HERITAGE PERSPECTIVE

A QUARTERLY PUBLICATION OF HERITAGE INVESTMENT GROUP INC.

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Heritage Update

Improved Operational Efficiency
Heritage continues to move forward with the implementation of new trading and portfolio management software. Of particular interest, these new platforms will allow improved client access to portfolio information.

Industry Presence
Heritage belongs to local and national industry groups which meet regularly to exchange ideas and to stay current on the most important issues relevant to our firm – and most importantly – to our clients.

Happy New Year
As Heritage begins its 23rd year in business, we want to send best wishes to all for a Happy New Year and a healthy 2016.

EMPLOYEE PROFILE

Melissa Garcia, Operations Associate

Melissa has been part of our operations team for over a year now and has contributed to both new ideas and greater efficiency within the day-to-day functions of the firm. She has taken a lead role in the implementation of our new trading and portfolio management software programs. Melissa is new to the area and recently became a first-time homeowner! She says, "I am thrilled to be part of the local community and look forward to becoming more familiar with the people and places in town."

Inside this Issue

"If I have noticed anything over these 60 years on Wall Street, it's that people do not succeed in forecasting what's going to happen to the stock market."

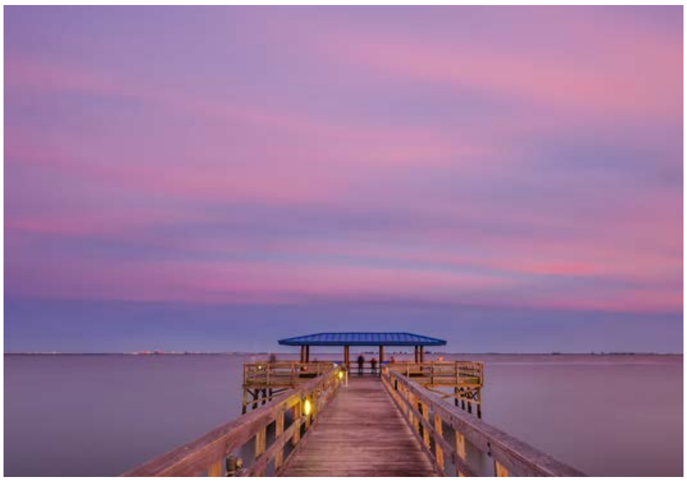
– BENJAMIN GRAHAM

ABOUT HERITAGE

At Heritage, our success depends upon a detailed understanding of each of our clients. The backbone of our strategy is an in-depth discovery process, allowing us to best understand your values, goals and concerns. We recognize that your financial future represents a significant emotional investment, but we also know that it is critical to manage that future with logic and process rather than emotional reactions. The Heritage team will create a detailed road map tailored to your unique situation, supported by a globally diversified investment strategy that never relies on market timing.

There's No Place Like Home?

"I don't like to be out of my comfort zone, which is about a half an inch wide." – LARRY DAVID



After having her home swept away by a tornado in 1939, young Kansas resident Dorothy Gale was given a unique travel opportunity. In the Land of Oz she saw beautiful landscapes, encountered interesting travel companions, and had many opportunities to broaden her horizons. But in the end she longed for the comfort of home.

Due to advances in the field of behavioral economics, we are now aware that Dorothy was experiencing a psychological tendency known as familiarity bias. Familiarity bias is the propensity to place higher value on things that are familiar to us and to avoid or undervalue things that are strange or foreign. Dorothy may have felt more comfortable returning to Kansas, but in doing so she likely gave up a diverse set of opportunities for growth.

In an investment context, familiarity bias leads many people to avoid buying stock in companies that are based outside their home country. We see this phenomenon despite the fact that the benefits of diversification are well-known. The idea that we should spread our wealth out into many different investment opportunities is accepted dogma in the industry. However, despite the universal acceptance of this idea, many American investors remain hesitant to diversify their investment horizons beyond their home country.

Given the recent history of the global markets, this is understandable. Most of last year's volatility in the investment markets was driven by events overseas. During the summer of 2015 Greece was again in the headlines as the coalition formed by Alexis Tsipras pushed the country to the brink of default and threatened an exit from the euro. Then China took center stage as its government engaged in a bungled attempt to stem a sharp selloff in local stock markets.

Headline-grabbing events like these may make you hesitant to invest overseas, but it is important to understand that volatility is a global phenomenon. Investing always comes with some level of risk. The key is to manage that risk, and history clearly demonstrates why foreign stocks are essential in a diversified portfolio.

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For example, the 2000s were commonly known as the "Lost Decade" for US stocks; during that 10-year period, an index of large US companies actually lost about 9%. However, the decade was not nearly as painful for investors in foreign stocks, as those companies gained an average of 36% over the same period. An even more dramatic difference was seen in the 1970s and 1980s, as foreign stocks outperformed their US counterparts by more than 4.5% per year over the entire 20-year period. The US has performed better than most foreign markets since 2010, but this period of relative strength will also come to an end eventually.

In addition to providing better returns during periods of relative weakness in US markets, foreign securities also provide

American investors with diversification into currencies other than the US dollar. This is important because a weak US dollar is often associated with higher commodity prices and increased levels of inflation. Owning foreign companies (and hence investing indirectly in foreign currencies) can serve as a hedge against this risk.

Jane Austen wrote, “There is nothing like staying at home for real comfort,” and that is a sentiment most of us personally relate to. However, for investors, the security and familiarity of home can be costly. By limiting your portfolio to domestic stocks, you are avoiding over half of the available investment prospects around the globe. You may feel more secure with purely domestic investments, but in actuality you are failing to take advantage of a tremendous opportunity for both growth and risk reduction.

Fortunately, you do not need to be a wizard to remedy this problem. Even for small investors it is now quite easy to access a diverse pool of overseas investments in a very inexpensive way. That said, if your own portfolio is limited to domestic investments, it certainly does not mean you lack brains, heart or courage; it just means you may have a false sense of security about your home.

The original version of this article was written by Heritage for the January 2016 edition of The Light, a local magazine serving Broward County, Florida.

Second-Hand News

Why don’t media sources run more good news? One view is bad news sells. If people preferred good news, the media would supply it.

However, a 2014 study by Marc Trussler and Stuart Soroka supports the view that the apparent preponderance of bad news is as much due to demand as to supply, with participants more likely to select negative content regardless of their stated preferences for upbeat news. “This preference for negative

and/or strategic information may be subconscious,” the authors conclude. “That is, we may find ourselves selecting negative and/or strategic stories even as we state that we would like other types of information.” So, an innate and unrecognized demand among consumers for bad news tends to encourage an attention-seeking commercial media to supply more of what the public appears to want, thus fueling a self-generating cycle.

Insofar as consumers of news are investors, though, the danger can come when the emotions generated by bad news prompt them to make changes to their portfolios, unaware that the news is likely already built into market prices. This is especially the case when the notions of “good or bad” are turned upside down on financial markets. For example, stocks and Treasuries rallied and the US dollar weakened last October after a weaker-than-expected US jobs report. Some observers said the “bad news” on jobs was “good news” for interest rates and stock prices.

“I don’t read economic forecasts. I don’t read the funny papers.”

– WARREN BUFFETT

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Conversely, a month later, stocks ended mixed, bonds weakened, and the US dollar rallied after a stronger-than-expected jobs report. While an improving job market is good news, it was also seen by some as cementing the case for the Federal Reserve to begin raising interest rates. In both cases, the important thing for markets was not whether the report was good or bad but how it compared to the expectations already reflected in prices. As news is always breaking somewhere, expectations are always changing.

For the individual investor seeking to make portfolio decisions based on news, this presents a real challenge. First, to profit from news you need to know more than the market does. Second, you have to anticipate how the market will react to the news. This does not sound like a particularly reliable investment strategy.

Luckily, there is another, more reliable, approach. It involves working with the market and accepting that news is quickly built into prices. Those prices, which are forever changing, reflect the collective views of all market participants and reveal information about expected returns. So instead of trying to second-guess the market by predicting news, investors can use the information already reflected in prices to build diverse portfolios based on the dimensions that drive higher expected returns.

As a citizen and media consumer, you are entitled to your individual opinions on whether news is good or bad. As an investor, though, you can trust market prices to assimilate news instantaneously and work from there.

In a sense, the guesswork and the worrying are already done for you. This leaves you to work alongside an advisor to build diverse portfolios designed around your own circumstances, risk preferences, and long-term goals. There's no need to respond to second-hand news.

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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 the 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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