HERITAGE PERSPECTIVE

A QUARTERLY PUBLICATION OF HERITAGE INVESTMENT GROUP INC.

SUMMER 2016

Heritage Update

Don't Let the News Get the Best of You

Markets will always have their ups and downs. Employing an investment process that is objective and unemotional allows a higher level of comfort and a greater ability to withstand significant market fluctuations. Heritage employs a specific investment process based on discipline and objectivity; this has served our clients well over many market cycles, regardless of the headlines.

Heritage Salutes the Military

Heritage Investment Group employees, their families and close friends were pleased to be part of a national campaign led by the Daughters of the American Revolution to collect the most letters sent to active duty troops in one month. The DAR collected 100,904 letters to set a Guinness Book World Record. Heritage thanks all those who are currently serving in our armed forces, their families, and our veterans, for their service and sacrifice.

Summer Interns

Heritage summer internships give students the opportunity to learn about client service excellence and the financial services industry. We wish our interns, Mason Anderson (Univ. of Florida,) Arno Barre (Am. Business School, Paris) and Madeline MacLean (Rollins College) success in the upcoming school year and in their future endeavors.

EMPLOYEE PROFILE

Tracy McCarver

As a Partner and the Director of Trading and Operations, Tracy has been an integral member of the Heritage team since 2003. For the past year, she has been spearheading an effort to migrate all trading and portfolio management systems to a new platform allowing greater ease of use and efficiency for our team, and more importantly, for our clients. In her free time, Tracy can often be found hosting game night for friends. A lifelong Lighthouse Point resident, Tracy lives in town with her husband, Ian and daughter, Katie.

ABOUT HERITAGE

At Heritage Investment Group, we have built our business on the foundational principle that honesty is not optional, it is an obligation. As a family-owned and oriented business, we are invested in our people and we recognize that your trust must be earned, not won. As fiduciaries, we have a legal and ethical responsibility to put your interests before our own. As investors, we believe in the power of the capital markets to maintain and grow your wealth. As counselors, we will guide you with rationality and discipline.

Inside this Issue

"No legacy is so rich as honesty."

– WILLIAM SHAKESPEARE

The Ultimate Price of Bad Advice

"No enemy is worse than bad advice."

– SOPHOCLES

General John Sedgwick was the highest ranking Union officer killed in the US Civil War. He was shot by a sniper while advising his troops on artillery placements. His last words were, "Why are you dodging like this? They couldn't hit an elephant at this distance."

We have all received bad advice at some point in our lives, and as illustrated above, that is often dangerous. In a military context it can alter the battle and cost you your life. In the world of investing, bad advice can alter your lifestyle and cost you your life's savings. Hiring a financial advisor is therefore one of the most important financial decisions you will ever make. Hiring the wrong advisor could be financially devastating. To ensure that you are making an informed decision, you should ask the following questions before enlisting with any advisor:

Are you a fiduciary? If you want professional wealth management, select an independent, fee-only registered investment advisor (RIA). Advisory firms are often owned by or affiliated with companies that sell, create or otherwise broker investment products, and these advisors are therefore not independent. In addition, you should consider the question of fiduciary duty. A fiduciary is someone who is legally obligated to act solely in the interest of another party. It seems obvious that you would want your financial advisor to be held to a fiduciary standard, but the fact is that most brokers and insurance agents are not fiduciaries. A fee-only registered investment advisor, on the other hand, is a fiduciary and is obligated to act in the best interest of the client at all times. If you want to maximize the odds of receiving objective and unbiased financial advice, you should insist on working with a fee-only RIA.

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What are your qualifications? In order to become a licensed barber in Florida you must attend 1,200 hours of schooling and pass the State's board exam. In order to provide financial advice in Florida the minimum requirement is successful completion of the Series 65 examination, which typically requires 18 hours of classroom instruction and no practical investment experience. Apparently, the State of Florida views bad haircuts as a greater threat to its citizens than the loss of their life's savings, so it is imperative that you educate yourself regarding your advisor's qualifications. You should ask how long and in what capacity the advisor has been working in the industry. The advisor should provide details of her educational background (an MBA or finance degree is a plus) and any industry certifications such as Certified Financial Planner Practitioner (CFP), Certified Investment Management Analyst (CIMA), or the Chartered Financial Analyst (CFA) designation. While experience and certifications are no guarantee of competence, they can help you identify the true professionals.

What are your fees and how do you get paid? Usually when you buy a product or service, you know exactly what the price is. This is not the case in the investment world. For example, some investment providers can be compensated not only by direct fees to the client, but also by sales commissions, mark-ups on stocks and bonds and fee sharing arrangements with investment product providers. Some of these fees are often buried in fine print or not disclosed at all. In order to determine what your true total costs are, you should request full disclosure in writing of all compensation that your advisor receives and any conflicts of interest he may have. Ask the appropriate questions to determine if there are any hidden fees.

What services do you provide? Some advisors provide a full suite of wealth management services that includes ongoing investment management, retirement planning, tax optimization and estate planning. Others may not include ongoing service but will simply sell you a product rather than establish a relationship. Before signing any agreement with an advisor, you should clearly understand the level and duration of services to be provided and make sure they are consistent with your needs and expectations.

"You should choose an advisor who demonstrates an understanding of your unique goals and problems, and who has extensive experience in working with other individuals like you."

Who is your typical client? The best advisors tend to focus on a specific area of expertise. Some focus on clients of a particular occupation such as physicians or professional athletes. Others specialize in a specific period of the client's life such as divorce or pending retirement. You should choose an advisor who demonstrates an understanding of your unique goals and problems, and who has extensive experience in working with other individuals like you.

Choosing an advisor can be very difficult and making the wrong decision could cost you dearly. Well-laid plans are often jettisoned when the market environment gets difficult, and if you do not have a trusted advisor the outcome could be devastating. Asking these simple questions can help you sift through the opportunists and find the true leaders in the profession, and that can make all the difference on the financial battlefield.

The original version of this article was written by Heritage for the May 2015 edition of The Light, a local magazine serving Broward County, Florida.

Our Relationship with Investment Risk

Whether it's the fallout from the UK "Brexit" vote in June, more wild swings in oil prices, or the uncertainty surrounding the US presidential election, there is plenty of risk to go around as another busy summer draws to a close.

Is investing riskier than usual these days? In our experience, probably not. If there is such a thing as "normal" in this world of ours, risk is certainly built into the definition. Besides, investors often have a dysfunctional love-hate relationship with risk. Here are a few examples:

One: Risk is underestimated
It's one thing when we imagine risk and its potential impact on our lives and our investments. It's quite another when it really happens. In investing, underestimating risk can trick you into believing that you can tolerate far more of it than you actually can. As financial columnist Chuck Jaffe has wryly observed: "[A] common mindset is 'I can accept risks; I just don't want to lose any money.'"

Unfortunately, we can't have it both ways. When the risk comes home to roost, if you panic and sell, it's usually at a substantial loss. If you manage to hold firm despite your doubts, you will most likely be okay in the end, but it might inflict far more emotional distress than is necessary for achieving your financial goals.

Two: Risk is overestimated
On the flip side, we also see investors overestimate risk and its sibling, uncertainty. We humans tend to be loss-averse, which means we'll exaggerate and go well out of our way to avoid financial risk, *even when it means sacrificing a greater likelihood for potential reward*.

"In many ways, managing your investments is about managing the risks involved. Properly employed, investment risk can be a powerful ally in your quest to build personal wealth."

This summer has already provided several examples of investment risk. The US election and the Brexit vote will continue to impact the markets in unpredictable ways. Then there are the usual suspects, such as oil prices, slow growth in China, Greek bailouts, continued Middle Eastern unrest, and so on.

We don't mean to downplay the real influence world events can have on your personal and financial well-being. But the

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markets tend to price in the ebbs and flows of unfolding news far more quickly than you can trade on them. So it's a problem if you overestimate the lasting impact that this form of risk is expected to have on your individual investments.

Three: Risk is misunderstood
Especially when colored by our risk-averse, fight-or-flight instincts, it may seem important to react to current financial challenges by taking some sort of action – and fast.

Instead, once you've built a globally diversified, carefully allocated portfolio that reflects your personal goals and risk tolerances, you're usually best off disregarding both the good and bad news that is unfolding in real time. This makes more sense when you understand the role that investment risks play in helping or hindering your overall investment experience. There are two, broadly different kinds of risks that investors face.

Avoidable Concentrated Risks – Concentrated risks are the kind we've been describing so far – the ones that wreak targeted havoc on particular stocks, bonds or sectors. In the science of investing, concentrated risks are considered avoidable. They still happen, but you can dramatically minimize their impact on your investments by diversifying your holdings widely and globally. That way, if some of your holdings are affected by a concentrated risk, you are much better positioned to offset the damage done with other, unaffected holdings.

Unavoidable Market Risks – At their highest level, market risks are those you face by investing in capital markets in any way, shape or form. If you stuff your cash in a safety deposit box, it will still be there the next time you visit it. (Its spending power may be eroded due to inflation, but that's yet another kind of risk, for discussion on a different day.) Invest in the market and, presto, you're exposed to market-wide risk that cannot be "diversified away."

Four: Risk is mistreated
It's a delicate balance; neither overestimating the impact of avoidable, concentrated risks nor underestimating the far-reaching market risks involved. Either miscalculation can cause you to panic and sell or sit out of the market, thus missing out on its long-term growth. In contrast, those who stay invested when market risks are on the rise are better positioned to be compensated for their loyalty with higher expected returns.

In many ways, managing your investments is about managing the risks involved. Properly employed, investment risk can be a powerful ally in your quest to build personal wealth. Position it as a foe, and it can become an equally powerful force against you. Friend or foe, don't be surprised when it routinely challenges your investment resolve.

You should learn to respect and manage return-generating market risks, and avoid responding to toxic, concentrated risks. These are the steps toward a healthy relationship with financial risks and rewards.

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Heritage Investment Group would like to thank all of our clients for their continued support. We are here to help you plan for your future. If you have any family members or friends who might benefit from our help, we would welcome the opportunity to speak with them. Please contact us at 954-785-5400.

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