

# Lessons From the COVID Crisis: How to Avoid a Wipeout



than buying a new CT scanner, or how much it costs to repave the parking lot.

It is possible that the current crisis will reverse the trend of physicians becoming hospital employees. Physicians in private practice were not immune to the effects of the economic downturn (see below), but, especially if they band together, the physicians previously employed by the hospital, or considering such employment, will appreciate that they have more control of their destiny in private practice.

## Private Practice Physicians

Unless they were still an associate and hadn't made partner, it would be very unlikely a physician in private practice would totally lose their job. But as you may be personally aware, many physicians in private practice suffered a significant drop in income. Ex: physicians who perform elective procedures, such as orthopedic, ophthalmology, etc., have gone from many highly remunerative procedures per week to almost none. But the expenses of running your practice are still there.

A further problem some private practice physicians have encountered is if you own practice-related real estate, or facilities that perform procedures, such as a surgery center, endoscopy suite, or cardiac diagnostic facility or catheterization lab. Not only are they making less, but they must come up with money to pay the help and service the expenses of the facility. A careful, hard-working physician's income is down 50%, yet their expenses are the same. They could be making nothing or even less.

## Debt

Debt is a financial 4-letter word. Debt is often considered as a percentage of one's income. Say you make \$30,000 per month, and take home \$20,000. Your mortgage is \$4,000 per month, you pay \$1,500 on student loans, and you have a car note for \$1,000 per month (As I have noted previously, the vehicle you can afford to drive is the one you for which you can buy with cash. A physician should not need a car loan). Your living expenses are \$5,000 per month. You're not even spending 60% of your take home, and even on bad months you save \$5,000 to \$6,000.

What if your income falls 50% (an obvious possibility where both spouses work)? As a percentage of income, your debt load has just doubled. Any further drop in income or increase in expenses, and things will get tight real fast. A basic principle of money management is that you should control your expenses so you can make it if your income is cut in half.

## Cash Cushion

It's standard advice for everyone to have at least 6 months of living expenses in risk-free cash or cash-equivalent investments, such as a checking account, money

This Editorial was written in late April. Hopefully by the time it appears in print there will be a return to some semblance of normalcy (a term coined by President Warren G. Harding).<sup>1</sup> There are several things to be learned from the crisis that have a general application.

## Employed Physicians

People are drawn to a career in Medicine for a variety of reasons, which include a solid upper middle-class income, and the well-deserved respect of your fellow man. Another reason was the allure of being your own boss.

But more recently many physicians preferred to be employed by a hospital, University, or large health care system. The reasons include a better ability to control total hours, a more set schedule, and not having to deal with the business side of Medicine, such as making payroll, hiring help, paying malpractice premiums, and dealing with insurance companies.

The COVID crisis has shown that when you are an employee, no different than a steelworker or a retail clerk, you can be fired. You are out of a job, on the street, pounding the pavement. These physicians have come to appreciate, the hard way, that even though they have an M.D. behind their name, to the hospital administrators, they are "providers," grouped with an RN, an X-Ray tech, or a transporter. You are a cost center to be controlled, no different

market, Certificates of Deposit (CDs), or Treasury notes. If you are retired, or nearing retirement, you should have at least 3 years of living expenses in such investments: it is quite painful to liquidate investments when the market is weak just to meet living expenses.

### How to Avoid a Wipeout

Ninety-nine percent of the time in your professional life you'll be making money, sometimes a lot of money, and sometimes you might be losing money. Other things being equal, you're OK. What the COVID crisis has shown, in spades, is that once or twice in your lifetime, something bad will happen. You need to be positioned to prevent that 1% chance of wipeout. The common denominator of all financial disasters is debt.

### Debt Makes You Vulnerable

*No debt, no bankruptcy*

I think people will come out of the current crisis with the same lessons seared into the psyches of our parents and grandparents from the Great Depression: Work hard, save your money, stay out of debt, and live within your means. And stay out of debt.

### Disclosure

Dr. Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a general nature, and should not be interpreted as personalized or individualized to your specific portfolio.

### Acknowledgments

Dr. Robert Doroghazi is a retired cardiologist who trained at the University of Chicago, the Massachusetts General Hospital, and Barnes Hospital. Warren Buffett said his book *The Physician's Guide to Investing: A Practical Approach to Building Wealth* should be "required reading at med schools". To sign up for a free trial to *The Physician Investor Newsletter*, visit [www.thephysicianinvestornewsletter.com](http://www.thephysicianinvestornewsletter.com)

Robert M. Doroghazi, MD\*

*The Physician Investor Newsletter, Columbia, Missouri*

\* Corresponding author: Tel: 573-443-0893.

([rdoroghazi@yahoo.com](mailto:rdoroghazi@yahoo.com)).

1. Russell F. *The Shadow of Blooming Grove: Warren G. Harding in His Times*. McGraw-Hill; 1968.