



# WINTHROP PARTNERS

*Wealth Planning & Investment Management*

*Wealth Management for Today's Medical Professionals*

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## OBJECTIVES OF THIS PRESENTATION

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1. Introduction
2. Different Types of Advisors
3. Savings and Investing Trends Among Doctors
4. Managing Career
5. Four Pillars of Wealth Management

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## WHO ARE WINTHROP PARTNERS?

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- **Wealth Management firm focused on medical professionals in Buffalo, Pittsburgh, and Philadelphia**
  - . Fiduciary responsibility throughout entire client relationship
    - We are required to always act in the best interests of our clients.
  - . Personalized wealth planning
    - Much more money is made and lost outside of the investment world than inside. Planning for insurance, taxes, debt management, and other needs comes before investing.
  - . Fee-only compensation
    - No commissions, trails, or proprietary products. Fee-only compensation limits conflicts of interests, and we do better when our clients do better.
  - . Investment management coordinated with wealth plan
    - We build broadly diversified portfolios using stocks, bonds, and ETFs. We seek to maximize risk adjusted returns by using the most efficient investments for each asset class.

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## OUR PEOPLE

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### **Ryan Carney**

Ryan is Managing Director of Winthrop Partners' Buffalo office. He earned a degree in Economics and Finance from Bowdoin College and is passionate about personal finance and investing. Ryan is the trader for all portfolios and assists with investment analysis and wealth planning. He is currently pursuing a CFP® designation.



### **Brian Werner, CFA®, CFP®**

Brian serves as the Managing Director of Winthrop Partners' Pittsburgh office and as Chief Investment Officer. Brian has over 20 years of experience in investments and financial planning. Most recently, Brian served as First Vice President of First Niagara's Western Pennsylvania Private Client Services. Brian is a Chartered Financial Analyst and Certified Financial Planner, one of a select few advisors in the country who holds both designations.



### **Thomas Saunders**

Tom is the Managing Director of Winthrop Partners. He has over thirty years of experience in the financial services industry with some of the nation's largest and most highly regarded firms. His background includes senior management positions in the investment management, trust, wealth management, private banking, private equity, mergers & acquisitions, and commercial banking fields. Tom is based in the Doylestown, PA office.

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## DIFFERENT TYPES OF ADVISORS

How they make money, what conflicts they have, and how to identify them

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## BROKERS AND BANKERS

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**Broker:** An agent who arranges transactions and receives commission.

- . Regulated by FINRA
- . Found at:
  - Large Broker-Dealers and Banks (Merrill Lynch, Morgan Stanley, Edward Jones)
  - Insurance Companies (AXA, MassMutual, Northwestern Mutual, Alliance Advisory Group)
  - Local Broker Dealers
- . Commission and trail based compensation, proprietary products
- . Held to the “Suitability” standard. Brokers and bankers are allowed to consider their own interests and the interests of their firm before those of their client.
- . Point of sale advice – front-loaded compensation
- . Brokers generally do not manage portfolios – they sell products that are managed by others.

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## REGISTERED INVESTMENT ADVISOR (RIA)

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**Investment Advisor:** Any person or group that makes investment recommendations or conducts securities analysis in return for a fee.

- . Regulated by SEC
- . Found at:
  - Banks, Broker Dealers and Insurance companies (dual registration of advisors – both broker and investment advisor)
  - Independent Firms (generally only registered as investment advisors)
- . Fee-only compensation. Fee often charged as percentage of assets under management; advisor does better when the client does better.
- . Held to the “Fiduciary” standard of doing business. RIAs must always place the interests of their clients before their own.
- . 3<sup>rd</sup> Party custodian – safeguard client assets, access to resources and backing of large financial institutions while maintaining independence.

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## BROKER/BANKER VS. INVESTMENT ADVISOR

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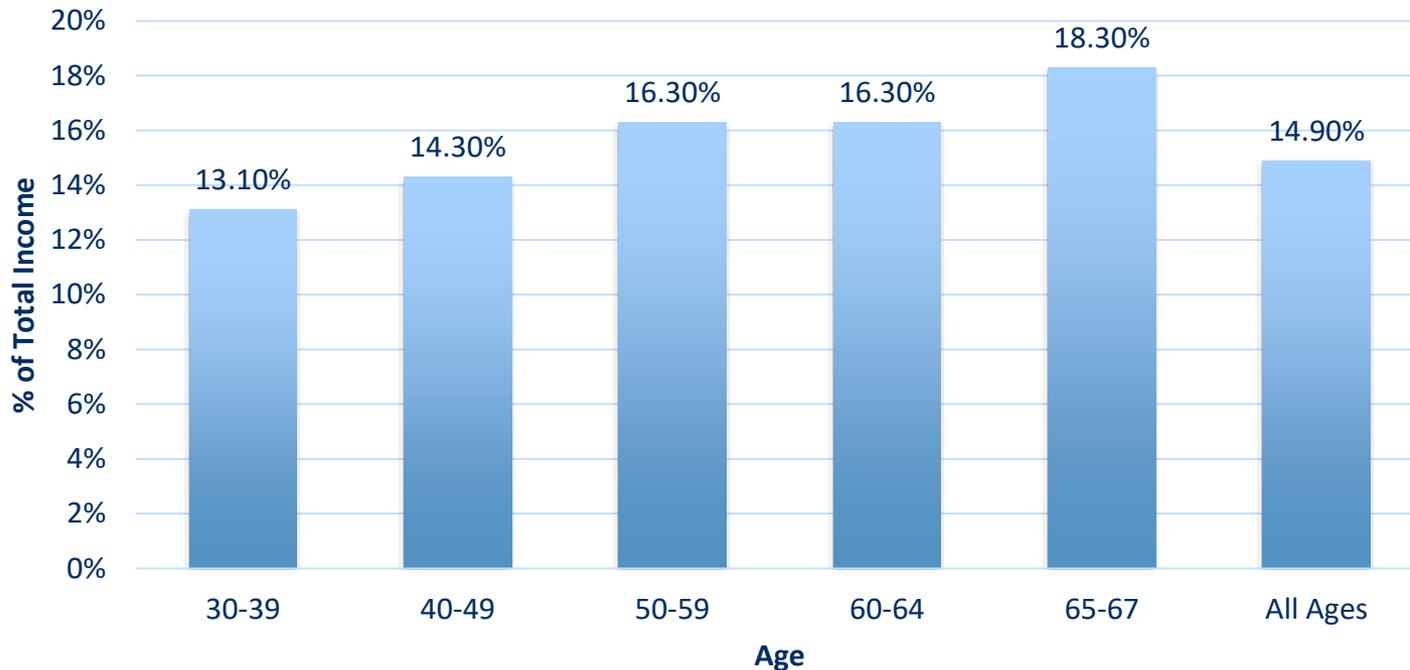
### Conclusions:

- RIA compensation aligns the advisor's and client's interests. Better suited for comprehensive, relationship-based wealth management.
- Substantial growth in assets of RIA market
  - In 2015, RIA assets grew 6.2%
  - Rest of advisor market grew 0.9%
- “Fiduciary” rule from Labor Department being delayed by new administration
  - Would force brokers to act as fiduciaries when advising on retirement assets (IRAs, 401(k)s)
- RIA market continues to gain clients and advisors at the expense of banks, broker-dealers and wirehouses.

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# SAVINGS AND INVESTING TRENDS AMONG DOCTORS

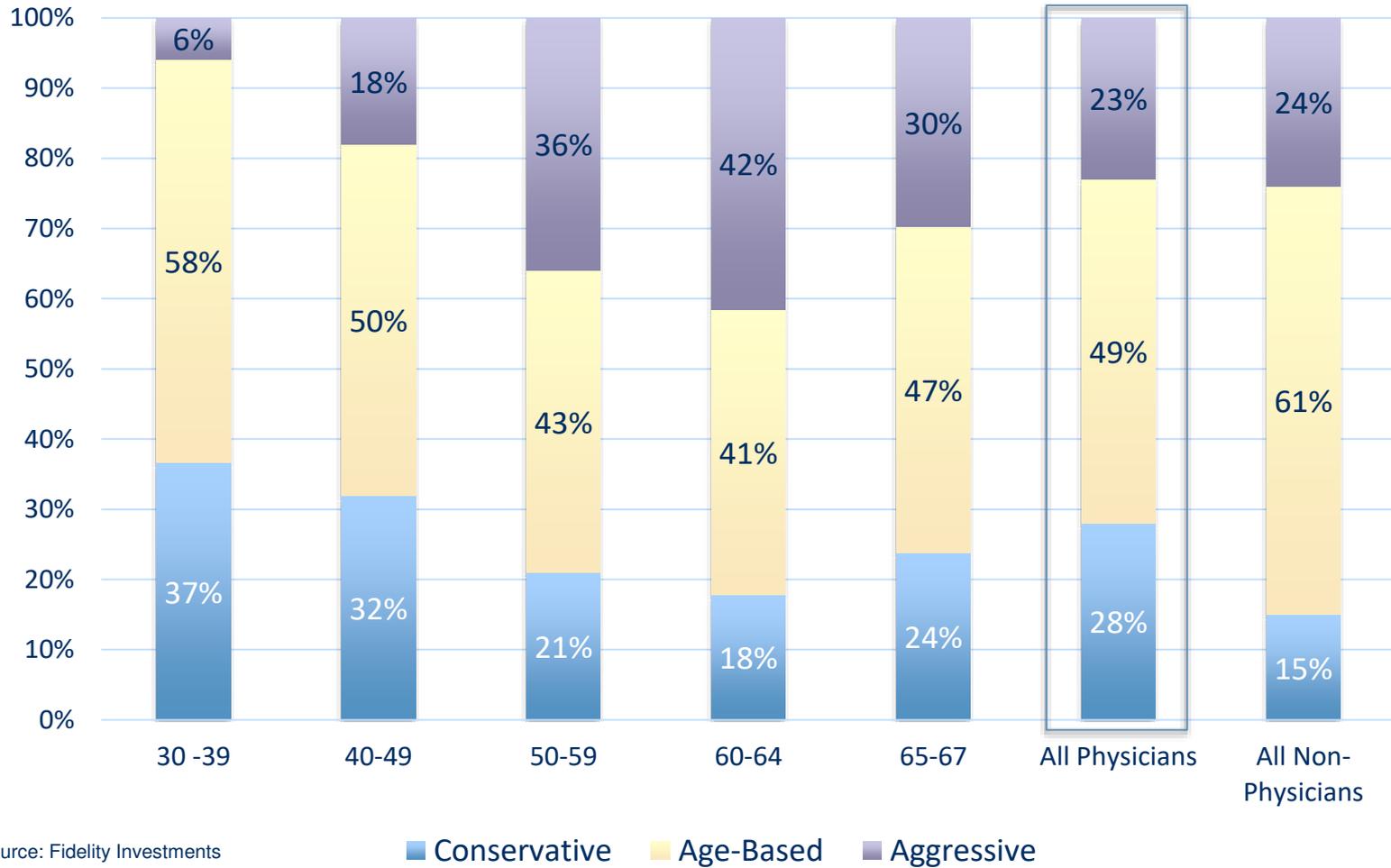
## Physicians' Total Savings Rates



Source: Fidelity Investments

- Younger physicians have higher debt levels, more family expenses, etc.
- Compound interest!

## Physicians' Asset Allocations based on Age



# COMPOUND GROWTH EXAMPLES

<i>In Practice Retirement Plan</i>	<u>EXAMPLE 1</u>	<u>EXAMPLE 2</u>	<u>EXAMPLE 3</u>
<b>Annual Savings</b>	\$15,000	\$30,000	\$45,000
<b>Years to Retirement</b>	30	15	7.5
<b>Compounded Rate of Return</b>	6%	8%	10%
<b>Ending Dollar Value</b>	<b>\$1,400,000</b>	<b>\$940,000</b>	<b>\$425,000</b>

# INCOME TAX REDUCTION AND SAVINGS

## For employee (W-2) Physicians:

- 401(k), 403(b)
- \$18,000 limit (\$24,000 over age 50)

### Features:

- Immediate tax deduction for contributions
- Gains and dividends are taxed at ordinary income rates when withdrawn
- “ERISA qualified” plans are protected from creditors

## For Self-Employed (1099) Physicians:

- **SEP-IRA:** Traditional IRA with higher limits (lesser of \$54,000 or 25% of compensation)
  - Easy to set up, little administrative responsibilities
  - Good option if self-employed with no employees
- **SIMPLE-IRA:** Similar to SEP with more responsibilities for contributing to employee accounts
- **Solo 401(k):** \$54,000 limit (\$6,000 catch up over age 50)
  - More administrative responsibilities and fees than SEP/SIMPLE
  - Potentially able to save more (with same income level) than with a SEP or SIMPLE
  - Loans are allowed

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## INCOME TAX REDUCTION AND SAVINGS

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### Personal Savings Vehicles

#### IRA, Roth IRA, Health Savings Accounts

- \$5,500 limit (\$6,500 over age 50)
- Can be funded in addition to 401(k), SEP, SIMPLE, and other qualified plans

#### Features:

- Traditional IRA – deduction in year of contribution, withdrawals taxed at ordinary income rates when withdrawn
- Roth IRA – contribute with after-tax dollars, withdrawals are tax free after 59.5
  - Income phase-out over \$118,000. Young Physicians should fund Roth ASAP
- “Stealth” and “Backdoor ROTH” IRAs
- IRAs are protected from creditors in New York State

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## INCOME TAX REDUCTION AND SAVINGS

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### Conclusions:

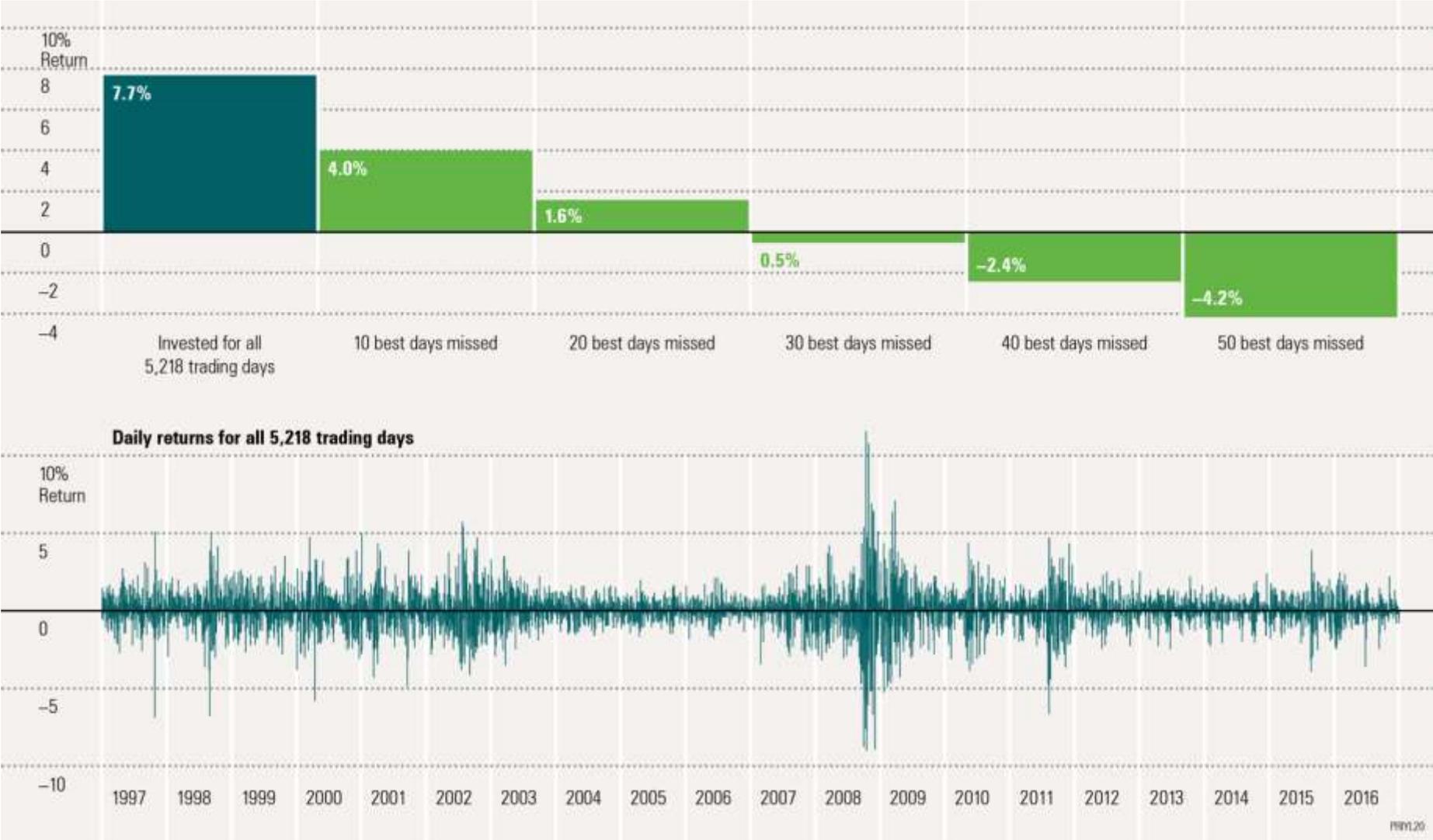
- Physicians are on track to replace 56% of their ending income, falling short of suggested income replacement levels.
- Social Security may only replace 10-15% of physicians' salary
- Only 40% of physicians under age 50 maximize savings under IRS limits
- Average pre-retiree physician has overly aggressive asset allocation
- Financial plan & guidance is recommended in order to ensure IRS savings limits are being reached and physician has plan to replace income throughout retirement.

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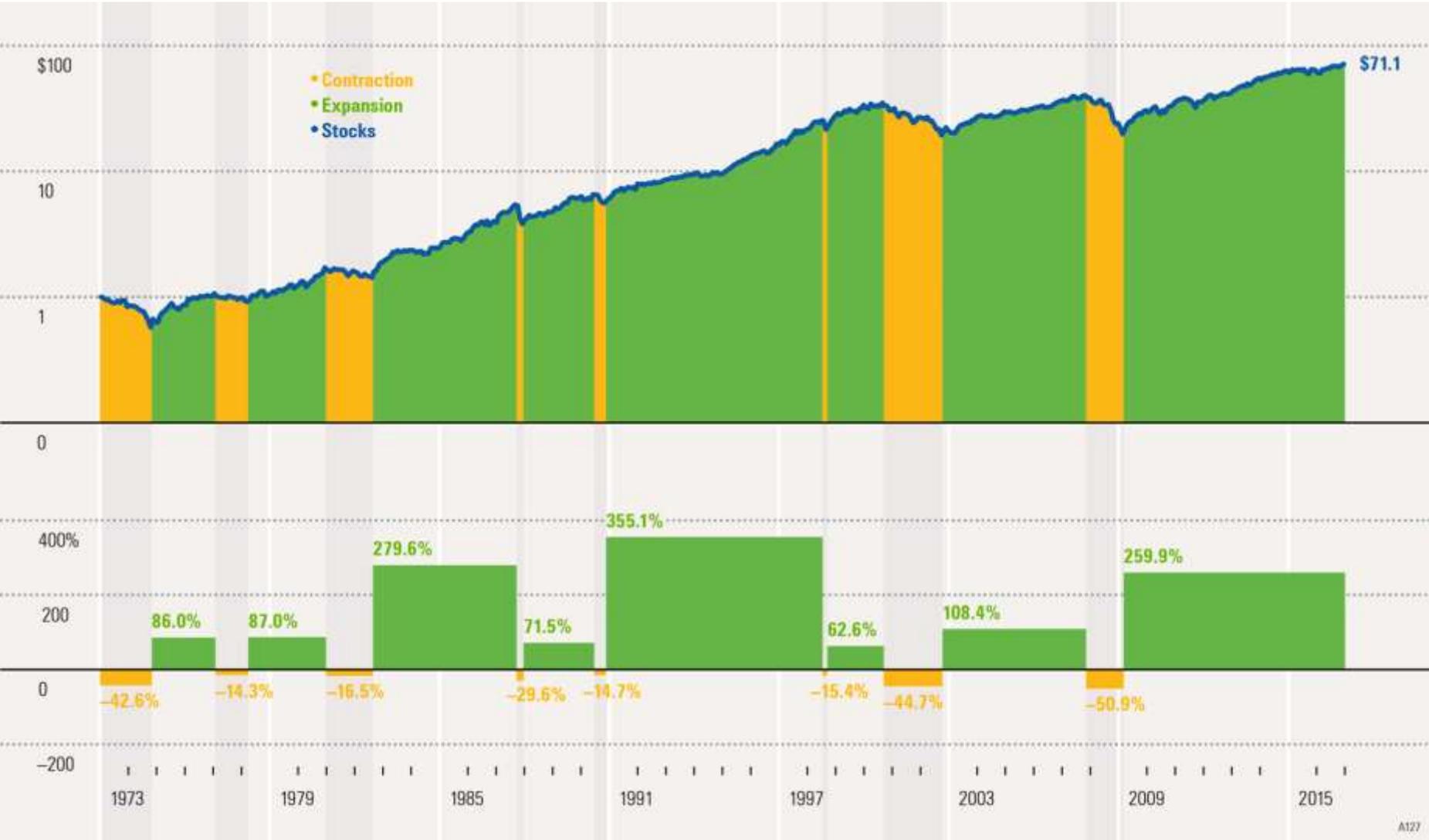
# INVESTING PRINCIPLES

Crucially important facts to consider when investing

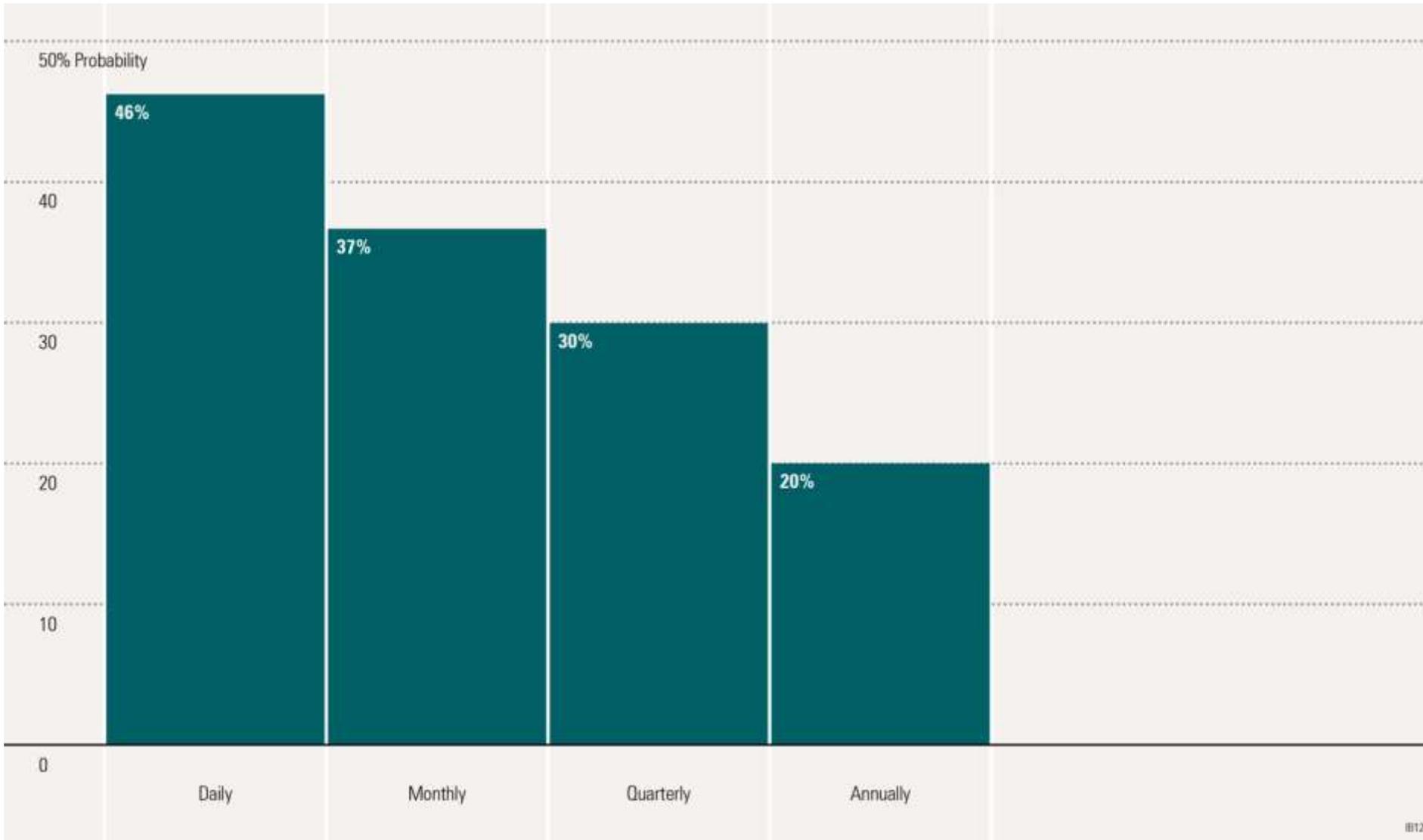
# THE COST OF MARKET TIMING (1997 – 2016)



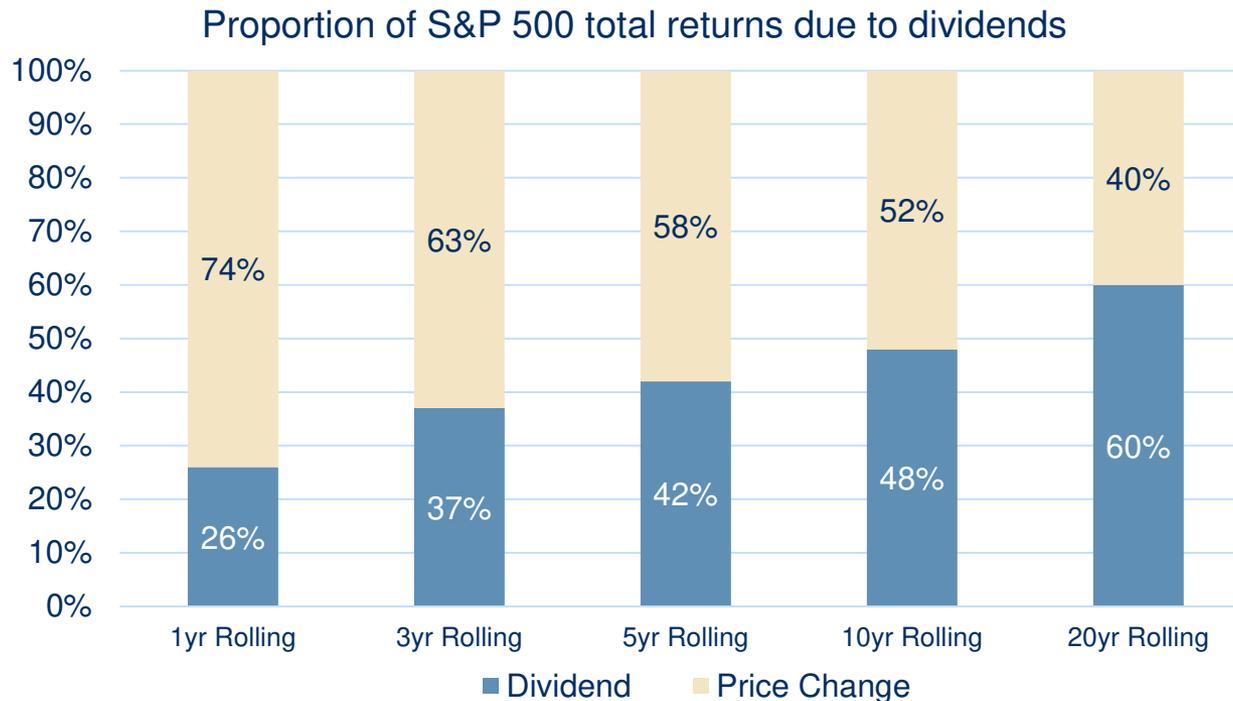
# THE COST OF MARKET TIMING: EXPANSIONS VS CONTRACTIONS



# PROBABILITY OF LOSING MONEY IN THE MARKET (1997 – 2016)



# THE IMPORTANCE OF DIVIDENDS



- Over an average 10yr holding period, dividends accounted for 48% of total return.
- Having a high dividend yield allows a portfolio to produce more cash in bear markets. This provides an extra cushion and an opportunity to take better advantage of lower prices.

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## Conclusions:

- “Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves” (Peter Lynch)
- Missing the top 0.19% days (19 of 10,000) cuts returns nearly in half
- Asset Allocation accounts for 92% of long term returns, while investment selection and market timing account for less than 5%.
  - Investors don’t suffer low returns or missed goals because they picked the wrong small-cap fund. They suffer due to mistakes and inconsistencies in long term asset allocation
- Diversify, Globalize, Rebalance

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# Why do we study the common Fruit Fly?

## *An Allegory*

We Study the Fruit Fly not because it is exactly like us;

But because the fly shares 75% of its genetic traits with Humans; and

Because the fly's short lifespan allows us to quickly witness genetic changes over many generations.

MD  
NBA

# HIGH EARNING PROFESSIONALS WITH SHORT CAREERS

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Average Career length:	4.5 years
Maximum Career length:	20 Years
Average annual earnings:	\$6.2MM (Headed to \$10MM in 2020)
Average Career Earnings:	\$28MM
Highest Annual Earnings:	\$35MM
Highest Career Earnings:	\$325MM (25 made more then \$150MM)
% Bankrupt 5YRs after Retirement:	60%

These are Statistics for Professional Basketball Players In the NBA

NBA Players are not be exactly like Physicians, but the two share many common attributes

# SIMILARITIES & DIFFERENCES

Similarities	NBA Players	Physicians
Begin Careers with Low or Negative Net Worth	✓	✓
Peak Earnings Achieved Relatively Quickly	✓	✓
Comparitively Short Careers	✓	✓
Illness or injury that wouldn't sideline other careers can terminate an NBA player or Physician's Career	✓	✓
Viewed as prominent members and role models of your community	✓	✓
Frequent Targets of Litigation	✓	✓
Divorce rates are much higher than average	✓	✓
Overestimate the length and strength of their earnings stream	✓	✓
Tend to overspend, borrow too much, and save to little in the early years	✓	✓
Investment style does not comport with their investment goals creating expectation gaps	✓	✓
Law Suits, Divorce, Malfeasance, and poor tax planning have decimated individuals balance sheets	✓	✓
Differences	NBA Players	Physicians
Average Height Greater than 6'7"	✓	
Advanced Degrees are required		✓
Decisions are made on emperical evidence and then monitored/alterd based on analytical feedback		✓
Smoking Marijuana in the "off season" is endorsed by your union	✓	
Empathy is a required professional trait		✓

# CAREER ENHANCEMENTS THAT MAKE THE DIFFERENCE

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- Players and Physicians face similar risks and earn comparable career compensation, but a higher proportion of Physicians are better positioned for retirement.
- Physicians eventually tend to take the following prophylactic steps to insure that they will retain, or if necessary, replace their earnings. They:
  - Engage qualified Legal, Accounting, Practice Management, Tax and Investment professionals early in their career.
  - Negotiate (using attorneys) balanced and enforceable employment contracts and partnership agreements.
  - Establish asset protection trusts and utilizing Pre-nuptial agreements
  - Purchase adequate property casualty and liability insurance
  - Customize malpractice insurance with reputable carriers
  - Select appropriate levels of disability insurance

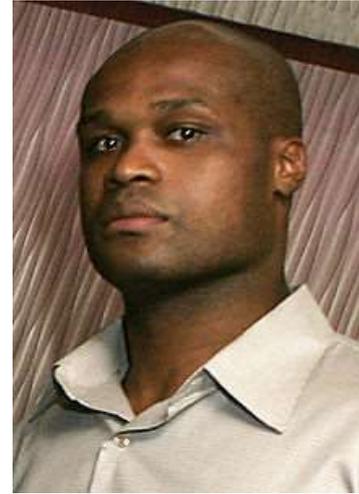
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## BE THIS GUY



Kevin Garnett has a lot to smile about.  
#1 All Time Earner \$326,362,956.  
Garnett's net worth was estimated to be more than \$300MM at the time of his retirement.

## NOT THIS GUY



Antoine Walker earned \$108 million in salary while playing in the NBA, but had to declare bankruptcy in 2010 due to bad real estate investments and gambling

# Successful wealth building strategy

**Investment  
management**

**Trust,  
Estate, &  
Asset  
Protection**

**Retirement &  
Tax Planning**

**Insurance  
Planning**

# RETIREMENT & TAX PLANNING

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- . Understand and Maximize Pretax Saving options
- . Additional 0.9% Medicare tax on certain wages
- . New Medicare tax (3.8%) on certain investment income
- . Top Tax Rates increase on ordinary income to 39.6%
- . Top Tax Rates on cap gains & dividends to 20% (plus 3.8%)
- . Business Tax vs. Individual taxes
- . SAVE EARLY SAVE OFTEN
- . Find a good CPA – understands your needs, calls you back, and coordinates with advisors

# INSURANCE PLANNING - LIFE INSURANCE

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## ➤ Term Policy

- Most cost effective – best bang for your buck!
- **“Term and invest the rest”**
- Protection for family members in the event of premature death

## ➤ Cash Balance Policies

- Whole Life, Universal Life, Variable Life, etc.
- Investment earnings may grow tax-deferred
- Not an effective investment tool (Costly and Inefficient)

## ➤ Irrevocable Life Insurance Trust

- Provides tax benefits and extra asset protection

## ➤ **Eliminate Conflicts of Interest – Separate Buying from the Planing**

# DISABILITY INSURANCE

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- Important to protect income, pay for student loans, maintain lifestyle
- Group policies may be restrictive / **Individual Policy**
  
- **“Own Occupation”**
  - Most liberal definition of disability. Ideally purchase a policy with the longest “own occupation” period available
  - Surgeon who injures hand can receive benefits while working in another field of medicine
  
- We do not sell insurance, we advise doctors on the best insurance for them and their families
  
- **Umbrella Policy – Get one**

➤ **Get your wills done!**

- This is especially important if you have children

➤ **Wills**

- Guardianship is key if you have kids
- Should encompass all assets – nothing missing
- Should be portable if you move states
- Should empower your children but it is okay to rule from the grave

• **ASSET PROTECTION**

# INVESTMENT MANAGEMENT

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- Diversify across asset classes
- Globalize the portfolio
- Rebalance
- Develop holistic portfolio using tax efficiencies
- Avoid unnecessary risk – minimize standard deviation of returns
- **“If something sounds too good to be true, it probably is”**
- **If someone says “Annuity” Run**

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## TALES FROM THE CRYPTS – LESSONS LEARNED

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- Don't be oversold
  - Insurance
  - Elaborate Asset Protection
  
- Save Early Save often – Have a plan
  
- Private Equity Real Estate
  - Is it too good to be true
  - Liquidity
  
- “Debt”
  - Must be managed
  
- Investment
  - Know what your paying and how everyone is getting paid

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# INVESTING PRINCIPLES

Pertinent facts and themes about investing

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## THE FIDUCIARY ADVISOR ADVANTAGE

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### *Customized guidance based on your specific financial situation*

We are not tied to any particular family of funds or investment products like many of the advisors at larger firms. We have the freedom to analyze each client's situation personally and build an investment program that fits their specific needs and goals.

### *A personal, responsive and attentive relationship*

We build deep relationships with our clients and hold ourselves personally accountable. As Fiduciaries, we are on the same side of the table as our clients.

### *A fee structure that is simple and transparent*

We generally charge a fee based on a percentage of assets managed. No commissions or third party fees; our clients know exactly how much we are being paid, and we do better when our clients do better.

### *A high level of expertise*

We support our clients on a range of topics and hold a deep level of knowledge on personal finance. Whether it's investments, sale of a business, insurance planning, trusts, or any other financial consideration, our team has the resources and network to provide expert advice.

### *Your money is held by an independent custodian, not the advisory firm*

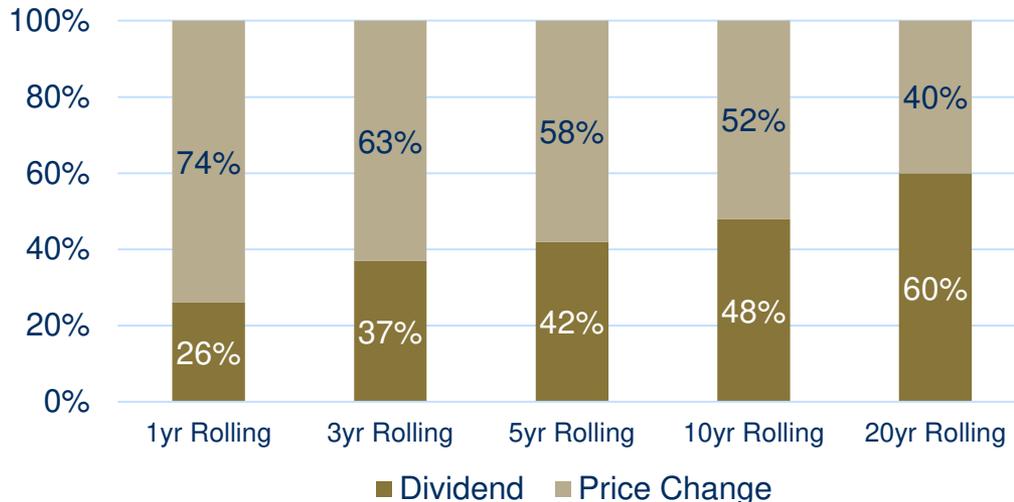
Your money is not held by the same person that is advising you on how to invest it. We use a nationally recognized custodian, Raymond James, to hold our clients' assets. This provides a system of checks and balances and assurances that our clients' assets are safe.

## OUR INVESTING PRINCIPLES THE IMPORTANCE OF DIVIDENDS

### Portfolio Considerations and Stats:

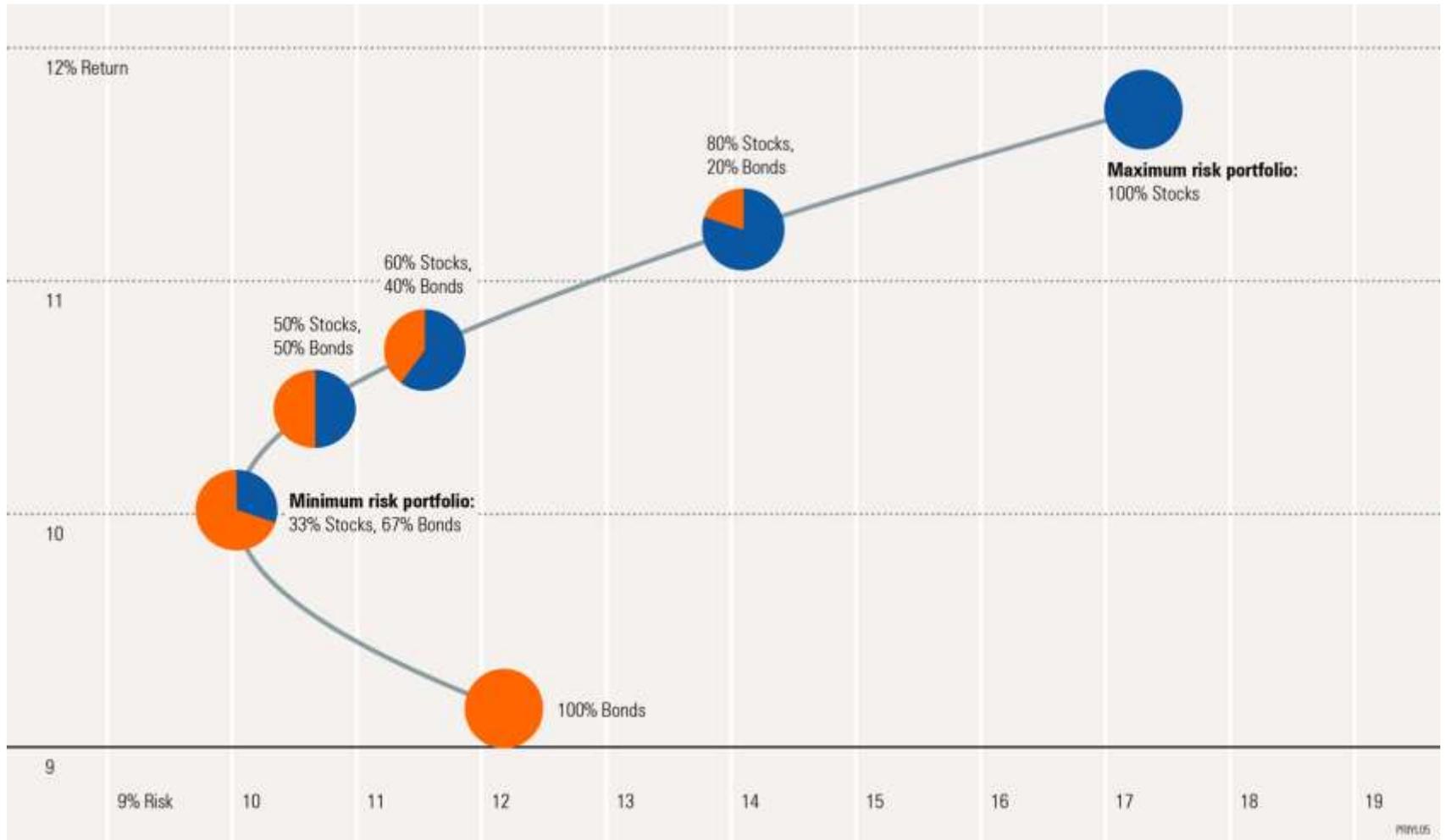
- 92.5% of a portfolio's return is attributable to its mix of asset classes while only 7.5% is attributable to individual investment selections and market timing. Translation: returns are driven by the general investment "classes" chosen rather than the specific stocks or funds chosen.
- Over time, dividends become a larger portion of total return than absolute price change of the underlying investment. See chart below.

Proportion of S&P 500 total returns due to dividends



- Over an average 10yr holding period, dividends accounted for 48% of total return.
- Having a high dividend yield allows a portfolio to produce more cash in bear markets. This provides an extra cushion and an opportunity to take better advantage of lower prices.

# OUR INVESTING PRINCIPLES STOCKS AND BONDS: RISK VERSUS RETURN 1970 – 2015





**Ryan J. Carney**

***Managing Director***

(716) 597-3007

[Ryan.Carney@WinthropPartners.com](mailto:Ryan.Carney@WinthropPartners.com)

**Thomas Saunders**

***Co-Managing Member***

(267)454-4585

[Thomas.Saunders@WinthropPartners.com](mailto:Thomas.Saunders@WinthropPartners.com)

**Brian Werner**

***Co-Managing Member***

(412) 480-1291

[Brian.Werner@WinthropPartners.com](mailto:Brian.Werner@WinthropPartners.com)