 10 years from now. Therefore, you would have to split you target between 2015 and 2020.

With each of these funds, the percentage of bonds increases as the fund gets closer to the chosen retirement date. Notice that the nearer retirement date of 2010 below contains more bonds, 46%, whereas the more distant retirement date of 2025 contains less, 22%. This is because bonds provide safety from the fluctuations of the market. In this way, you know you will have ready monies when you do retire. The Vanguard target funds below go from eminent retirement (top, 2010) to a more distant retirement date (bottom, 2025):

Target Retirement 2010: 54% stocks including international, 46% bonds.

Target Retirement 2015: 63% stocks including international, 37% bonds, 5% short term reserves (including cash).

Target Retirement 2020: 71% stocks including international, 29% bonds, 12% short term reserves (including cash).

Target Retirement 2025: 78% stocks including international, 22% bonds and 14% short term reserves (including cash).

This pattern continues through 2050 every five years. Stocks go up in the portfolio as the target date lengthens. Conversely, they go down as the target date shortens. In other words, as the doctor reaches the target date, the mangers of the portfolio will automatically make it more conservative (more bonds) every five years.

Vanguard is not the only low cost provider of life cycle funds. Fidelity and T. Rowe Price are competitive too. So, if you are "time-starved," these options might be right for you.

There are some downsides for the life cycle funds, but for a person with little time, they are minor in my opinion. The negatives include "One size fits all." The funds also tend to be underweighted in certain areas like small stocks. In addition, they don't contain any real estate and other investment classes that could lead to a better return over a prolonged period. Nevertheless, the convenience is attractive and in many cases, better than other more costly options.