Many months of stock market highs have led investors to ask, “How long is this going to last, and when should I get out?”

Intuition tells us that after such a long period of sustained performance we might be due for a correction. This instinctive thinking also occurs in baseball, when a batter is “due” for a hit after a prolonged string of hitless at-bats, and in gambling, with the belief that you might be “due” to see the ball land on black after a string of red spins at the roulette wheel.

This Fallacy of the Maturity of Chances (also referred to as the Monte Carlo Fallacy) can result in faulty decision-making, which when left unchecked adversely impacts the likelihood of investors achieving their long-term goals.

Despite what some may claim, no one can predict how long stock markets will remain high (by the time this newsletter is published, markets may have dropped...or risen further). We have no control over stock market performance.

But we believe asking “When should I get out?” is the wrong question.

Here’s why: Investors who attempt to time the market run the risk of missing periods of exceptional returns, leading to significant adverse effects on the value of their portfolios. The chart below illustrates the risk of attempting to time the stock market over the past 20 years by showing the returns investors would have achieved if they had missed some of the best days in the market.

**The Cost of Market Timing**


<table>
<thead>
<tr>
<th>Returns</th>
<th>10 Best Days Missed</th>
<th>20 Best Days Missed</th>
<th>30 Best Days Missed</th>
<th>40 Best Days Missed</th>
<th>50 Best Days Missed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.6%</td>
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<td>-0.5%</td>
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<td>-2.4%</td>
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<td>-4.2%</td>
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Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. © Morningstar. All Rights Reserved.
With major security breaches regularly in the headlines, such as the hacking of Equifax, Uber, Hyatt, Verizon, Yahoo, and too many other companies, what are some practical steps you can take to protect yourself and your information?

Loring Ward, as well as partner firms we work with, such as custodians, take cybersecurity very seriously and are doing our part to protect your data. But there are still several areas where simple, smart safeguards can make a significant difference in keeping your information safe.

**Secure Your Email**

Use two-factor authentication for your email to reduce the risks of being hacked. With two-factor authentication, whenever you access your email from a new device, a code is sent to your smartphone that you then enter on the device. This is much more secure than simply using a password.

If you receive an email with a hyperlink, hover your cursor — without clicking — over the sender’s email address and the hyperlink text to ensure both are legitimate. Clicking on a malicious link from even a trusted contact can subject your computer to spyware, viruses, or ransomware.

**Don’t Use the Same Passwords for Multiple Sites**

Use a password manager like LastPass (lastpass.com) to help keep track of your usernames and passwords for various sites, to generate complex and randomized passwords, and to perform a security test of your existing passwords. It sure beats a Word or Excel file stored on your computer, or, worse yet, a series of Post-it notes.

**Monitor Financial Accounts**

Be sure to look at your monthly/quarterly statements (from banks, credit cards, etc.) for potential fraudulent activity. You can use phone apps or online reporting to make this easier. And consider signing up for fraud alerts so you receive notification of any suspicious activity.

**Monitor Your Credit Reports**

The three credit reporting agencies (Equifax, Experian and TransUnion) offer a free credit report annually. Consider staggering the reports so you get one every four months. Check for any errors as well as fraudulent accounts opened in your name. You can get started at www.annualcreditreport.com.

**Put a Security Freeze on Your Credit Report**

For those worried about the Equifax hack (and we all should be) this is a simple, free, and fast way of protecting yourself. With a security freeze in place, no one can check your credit report or open a credit card in your name, unless you unfreeze your credit — which can be done online using a unique PIN in seconds. You can also lock your credit report, which has a similar effect, but can be a more cumbersome process.

I recently froze my credit, and it took less than 10 minutes — though the Equifax site crashed several times. If you have children under the age of 18, you may also want to freeze their credit reports. You need to put a security freeze in place at all three credit reporting agencies, using the links below.

- https://www.experian.com/ncaalconline/freeze
- https://freeze.transunion.com
- https://www.freeze.equifax.com

These are just a few of the ways you can better protect yourself online. Successful cybersecurity may require a few extra steps and some extra attention, but a few smart precautions can help protect your important data and keep your personal information as safe and secure as possible.
Investors who stayed in large cap stocks for all 5,218 trading days between the beginning of 1997 and the end of 2016, achieved a compound annual return of 7.7%. However, they would have received only 4.0% if they missed the 10 best days of stock returns. Missing the 50 best days would have produced an annual loss of 4.2%.

The appeal of market timing is obvious: improving portfolio returns by managing to avoid periods of poor performance. Let’s imagine for a moment that you were able to find out when the market was at its peak and could get out the day before the market dropped. That sounds great, but there is still another important question: How would you know when to get back in? Timing the market consistently is extremely difficult. And unsuccessful market timing — the more likely result — can lead to compromising your most important life goals.

Looking back over the past nearly 50 years of stock market performance, there were many up and down markets, but their length and magnitude appear to be random. We don’t know if the current bull market will last another decade or just another month. But whenever downturns have occurred these bear markets have lasted on average less than two years since 1970.

So instead of worrying and wondering how long the current stock market performance will last, focus on maintaining a long-term outlook for your investment strategies, and work with your advisor to develop a plan that is aligned with your life goals.

Upcoming Changes to Your Online Portal and Quarterly Statement

Loring Ward is enhancing its core technology system in the coming months. As part of this upgrade, we will launch a new client portal in early February. Here you can access your daily account balances, quarterly performance statements, and trade reports.

This new portal is extremely intuitive and mobile optimized, meaning you can access your information from any device. The system also provides more robust reporting and a document vault where you and your Advisor can safely store important documents such as tax returns, financial plans, wills, etc.

We also have a number of enhancements coming soon, including data aggregation (so you can see all your financial information in one place), and a mobile app.

In addition, in April you will receive an updated Quarterly Performance Statement with a new look and feel, as well as enhanced reporting on your accounts.

We are very excited to rollout these new capabilities. If you have any questions, please contact your Financial Advisor.
A Bowl of Cashews and the Nobel-Prize Lesson of Self-Control

Richard Thaler was recently honored with the Nobel Prize in Economics for his pioneering work in human behavior, specifically for establishing that people are “predictably irrational.” But the story of Thaler’s first insight into what would become behavioral economics and finance is famous and instructive.

It was the late 1970s, and Thaler hosted a dinner party for his fellow economics students. He set out a bowl of cashews for his guests to nibble on while waiting for dinner. Thaler noticed, however, that the cashews were disappearing quickly into the mouths of his hungry guests. Concerned that they would be full by the time dinner was served, Thaler took away the bowl.

This experience gave Thaler insight into the difficulty of exercising self-control. The supposedly rational economists at the party knew that dinner would be served soon, yet could not muster the self-control necessary to refrain from filling themselves with cashews.

Thaler’s studies into self-control and human behavior ran contrary to the economic theory at the time — that people are rational. Of course, rational people would have no trouble exercising the self-control necessary for refraining from eating too many cashews. But Thaler’s work recognized that people are not usually rational and they need tools to help them exercise self-control.

At Thaler’s dinner party the “tool” was simple: just take away the bowl of cashews.

Thaler’s research into human behavior led to a tool that has helped millions of Americans improve their chances for financial security in retirement: automatic enrollment into retirement savings programs. With this system, employees are automatically signed up for the plan and have to opt out if they are not interested in participating. As of 2016, 58% of companies offering a retirement plan provide automatic enrollment.¹

Thaler has also been credited with auto-escalation, where retirement plan participants automatically and incrementally increase their contributions to their plan. In addition, his research around ownership, fairness, and confidence have also influenced how governments make decisions.

I came to know Thaler’s work when I arrived at Santa Clara University in late 1979. There I met Hersh Shefrin, who had been working with Thaler on self-control. As Hersh and I worked together, we found that investors bolster their self-control by framing their money into separate mental accounts, one for income and one for capital, and use a rule — “spend income but don’t dip into capital” — to prevent spending too much and saving too little.

Working closely with your Financial Advisor is another powerful way to help you exercise self-control. As you collaborate on your long-term goals, develop a written plan designed to help you achieve them, and construct and adhere to an Investment Policy Statement, you increase your likelihood of making wise financial decisions and staying on track.

¹“Thank Richard Thaler for Your Retirement Savings,” Ben Steverman, Bloomberg, Oct. 10, 2017