HERITAGE PERSPECTIVE

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Social Security and the Great Ida May Fuller

Role models have an important place in our lives. Young men may aspire to be the next Peyton Manning or Steve Jobs; young ladies may emulate Condoleezza Rice or Princess Kate. As you approach retirement, however, the focus of your attention will change, and your choice of role models will likely change with it. At that pre-retirement stage of your life, you may find yourself aspiring to be more like the great Ida May Fuller.

Who is Ida May Fuller? Ms. Fuller was the first person to receive a monthly Social Security benefit check. Why was she great? She contributed a total of $24.75 to the Social Security system (which was created three years prior to her retirement at age 65), and she collected benefits totaling $22,888.92 during her retirement until her death at age 100 in 1975. Her benefits were more than 924 times what she contributed, which sounds pretty great to us. Granted, none of us will be able to benefit from the same fortunate timing that Ms. Fuller enjoyed, but there are steps you can take to assure that you maximize the more normalized benefits that you are entitled to.

Know the basics of your benefits

Ms. Fuller was, by her own admission, not an expert on Social Security benefits. When asked about her visit to the Social Security office, she said, "It wasn't that I expected anything, mind you, but I knew I'd been paying for something called Social Security and I wanted to ask the people in (the county seat) about it." How fortunate for her that she took the time to drive into town!

Modern technology has made it far easier for us to contact the Social Security Administration (SSA); a phone call to the SSA or a quick visit to their website will provide you with all of the details on the timing and amount of your own benefits. For most individuals, the earliest age to file for Social Security benefits is age 62, and Full Retirement Age (FRA) is between age 65 and 67, depending upon when you were born. If you are married, you have the option of filing for your own worker benefit or for up to 50% of your spouse's worker benefit, whichever is higher. When one spouse dies, the surviving spouse is entitled to the higher of 100% of his or her own benefit or 100% of the deceased spouse's benefit. The most important thing to remember is, if you do not file with the SSA, you will not receive benefits. You need to inform them

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continued on next page

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continued from previous page

when you would like to begin collecting benefits and you need to proactively update your status if it changes from worker or spouse to widow or widower.

Delaying benefits

While remembering to file is the most basic Social Security maximization tool, filing alone will probably not allow you to claim the highest amount you are entitled to by law. Another straightforward way to maximize your benefits is to delay collecting until your Full Retirement Age or beyond, if at all possible. This is especially true if you have a long life expectancy, whether it be due to healthy habits, a history of longevity in your family or a stubborn refusal to die before collecting what the government owes you. Each year that an individual waits to collect Social Security from age 62 until FRA results in an increase to his or her benefit of 5% to 6.7%, depending on year of birth. In addition, each year an individual delays from FRA to age 70 results in an additional increase of 8% per year. For example, an individual born in 1952 who would receive a $15,000 annual Social Security benefit at age 62 would receive $20,000 at age 66 and $26,400 at age 70. These amounts do not include annual inflation adjustments, which result in an even larger annual dollar increase for each year you delay. In addition, waiting to collect your Social Security benefits at FRA or later allows you to take advantage of some of the more advanced strategies discussed below.

"File and suspend" and "restricted application"

Two frequently overlooked maximization strategies, commonly known as "file and suspend" and "restricted application" may allow you to take further advantage of the spousal benefit offered to the spouse of a covered worker. The details of these strategies are complex, but both strategies are most effective for spouses who are of approximately the same age, and both involve a dynamic approach in which the filing status of one or both spouses changes between age 62 and age 70. If you and your spouse are of similar ages, you should consult your accountant or financial advisor about the potential benefits of these strategies.

The allure of Ida May

We hope that the allure of Ms. Fuller's experience has inspired you to overcome the tedium of the Social Security system and think more carefully about your own benefits. Some of these strategies are a bit complicated, but if applied properly with professional guidance they can increase your lifetime Social Security benefits by tens of thousands of dollars. Although you will not receive the same return on contributions that Ida May did, you can at least feel confident that you are receiving the maximum amount you are entitled to, and you do not even have to drive into town to stake your claim.

This article was originally written by Heritage for the January 2015 edition of The Light, a local magazine serving Broward County, Florida

The Art of Letting Go

In many areas of life, intense activity and constant monitoring of results represent the path to success. In investing, that approach gets turned on its head.

The Chinese philosophy of Taoism has a word for it: "wuwei." It literally means "non-doing." In other words, the busier we are with our long-term investments and the more we tinker, the less likely we are to get good results.

That doesn't mean, by the way, that we should do nothing whatsoever. But it does mean that the culture of "busyness" and chasing returns promoted by much of the financial services industry and media can work against our interests. Investment is one area where constant activity and a sense of control are not well correlated. Look at the person who is forever monitoring his portfolio, who fitfully watches business TV, or who sits up at night looking for stock tips on social media.

In Taoism, by contrast, the student is taught to let go of factors over which he has no control and instead go with the flow. When you plant a tree, you choose a sunny spot with good soil and water. Apart from regular pruning, you leave the tree to grow.

But it's not just Chinese philosophy that cautions us against busyness. Financial science and experience show that our investment efforts are best directed toward areas where we can make a difference and away from things we can't control. We can't control movements in the market. We can't control news. We have no say over the headlines that threaten to distract us. But each of us can control how much risk we take. We can diversify those risks across different assets, companies, sectors, and countries. We can influence transaction costs. And we can exercise discipline when our emotional impulses threaten to blow us off-course.

These principles are so hard for people to absorb because the perception of investment promoted through financial media is geared around the short-term, the recent past, the ephemeral, the narrowly focused and the quick fix. We are told that if we put in more effort on the external factors, that if we pay closer attention to the day-to-day noise, we will get better results.

What's more, we are programmed to focus on idiosyncratic risks (like a particular glamour stock) instead of systematic risks, such as the degree to which our portfolios are exposed to various risk factors in the capital markets. Ultimately, we are pushed toward fads that the financial marketing industry decides are sellable, which require us to constantly tinker with our portfolios.

The media and the financial services industry encourage us to be busy about the wrong things. The emphasis is often on the excitement induced by

constant activity and chasing past returns, rather than on the desired end result.

The consequence of all this busyness, lack of diversification, poor timing decisions, and narrow focus is that most individual investors earn poor long-term returns. In fact, they tend to not even earn the returns available to them from a simple index.

This is borne out each year in the analysis of investor behavior by research group Dalbar. In the 20 years ending in December 2013, for instance, Dalbar found the average investor in US mutual funds underperformed the S&P 500 by 4.2 percentage points per year. This documented difference between simple index returns and what investors receive is often due to individual behavior; in being insufficiently diversified, in chasing returns, in making bad timing decisions, and in trying to "beat" the market.

Upon retiring in 2013, one of Australia's most frequently quoted strategists broke ranks from the industry and gave the game away on this "busy" investing. In his final note to clients before moving on to consultancy work, Morgan Stanley strategist Gerard Minack said he had found over the years that investors were often their worst enemies. "The biggest problem appears to be that – despite all the disclaimers – retail flows assume that past performance is a good guide to future outcomes," Minack said. "Consequently, money tends to flow to investments that have done well, rather than investments that will do well. The net result is that the actual returns to investors fall well short not just of benchmark returns, but the returns generated by professional investors. And that keeps people like me employed."

It's a frank admission and one that reinforces the ancient Chinese wisdom: "By letting it go, it all gets done. The world is won by those who let it go. But when you try and try, the world is beyond the winning."

Heritage Perspective

The Google Effect?

Is there anything Google cannot do? Free email, customized searches, maps, apps, browsers, video – the list goes on. Now researchers claim to have found a link between Google searches and future stock market movements.

Chester Curme and his fellow researchers at Warwick Business School and Boston University say they have developed a method that identifies historical links between searches related to business and politics and subsequent stock market moves. Using Google Trends data generated between January 2004 and December 2012, the researchers compared changes in search volumes around particular topics to subsequent stock market moves. Overall, they say they found that increases in searches for information about political issues and business tended to be followed by market falls. "One possible explanation for our results is that increases in searches around these topics may constitute early signs of concern about the state of the economy – either of the investors themselves, or of society as a whole," the study concludes.

> *"...correlation is not necessarily causation."*

Taking the survey at face value, it would appear that investors (with the requisite programming ability) could analyze Google search trends to successfully time their entry and exit points from risky assets. But there are a few points to make about this. First, the authors themselves acknowledge that the strength of the relationship between web searches and market movements has diminished in recent years. They speculate that this may reflect the increasing incorporation of internet search data into automated trading strategies.

Second, the study covers just eight years and is confined to the US. It arguably would require a much longer dataset and a study of other markets to determine whether these effects are sufficiently persistent and pervasive.

Third, care needs to be taken in concluding predictive relationships between various external indicators and market movements. The dangers involved in doing so were highlighted in a separate study in 2012 by academic Robert Novy-Marx.

With tongue in cheek, Novy-Marx showed how, using statistical analysis, one could draw credible-sounding links between market performance and factors such as the weather, sunspots, and even the alignment of the

planets. "The market performs significantly better when Mars and Saturn are opposed," Professor Novy-Marx said. "Times when… their energies are polarized appear to be particularly propitious times to invest in the market."

While his mathematics would go over the heads of most laypeople, Novy-Marx's main point is that just because some statistical relationships appear to match up in regressions does not mean they are a reliable way of predicting the future. Take planetary movements and stock prices. The first of those variables changes only very slowly in comparison to the second. When the two overlap, it might seem as if there is a reliable relationship between them. But the fact is there are not enough independent observations in the first variable to draw such an inference.

Put another way, correlation is not necessarily causation. Just because your football team wins every time you wear your favorite red shoes to the game does not mean your choice of footwear is a reliable predictor of the team's success.

Over the years, there have been dozens of theories about the predictability of market performance. The Super Bowl effect and the January effect are two such examples. However, none of these effects passes the highest standards of research.

Unlike some of the other apparent effects, the relationship between Google search trends and stock market performance at least has the benefit of sounding sensible. But is the effect persistent across different periods? Is it pervasive across markets? Is it robust to alternative specifications? And even if it meets those tests, is it cost-effective to capture in well-diversified portfolios? It seems unlikely the ratio of signal to noise in Google searches is strong enough for a successful market timing strategy.

These are high hurdles to clear. But they are hurdles that must be overcome if one is to build a scientifically grounded investment strategy that stands the test of time. Ultimately, you cannot just Google up investment success.