HERITAGE PERSPECTIVE

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Heritage Update

TRUST, BUT VERIFY

Trusting in someone – or something – can be difficult. It is often even more difficult when it involves your financial life. After you have worked many years to provide for your family and your retirement, you may need to appoint a trustee to ensure the future stability of your assets. Heritage understands the importance of trust, and with this in mind we now have the ability to serve our clients as a "trust protector," which adds another layer of oversight in addition to a traditional trustee.

COMMUNITY AND INDUSTRY INVOLVEMENT

Heritage Investment Group is pleased to once again sponsor and participate in the Florida Tax Institute annual conference. The three-day conference draws attendees from across the United States and provides insights on the latest tax and financial planning subjects. The Florida Tax Institute is sponsored by the Florida Tax Education Foundation, Inc., with all proceeds benefitting the University of Florida Levin College of Law Graduate Tax Program. We are proud to support the Florida Tax Institute in its continuing professional education endeavors.

MOVING FORWARD

As we move into 2021, there is a sense of relief to leave last year behind and move forward with hope and optimism. So much of what we have experienced has been out of our personal control; the good news is that your investment plan is not. Heritage has long espoused the idea that a carefully crafted, well executed financial plan provides the confidence that long term goals can be met. It's what our clients have come to expect and what has been the foundation of our business for over 25 years.

Inside this Issue

"Put not your trust in money, but put your money in trust."

- OLIVER WENDELL HOLMES

EMPLOYEE PROFILE

Kathleen McCarthy, Operations Associate

Kathleen is our newest team member having joined Heritage in October 2020 as part of the Operations Department. She supports the entire operations team and holds a Bachelor of Science Degree from the State College of New Jersey. Kathleen and her husband live in Coral Springs where she enjoys spending time with family and friends, including her three grown children and two grandchildren. She also enjoys reading, traveling, and spending time outdoors. Please join us in formally welcoming Kathleen to the Heritage family.

Watching the Watchman

"Trust, but verify." - RONALD REAGAN

"Trust, but verify." This phrase is often attributed to Ronald Reagan, but it is actually the English translation of an old Russian proverb, "Doveryai no proveryai," that Reagan used when negotiating nuclear disarmament with the Soviet Union under Mikhail Gorbachev. Although Reagan may not have coined the term, he clearly understood its implications: It is wise to offer one's trust, but it is foolish to trust blindly.

Where money is involved, this is especially true. Trust is such an integral aspect of managing someone else's wealth that the vehicle often used to maintain and distribute financial assets for the benefit of another person is actually known as a "trust," and the person entrusted with overseeing a trust is the "trustee."

"While most trustees execute their fiduciary duties with integrity, a trust protector will ensure that this is happening..."

Appointing a trustee to watch over your assets when you are deceased or incapacitated is a prudent step to take, but the potential problem with this arrangement is that it only fulfills the first half of the Russian proverb; there is trust, but no verification. The trustee is responsible for overseeing the trust, but who will oversee the trustee? This is a common and somewhat obvious concern, and fortunately there is a remedy which is known as the "trust protector."

A DISCONCERTING QUESTION

The Roman poet Juvenal asked, "Who will watch the watchmen?" Although Juvenal's question is somewhat satirical (his watchmen were charged with guarding the fidelity of Roman wives), it is easy to see that the problem is entirely serious when applied to those who oversee wealth.

When a grantor creates a trust, he or she also creates the need for a "watchman" to oversee the trust. This is where the trustee comes in. The grantor typically appoints an individual or a corporation as trustee to serve as the watchman of the interests of the trust and its beneficiaries. But who will watch the watchman? If a friend or family member is chosen as trustee, that individual may have conflicts with one or more beneficiaries, or may simply lack the requisite expertise to properly administer the trust. Alternatively, if a corporation is chosen as trustee, the corporate trust officer assigned to the trust will usually be a stranger to the family and may be unfamiliar with the nuances of the grantor's wishes and the beneficiaries' genuine needs.

In both situations, appointing a trust protector to watch the watchman can be helpful. The corporate or individual trustee will usually retain the power to distribute assets and enforce the provisions of the trust, and the trust protector (who can also be an individual or a corporation) will work with the trustee to ensure that the trustee is administering the trust according to the wishes of the grantor. While most trustees execute their fiduciary duties with integrity, a trust protector will ensure that this is happening and that the surviving family members and beneficiaries are being protected from any objectionable activities on the part of the trustee. Trust protectors can be used for existing trusts that already contain suitable provisions, or added by the grantor as an amendment to an existing trust if no prior trust protector provisions have been made.

"Trust your trustee, but verify with a trust protector."

The trust protector's primary responsibilities typically include overseeing the trustee's actions with respect to fees and trust administration, and appointing a successor trustee if the need arises. If you wish to give your trust protector additional powers, such as the ability to amend the trust, terminate the trust, or add or remove beneficiaries, these provisions can be included in your trust document as well.

WHO SHOULD WATCH MY WATCHMAN?

If your estate is sizable or complex enough to require a permanent trustee, it is sizable or complex enough to require a trust protector as well. Deciding which person or entity to appoint in each of these roles is critically important and can be a source of uneasiness and conflict within a family, so it is not to be taken lightly.

Wealthy families have been using corporate (as opposed to individual) trustees for centuries. Think of any bank that you know with "Trust" in their name; they are a corporate trustee. While friends or family members are sometimes considered for the

trustee role, in situations where a trust is highly complex, family members do not get along, or there is a blended family, it may be a good idea to consider using a corporate trustee instead. Being a trustee also involves a lot of work and personal responsibility, and many family members sign on without realizing these implications.

Corporate trust protectors, on the other hand, are a more recent development, and Heritage has recently begun offering corporate trust protector services to our clients. Although the services of a trust protector are usually less demanding and far less expensive than the services of a trustee, the same potential issues with family dynamics remain, and it will often be desirable for the grantors (while they are alive) and the beneficiaries (after the grantors are gone) to ensure that they have a "watcher" that the family is already familiar with.

If you need a trust for your estate, you also need to have confidence that your trust will be handled properly after you are gone. You will have to choose a good trustee, but that may not be enough. Trust your trustee, but verify with a trust protector.

The original version of this article was written by Heritage for the January/February 2021 edition of The Light, a local magazine serving Broward County, Florida.

Lump-Sum Investing vs. Dollar-Cost Averaging

Suppose you have an extra $120,000 and you have decided to invest it in the stock market. It is always nice to have investable cash on hand, but you also might feel as if the pressure is on. Nobody enjoys seeing the market take a dive shortly after they jump in. Unfortunately, we never know when it might do exactly that.

What should an investor do? Should you go ahead and invest the entire amount right away, or should you invest gradually, such as in 12 monthly installments? In financial jargon, this is known as *lump-sum investing* (all at once) vs. *dollar-cost averaging* (over time). In more approachable terms, it is often described as "jumping" vs. "wading" into the deep end of the market.

Which one should you use? In terms of raw expected returns, lump-sum investing is preferred. But sometimes there are equally valid, if less tangible, reasons to favor dollar-cost averaging.

RAW RETURNS

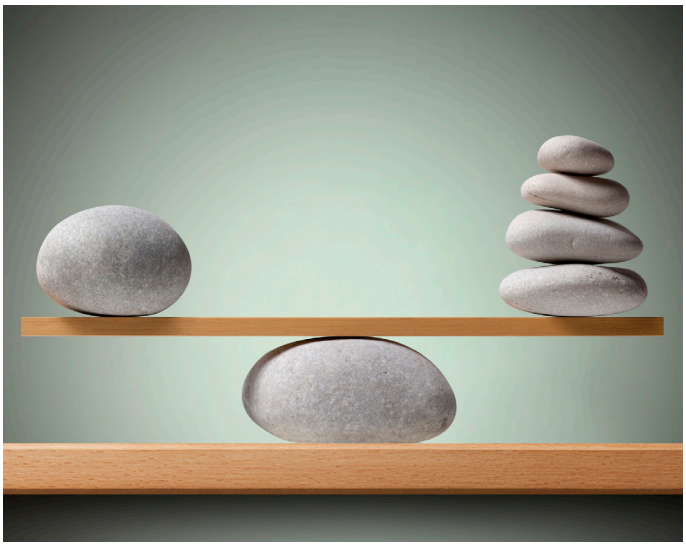
In a match-up of lump-sum investing vs. dollar-cost averaging, which is the better bet? Everyone from academics to financial professionals to the financial press has weighed in on the matter, and they have reached a consistent conclusion: *Lump-sum investing generally improves your odds for earning higher returns compared to dollar-cost averaging.*

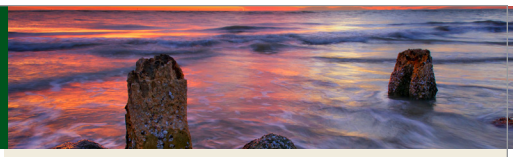
For example, suppose Bob invests $120,000 as a lump sum in a globally diversified portfolio on March 1, and Babette uses dollar-cost averaging to invest $10,000 per month for one year in the same portfolio, beginning on the same date. If they both let the results ride for the next 15 years, who is more likely (although not guaranteed) to come out ahead? The data clearly show that Bob's lump sum has a better chance of generating more wealth than Babette's dollar-cost averaging.

"The best approach for you is the one that helps you best adhere to these sensible investment practices."

This general expectation is well-established in academia, but even without academic analysis, this makes sense because if you invest everything up front, more of your money has more time to compound in a rising market than if you have dripped it in more slowly (of course, if markets initially go down, your bigger, earlier stake takes a bigger hit). Historical data shows that markets go up over a one-year period about 75% of the time, so if lump-sum investing outperforms dollar-cost averaging in up markets, and markets go up more often than they go down, *when the choice is available, a purely rational investor should generally prefer lump-sum investing to dollar-cost averaging.*

That said, individuals love to wonder whether generalities apply to them. What if you are not yet convinced a lump-sum investment makes sense for you, your personal circumstances, and the latest market conditions? There are some situations in which dollar-cost averaging may be preferred after all.





CONSIDERING THE BIG PICTURE

First, it is important to emphasize that no matter which way you go (lump sum vs. dollar-cost averaging), it is unlikely to matter nearly as much as whether you invest efficiently to begin with. This means creating an investment plan that reflects your personal goals and risk tolerances, investing according to your plan in a globally diversified portfolio, and having the discipline to stick with your plan over time and through various market conditions. If you can do all that, exactly how and when you add new money is less significant. The best approach for you is the one that helps you best adhere to these sensible investment practices.

CONSIDERING YOUR BEST INTERESTS

You should consider not only the theoretical performance advantages of lump-sum investing, but also the potential emotional advantages of dollar-cost averaging. For example, imagine you received $120,000 to invest in early March of 2020, just as the COVID-19 pandemic took off, and markets were beginning to falter. If you had decided to invest your lump-sum right away, you would have had to watch it plummet amidst media outcries about *"the fastest bear market ever," "the worst first quarter in history,"* and *"the most volatile month on record."*

It just so happens, you would have come out okay had you stuck with it through the remainder of the year. But nobody knew that at the time; things could have easily gotten worse instead. Either way, would you really have been able to stay the course with a March 1 lump-sum decision? Or would you have leaped back out, or maybe never jumped in to begin with? If you had decided to wait until the market seemed more stable, you might still be waiting.

If fully investing during the early stages of the COVID crisis would have been too daunting, dollar-cost averaging might have been better than waiting for an "all clear" signal that almost never arrives before the market surges ahead. By setting up an automatic schedule for dripping your $120,000 into the market over time, you could have benefitted from some of the market recovery that has taken place, while shielding some of your wealth had the market instead continued to decline.

INTENTIONS VS. OUTCOMES

In short, lump-sum investing is generally expected to deliver better long-term returns if you are willing and able to stick with the strategy. But dollar-cost averaging may be the better choice if a more cautious approach helps you better adhere to the larger, more important tenets of efficient investing.

So, how do you decide? This is where a good advisor comes in. Your advisor should help you objectively assess the personal and financial trade-offs involved and help you stick to your well-devised plans over time and through life's uncertainties. By choosing the investment strategy that makes the most sense for you and your temperament, you stand the best chance of achieving your financial goals, whether you are inclined to wade or jump into the market.

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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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