

AI-04521 Cost of Financial Adviser vs DIY

Calculate the true cost of using a financial adviser for a dual-physician (MD) couple with approximately \$6 million in investable assets over the next 30 years. Include the impact of advisory fees, lost compounding, and potential opportunity costs.

Evaluate whether these retired or near-retired physician couples (Boomer generation) can realistically learn to manage their own investments now that they have direct access to their Fidelity accounts. Discuss the knowledge, tools, discipline, and systems required to successfully manage a \$6M portfolio without relying entirely on a financial adviser.

If you were a close friend advising them, what would you tell them? Provide a best-known-method (BKM) approach covering:

- Whether to keep, reduce, or eliminate financial adviser involvement
- How to evaluate their current portfolio
- How to simplify investments while preserving wealth
- Tax planning strategies for the next 30 years
- Risk management and estate considerations
- A transition plan from adviser-dependent to financially independent

Evaluating a \$6M investment portfolio and transitioning to self-management is a critical decision for high-earning households. For a dual-physician couple, managing \$6 million in investable assets involves specific trade-offs regarding fee drag, mental load, and control.

1. The True Cost of a Financial Adviser (\$6M Asset Base)

Financial advisers typically charge an Assets Under Management (AUM) fee that scales downward as assets rise. On \$6M, a tiered fee schedule usually averages **0.65% to 0.80% annually** (\$39,000 to \$48,000 in Year 1).

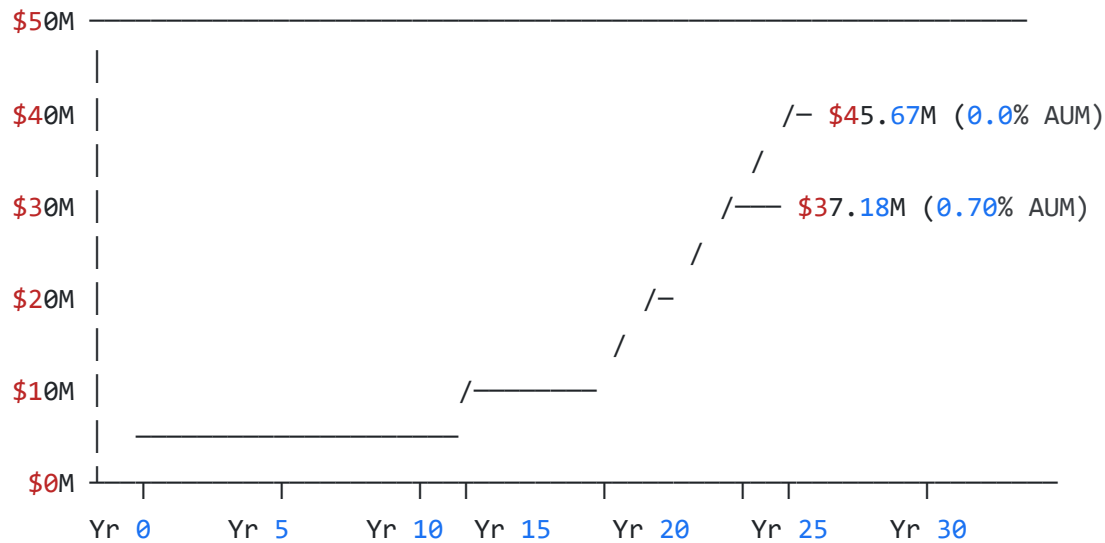
30-Year Mathematical Impact

Assuming a baseline **7.0% nominal annual market return** before fees, a **0.70% AUM fee** lowers the net annual return to **6.30%**.

$$\text{Value without fee} = \$6,000,000 \times (1 + 0.070)^{30} = \$45,673,558$$

$$\text{Value with 0.70\% fee} = \$6,000,000 \times (1 + 0.063)^{30} = \$37,178,573$$

$$\text{\text{\$}\text{Total Fee Drag + Lost Compounding}} = \text{\$8,494,985}$$



The Cost: Over 30 years, paying a 0.70% advisory fee consumes **over \$8.4 million** in direct fees and lost compounding potential—representing **18.6% of the portfolio's potential terminal wealth**.

2. Can Retired Physician Couples Self-Manage?

Yes, absolutely. Physicians possess the analytical mindset and scientific rigor necessary to execute a disciplined investment protocol. However, the primary risk in self-management is **behavioral, not technical**.

Required Capabilities & Infrastructure

- Knowledge:** Understanding basic asset allocation, tax-location mechanics, and the mechanics of drawdowns (e.g., Safe Withdrawal Rates around 3.5–4.0%).
- Tools:** Access to modern platform features (such as Fidelity's account aggregation, automated rebalancing alerts, fixed-income ladders, and tax-loss harvesting logs).
- Discipline:** The emotional detachment required **not to sell** during a market drop (e.g., a 30–40% drawdown means watching \$6M temporarily drop to \$3.6M without panicking).
- Systems:** A documented **Investment Policy Statement (IPS)** outlining clear rules for rebalancing, asset allocation, and cash buffer maintenance.

3. Best-Known-Method (BKM) Plan

Phase A: Financial Adviser Involvement

- **Action: Eliminate continuous AUM management.** Transition to an **Advice-Only, Hourly, or Fixed-Fee Advice** Certified Financial Planner (CFP) / CPA team.
- **Execution:** Pay \$3,000–\$5,000 flat for periodic (e.g., bi-annual or major life event) reviews, tax strategy alignment, or estate audits, saving ~\$40,000+ per year in ongoing AUM fees.

Phase B: Portfolio Evaluation

1. **Audit Expense Ratios:** Check every fund currently held for high expense ratios (>0.20%) or wrapped products (e.g., whole life policies, expensive annuities, or actively managed mutual funds).
2. **Map Asset Locations:** Ensure assets sit in their tax-optimal locations:
 - **Taxable Accounts:** Total Market stock index funds (e.g., Fidelity's FSKAX , FTIHX or zero-fee options FZROX , FZILX), municipal bonds.
 - **Tax-Deferred (Traditional IRA/401k):** High-yield fixed income, REITs, bonds.
 - **Tax-Free (Roth IRA/401k):** High-growth equities (Tech, US Small Cap, Global Growth) to maximize tax-free compounding.

Phase C: Portfolio Simplification

Replace complex multi-fund structures with a **Three-Fund or Four-Fund Core Portfolio:**

Asset Class	Fidelity Implementation Examples	Allocation Range (Near-Retirement)
US Total Equities	FSKAX (Total Market) or FXAIX (S&P 500)	40% – 50%
International Equities	FTIHX or FSPSX	10% – 20%
US Fixed Income / Treasuries	FXNAX (US Bond Index) or Treasury Ladders	30% – 40%
Cash Buffer	SPAXX / Short-Term Treasury Bills	2 Years of Spending Needs

Phase D: Tax Planning Strategies for Retirement

- **Roth Conversions (The "Bridge Years"):** Convert pre-tax IRA dollars to Roth IRAs during lower-income years between retirement and required minimum distributions (RMDs) at age 73/75. Aim to fill up to the 22% or 24% federal tax bracket.
- **Withdrawal Sequencing:**
 1. Taxable dividends / cash buffers.
 2. Taxable capital gains up to preferential tax thresholds.
 3. Pre-tax traditional accounts (up to targeted tax brackets).
 4. Roth accounts (saved for late-in-life or estate transfer).

- **Charitable Strategies:** Use **Donor-Advised Funds (DAFs)** to donate highly appreciated stock directly, or execute **Qualified Charitable Distributions (QCDs)** directly from IRAs once reaching age 70½.

Phase D: Risk Management & Estate Considerations

- **Asset Protection:** Maintain \$2M–\$5M in **Personal Umbrella Insurance** policies to protect against non-medical liability risk.
- **Estate Structure:** Ensure revocable living trusts are properly funded and accounts have correct beneficiary designations (TOD/POD) to avoid probate.
- **Cognitive Backstop:** Document a clear "In Case of Incapacity" roadmap so a spouse or trusted child can seamlessly take over account operations.

4. Step-by-Step Transition Plan

1.Document the Strategy (Create the IPS):Draft a clear 2-page Investment Policy Statement.

Write down the target asset allocation (e.g., 60/40 equity/bond split), rebalancing thresholds (e.g., when an asset class deviates by >5%), cash reserve levels, and drawdown plans.

2.Consolidate Accounts at Fidelity:Streamline account view.

Transfer accounts in-kind (to avoid triggering taxable events) into Fidelity self-directed accounts. Verify all dividend reinvestments and link primary banking connections.

3.Audit and Clean Up Holdings:Eliminate unnecessary fee drag.

Identify high-cost or redundant funds. Sell positions with low capital gains or losses first. For large embedded gains in taxable accounts, hold and manage around them rather than triggering major tax hits.

4.Establish Cash and Fixed-Income Buffers:Protect against sequence-of-returns risk.

Set aside 2 years of living expenses in high-yield money market funds (SPAXX) or short-term Treasury ladders to avoid needing to sell equities during market dips.

5.Formalize Advisory Disengagement:Transition to fee-only support.

Notify the existing adviser in writing. Shift to an as-needed, flat-fee CFP or CPA for periodic tax modeling and legal/estate reviews.

