HERITAGE PERSPECTIVE

A QUARTERLY PUBLICATION OF HERITAGE INVESTMENT GROUP INC.

WINTER 2020

Heritage Update

A SAFE BET?

Investors often seek "safe" investments during times of uncertainty. Yet, too much safety can actually put your wealth at risk. Empirical evidence shows that a diversified portfolio with a commitment to the stock market best helps investors meet their long-term goals while keeping up with inflation. That's one of the reasons why at Heritage, we've been focused on return *and* risk for over 25 years.

GIVING BACK

Heritage continues to support charities in our communities. In the first quarter, we will participate in Bowl Bash 2020, the Pompano Beach Exchange Club's annual fundraiser. We will also sponsor Kart 4 Kids, a pro/am kart race to raise funds for Johns Hopkins All Children's Hospital in St. Petersburg.

A RESOLUTION WORTH KEEPING

By February of a New Year, 80% of people have given up on their resolutions. One important resolution to consider is an annual review of your investment plan. Now is a perfect time to work with your existing investment advisor, or find a qualified professional, to make sure your financial plan is up to date and that your goals are achievable. That's a resolution worth keeping.

EMPLOYEE PROFILE

Erik Johnson

Erik hails from the Midwest and joined the Heritage team in 2011 in our Orlando office. Erik is responsible for portfolio management, client service, and marketing, primarily in the central and northern Florida region. Erik holds a bachelor's degree in business management from the University of Akron and has over 20 years experience in the financial services industry. In addition to being an active Rotarian since 2002, Erik is also an avid gardener and when he's not in the garden, he can be found camping and bicycling.

ABOUT HERITAGE

We cannot predict the future of capital markets, but we can assure you that a future with Heritage will be a guided partnership based on respect, investment expertise, and action in your best interest. At Heritage we pledge to always provide objective and astute guidance based on rational experience and a disciplined process rather than reacting to the noise of the Wall Street media machine.

Inside this Issue

"How many millionaires do you know who have become wealthy by investing in savings accounts? I rest my case."

– ROBERT G. ALLEN

Easing the Burden of Dementia

"When you're 89, dementia develops. I mean, I've told a story onstage, and I'm telling it with a full heart, and I forgot the damn punch line."

– JERRY LEWIS

One hundred years ago the average life expectancy of a newborn in the US was 54.8 years. Due to advances in medical technology that number now stands at 78.6 years. Much of this dramatic increase is attributable to a significant drop in mortality rates from childhood diseases like pneumonia, influenza, and tuberculosis. But the odds of a long life for middle-aged Americans has increased also, as a 65-year-old man can now expect to live to 82.3, and a 65-year-old woman to 85.5.

Higher longevity is certainly a desirable outcome, but it comes with a cost. As science finds ever more ingenious ways of preserving our bodies to age 80 and beyond, diseases of the mind become more prevalent. According to the CDC, Alzheimer's disease (a type of dementia) is now the sixth leading cause of death in the US; in 1990 it was not even in the top 15. And, as the frequency of Alzheimer's and other forms of dementia continues to grow, the financial risks that accompany dementia become more acute.

The most difficult thing to accept about dementia is that it will almost certainly impact your family. At age 80 and above, the odds of suffering from Alzheimer's or other forms of cognitive impairment are nearly 50%. And, in addition to the emotional toll that dementia can take on a family, the financial costs and risks are potentially devastating.

For starters, the elderly are far more likely to be victimized by a financial scam than the population at large, and those suffering from dementia are particularly at risk. For those of us in Florida, this hits close to home. A study in 2014 by the Pension Research Council found a 14% rate of financial abuse *each year* among those aged 60 and older in Florida and Arizona.

In addition to the potential cost of financial scams, the potential cost of daily care for a dementia patient can be significant. According to Genworth Financial, the average cost of assisted living in Florida is over $3,000 per person, per month. Nationwide, the cost is over $4,000. The average cost for in-home care in Florida is $3,000 per month on top of usual housing expenses.

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Believe it or not, *that's the good news*. The bad news is, many dementia patients require a level of care that is beyond the capabilities of an assisted living facility or in-home care. Those patients may need to reside in a facility that specializes in memory care, and these can run as high as $7,000 per month or more. Even worse, Medicare does not pay for assisted living, in-home care, or memory care; the fees for these must be covered by private insurance or personal assets. Medicaid may be an option at some point, but only after the patient has exhausted essentially all of her assets.

So how should you prepare? First, recognize that dementia is likely to impact you or someone in your family, and adjust your long-term financial plan to account for the expense. It is often assumed that the equity in an individual or couple's home can cover assisted living or memory care costs, but another source of funds will be required if the home equity is not high enough.

Second, in addition to your financial plan, prepare a legal plan to help your family navigate the challenges of having a family member that is no longer able to make decisions for himself. The following is a checklist that elder expert Carolyn Rosenblatt proposes for all families to consider:

1. Decide with whom you wish to communicate about your future.
2. Have a signed, notarized durable power of attorney.
3. Have a signed advance health care directive.
4. Make a list of all bank accounts, passwords, financial planning documents, and appropriate contacts.

5. Make a list of all insurance policies.
6. Make a copy of all mortgages and other debt.
7. List your physicians, care providers, and medications, and give written permission for loved ones to speak with your doctors.
8. Put in writing your wishes for burial or disposition of your remains.
9. Update your will and/or trust with a local attorney.
10. Have a family meeting to review the above with your loved ones.

Finally, you should learn to recognize the early signs of dementia. According to Rosenblatt, the telltale signs of cognitive impairment include short-term memory loss, erratic behavior, paranoia about someone taking your money or possessions, getting lost in familiar places, and neglecting to take care of basic physical needs such as eating or bathing. If you recognize any of these symptoms in a parent, spouse, or friend, you should help him or her to consult a doctor, particularly a neurologist, as soon as possible.

Knowing how to prepare for dementia is the easy part. The difficult part is convincing yourself or a family member to make the appropriate financial and legal preparations before the first signs of dementia appear. After the symptoms begin to emerge, you or your family members may be agitated, in denial, or simply not have the cognitive ability to make the right decisions. Preparing for dementia is often avoided because it involves some potentially uncomfortable conversations. However, the comfort of clarity when the circumstances actually arise make this an important discussion. Do not leave it up to chance.

Source: Swedroe, Larry, "Thwarting Financial Abuse". ETF.com, 11/12/18

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

Why "Safe Harbors" Can Be Risky Business

We see it often: Whenever investors are spooked by turbulent times, dollars tend to flow out of the stock market and into "safe harbor" investments such as bonds, bond funds, CDs, money markets, or even cash. As part of your overall investment strategy, it usually makes sense to allocate some of your wealth to safe harbor holdings. But too much "safety" can actually put your wealth at risk.

The ups and downs of volatility risk

Even during calm times, we tend to think of fixed income or bonds as "safer," and equities or stocks as "riskier." These labels are relatively accurate if we're talking about volatility. That is, as an investment grows over time, how wildly will its price swing up and down along the way?

Fixed income is less volatile. A high-quality bond or similar holding priced at $100 today will probably be priced around the same a year from now, give or take a few dollars.

Equity is more volatile. In contrast, it's anybody's guess what an individual stock might be trading for a year from now. You might catch a wave and see your investment surge. But your holding could also be worth considerably less, or even become worthless.

As such, it's usually wise to protect against volatility risk for the assets you'll need for the next 1–5 years or so. But make no mistake about it, ***when you seek a safe harbor you are not only protecting your assets from losing a lot of value, you're also effectively eliminating the chance they will gain much.***

In other words, volatility contains both upside opportunities and downside risks. As such, a safe harbor is only partially safe – because volatility risk is not the only risk around. In fact, we would argue that long-term investors face an even greater risk: inflation.

"But too much 'safety' can actually put your wealth at risk."

Volatility fades

Again, it's important to prepare for upcoming spending goals by protecting against volatility. What if you've got college costs, or a home purchase, or similar expenses looming? If a bear market

Continued on back page

Continued from previous page

happens to roar in at just the wrong time, you don't want downward volatility to eat into the assets you're depending on for these near-term needs.

On the other hand, volatility risk is far less of a concern for distant spending plans. It's largely expected to fade when viewed across longer timeframes. Alan Abelson provides a helpful analogy for comparing the stock market's expected long-term growth versus its near-term volatility: "It's like a man walking up a big hill with a yo-yo and keeping his eyes fixed on the yo-yo instead of the hill."

Author Daniel Crosby provides a more empirical illustration: "Greg Davies shows that if you check your [stock] account daily, you'll experience a loss just over 41% of the time. … Look once every five years and you would have only experienced a loss about 12% of the time and those peeking every 12 years would never have seen a loss."

If you have the time (and emotional stamina) to tolerate the market's volatility risks, you can expect to benefit from its uphill climb. In contrast, reacting to a volatile "yo-yo" is only expected to distract you from your financial journey. This is important, because market growth is essential to combatting the other risk we've mentioned: the insidious impact of inflation.

Inflation is forever

Why do we save and invest? You SAVE money you don't need today for future spending. You INVEST some of your savings to strengthen your reserves. Typically, the goal is to maintain, if not improve on, your lifestyle.

Why not just sit in cash or its equivalent? After all, if you stash $100 in a sturdy lock box, it's highly likely to stay there. Even decades from now, it should still have a $100 face value.

But there is a catch. Inflation virtually guarantees that this same $100 will not buy you as much in the future. For example, a $100 purchase made 20 years ago would now set you back about $153.

A degree of inflation is actually built into a healthy economy. For example, the U.S. Federal Reserve targets an annual inflation rate of around 2% to achieve price stability. That is why it is usually wise to invest savings you won't need for a while in stocks, and keep them invested. The more you allocate to "safe" investments, the more likely inflation will diminish your spending power. The more you allocate to low-cost, globally diversified stock funds, the more effectively you can combat inflation risk, ***if you ignore the yo-yo throughout the journey.***

A good advisor will help you to determine the right balance between safe-harbor holdings versus sources of higher expected return. And, perhaps more important, that same advisor will minimize your temptation to watch the yo-yo when you should be focusing on the hill.

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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 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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