

# HERITAGE PERSPECTIVE

**HIG** HERITAGE  
INVESTMENT GROUP

A QUARTERLY PUBLICATION OF HERITAGE INVESTMENT GROUP INC.

WINTER 2019

## A DISCIPLINED PROCESS CAN HELP MANAGE VOLATILITY

Volatility is an ever-present component of the market. And while volatility can often be disconcerting, implementing a disciplined, rules-based investment program can allow volatility to work for you. At Heritage, we have deliberately engineered an investment process that has enabled our clients to meet their investment goals independent of day-to-day fluctuations in the market.

## DOING MORE FOR OUR COMMUNITIES

Heritage employees continue to participate in a variety of projects and charities to serve the communities in which we live. The first quarter includes participating in a fishing tournament for the Nova Southeastern University Oceanographic Scholarship Fund. We will also donate handmade blankets, through Project Linus, to the Gary Sinise Foundation's Snowball Express, which benefits children of our deceased military.

## HAPPY NEW YEAR!

The new year is a perfect time to review your investment plan. Have your goals changed? Are you comfortable with the level of risk in your portfolio? Have any life events occurred that affect your plan? Sit down with a financial professional to evaluate your financial road map. It's the best way to ensure your hard work is allowing you to realize your financial goals.

## EMPLOYEE PROFILE

Darryl Hinkle, CPA, CFP®



Darryl Hinkle is a portfolio manager at Heritage Investment Group. One of Heritage's longest-tenured employees, Darryl joined Heritage in 1997. He was previously a senior accountant at Coopers and Lybrand, and in 1979 he and a colleague formed the public accounting firm of Hinkle, Richter & Rhine, where he has been a partner since its inception. Darryl is also a former officer in the US Army and will be participating in an upcoming Honor Flight to visit the war memorials in Washington, DC. Darryl and his wife, Linda, reside in Lighthouse Point and also enjoy visiting their second home in Colorado.

## ABOUT HERITAGE

Successful long-term investing rarely depends on stock picking or market timing. That's why we scientifically engineer portfolios to harness the power of thousands of stocks and bonds from around the world, and why we guide our clients with the understanding that market volatility is inevitable. Above all, we believe that success is in the implementation. We do what we say, in your best interest, consistently, and without emotional reaction.

## Inside this Issue

Heritage Update .....	1
Understanding Volatility.....	2
Financial Decluttering Pays Many Dividends .....	3
Contact Information .....	4

*“People should be highly skeptical of anyone’s, including their own, ability to predict the future, and instead pursue strategies that can survive whatever may occur.”*

– SETH KLARMAN



## Understanding Volatility

*“The true investor welcomes volatility.”*

– WARREN BUFFETT

Everywhere you go, the daily volatility of the stock market seems to be a common topic of conversation. But talking about the market was not always this popular. Prior to the launch of financial news channels on cable TV in 1989, the only way most people knew what was happening in the stock market was to see it on one of the three evening network news shows or read about it in the newspaper. The only major TV show that focused exclusively on investment topics was *Wall Street Week* with the inimitable Louis Rukeyser. This show aired on Friday evenings for 32 years and for most of that era it was generally understood that one hour per week was just about all the stock market news that anyone could need or even tolerate.

The situation is very different today. News about the stock market is everywhere, especially when the market is volatile. The daily price fluctuations of quoted shares from China to Europe to the US can be seen on cable TV, the internet, and our ubiquitous handheld devices. In calm market environments market news is more like a quiet but constant hum in the background, but when the market suddenly turns volatile it becomes a hot topic of conversation.

The problem is, the constant noise of price volatility has an adverse impact on your psyche. For example, there is a human tendency known as “activity bias” which leads individuals to want to be active in times of stress, even if that activity is counter-productive. People also exhibit “trend-following” behavior, which leads one to believe that the future will resemble the recent past, even if there is no rational basis for that belief. These tendencies have been helpful in our evolutionary past, but they are not helpful in an environment in which we are inundated with information about the volatility of the stock market.

It is easy to see how these biases can lead to negative outcomes for investors. If stocks have been falling recently, the constant reminder of decreasing wealth pulsing through an investor’s iPhone causes stress, which triggers his activity bias to shout “do something!” Then his trend-following tendency kicks in, convincing him that the market can only go lower for the foreseeable future, and he decides to sell in a panic, often right before the market turns in a positive direction.



The irony of this is, if we had less frequent access to stock price information, these harmful behavioral tendencies would be dormant and we would be able to make better long-term investment decisions. As a counter-example, consider a privately-held family business: The actual intrinsic value of that business fluctuates daily based upon revenues, costs, the selling price of comparable businesses, and a variety of other factors. Yet the owner of that family business is not obsessed with the volatility in its value *because the price fluctuation is not identified and presented every day*. The owner does not even consider selling the business due to volatility; she views the business as a long-term investment and recognizes that it will likely be worth more in the future.

*“you should regard daily stock market movements as no more than a unique and noisy nuisance along the path to the long-term appreciation of your assets.”*

And what about your primary residence? Due to changes in interest rates, inflation expectations, and the sale price of the house next door, the actual value of your home or any investment real estate that you own fluctuates on a daily basis as well. Yet the thought of selling your home due to the daily volatility in its value has probably never even occurred to you. Instead, you view real estate as a long-term investment and recognize that it will likely be worth more in the future.

Visible stock market volatility is no different from the invisible volatility of real estate or a family business, and you should regard daily stock market movements as no more than a unique and noisy nuisance along the path to the long-term appreciation of your

assets. However, the nuisance of the news is not going away, and those human behavioral tendencies are impossible to shake off. So, how can you fight the emotional responses to volatility?

First, change the channel. For anyone other than a professional stock trader, the ability to view second-by-second pricing is a curse and you should avoid it because it is irrelevant to someone with a long-term perspective. Replace the loudmouth banter of CNBC with re-runs of *The Crocodile Hunter* on Animal Planet, and disable the real-time market quotes on your smart phone. This will help your investment results, lower your stress level, and quite possibly make you a calmer person.

Second, never make an investment decision, especially a decision to sell, while the market is open. Part of the reason you do not consider selling your home or small business due to price volatility is that it is not easy to do so. But now that stock trading fees are very low and on-line trading is accessible to everyone, it is very tempting to trade stocks quickly *because it is very easy to trade stocks quickly*. Instead of having activity bias lead you to make rash investment decisions, contemplate your decisions in a calm setting while the market is closed and use measured reason rather than impulse and emotion as your guide.

While advances in technology and greater access to information have provided many benefits, we do sometimes miss the days when sparse information and cumbersome trade processes served as a barrier to some of the rash decisions that investors are prone to make. Instead of getting caught-up in the daily volatility of the markets, it would be helpful to accept volatility as a fact of life and recognize that the bumpy ride that stocks sometimes give you will be rewarded with higher expected returns in the long-run.

*The original version of this article was written by Heritage for the January 2019 edition of The Light, a local magazine serving Broward County, Florida.*



## Financial Decluttering Pays Many Dividends

*“For every minute spent organizing, an hour is earned.”*

– BENJAMIN FRANKLIN

At Heritage, when we first meet with prospective clients we often start by asking them what their financial goals are. Most people have a ready answer for this question, and their goals often include a comfortable lifestyle, providing for their family, and an eventual retirement in which travel, leisure, charity, and legacy are prominent.

Then we ask a second question, which is far more difficult: “How do you plan to get there?” We find that, while most families have clear financial goals, until they come to us they tend to lack a clear plan for achieving those goals. And, we often find that there is an even more basic problem lurking beneath the surface, and that is a lack of organization. If you have no plan you will probably not achieve your financial goals, but if you are not organized, you cannot even begin to plan.

Being disorganized is certainly understandable. The world is becoming more complex all the time, and the economic aspect of our lives is no exception. It is easy for a layperson to feel overwhelmed when faced with financial complexity and clutter, and many people simply give up and say “I don’t even know where to begin.” Fortunately, there is a logical place to begin: Consolidation.

### Consolidation

The first step to organizing your finances is consolidating your assets. If you are age 50 or older, chances are that you have changed jobs more than once, perhaps moved from one city to another, and worked with more than one financial advisor. As your life and career progress, you tend to leave a trail of financial disorder in your wake.

With each new job, city, and advisor comes one or more new investment accounts to keep track of, and this can eventually become overwhelming if your accounts are not consolidated along the way. If your money is scattered among multiple institutions and investment strategies, it is difficult to get a clear picture of what assets you have and what fees you are paying, and nearly impossible to formulate a coherent plan. So, the first step is to get all or as much as possible of your assets consolidated under one roof.

### Coordination

Consolidating your investment accounts is a good start, but financial organization also means coordinating your investments with other aspects of your finances, and this usually begins with tax strategy.

*Continued on back page*



## *Continued from previous page*

Your investment portfolio should be structured and implemented with the details of your taxes in mind, including your marginal tax rate, your exposure to capital gains or losses, your ability to contribute to tax-deferred or tax-free accounts, and your current and future need for cash flow from your investments. A consolidated investment strategy will simplify your finances, and coordination with your tax situation will allow you to keep more of what those investments earn.

Your investments also need to be coordinated with your estate plan. This involves important but often overlooked details such as the correct titling of investment accounts, the proper location of assets, and making sure that beneficiary designations are up to date. If your assets are scattered in many different places this is quite difficult to manage, but a consolidated and coordinated process will ensure a smooth transition of your legacy after you are gone.

*“If you have no plan you will probably not achieve your financial goals, but if you are not organized, you cannot even begin to plan.”*

### **Implementation**

Organizing your assets and creating a comprehensive plan are essential, but simply establishing a plan is not enough. Unless you have a well-defined process for the implementation of your plan, the devilish details of wealth management can quickly conspire to move you from a blissful state of order back into disarray and disorganization. Market volatility, changes to the tax code, changes to your goals, and all of the unplanned random events of life will once again throw your financial life into a state of chaos if your plan is not managed on an ongoing basis.

This is where a talented professional advisor can be of the most value. The day-to-day drudgery of properly managing wealth requires constant focus and rigorous discipline, and most individuals lack the time and inclination to do it well. A good advisor will liberate you from the monotonous details and help you to stay organized once your plan is in place.

Being disorganized is a very common and persistent condition, and it makes most of us feel uncomfortable. But disorganization is a condition that must be treated because getting organized solves problems. If you can get your finances in order and keep them that way, you will better understand your current financial position, you will feel much more comfortable with your plan, and you will have a greater sense of confidence that your future financial goals are attainable.

The good news is, financial decluttering is not a Herculean task; the only difficult part is getting started. Your advisor can quickly get you moving in the right direction, consolidate your assets, coordinate your investments, implement a comprehensive plan, and make your life easier and less stressful. Yogi Berra said, “If you don’t know where you are going, you might wind up someplace else.” You and your advisor can get your financial life organized now, clearly define where you are going, and most important, plan how to get there.

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

---

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.

### POMPAÑO / 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.*

**H | I | G** HERITAGE  
INVESTMENT GROUP

heritageinvestment.com