

Rx for Your Portfolio

Do your investments work as hard as you do? They should. Whether you're an intern, resident, chief of staff or private practitioner, you've got career goals that you are working toward. While the specific approach that you take to pursue those goals is based on your needs and personality, your progress can be measured and your strategy updated as necessary. This same customized, goal-oriented methodology should also apply to the design, construction, and maintenance of your investment portfolio.

Diagnose Your Needs

Why are you investing? What do you hope to achieve? How quickly do you want to reach your goal? How much risk are you willing to take? How well would you sleep tonight if your portfolio had dropped 10% today? Does your spouse have investments? Do they complement yours? The answers to all of these questions and more come together to help you make decisions about the types of investments that you should have and the percentage of your portfolio that each investment should represent. The composition that you decide upon is known, in investment terms, as your "asset allocation."

The Most Important Decision You Can Make

A Nobel Prize-winning study published in 1952 recognized that asset allocation has a greater impact on portfolio return than any other decision an investor can make. A portfolio composed of aggressive investments exposes investors to greater risk, but should theoretically provide higher returns. Conversely, a conservative portfolio offers less risk, but the tradeoff for safety is likely to be lower returns. The key then is to find an asset allocation that strikes a balance between the statistical likelihood of a given return and your willingness to accept the associated level of risk. It's not as easy as it sounds.

Asset Allocation is as Complex as Life Itself

Determining an appropriate asset allocation is not a one-time decision. The issues that are important to a doctor fresh out of school may be dramatically different than the issues that are important to a senior-level physician. Debts, salaries, family concerns and lifestyle decisions all play a role. While many investors have seen so-called "asset allocation quizzes" (answer a handful of questions, get an asset allocation recommendation), these simple, cookie-cutter solutions don't provide an adequate replacement for a well-constructed financial plan where your asset allocation changes in tandem with your needs, means and priorities. If you have financial needs that require more attention than a busy lifestyle affords, or dynamic goals that aren't adequately addressed by a one-size-fits-all approach, consider seeking assistance from a professional financial advisor.

