Investing Strategically, Not Emotionally

By J William G Chettle, VP, Marketing, Loring Ward

While many of us understand that our emotions can compromise our long-term financial goals, it isn't always easy to ignore media hype. But letting emotions guide our investment decisions can have a real impact on our portfolios.

Sometimes what seems like a reasonable investment strategy is actually emotions in disguise. We believe these emotional strategies can be particularly harmful, because at first glance they may seem like good, even rational, ideas.

1

Emotional strategy: Waiting for the "right time" to invest. Timing the market is almost impossible to do successfully, even for most professional money managers. Many investors after the Great Recession sat on the sidelines as U.S. markets went up and up, almost tripling in less than a decade.

In 2016 and 2017, some financial experts predicted an imminent stock market decline. If you had invested according to their predictions and taken money out of your portfolio (or stopped investing), you would have missed out on a 12% total return in 2016 and a 22% total return in 2017 in the S&P 500. Eventually, a bear market will happen, but it is almost certainly riskier trying to predict it and avoid it than to ride it out. **Smarter strategy: Ignore the pundits (and your own emotional impulses) and invest for the long term.**

2

Emotional strategy: Buying the stocks of popular, innovative companies that are generating buzz amongst your friends. While it is fun to feel like you are part of a cool club and are investing in the future, innovative companies are not always the most successful investments. Take Google and Domino's, which both went public in 2004. Google, which continues to make incredible inventions and technological advances, returned 1985% through the end of 2017. Meanwhile, Domino's, which makes pizza and breadsticks, returned 2720%.[2]

Whenever you invest in a limited number of companies, you become susceptible to what is called idiosyncratic risk, or risk that applies only to one type of asset. For example, a company's miracle drug could turn out to be a bust, or the CEO of another company might make embarrassing public pronouncements ... and suddenly you could be faced with major losses. **Smarter strategy: Own a broadly diversified portfolio, so that troubles with one company, or sector, or country, have less impact on your overall portfolio.**

3

Emotional strategy: Investing in products or managers that purport to have some special "edge." This is almost the entire premise of the hedge fund industry, which claims that its proprietary algorithms and cutting-edge research make it well-positioned to deliver outstanding performance. Over the past decade or so, the reality has been much less impressive, with hedge funds, as a whole, significantly underperforming the S&P 500.

Because hedge funds are not subject to the same investor protection regulations as other types of investments, they may provide less transparency about their strategies. **Smarter strategy: Invest in products, such as mutual funds, that are highly regulated ... and avoid any product or manager claiming a "secret sauce" or applying untested methodologies (or tested methodologies that don't generally work that well).**

Your financial advisor can help steer you away from fads and emotional decisions and toward rational strategies that are based on decades of academic research and insight. As the money manager Jim Rogers noted, *"People are too quick to accept conventional wisdom, because it sounds basically true and it tends to be reinforced by both their peers and opinion leaders, many of whom have never looked at whether the facts support the received wisdom. It's a basic fact of life that many things 'everybody knows' turn out to be wrong."*

[2]Source: Yahoo Finance as of 1/31/2018

Securities listed are for illustrative purposes only and are not to be viewed as investment recommendations. They are not representative of any Loring Ward portfolio, and it should not be assumed that investments in any of the securities listed were or will prove to be profitable.

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360INSIGHTS

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Capitalism Shines for this Apple

By Jonathan Scheid, CFA, AIF®, VP, Portfolio Strategy & Education, Loring Ward

A significant amount of planning and research goes into managing a person's wealth. Your Financial Advisor leverages extensive academic research, additional outside experts, and powerful tools to build efficient portfolios, select proper funds, and implement portfolios in an effective way. And your Advisor uses sophisticated planning tools to help determine how to reach goals, structure your accounts, and understand the impact of taxes.

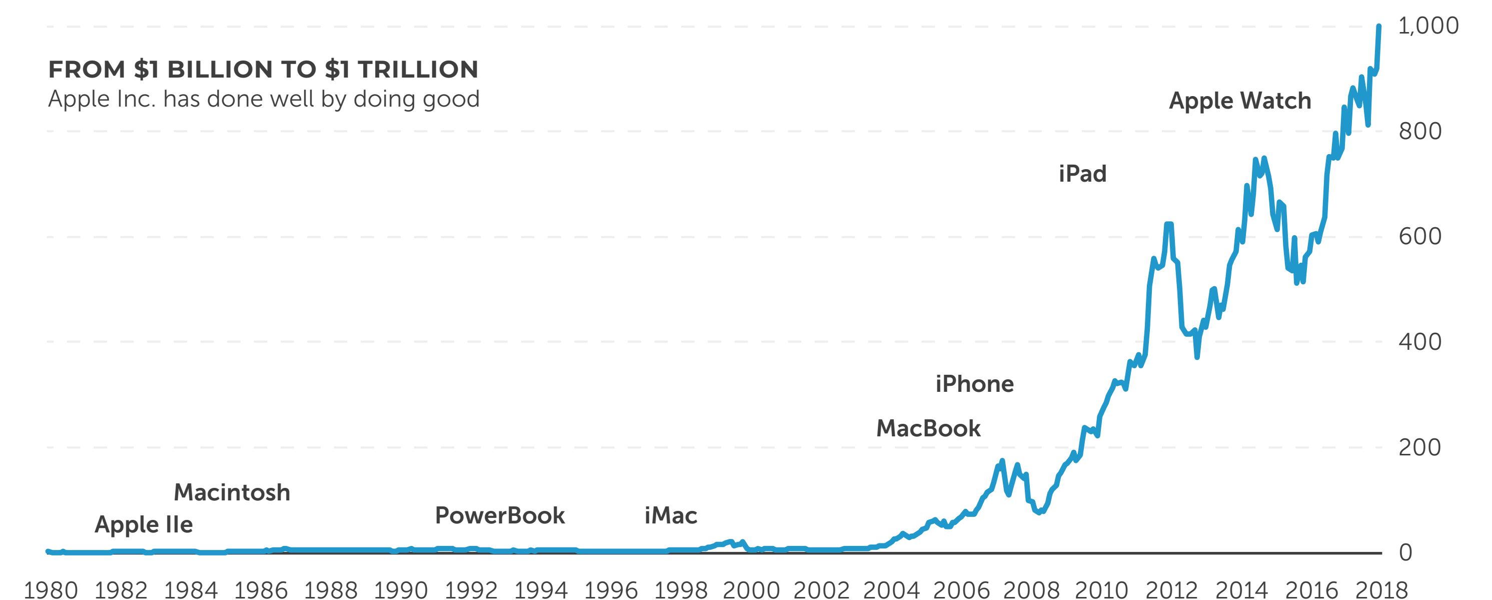
Yet, as much as your financial professionals try to analyze the investment and planning approach, there is some part of your plan that is largely out of their hands. That part is growth. We all need our investments to grow to help us reach our goals. While it is reasonable to assume that we should earn something from our investments, what's behind that assumption is the powerful force of capitalism.

American philosopher Ralph Waldo Emerson, who lived during the industrial revolution, was a big fan of capitalism. Seeing the new ideas and the wealth it created led him to write the following: "Doing well is the result of doing good. That's what capitalism is all about."

We see this in today's digital revolution. The advances in technology, medicine, and information have been mindboggling. We also know the wealth that these transformative ideas have generated, and the latest example of this is the recent milestone that Apple Inc. crossed.

Apple became the first publicly traded company to be worth one trillion dollars. It took 38 years for the company to grow from $1 billion to $1 trillion. (It was soon followed by Amazon, which grew to $1 trillion in 21 years)[1].

Apple created or significantly enhanced products that help us learn more, do our jobs more efficiently, and make connecting with each other simple. It helped mainstream the personal computer with the Macintosh, changed the way we listen to music with the (continued on page 2)



[1]"How Amazon Gets to $2 Trillion," Christina Farr and Eugene Kim, CNBC.com, Sept. 4, 2018

7 Retirement Planning Challenges

By Heather Hooper, Head of Retirement Strategies, Loring Ward

While one of the most obvious challenges in retirement is not running out of money, there are other important factors to consider and prepare for that may not be as top of mind. Even if you don't consider yourself close to retiring, you may be able to use this information to help you plan for the future or even assist a parent, loved one, or friend.

1 Ages and Stages

Retirement could be a 30+ year expedition, with multiple phases and stages. Early, middle, and late retirement will carry with them changes in activity levels, spending, lifestyles, motivations, challenges, and opportunities.

2 Home

Where we live enables *how* we live. Proactively making changes to our current home or moving to an environment that supports our changing needs can positively impact the journey.

3 Work

We all need something to look forward to that gives us purpose, structure, and social connection. Working isn't just about financial stability or status, but also a sense of fulfillment and importance that needs to be replaced with something else we are excited about — and it doesn't even have to be a paid position!

4 Longevity

It can be difficult to imagine what life will look like — physically, mentally, emotionally, and financially — in the future, to picture ourselves as older and in a different stage of life. Odds are, we will live longer than generations past. We need to plan for the challenges we all hope we'll never face (like Alzheimer's disease) and the ones we hope we will ... like playing with our great grandkids on memorable family vacations.

5 Health

This is a potentially big disrupter that can impact almost every aspect of our lives. Health problems may change our lifestyle, limit our ability to work, erode the legacy we'd like to leave, and create tremendous strain on family. Take ownership of the things we can control, like advanced planning, leveraging our resources, our attitude about aging, finding outlets to manage stress, and taking care of ourselves.

6 Family

It can be very empowering to work as a team to set expectations and communicate about how our retirement journey impacts our loved ones. For example, changing relationships with a partner, kids, aging relatives, and extended family; managing new stressors; learning how to communicate about the tough stuff; planning for the unexpected; helping where you can and figuring out how to ask for help while keeping your dignity intact.

7 Legacy

This is an uncomfortable topic due to its nature – addressing death. But legacy is about so much more than the technical aspects of distributing money and belongings. It's about sharing your intentions about what you hope what's left behind will do, and thinking through emotional factors like how traditions are passed along (everything from treasured memories to Sunday dinners and family recipes) and how you want to leave your mark on the world now — when you can enjoy it — and for generations to come.

In short, living well in retirement extends beyond financial comfort. Talking through these topics with your loved ones can help ensure a more comfortable, successful, and dignified retirement.

(Capitalism Shines for this Apple, continued from page 1) iPod, and it changed the way we communicate with the iPhone.

Apple also had its share of challenges, including product failures, poor business decisions, and management uncertainty. And these challenges were reflected in its valuation over the years. Apple experienced 12 separate declines of 20% or more, and four of those declines were greater than 60%. For comparison, the U.S. stock market, as measured by the S&P 500 Index, declined greater than 20% only three times, and never declined greater than 60% during that period.

But the capitalist spirit and the innovation the company embraced helped it persist and reach its recent highs. To use Emerson's expression, Apple did a lot of good and the stock has done well.

This is just one of thousands of examples of capitalism at work. Our point isn't to say that we should go out and buy Apple stock (the reality is that Apple is already most likely in our portfolios) or that $1 trillion is too big or too small of a number (it really is just a number, and just like a stock market reaching an all-time high, that makes for an impressive headline).

Our point is that there is a powerful force that is driving stocks higher and there is a reason that stocks tend to go up more often than they go down. And that reason is capitalism; it is the fuel that powers every company and their stocks. And while we can't control it, we can harness its long-term potential to help grow your portfolio.