HERITAGE PERSPECTIVE

A QUARTERLY PUBLICATION OF HERITAGE INVESTMENT GROUP INC.

WINTER 2018

Heritage Update

NEW YEAR, SAME INVESTMENT PRINCIPLES

Although 2018 ushers in a new year, Heritage remains committed to the investment principles its business was built on almost 25 years ago. We incorporate custom financial planning into a well-diversified, regularly re-balanced portfolio and are never influenced by the media machine. Our New Year's resolution is to once again commit to helping make our clients' financial futures a success.

NEW YEAR'S RESOLUTIONS

Every year, over 40% of Americans make New Year's resolutions. But, by the second week in February, 80% have failed to keep them. By year end, a mere 8% of people have successfully stuck to their resolution. Better health and losing weight are the top resolutions, followed by saving more and spending less. If your New Year's resolutions include financial objectives, a trusted financial advisor can help you make, and stick to, an investment plan tailored to your personal goals.

COMMUNITY CONNECTIONS

Our Chief Investment Officer, Tim Slattery, continues his role as an adjunct professor, teaching a course in philosophy at the University of Tampa during the Spring semester. Fred MacLean, Jr. has been a longtime member of the board of the Hillsboro Lighthouse Preservation Society, and is currently involved in the annual fundraising gala scheduled for March 2nd.

EMPLOYEE PROFILE

Jeff Realejo, CFP®

Heritage welcomes our newest employee! Jeff joined Heritage in October 2017 as an Associate Wealth Manager. He is a CERTIFIED FINANCIAL PLANNER® practitioner and has a Bachelor's degree in finance. Originally from Connecticut, Jeff now makes his home in Sunrise. He enjoys travel, golf, and other sports.

ABOUT HERITAGE

Managing an investment portfolio is the cornerstone of any integrated wealth management solution. This is a complex, time-intensive and dynamic process that requires constant attention. Our expert team of portfolio managers will create a custom portfolio solution for you that reflects your individual goals and objectives.

Inside this Issue

"The secret of getting ahead is getting started."

–MARK TWAIN

The Almighty Dollar

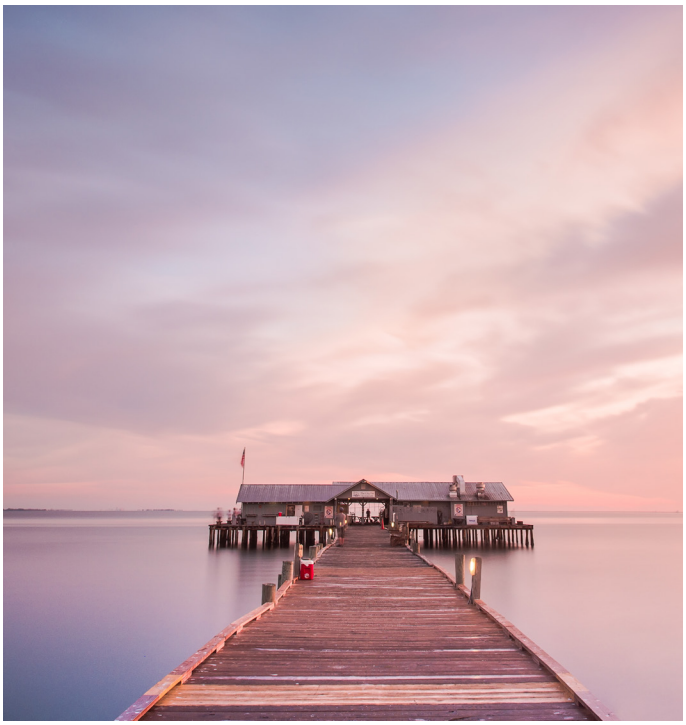
"A nickel ain't worth a dime anymore."

– YOGI BERRA

We Americans are uniquely proud of our beloved US dollar. The relative stability of the dollar, its use as the preferred medium of exchange worldwide, and its recognition as a symbol of global capitalism have made it a source of esteem for US citizens. It therefore might seem counter-intuitive that President Trump supports a weaker dollar. Despite wavering recently, his stance has been clear on this point, and he has been quite vocal about it: "I like a dollar that's not too strong. I mean, I've seen strong dollars. And frankly, other than the fact that it sounds good, lots of bad things happen with a strong dollar."

We do not often hear US presidents wishing for a weaker dollar, but Mr. Trump does have a point. While rising stock markets and employment are typically positive developments for just about everyone within the US economy, a rising dollar brings certain costs, as well as benefits, which are not often mentioned in the popular press.

For example, a strong dollar is helpful to certain US businesses. Industrial companies that use imported goods in the production process benefit from a stronger dollar because global commodities such as petroleum products and industrial metals are priced in US dollars, and their relative cost falls as the dollar strengthens.



A strong dollar is also beneficial to regular American citizens in a variety of contexts. Retirees who are living on a fixed income and are concerned about inflation will benefit from a strong dollar for the same reason that industrial companies do: it lowers the price of imports and helps to keep a lid on domestic inflation. American travelers overseas benefit from dollar strength as well. As the dollar rises against other currencies, the relative cost of hotels in London, restaurants in Buenos Aires, and those little Eiffel Tower snow globes tends to fall.

These obvious benefits appear to make a compelling case for a strong dollar. After all, we feel good about situations described as "strong" or "rising", and words like "weak" and "falling" have negative connotations. So why does Mr. Trump claim that "bad things happen with a strong dollar?" Why would any American, Mr. Trump included, want to see the dollar fall?

The fact is that the dollar exchange rate is a double-edged sword. For the same reason that a strong dollar helps US-based importers, a weak dollar is helpful to US-based exporters like auto manufacturers and software companies. Their products become relatively less expensive to foreign buyers and this usually drives revenues higher. Here in Florida, the tourism industry rejoices at a weak dollar because it makes our beaches, hotels, and theme parks seem like a bargain for foreign visitors.

"Our advice is to resist the intuitive negative reaction to a falling dollar."

Ordinary Americans also benefit from a weak dollar. Workers benefit because a weak dollar makes foreign labor and manufacturing relatively more expensive, thereby encouraging corporations to keep more jobs at home and even to potentially pay higher wages to their domestic workers. Given President Trump's stated goal of boosting American manufacturing, this is likely one reason he supports a weaker dollar.

American investors can benefit as well. If you own non-dollar-denominated stocks and bonds of foreign corporations and governments, you benefit from a falling dollar because the gains and interest payments from those foreign investments translate into higher returns when they are converted into the US dollar. In addition, if you own stock in a US multinational corporation with

significant earnings from foreign subsidiaries, those earnings are worth more in dollar terms when the dollar is weak.

The economists at the US Treasury, the Federal Reserve, and the White House are all aware of the costs and benefits of a weak dollar policy, but, as with most questions of economics, they will have different opinions regarding what should be done about it. In fact, it is unclear to what extent, if any, government policy can impact the long-term value of the currency. In the long-run the level of the dollar will be determined by inflation, interest rates, and the intuitive preferences of millions of investors around the globe.

As an investor and a consumer, the important thing to keep in mind is that every move in the dollar will likely help you in some ways and harm you in others. Our advice is to resist the intuitive negative reaction to a falling dollar. A weak dollar is not necessarily a bad thing, and it may actually make your own financial situation stronger.

The original version of this article was written by Heritage for the January 2018 edition of The Light, a local magazine serving Broward County, Florida.

Catchphrase Investing

The financial media is drawn to catchphrases, acronyms, and buzzwords that can be sold as the new thing. FAANG (Facebook, Apple, Amazon, Netflix, and Google) is the latest of these. But does this constitute an investment strategy?

For journalists, commentators, and marketers, acronyms like FAANG are useful. They fit easily into headlines and they appeal to a feeling among some investors that their portfolios should match the "zeitgeist" or spirit of the age.

But as we'll see, investment trends tend to come and go. This is not to downplay the transformative nature of new technologies and the possibilities they present. But as an investor, it is wise to recall that all those hopes and expectations are already built into prices.

Such is the public interest in the tech giants that in 2017 the parent company of the New York Stock Exchange launched the NYSE FANG+TM Index that includes the quarterly futures contracts of the FAANG members apart from Apple (hence only one "A"), plus another five actively traded technology growth stocks.

So, does this mean, as some media gurus suggest, that you should reweight your portfolio around these tech names? After all, these companies have fundamentally reshaped traditional sectors like newspapers, television, advertising, music, and retailing.

For investors, there are a few ways of answering that question, none of which involve denying the significant influence Facebook, Amazon, Apple, Netflix, Google, and other technology names are having on our lives. Firstly, market leadership is constantly changing based on a myriad of influences, including shifts in the structure of the global economy, commodities, technology, demographics, consumer tastes, and supply factors. Trying to build an investment strategy by anticipating these forces is like trying to catch lightning in a bottle.

In the 1960s, the then often-quoted Nifty Fifty of solid, buy-and-hold blue-chips included such names as Xerox, Eastman Kodak, IBM, and Polaroid, all of which were disrupted in one way or another by newer, more nimble competitors in the following decades.

By the late 1990s, the media was full of stories about the dot-coms, companies that were building new businesses using the transformative power of the internet. A handful of those

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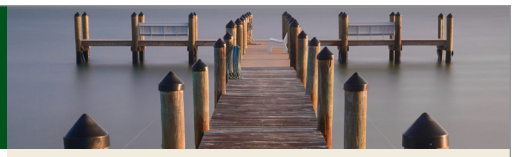

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companies (Amazon, for instance) fulfilled their promise. Many others (retailer Boo.com, prototype social network TheGlobe.com, and pet supplies firm Pets.com were just three examples) crashed and burned.

In the mid-2000s, the focus turned to companies with a large exposure to the so-called BRIC economies, an acronym based on the fast-growing emerging economies of Brazil, Russia, India, and China. Several financial services companies even set up BRIC products, with mixed degrees of success. One investment bank, having argued that the superior growth for emerging economies justified a bias to stocks exposed to these markets, ending up closing its BRIC fund in late 2015 after years of poor returns.

"Because no one has a reliable crystal ball, a better approach is to diversify."

So, while individual sectors or countries each can have their time in the sun, it is not clear that weighting your portfolio toward an industry currently in favor is a sustainable long-term strategy.

That said, accepting that it is difficult to pick winning sectors does not mean you should exclude these zeitgeist stocks in a diversified marketwide portfolio. You can still own them, but you should do so by casting a much wider net.

The more concentrated the portfolio, the more you are exposed to idiosyncratic forces related to individual stocks or sectors. Being highly-diversified means you can still benefit from the broad trends driving technology or whatever is leading the market at any one time, but you are doing so in a more prudent manner.

It is true that technology companies like Amazon and Facebook have performed well recently. But it is worth recalling that current prices already contain future expectations about those companies. We do not know what future prices will be because these will reflect information we have not received yet. Because no one has a reliable crystal ball, a better approach is to diversify. That way we increase the odds of being positioned in the next big winning sector without chasing hot trends or latching on to cute-sounding acronyms.

In accordance with rule 204-3(c) of the Investment Advisors Act of 1940, Heritage Investment Group, Inc., hereby offers to deliver without charge, a copy of its brochure (ADV Part 2) upon request. In addition, upon request, Heritage will deliver, without charge, a copy of its corporate Code of Ethics.

POMPANO / MAIN OFFICE
2480 N.E. 23rd Street
Pompano Beach, FL 33062
(954) 785-5400
Fax (954) 933-0966

TAMPA OFFICE
115 South Fielding Avenue
Tampa, FL 33606
(813) 258-1759

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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