

# HERITAGE PERSPECTIVE



**HIG** HERITAGE  
INVESTMENT GROUP

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## Heritage Update

### ONE FOR THE RECORD BOOKS

The year 2020 will likely go down in history as one for the record books. From the COVID crisis, to the resulting economic and market challenges, to an election cycle like no other, we've lived through an extraordinary year. While the market often reacted with significant ups and downs, Heritage focused on the discipline we are known for, and continued to help our clients achieve their goals.

### WE'RE STAYING CONNECTED

Even though most in-person events have been tabled for now, Heritage has continued to remain active in a virtual environment. We recently participated in the Florida Bar Legislative Update, and are continued sponsors of the Real Property, Probate and Trust Law Section, in addition to attending two East Coast Estate Planning Council Events. While the "room" may look different, the conversations remain insightful and the virtual venue facilitates opportunities for meaningful exchange of ideas, allowing us to stay connected.

### BRING IN THE NEW YEAR

Every year brings with it the renewed opportunity to reset your personal and professional goals, review your accomplishments, course correct as needed, and start fresh. The New Year also presents the perfect time to review your financial goals, talk to your advisor about your plan, and ensure that what you are doing will best allow you to secure your financial future.

## EMPLOYEE PROFILE

Joanne Cacossa, Receptionist/Administrative Assistant



Joanne is the first person everyone sees when they enter our offices in Pompano Beach, and her friendly disposition and helpful attitude is why our clients love her. She joined Heritage over a decade ago as a receptionist/administrative assistant, having worked in the financial services industry in marketing and administration. When she's not at Heritage, you can find her volunteering at a local arts center, attending theatrical and community events, and most importantly, cheering on her hometown Buffalo Bills!

## ABOUT HERITAGE

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. The heart of what we do lies in helping our clients achieve their goals and obtain the peace of mind that a successful financial plan provides.

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*"For last year's words  
belong to last year's  
language and next year's  
words await another voice"*

- T. S. ELIOT



## Your Brain During a Stock Market Crisis

*“The most important quality for an investor is temperament, not intellect.”*

- WARREN BUFFETT

If you have ever taken a university-level course in finance, you probably were taught that investors always act rationally and in their own best interest. This is one of the most important and pervasive assumptions in classical financial economics, and it is also quite mistaken. Researchers in the field of behavioral economics have convincingly demonstrated that investors are usually driven not by rational calculation, but by fear, greed, illusions of control, overconfidence, and other irrational biases. Unfortunately, these irrational tendencies often cause significant harm to investors' investment results.

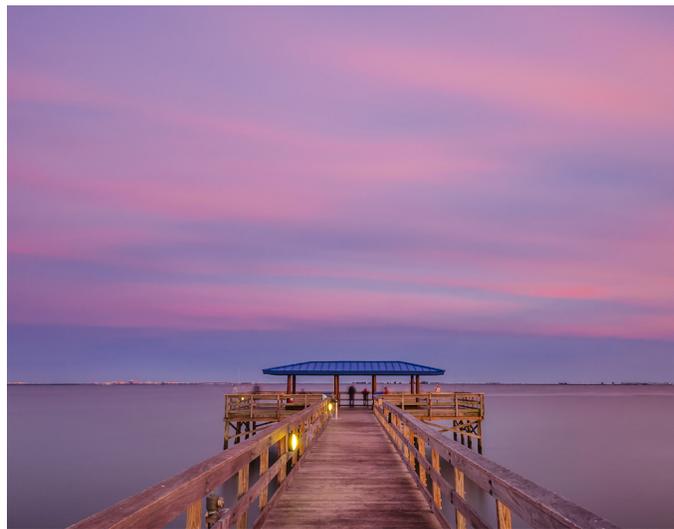
The source of this irrational investing behavior is both psychological and physiological; given the way the mind and brain have coevolved, we humans are hard-wired to react viscerally and to behave in an emotional way. A crisis situation where there is an elevated probability of imminent and significant financial loss exacerbates this behavior. The coronavirus pandemic is a textbook example of this type of situation.

### WHO IS IN CHARGE HERE?

If investors were perfectly rational, their investment decisions would mostly be made in a part of the brain known as the prefrontal cortex. This area of the brain is charged with controlling emotions, predicting outcomes, and making rational “executive decisions.”

Unfortunately for investors, the prefrontal cortex is not in charge in times of high stress. When we are in crisis mode, a more primal area of the brain known as the amygdala is running the show. The amygdala is responsible for fight-or-flight responses, controlling some aspects of memory, and emotions like fear, anger, and aggression. So, when investment decisions are made during times of crisis, they are made by the fickle and emotional amygdala rather than the rational prefrontal cortex.

The amygdala served a crucial purpose in the evolution of humans. When a prehistoric man heard a rustling in the tall grass, he did not rely on his prefrontal cortex to calculate the probability that it was a lion; his amygdala took charge and he quickly raced up the nearest tree. In primitive crisis situations, the instinctive and intuitive reactions of the amygdala were more useful than the cold calculation of the prefrontal cortex – as they still are today. The downside of instinctively but unnecessarily scrambling up a tree is far smaller than the downside of mistakenly concluding that there is no lion in the bush.



During financial crises, however, having the amygdala in charge is often counter-productive. Behavioral psychologists have demonstrated that the fear of financial loss activates the fight-or-flight response in the amygdala in the same way that physical danger does. The problem is that, in a modern investment context, the financial downside of an emotional flight reaction is often far greater than that of a calm, rational response.

The coronavirus pandemic provides us with a prime example of how this emotional response can damage your portfolio. As people started to get sick and the news headlines became more frightening, the market dropped in response and your amygdala probably sensed danger and engaged your primitive flight instinct.

*“The financial downside of an emotional flight reaction is often far greater than that of a calm, rational response.”*

You may have wanted to do the modern equivalent of running up into a tree: selling your stocks without stopping to ask what price you would receive for them or how long the danger would last. In this situation, the calm, long-term approach of the prefrontal cortex would allow you to see that selling after stocks have already plummeted is usually not in the interest of your long-term financial health.

### ELEPHANTS AND THEIR RIDERS

One useful way to think about these two competing portions of an investor's psyche is through a clever analogy provided by psychologist Jonathan Haidt in his book *The Righteous Mind*. For Haidt, the two parts of the mind are like an emotional elephant

and the rational man riding the elephant. The rational part of our mind (the rider) likes to believe it is in charge of the emotions, and in many circumstances it is. But when a crisis erupts, emotions take charge; the elephant revolts against the rider, and in this conflict the primitive brute strength of the elephant will win every time.

Back in January of this year, the relative calm of the long bull market allowed most riders to keep the elephant on the right path. But things changed when the pandemic arrived. When the fear of being infected is simultaneously compounded by the fear of losing money, the primitive, emotional elephant of the amygdala springs into action; some riders lose control, and the risk of making regrettable investment decisions soars.

Unfortunately, you cannot eliminate these emotional tendencies from your mind. The good news is that being educated on these behavioral biases will help. The rider can be made aware of the emotional tendencies of the elephant and can set up safeguards ahead of time to protect against those dangerous moments when the primal instincts of the elephant can do the most damage. When it comes to finances, establishing a sound set of rules before you begin investing is a step in the right direction, but hiring a qualified advisor with a detailed written plan is probably the best way to keep your elephant on the right path.

*The original version of this article was written by Heritage for the September 2020 edition of The Light, a local magazine serving Broward County, Florida.*



## When Is It Time To Retire?

*“Retirement is not in my vocabulary. They aren’t going to get rid of me that way.”*

-- BETTY WHITE

The Rolling Stones have been touring together for over 57 years. The ages of the remaining original band members range from 76 to 79, yet from 2017 to 2019 they did a 45-show tour of Europe and North America, which was temporarily interrupted only by lead singer Mick Jagger’s need to have heart surgery.

All of the Stones are well into that period of life in which they are expected to contemplate retirement. But when asked if they would retire after the tour, guitarist Keith Richards said, “We’re feeling good. And we love what we do. There’s no reason to stop really.”

While the Stones are confident in their lack of a retirement timetable, for most of us non-show-business folks the issue of retirement is one we often ponder. And the most difficult question to answer seems to be “How do you know when it is time

to retire?” This question is so perplexing because it involves both a complex financial decision and a sensitive emotional decision that will literally change your life, probably forever. Given the gravity of this question, it may be better to think about the retirement dilemma as two separate questions: When *can* you retire, and when *should* you retire?

### WHEN CAN YOU RETIRE?

We all know that the Stones can retire. After selling out stadium concerts for decades it is a safe bet that their current wealth will more than sustain them for the remainder of their lives. However, for those unfortunates who are not successful rock stars, the financial considerations are a bit more difficult.

*“The issue of retirement is one we often ponder.”*

The first step to determining your ability to retire is to get a good estimate of how much you will spend in retirement. You can begin with an estimate of current spending and adjust based on some expenses that may increase in retirement (such as healthcare and travel) and others that may decrease (such as work-related expenses).

Social Security will help pay for some of your expenses in retirement, but if you are like most Americans, your Social Security benefits will not be sufficient to cover everything. You will need to have some savings and investments in addition to your government benefits, and depending on the lifestyle you envision in retirement, those needs could be substantial.



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A good rule of thumb for determining how large a nest egg you will need is the “4% rule.” This is how it works: In the first year of your retirement you withdraw 4% of your investable assets. Then in each subsequent year you withdraw that same dollar amount, adjusted to account for inflation. Based on historical market returns and inflation levels, if you have a level of assets high enough to adhere to this rule, it is very likely that your nest egg will sustain you through a 30-year retirement period.

For example, if you and your spouse will need an annual pre-tax income of \$90,000 in retirement and your joint Social Security will cover only \$50,000 of that amount, under the 4% rule you will need \$1 million of savings (\$1,000,000 x 4%) to generate the remaining \$40,000 of income. There are many other factors to consider, such as tax rates, individual life expectancy, and your desire to leave an inheritance for your heirs, but the 4% rule will at least give you a rough framework to use when deciding if you can retire.

### **WHEN SHOULD YOU RETIRE?**

Asking when you can retire is certainly a complex question, but deciding when you should retire is probably the more difficult of the two. Even if you have adequate financial assets to support you in retirement, you may not be psychologically and emotionally ready to make the transition.

Although the thought of not having to work may sound appealing, you must consider what activities will replace the hours that you previously spent working. And you also need to consider whom you will spend that time with. If your spouse and most of your friends are still gainfully employed, you may find retirement boring or even a bit lonely, so you may want to consider part-time or volunteer work instead of full retirement.

You also need to consider how retirement will affect your personal identity. During your working years you have probably answered the question “What do you do?” with a description of your profession. Before you decide to retire you should imagine how you will answer that question as a retiree and decide whether you are satisfied with the answer. You may find that it is the freedom of retirement rather than the leisure that makes it appealing, and easing into retirement by consulting or working part time for a few years may allow for a more enjoyable transition.

The Stones have the financial ability to retire, but they are clearly not ready. If you think you might be ready to retire, you need to ask yourself whether you can and whether you should. More than any other time in your life, this is when you will most benefit from the advice of an experienced professional advisor. Not only does a good advisor have the financial knowledge to help you navigate how, and whether, your assets can support the retirement lifestyle you want, he or she also has the necessary experience to help guide you through one of the most profound and emotional life changes you will ever undergo. And while most of us are unlikely to end up touring with the Rolling Stones, with the proper planning, we may just be able to retire like rock stars.

*The original version of this article was written by Heritage for the March 2020 edition of The Light, a local magazine serving Broward County, Florida.*

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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 and 3) 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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