

HERITAGE PERSPECTIVE

CELEBRATING

25
YEARS

HIG HERITAGE
INVESTMENT GROUP

A QUARTERLY PUBLICATION OF HERITAGE INVESTMENT GROUP INC.

SPRING 2018

Heritage Update

MARKET VOLATILITY

After a very calm 2017, volatility has returned to the markets this year. Now, as always, it is critical to have a well-formulated investment plan in place and to remain focused and disciplined. At Heritage, our investment approach has consistently been careful, patient, and unemotional. We take advantage of the long-term returns the market has to offer, and that has allowed our clients to reach their financial goals.

CELEBRATING 25 YEARS

The month of May marks Heritage's 25th year in business. As we celebrate this milestone, we thank everyone who has been part of our history. We promise a continued commitment to excellence as we look forward to the next 25 years.

RELATIONSHIPS MATTER

Heritage is a family-owned and family-oriented firm. We all share a love of family and the communities in which we live. We are fortunate to have forged lasting relationships with the people we work with, and most importantly, the clients we work for.

EMPLOYEE PROFILE



Frederick R. MacLean, Jr., CFA, MBA, CFP®

Fred MacLean, Jr., President of Heritage Investment Group, co-founded the firm 25 years ago along with his parents, Fred and Sherry MacLean. For the past 25 years, Fred has seen Heritage serve hundreds of families and grow to over \$1 billion* in assets under management. He has built Heritage on a solid investment process with a singular focus on real results, superior client service, and a commitment to the highest standard of ethics. Fred is very active in the Lighthouse Point community, and serves on a number of local

boards and charitable organizations. Fred, and his wife, Laura, have two grown children and enjoy boating, golf, and travel.

* As of December 31, 2017

ABOUT HERITAGE

For 25 years, Heritage has been providing seasoned financial advice backed by a disciplined investment process. We've built our firm on a strong foundation of family and friendships with guiding principles of ethics and integrity. We are fiduciaries bound by law to put our clients' interests before our own, but we also do so out of respect for the legacies entrusted to our care and the lifelong effort spent building them.

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*"Remember to celebrate
milestones as you prepare
for the road ahead."*

— NELSON MANDELA



Keeping It Simple

“Simplicity is the ultimate sophistication.”

— LEONARDO DA VINCI

The engineers on Lockheed’s top secret “Skunk Works” team are responsible for designing and building technologically advanced aircraft for military applications. This is a highly complex undertaking involving knowledge and technology that are far beyond the grasp of the average layperson. Over the decades that Skunk Works has applied its mastery of intricate physics and mechanics to developing its highly sophisticated aircraft, it has learned a valuable lesson which it has converted into a motto to guide its design process: KISS. Keep It Simple, Stupid.

These engineers are certainly not stupid, but they understand that unnecessary complexity certainly is. And like these engineers, most people claim to value simplicity in their lives. Yet for some reason when it comes to investing many insist on making this aspect of their lives far more complicated than it needs to be.

Investors often believe that they or their advisor should take action in response to the latest crisis or boom in the financial markets, and there is always a desire and an expectation to know where the market is headed. The media often has a complex answer and investors feel oddly comforted when their advisor provides them with one of those complex, jargon-laden explanations. The reality is that no investor, amateur or professional, has the ability to consistently predict short-term market movements. Fortunately, investing doesn’t have to be a perpetual struggle where investors are constantly battling against the market in an attempt to enhance gains or avoid losses. In order to be a successful investor, you just need to stop fighting the market and allow it to work for you.

“Stop fighting the market and allow it to work for you.”

Over the past 50 years, US stocks have returned nearly 10.3% per year. Compounded over that 50-year period, this is a total return of over 13,000%¹. Any investor could have entered the market in 1968, ignored his portfolio for 50 years, and seen his wealth increase by 130 times over that period. These returns were available without having to time the ups and downs of the market. The returns were there for the taking by anyone who had the discipline to sit back and allow the power of capitalism to do its work.

¹ 50-year returns of Dimensional US Market Index as-of December 31, 2017, gross of fees.
Source: Dimensional Fund Advisors



Given these fantastic results, why has investing proven to be so frustrating for so many people? Why have most investors failed to earn the returns that the market has generated? The fact is that earning these market returns is quite *simple*, but for most investors it is not *easy*. Emotions, impatience, and lack of discipline always seem to get in the way. Wall Street and the financial media reinforce this behavior by encouraging investors to trade frequently, to chase hot investment trends, and to allow fear and greed to govern their actions. When you simply invest for the long-term, you can obtain the returns that the market is offering you. But when you engage in market timing or when fear and greed get the better of you, you risk losing money that should already be yours.

The engineers at Lockheed’s Skunk Works are among the most highly regarded in the world, and their motto cautions against needless complication at the expense of success. This is a simple idea with simple words, yet it is incredibly difficult to abide by. The best investment strategy is to implement a disciplined long-term plan, ignore the media noise, stand firm in the face of short-term market volatility, and ultimately realize the profits that the market has offered. The sublime simplicity of this strategy tends to be met with skepticism, and sometimes disbelief, yet history demonstrates its effectiveness.

In the end, the smartest, most sophisticated approach is to keep it simple. And that’s not stupid.

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

You, Your Finances, and the Federal Reserve

After seven years of pegging the federal funds interest rate at zero percent, the time finally came in December of 2015: The U.S. Federal Reserve (the Fed) raised the federal funds rate by 0.25%. Because it was the first interest rate increase since June 2006, it was reported as “a historic moment.” Since then, the Fed has made several 0.25% increases, and the federal funds rate now stands at 1.75%.

But what do these rate changes mean to your financial well-being? Is there anything you should “do” to your investment portfolio when they occur? As is nearly always the case for economic events over which we have no control, we recommend that you remain informed, but that you also remain disciplined. In that context, let’s take a moment to share some insights about the federal funds rate.

What is the Federal Reserve?

As described on its consumer education site, the Federal Reserve is the central bank of the U.S. It was created by Congress as an independent government agency in 1913 “to provide the nation with a safer, more flexible, and more stable monetary and financial system.” Jerome Powell is the current Chair of the Board of Governors. Before Mr. Powell, the Chairs were Janet Yellen, Ben Bernanke, and Alan Greenspan.

Chairman Powell and his board of governors are based in Washington, DC. They also oversee 12 regional reserve bank branches across the country and are tasked with three main roles:

Monetary Policy – Promoting “maximum employment, stable prices and moderate long-term interest rates”

Supervision and Regulation – Overseeing U.S. banks and gathering information to understand financial industry trends

Financial Services – Serving as a bank for U.S. banks as well as for the country’s monetary operations – issuing currency, managing the government’s bank accounts, borrowing money in the form of U.S. savings bonds, and more

What is going on?

While you wouldn’t want to run a country without all three of these roles in place, monetary policy is where much of the headline-grabbing action is often found. The Fed continuously grapples with when, by how much, and how often it should raise the federal funds rate.

The Federal Reserve sets monetary policy through its Federal Open Market Committee (FOMC), which includes the Fed’s board members and a rotating representation of reserve bank



presidents. The FOMC holds eight regularly-scheduled annual meetings to consider what actions to take, if any.

In the days before those meetings, the potential action of the FOMC becomes the central focus of the financial press. Investors are bombarded with the usual volume of conflicting coverage on what is and is not at stake, and what may or may not come to pass. Depending on whom you heed, higher federal funds rates could be anything from a panacea, to a global scourge, to a non-event in the markets.

What does all this mean for you and your money?

First, it helps to understand that there is an intricate interplay between developed nations’ monetary policies, global interest rates, and the markets in general. Anyone who claims to know exactly what will happen in one arena when we pull a lever in another had best be able to present a functioning crystal ball if he or she is to be believed.

To cite one example, consider the March 2018 column by Wall Street Journal columnist Jason Zweig, in which he chastises various brokers for their still-anemic sweep account yields despite rising interest rates: “The Federal Reserve has driven short-term interest rates up a full percentage point since late 2016; one-month Treasury bills were yielding 1.6% this week. But you’d never know any of that from looking at the returns on the cash in your brokerage account.”

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This illustration demonstrates that the only interest rate the Fed has direct control over is the U.S. federal funds rate, which is the rate at which depository institutions (mostly banks), lend and borrow overnight funds with one another. The resulting cash flow is the grease that turns the wheels of the country's federal banking system, so it's an important factor. But as Zweig illustrates, that doesn't mean that there is a consistent cause-and-effect relationship between federal funds rate movements and other yield-based financial instruments such as U.S. or international bonds, interest-earning accounts, mortgages, credit cards, and so on.



A post by "The Grumpy Economist" John Cochrane even suggests that the Fed's actions may be one of the less-significant factors involved in determining global interest rates: "Lots of deposits (saving) and a dearth of demand for investment (borrowing) drives (real) interest rates down, and there is not a whole lot the Fed can do about that. Except to see the parade going by, grab a flag, jump in front and pretend to be in charge."

What should you do?

Whenever you are wondering how best to respond to a shifting landscape such as that wrought by rising (or falling) interest rates and any related repercussions, begin by asking yourself: What can I do about it? Unless you are Fed Chair Jerome Powell, there is probably nothing you can do to personally influence what the Fed is going

to decide about interest rates, and even Mr. Powell cannot determine how global markets are going to respond to the news.

If you already have a solid

"The Fed's actions may be one of the less-significant factors involved in determining global interest rates."

financial plan in place, you should not alter it in rash reaction to unfolding news. If, on the other hand, you do not yet have a well-built plan to guide the way, a conversation with a capable advisor is the best way you can position yourself to make the most of current and future economic events.

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.



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Heritage Investment Group is pleased to celebrate 25 years helping people plan their financial futures and we would like to thank all of our clients for their continued support. Helping people navigate financial markets and secure their investment goals is paramount to our firm. If you have any friends or other family members who might benefit from our expertise, we would welcome the opportunity to speak with them, and can be reached at 954-785-5400.

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