



Navigating through the Noise

Noise is everywhere. The mainstream media bombards you with sensationalistic news that flits from disaster to catastrophe with the grace of a ballerina. Financial news stations are constantly inundating you with buy and sell recommendations from experts who are hoping to gain an edge on the market. Your neighbors, your in-laws and your co-workers all have a hot stock tip for you, and your own human nature conspires with these outside forces to incite you to follow the herd. The seductive influence of all of this noise has the potential to lead you to make poor investment decisions.

If this sounds familiar, you are not alone. Most investors view news events and trading recommendations as the very essence of investing. But basing your investment decisions on the latest headlines is like buying yesterday's winning lottery numbers: The headlines can tell you about yesterday's winners, but with respect to future winners, the headlines are of no help. The market quickly incorporates any relevant news, often before it actually happens, and adjusts prices accordingly. The banter that follows is simply noise.

The truth is that successful investing is often a matter of knowing what *not* to do. Attempting to predict the short-term moves of financial markets is extremely difficult, if not impossible, and making the wrong decision can be extremely expensive. Consider the following: Over the past 50 years, US

stocks have returned over 10.2% per year. Compounded over that 50-year period, this is a total return of over 12,900%¹.

Any investor could have entered the market in 1963, taken a nap for 50 years, and seen his wealth increase by 129 times over that period. The returns were there for the taking by anyone who was able to avoid the nefarious influence of noise. By not reacting to short-term market movements, an investor could have simply sat back and allowed the power of capitalism to do its work. Conversely, investors who jumped in and out of the market because they were provoked by the noise around them had a significant risk of missing out on these spectacular gains.

Noise has always been there, playing to investors' emotions and tempting them to make unwise decisions. Noise was in full force during the dotcom boom of the 1990s, encouraging investors to sell safe assets and go all-in on high-risk technology companies that had no underlying profits or adult supervision. In the mid-2000s noise told investors that real estate prices would go up forever: "Buy a house for a foolish price, then sell it to a bigger fool. Repeat until wealthy." Noise was there during the global financial crisis of 2008,

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inciting panicked investors to sell stocks right before one of the most dramatic rebounds in the history of the markets. It's a fact. Noise is to blame for many investing missteps.

Avoiding the lure of noise is difficult. Emotion often gets the best of investors and makes the noise tough to ignore. The good news is, successful long-term investing is in large part merely a function of paying that noise no mind. At Heritage, our disciplined approach is specifically designed to insulate our clients from the harmful influence of bell-ringing market strategists and overconfident in-laws. The global capital markets have issued you an open invitation to participate in the tremendous wealth generating power of capitalism. So go on...ignore the noise. It's bad for you and your portfolio. Instead of heeding the noise, embrace the sophistication of basic discipline and allow capitalism to work for you. That is a reliable way to generate real wealth.

150-year returns of Dimensional US Market Index as-of September 30, 2013. Source: Dimensional Fund Advisors



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H|I|G HERITAGE
INVESTMENT GROUP

2480 N.E. 23rd Street, Pompano Beach, Florida 33062
Phone: 954.785.5400 Fax: 954.933.0966

115 South Fielding Avenue, Tampa, Florida 33606
Phone: 813.258.1759 Fax: 813.254.3756

www.heritageinvestment.com