A New Year, A New Outlook

By Douglas A. Schmidt, RFC

2016 has brought an enormous amount of change, opportunity and expectation. Leading the way is the dramatic outlook the country has embraced with the new administration taking office this month; as witnessed by the year end rally that has taken most of the country by surprise and leaving many to ask are their expectations going forward to be realized and rewarded?

With the new year upon us, I have a very positive outlook and yet cautious in the near term as we historically have seen after such a rally in the markets a correction that seems to catch many off guard.

I believe with many of the proposed regulation changes, tax restructuring and the continued rise in interest rates, 2017 may be a very exciting year for the individual investor.

We will be watching to see within the first 100 days how the new administration handles their campaign promises and what they will actually be able to accomplish with what should be a very friendly House and Senate.

Whether a Democrat or Republican you have to admit there is great expectation of a new vision for our country and a definite style change in the leadership in Washington.

We are excited and looking forward to the New Year and the opportunities it will bring. Stay tuned!
IMPROVING COMMUNICATIONS

Communications have changed and evolved quickly over the past several years. While we hope to constantly improve upon our website and social media sites, we still prefer meeting personally one on one, when it fits your busy schedule.

Text Messaging

We understand that many of our clients use their cell phones for their main source of communicating with family, friends and business partners. Please note when you communicate with us, we ask you do not use text messages, rather use our email, advisor@itsourlegacy.com for Doug, jaime@itsyourlegacy.com for Jaime, and paul@itsyourlegacy.com for Paul. We will not be able to respond to a text message since this is a form of instant messaging and at this time is not monitored.

Emails

Communicating with us via our email can be at times the best way to get ahold of us. It also provides a historical archive for us to maintain. While we encourage you to call us, 480-837-1736, sometimes we can respond quicker to an email.

Web Based Meetings

We have recently rolled out an amazing new tool that we are very excited about, web based meetings. We know that you have busy schedules and for some it difficult to get time off to meet us at our office in Fountain Hills.

Moving forward, we are now able to conduct portfolio review meetings from the comfort of your own home by using the join.me web conferencing platform. The program is extremely user friendly and easy to set up. All that we would need to do is set aside 20-30 minutes when you will be at your computer and we will send you the link to access the meeting via email a few minutes before we are scheduled to start.

If you would like to set up a web meeting with us please contact Jaime at 480-837-1736 and he will get you on the schedule.
IMPROVING COMMUNICATIONS

Online Scheduling

We are very pleased to announce that we have added the option to schedule a Call, Web Meeting, or Office Meeting with Doug directly from our website! The next time you go onto www.itsyourlegacy.com you will see a Schedule button in the top right of every page.

Clicking this Schedule button will redirect you to our Calendly Scheduling page where you will select an appointment type:

- Client Office Meeting
- Client Webinar Meeting
- Client Conference Call
- Introduction Office Meeting
- Introduction Webinar Meeting
- Introduction Call

Client Appointments are for existing relationships and Introduction Appointments are for new relationships.

Once the appointment type is selected, you will choose the date and time that works for you and it will be automatically added to our calendar!

If there is not a time available on the calendar that works for you, or you would like to meet somewhere other than the Fountain Hills office, please call Jaime and he will get your appointment scheduled over the phone.

You are still able to call in and schedule an appointment like you have done in the past. This tool is here to make scheduling more convenient and accessible for you if you wish to do it online.

Please take note!

Client Reports

Effective November 1, 2016 we are asking all our relationships to access their comprehensive client performance reports online at our website: www.itsyourlegacy.com

If you don’t have internet please contact us for alternative delivery.
2017 Evening with Friends

We are very excited with the number of changes and improvements we have been making throughout 2016. Jaime has done an amazing job with our website and our Facebook page as well as our new appointment calendar. One of our most successful changes we made last year was bringing back Evening with Friends. The format for this year’s Evening With Friends will be very much the same, simple, fun and an atmosphere that is inviting and friendly. But with the success of our event last year we have had to make a few upgrades. In 2017 we will be hosting our monthly event at the beautiful FireRock Country Club, here in Fountain Hills.

We will also be using Facebook to promote and take reservations. With the success of our Facebook page we feel it maintains a simple but effective platform to manage the event and for many a very convenient way to stay in touch. It’s informal, but effective, being so many of our clients use Facebook on a daily basis.

Look for more information coming shortly in your email and stay connected with us on our Facebook page!  

www.facebook.com/itsyourlegacy
Evening with Friends 2017

A TRADITION SINCE 2009

On behalf of Jaime, Paul, Judy and myself, we hope you will be able to join us for our 2017 Evening with Friends.

Evening with Friends will be held at the beautiful FireRock Country Club the third Thursday of each month. The evening will be a great opportunity for residents, business and government leaders to network, introduce themselves to each other and just enjoy a couple hours each month catching up.

Invitations will be sent out by Jaime over our Facebook page and is open to all those interested in attending.

We will provide the Hors d’oeuvres and FireRock has agreed to a discounted cash bar selection for our adult beverages. Bring your business cards, contact information and join us!

As a past Chairman of the Fountain Hills Chamber of Commerce and recipient of the Chairman’s Award as well as Business Person of the Year, I miss being involved and meeting our new leaders. This is an opportunity to reconnect, renew and get to meet our new leaders and residents of Fountain Hills. I hope you will join us!

Thursday, January 19th 5:30pm to 7:30pm
Thursday, February 16th 5:30pm to 7:30pm
Thursday, March 16th 5:30pm to 7:30pm
Mind Over Money

Emotion often drives our financial decisions, even when logic should.
Provided by Douglas A Schmidt, RFC

When we go to the grocery store, we seldom shop on logic alone. We may not even buy on price. We buy one type of yogurt over another because of brand loyalty, or because one brand has more appealing packaging than another. We buy five bananas because they are on sale for 29 cents this week – the bargain is right there; why not seize the opportunity? We pick up that gourmet ice cream that everyone gets – if everyone buys it, it must be a winner.

As casual and arbitrary as these decisions may be, they are remarkably like the decisions many investors make in the financial markets.

A degree of emotion also factors into many of our financial choices. There is even a discipline devoted to how our emotions affect our financial decisions: behavioral finance. Examples of emotionally driven financial behaviors are all around us, especially in the investment markets.

Behavior #1: Believing future performance relates to past performance. In truth, there is no relation. If an investment yields 8-10% for six consecutive years, that does not mean it will yield 8-10% next year. Still, we may be lulled into expecting such performance – how can you go wrong with such a “rock solid” investment? In behavioral finance, this is called recency bias. Bullish investors tend to harbor it, and it may lead to irrational exuberance.1

Similarly, investors adjust risk tolerance in light of past performance. If their portfolio returned spectacularly last year, they may be tempted to accept more risk...
Mind Over Money (Continued)

this year. If they took major losses in the equity markets last year, they may become very risk-averse and get out of equities. Both behaviors assume the future will be like the past, when the future is really unknown.¹

Behavior #2: Investing on familiarity. Familiarity bias encourages you to make investment or consumer choices that are “friendly” and comfortable to you, even when they may be illogical. You go with what you know, without investigating what you don’t know or looking at other options. Another example of familiarity bias is when you invest in a company or a sector largely because you are attracted to or familiar with its “story” – its history, its reputation.²

Behavior #3: Ignoring negative trends. This is known as the ostrich effect. We can ignore the reality of a correction or a bear market; we can ignore the fact that our credit card debt is increasing. Studies suggest that investors check in on their portfolios with less frequency during market slumps – they would rather not know the degree of damage.³

Behavior #4: Wanting decisions to pay off now. Patience tends to be a virtue in both equity investing and real estate investing, but we may suffer from hyperbolic discounting – a bias in which we want a quick payoff today rather than an even larger one that might result someday if we buy and hold.³

Behavior #5: Falling for a decoy. When given a third consumer choice, instead of two consumer choices, we may choose a different product than we originally would, and perhaps make a choice we would not have otherwise considered. Once, an ad in The Economist offered three kinds of subscriptions: $59 for online only, $159 for print only, and $159 for online + print. The $159 print-only option was an illustration of the decoy effect – the
Mind Over Money (Continued)

choice existed seemingly just to make the $159 online + print option look like a better deal. 3

Behavior #6: Seeing patterns where none exist. This is called the clustering illusion. You see it in casinos where a slot machine pays out twice an hour, and people line up to play that “lucky” machine, which has, in fact, just paid out randomly. Some investors fall prey to it in the markets. 3

Behavior #7: Following the herd. The more consumers or investors that subscribe to a particular belief, the greater the chance of other consumers or investors to join the herd, or “jump on the bandwagon,” for good or bad. This is the bandwagon effect. 3

Behavior #8: Buying the amount of something that we are marketed. In our minds, we believe that there is an optimal amount of something per purchase. This is called unit bias, and when marketing suggests the ideal amount should be larger, we buy more of that product or service. 3

There are dozens of biases we may harbor, temporarily or regularly, all subjects of study in the discipline of behavioral finance. Recognizing them may help us to become a better consumer, and even a better investor.

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Wisdom from Warren Buffett

One of the world’s most heralded investors simply keeps calm and carries on.

If you ask someone who the “world’s greatest investor” is, the answer more often than not may be “Warren Buffett.” That honor has never formally been awarded to him, and many other names might be in the running for that hypothetical title, but one thing is certain: the “Oracle of Omaha” is greatly admired in investing circles.

Warren Buffett is often a voice of reason in volatile times. Through the years, the Berkshire Hathaway CEO has dispensed many nuggets of investing wisdom. Like Ben Franklin’s aphorisms in Poor Richard’s Almanac, they are grounded in common sense and memorable. Here are some particularly good ones, culled from recent articles posted at Bloomberg, TheStreet, and Zacks Investment Research:

“The most important quality for an investor is temperament, not intellect. You need a temperament that neither derives great pleasure from being with the crowd or against the crowd.”

“Games are won by players who focus on the playing field -- not by those whose eyes are glued to the scoreboard. If you can enjoy Saturdays and Sundays without looking at stock prices, give it a try on weekdays.”

“If you aren’t thinking about owning a stock for 10 years, don’t even think about owning it for 10 minutes.”

“The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.”

“Price is what you pay. Value is what you get.”

“The cemetery for seers has a huge section set aside for macro forecasters.”

“A business with terrific economics can be a bad investment if it is bought at too high a price.”

“Risk comes from not knowing what you’re doing.”

Buffett’s clarity and candor stand out in a financial world marked by jargon. Some of the quotes above are from his annual letters to Berkshire Hathaway shareholders, and show his genius for distilling investment lessons into plain English.
Wisdom from Warren Buffett, continued

A classic value investor (if not a strict one), Buffett is also a great optimist. He has never stopped being bullish on America. “America is great now. It’s never been better,” Buffett told the audience at Fortune Magazine’s 2015 Most Powerful Women summit. “The stock market does wonderfully over time because American business does wonderfully over time.” He remains bullish on China, as well; he thinks Chinese stock benchmarks will sustain their momentum at least through 2017 because businesses and consumers in China have “found a way to unlock their potential.”

Buffett’s blend of optimism and pragmatism have helped make him the world’s third-richest person, and the average investor might do very well to keep some of his maxims in mind, day after day.

If you don't find a way to make money while you sleep, you will work until you die.

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Warren Buffett

Citations:
5. globaltimes.cn/content/919951.shtml [5/4/15]
Volatility Is Not Risk

The two should not be confused.

What is risk? To the conservative investor, risk is a negative. To the opportunistic investor, risk is a factor to tolerate and accept.

Whatever the perception of risk, it should not be confused with volatility. That confusion occurs much too frequently.

Volatility can be considered a measurement of risk, but it is not risk itself. Many investors and academics measure investment risk in terms of beta; that is, in terms of an investment’s ups and downs in relation to a market sector or the entirety of the market.

If you want to measure volatility from a very wide angle, you can examine standard deviation for the S&P 500. The total return of this broad benchmark averaged 10.1% during 1926-2015, and there was a standard deviation of 20.1 from that average total return during those 90 market years.¹

What does that mean? It means that if you add or subtract 20.1 from 10.1, you get the range of total return that could be expected from the S&P two-thirds of the time during the period from 1926-2015. That is quite a variance, indicating that investors should be ready for anything when investing in equities. During 1926-2015, there was a 67% chance that the S&P could return anywhere from a 30.2% yearly gain to a 10.1% yearly loss. (Again, this is total return with dividends included.)¹

Just recently, there were years in which the S&P’s total return fell outside of that wide range. In 2013, the index’s total return was +32.39%. In 2008, its total return was -37.00%.²

When statisticians measure the volatility of major indices like the S&P 500, Nasdaq Composite, or Dow Jones Industrial Average, they are measuring market risk. Trying to measure investment risk is another matter.

You can argue that investment risk is not measurable. How can investors measure the probability of a loss when they invest? Even after they sell an investment, can they go back and calculate what their risk was at the time they bought it? They only know if they made money or not. Profit or loss says nothing about risk exposure.

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²
Most experienced investors do not fear volatility. Instead, they fear loss. They think of “risk” as their potential for unrecoverable loss.

In reality, most apparent “losses” may be recoverable given enough time. True unrecoverable losses occur in one of two ways. One, an investor sells the investment for less than what he or she paid for it. Two, some kind of irrevocable change happens, either to the investment itself or to the sector to which the investment belongs. For example, a company goes totally out of business and leaves investors with worthless securities. Or, an innovation transforms an industry so profoundly that it renders what was once a leading-edge company an afterthought.

Accepting risk means accepting the possibilities of equity investing. The range of possibilities for investment performance and market performance is vast. History has shown that to be true, history being all we have to look at. It fails to tell us anything about the negative (or positive) disruptions that could come out of nowhere to upend our assumptions. A “black swan” (terrorism, a virus, an environmental crisis, a quick evaporation of investor confidence) is always a possibility. Next year, the performance of this or that sector or the small caps or blue chips could be spectacular. It could also be dismal. It could certainly fall in between those extremes. There is no way to calculate it or estimate it in advance. For the equities investor, the future is always a flashing question mark, regardless of what history tells or pundits predict.

Diversification helps investors cope with volatility & risk. Spreading assets across various investment classes may reduce a portfolio’s concentration in a hot sector, but it also lessens the possibility of a portfolio being overweighted in a cold one. Volatility is a statistical expression of market risk, constantly measured. Volatility, however, should not be confused with risk itself.
A New Year, A New Outlook 1st Quarter 2017 | Issue 5

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Personal Social Security Report

Thinking about filing for Social Security?

Don’t make a move until you get one of our complimentary personal Social Security reports in your hands! For a limited time, we will be offering these reports for NO CHARGE so do not hesitate and miss out! Please contact Jaime at 480-837-1736 or Jaime@itsyourlegacy.com to claim your offer!

Your report will answer the following questions and more:

- At what age should my spouse and I file for benefits?
- How do we know which of the common filing methods might be right for us?
- How do I make sure my spouse gets the largest survivor benefit?
- If one of us lives a long life, how does that affect our decision?
Final Thoughts

There are a number of administrative updates and regulatory changes we are waiting for the new administration in Washington to clarify in the next 100 days.

One of the most important clarifications we are waiting for is the required changes the DOL (Department of Labor) has been discussing.

There are a number of views as to what will actually be required and how we will be advised to restructure our compensation schedules and how we are to work with our clients moving forward.

At this point we have more questions than answers. Once we have these questions answered we will be reaching out to each of our current relationships with the required actions we will need to complete.

Office Hours:

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2017 Office Holidays
Please make note of this year’s dates in which the New York Stock Exchange is going to be closed. These dates also will apply to our office holiday schedule as well.

Jan 2  New Year’s Day
Jan 16  MLK Jr Day
Feb 20  President’s Day
Apr 14  Good Friday
May 29  Memorial Day
Jul 4  Independence Day
Sep 4  Labor Day
Nov 23  Thanksgiving
Dec 25  Christmas Day