Investor Insights and Outlook

Volume 5, Issue 2

Staying Invested—Even at New Market Highs

It can be very hard to start investing or stay invested when financial markets reach new highs. Our intuition tells us that after a long period of sustained performance maybe "we're due for a correction." This intuition is seen in many areas besides financial markets, such as in baseball, when a batter is "due" for a hit after not getting a hit over the past few games. This intuition also appears when 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.

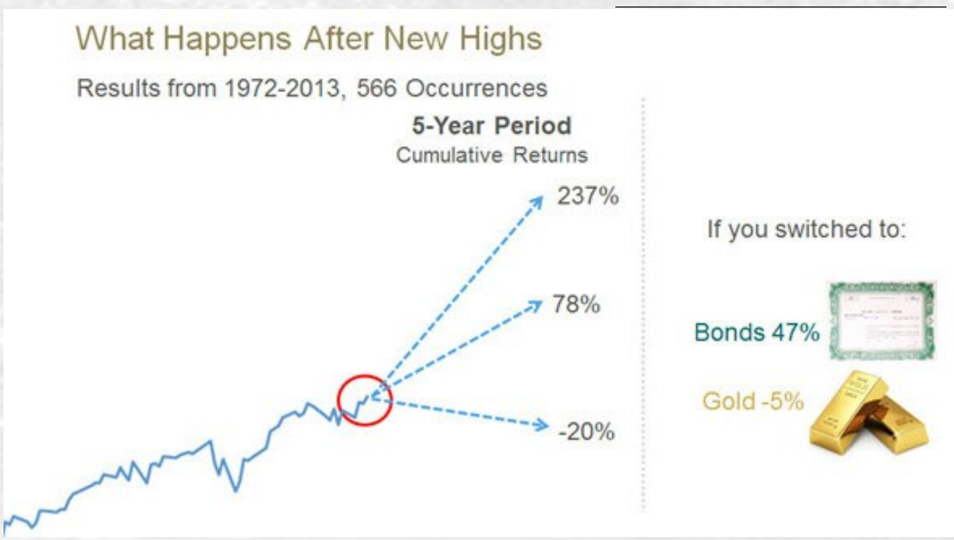
This tendency to believe the likelihood of future market corrections increases as financial markets reach new highs is referred to as the "gambler's fallacy" and is a byproduct of our inability to properly assess and apply the laws of probability. This inability to assess probability leads us to take shortcuts (i.e. heuristics) which can impede our decision-making. Overreliance on these types of heuristics may lead to making investment decisions that could adversely affect our goals for the long term.

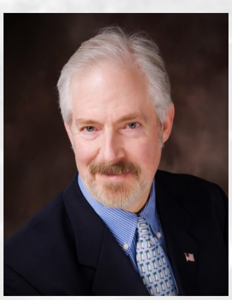
Historically, succumbing to this fallacy may have proven costly in terms of performance. From 1972 to 2013 the S&P 500 has reached a new high 566 times, which averages to 14 new highs each year. As illustrated below, once the S&P 500 reached a new high, the average 5-year cumulative return was 78%, with a best case scenario of a 237% cumulative return and a worst case of -20%.

But what if you sold your stock positions at a new high… what asset class would you have invested in instead? On average, we

Continued on page 4

Inside this issue:





Advisor Corner

Thank you for the opportunity to serve as your advisor.

Hallett Advisors
Plan Well • Live Well

James D. Hallett, MSFP CFP AIFA
jim@hallettadvisors.us
360-457-6000

How to Manage an Inheritance

If you have recently received a bequest or are anticipating inheriting sizeable assets, here are some tips to help you manage those assets.

Over half of American retirees expect to leave an inheritance for their loved ones, with an average value of more than $176,000.[1] If you have recently received a bequest or are anticipating inheriting sizeable assets, now is the time to plan. Here are some tips to help you manage an inheritance.

- **Wait and develop a strategy.** Start by parking the money in the bank and take an inventory of your financial life. Are you on track for retirement? Do you have adequate insurance? Do you have significant debt? Are you supporting a family?
- **Pay down high-interest debt.** Near the top of your priority list should be eliminating consumer debt, especially high-rate credit card debt. But think twice about paying off your mortgage, unless owning a home outright is an important goal for you. Your mortgage interest rate is likely low, and the money may be better used elsewhere. The same goes for paying off college loans at low interest rates.
- **Save, save, save.** The next step should be to turn your savings, which may include funding an emergency fund of about six months' living expenses, putting aside money for retirement, and setting up accounts for your children's education and other life expenses.
- **Don't rush to spend**. Ideally, the money should bring you closer to financial independence, but many heirs don't know how to handle a windfall and end up no better off than they were before. Take small steps when making your decisions. Instead of quitting your job right away, consider working part-time. If thinking about purchasing a luxury sports car, try renting one first. The goal is to avoid making irrational decisions you might later regret.

- **Do your research.** If you've inherited a traditional IRA, research the options available before making changes. If you're not a spouse, you can't roll the inherited IRA into your own. Non-spouses are required to take taxable minimum distributions every year based on life expectancy. Instead of treating the distribution as an annual windfall to be spent, plan to integrate it into your long-term strategy.
- **Find a suitable long-term investment strategy.** Constructing a portfolio that generates passive income is the slow-and-steady approach that will lead to financial independence. To achieve stability and income growth, you'll need to mix stocks and fixed-income investments., but don't speculate by sinking it all into volatile equities or go too conservative by keeping it too heavily invested in cash or fixed-income securities. The point is to make the money work for you without unnecessary risk.
- **Hire an expert.** Managing an inheritance gets easier with professional financial help. Consulting a financial planner, investment professional, or tax accountant will help you maximize your current plan or help you develop a plan if you don't have one. If you know you'll inherit, you can begin planning ahead of time, but if the inheritance comes as a surprise, a professional can provide a better idea of your options. Be sure to get an objective opinion that is based on your entire financial picture and a thorough understanding of your goals.

This communication is not intended to be legal and/or tax advice and should not be treated as such. Each individual's legal and /or tax situation is different. You should contact your legal and/or tax professional to discuss your personal situation.

Source/Disclaimer:

[1]Source: HSBC, "The Future of Retirement: Life after work?" December 2013.

Six Tips to Help You Avoid Online Fraud

What steps can you take to secure your valuable personal and financial data when banking or shopping online? Consider the following tips as important baseline checks.

As technology continues to evolve, so too have the skills of cyber-criminals, who have honed their ability to break through firewalls, stealing valuable personal data and funds.

Tip 1: Be Safe When Connecting

Be careful how and where you use any online banking system.

- Never connect to the Internet through an unsecured, public, wireless network
- Never access your account from a link. Links are easy to tamper with, especially if they are embedded in an email, text message, or online article. Always go directly to the home page of the financial institution first and navigate from there.

Tip 2: Protect Your Passwords

- Avoid using the same password for multiple accounts—doing so leaves you more vulnerable.
- Never use personally identifying information, such as the last four digits of your Social Security number, in a password or username.
- Be sure to change passwords regularly and avoid reusing the same password and username on different websites.
- Never share passwords, PINS, or other account-related information in response to an unsolicited request. If you did not initiate the communication, you should not provide any information.

Tip 3: Regularly Monitor Your Accounts

Check account activity and online statements often, instead of waiting for your monthly statement. If you notice a "red flag," contact your bank immediately. When a customer reports an unauthorized transaction within 60 days of the occurrence, the financial institution will typically cover the loss and take measures to protect the account.[1]

Tip 4: Protect Your Equipment

Be sure your computers and mobile devices are equipped with up-to-date antivirus and malware protection.

- Most computer operating systems have build-in security firewalls. Be sure yours is set at "medium" or higher.
- Exercise the same caution with your wireless home Internet connection. Without proper protection, there is nothing to protect anyone from gaining access to your computer files and personal account data. WPA encryption is considered the best type of Wi-Fi protection.

Tip 5: Be Careful When Using Social Media

Social Media sites, such as Facebook and Twitter, are used by millions of people worldwide, but be sure to exercise caution when sharing personal information on these sites. Details such as your birth date, home address, or the names of schools you attended are frequently used by financial institutions to validate your identity and are therefore potentially useful to cyber-criminals. Always review the privacy policies for any social network you join so as to avoid unintended disclosure of information.

Tip 6: Shop on Secured Sites

If you shop online, be sure to use only websites and merchants that you trust and that protect your account information with industry-standard security protocols. Look for the secure transaction signs, such as a lock symbol in the lower right-hand corner of your browser or "http" in the address bar.

With a healthy dose of caution and some old-fashioned common sense, you can safely use the Internet as a time-saving, convenient resource.

Source/Disclaimer:

[1]Source: Federal Deposit Insurance Corporation, Consumer Financial Protection Bureau, Section 1005.6.

Staying Invested—Even at New Market Highs (continued)

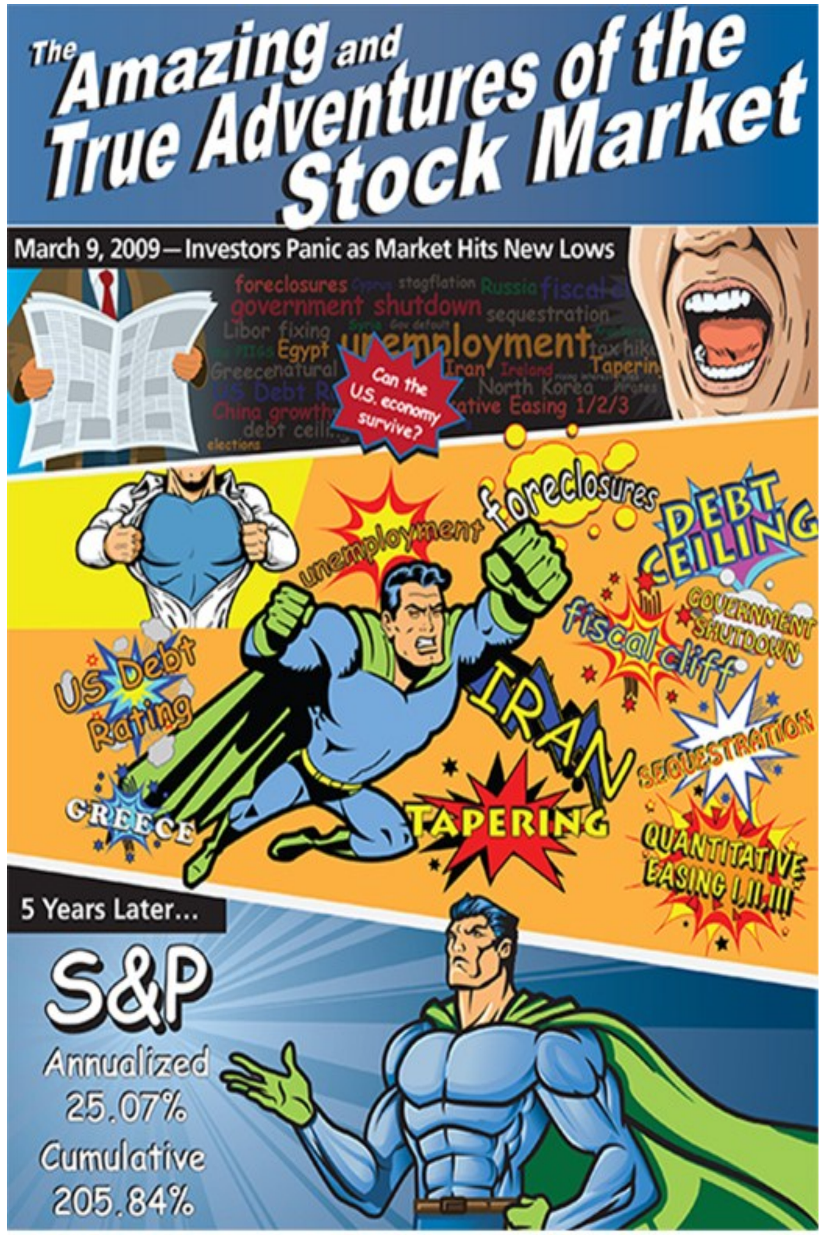
see that if you had moved into Five Year Treasuries after the S&P 500 reached a new high, you would have earned a cumulative return of 47%. That isn't bad performance, but it is below the average for equities over that time period. Gold, on the other hand, averaged a cumulative return of -5% after the S&P 500 reached a new high. The performance noted here illustrates the potential value of staying invested, even as equities reach new highs.

We must remember that past performance is not indicative of future performance and periods of sustained performance do not mean we are "due" for a market correction. Rather than trying to estimate what will happen with the market going forward, we should remember to maintain a long-term outlook for our investment strategies and chose a plan according to our investment profile. We see that the S&P 500 earned 20.18% after it reached its first new high of 2013. This kind of performance shows us the power of staying invested over the long term, maintaining your asset allocation and the potential consequences of succumbing to the gambler's fallacy.

Diversification neither assures a profit nor guarantees against a loss in a declining market. Past performance does not guarantee future returns and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

International and Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign wars, and different methods of accounting and financial reporting. As a result, they may not be suitable investment options for everyone.

Thanks to Jerrod Foster at Loring Ward



Hallett Advisors
Plan Well • Live Well

RIA STANDS FOR YOU.

Discover the difference with a Registered Investment Advisor.

James D. Hallett, MSFP, CFP®, ChFC, CLU, CDFA™, AIFA®
321 E First Street
P.O. Box 3050
Port Angeles, WA 98362

www.HallettAdvisors.us
jim@hallettadvisors.us
Tel: 360-457-6000