Investment Update

Saltmarsh
Financial Advisors, LLC
AN AFFILIATE OF SALTMARSH, CLEAVELAND & GUND

1st Quarter 2019

Saltmarsh names Christina Doss Shareholder

We are proud to announce that Christina Doss, AAMS® has been elected a shareholder at Saltmarsh, Cleaveland & Gund. Additionally, as Managing Director, Christina will assume the leadership role of the firm's investment management affiliate, Saltmarsh Financial Advisors, LLC.

Christina has over 25 years of professional leadership and executive experience in the financial services and wealth management industry. She is responsible for client wealth management, financial planning and practice growth for Saltmarsh Financial Advisors, LLC.

"Christina has been a solid leader in our firm for many years," said Gregg Noble. "I am very proud of what she has accomplished for our practice and know she will continue to deliver and improve upon the smart, effective and valuable advice we provide our clients. As we look ahead to succession, Christina is absolutely the best choice to take the reins of our financial advisory practice."

Inside This Issue

Join us for a Night at the Ballpark in Pensacola!

Saltmarsh Financial Advisors invites you and a guest to join us for a night at the ballpark as the Pensacola Blue Wahoos take on the Mobile Bay Bears. We hope you can join us for this fun night out! Ballpark buffet and beverages will be provided.

Thursday, May 16th
6:00 - 8:30 pm
Pensacola Bayfront Stadium, Coors Light Deck
Ballpark buffet opens @ 6:00 pm | Game begins @ 6:30pm

Please RSVP by May 3rd
to Nancy Patton at nancy.patton@saltmarshcpa.com or (850) 435-8300.

Gregg Noble, CPA
Managing Member
gregg.noble@saltmarshfa.com
(800) 477-7458
saltmarshfa.com

Christina Doss, AAMS
Managing Director
christina.doss@saltmarshfa.com
(800) 477-7458
saltmarshfa.com

Déjà Vu All Over Again

From the Dimensional Fund Advisors Blog, February 2019

Investment fads are nothing new. When selecting strategies for their portfolios, investors are often tempted to seek out the latest and greatest investment opportunities. Over the years, these approaches have sought to capitalize on developments such as the perceived relative strength of particular geographic regions, technological changes in the economy, or the popularity of different natural resources. But long-term investors should be aware that letting short-term trends influence their investment approach may be counterproductive. As Nobel laureate Eugene Fama said, "There's one robust new idea in finance that has investment implications maybe every 10 or 15 years, but there's a marketing idea every week."

WHAT'S HOT BECOMES WHAT'S NOT

Looking back at some investment fads over recent decades can illustrate how often trendy investment themes come and go. In the early 1990s, attention turned to the rising "Asian Tigers" of Hong Kong, Singapore, South Korea, and Taiwan. A decade later, much was written about the emergence of the "BRIC" countries of Brazil, Russia, India, and China and their new place in global markets. Similarly, funds targeting hot industries or trends have come into and fallen out of vogue. In the 1950s, the "Nifty Fifty" were all the rage. In the 1960s, "go-go" stocks and funds piqued investor interest. Later in the 20th century, growing belief in the emergence of a "new economy" led to the creation of funds poised to make the most of the rising importance of information technology and telecommunication services. During the 2000s, 130/30 funds, which used leverage to sell short certain stocks while going long others, became increasingly popular. In the wake of the 2008 financial crisis, "Black Swan" funds, "tail-risk-hedging" strategies, and "liquid alternatives" abounded. As investors reached for yield in a low interest-rate environment in the following years, other funds sprang up that claimed to offer increased income generation, and new strategies like unconstrained bond funds proliferated. More recently, strategies focused on peer-to-peer lending, cryptocurrencies, and even cannabis cultivation and private space exploration have become more fashionable. In this environment, so-called "FAANG" stocks and concentrated exchange-traded funds with catchy ticker symbols have also garnered attention among investors.

THE FUND GRAVEYARD

Unsurprisingly, however, numerous funds across the investment landscape were launched over the years only to subsequently close and fade from investor memory. While economic, demographic, technological, and environmental trends shape the world we live in, public markets aggregate a vast amount of dispersed information and drive it into security prices. Any individual trying to outguess the market by constantly trading in and out of what's hot is competing against the extraordinary collective wisdom of millions of buyers and sellers around the world.

With the benefit of hindsight, it is easy to point out the fortune one could have amassed by making the right call on a specific industry, region, or individual security over a specific period. While these anecdotes can be entertaining, there is a wealth of compelling evidence that highlights the futility of attempting to identify mispricing in advance and profit from it.

It is important to remember that many investing fads, and indeed, most mutual funds, do not stand the test of time. A large proportion of funds fail to survive over the longer term. Of the 1,622 fixed income mutual funds in existence at the beginning of 2004, only 55% still existed at the end of 2018. Similarly, among equity mutual funds, only 51% of the 2,786 funds available to US-based investors at the beginning of 2004 endured.

WHAT AM I REALLY GETTING?

When confronted with choices about whether to add additional types of assets or strategies to a portfolio, it may be helpful to ask the following questions:

1. What is this strategy claiming to provide that is not already in my portfolio?
2. If it is not in my portfolio, can I reasonably expect that including it or focusing on it will increase expected returns, reduce expected volatility, or help me achieve my investment goal?
3. Am I comfortable with the range of potential outcomes?

If investors are left with doubts after asking any of these questions, it may be wise to use caution before proceeding. Within equities, for example, a market portfolio offers the benefit of exposure to thousands of companies doing

Déjà Vu All Over Again *(Cont.)*

business around the world and broad diversification across industries, sectors, and countries. While there can be good reasons to deviate from a market portfolio, investors should understand the potential benefits and risks of doing so.

In addition, there is no shortage of things investors can do to help contribute to a better investment experience. Working closely with a financial advisor can help individual investors create a plan that fits their needs and risk tolerance. Pursuing a globally diversified approach; managing expenses, turnover, and taxes; and staying disciplined through market volatility can help improve investors' chances of achieving their long-term financial goals.

CONCLUSION

Fashionable investment approaches will come and go, but investors should remember that a long-term, disciplined investment approach based on robust research and implementation may be the most reliable path to success in the global capital markets.

Is It Time To Reassess Your Investments?

By: Chris Stennett, CFP®, Saltmarsh Financial Advisors

U.S. stock markets hit their most recent peak in August 2018 and slowly declined through October, with the months of November and December experiencing frequent price swings. December alone had multiple days of sharp declines along with dramatic upward swings. Investing in the stock market always carries the risk that stock prices can go down. I suspect that if you are currently invested, you've done so for a specific reason. Maybe it's for your future retirement, financing a child's education, or simply because you want to grow your wealth. So, should the recent volatility cause you to reassess your investment portfolio? To answer that question, you need to understand two key concepts: risk and time horizon.

IN THE ABSENCE OF RISK, THERE WOULD BE NO RETURN

In all facets of investing an investor must be willing to take on some form of risk. Investors who put all their money in cash products run the risk that their earned interest won't keep up with the cost of goods and services. Investors who only use U.S. Treasury bonds have interest rate risk and inflation risk. Investors who only use corporate bonds have the added risk of the company failing or the bond being called. Even real estate investing carries risk (recall the market crash of 2008). There is no one asset we can invest in that provides a completely risk-free return.

Imagine what it would be like to play the lottery when everyone knows next week's winning numbers. Every ticket would be a winning ticket and the resulting jackpot would be distributed to everyone who bought a ticket. The payout would be very low because the risk of not winning was eliminated. In all investment vehicles, risk is the mechanism that drives return. For stocks, risk is factored into the stock price. Stock prices change for a host of reasons but, fundamentally, it is because new information becomes known that either makes a stock (or stock market) more or less attractive to investors.

WHY AND WHEN MATTER

Alone, the fact that markets go up and down shouldn't cause you to reassess your investments. What should however, is what the markets are doing relative to when you need the funds you've invested. As mentioned, you're investing for a reason and eventually that reason is going to compel you to action (child is graduating high school, retirement is beginning, etc.) This is represented in your time horizon. An investor's time horizon is expressed in two intervals. The initial interval is the amount of time between the first-day funds are invested and when you will take the first planned withdrawal. The second interval is the amount of time from the first planned withdrawal to the last planned withdrawal.

A more practical understanding of time horizon: My wife and I put money into a 529 plan when my daughter was born. We will continue to put money in every year until she graduates high school. If all goes well, she will attend and graduate from college. Our first interval is the period between initially funding the 529 and her making her first college tuition payment in approximately 18 years. The second interval is the time between making her first tuition payment and her last tuition payment (graduation), approximately 4 years.

SO, WHEN SHOULD YOU REASSESS?

As the date of your first planned withdrawal approaches, you'll want to pay close attention to your investment portfolio's risk. A portfolio consisting predominantly of stocks is going to be more sensitive to market volatility. Your investment approach should begin to shift away from aggressive growth towards less volatile investments as you near your first interval. That's

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Saltmarsh Financial Advisors

Pensacola:
900 North 12th Avenue
Pensacola, Florida 32501
Phone: (850) 435-8300

Tampa:
201 N. Franklin St., Ste 1625
Tampa, Florida 33602
Phone: (813) 287-1111

Email:
gregg.noble@saltmarshfa.com
christina.doss@saltmarshfa.com
george.peaden@saltmarshfa.com
chris.stennett@saltmarshfa.com
brett.snyder@saltmarshfa.com
pierce.broscious@saltmarshfa.com

Is It Time To Reassess Your Investments? *(Cont.)*

because you'll need to take money from this account and in order to do that, some investments will need to be liquidated.

Does that mean that everything in your portfolio should be entirely low risk? Well, that depends on your time horizon's second interval. If you have a short second interval (7 years or less) then you may be more comfortable with an entirely low-risk portfolio. Think back to my daughter's 529. The second interval is only 4 years. To me, the benefits of taking less risk to ensure I can pay her tuition, far outweigh the potential returns I could see if I stayed in stocks.

That probably won't be the case if you have a longer second interval, like retirement. Your initial withdrawal (first interval) might occur when you retire at 65 and last until you're 90 or older. That's more than 25 years of withdrawals. A longer second interval provides more time to recover potential losses from the market and may justify holding more stocks in your portfolio as a result.

HAVE A PLAN OR GET SOME HELP

If you understand the risks of investing and can clearly define your time horizon, then you have enough information to know whether it's time to reassess. Changing your investment strategy should be process driven, not event-driven. Don't let your emotions be driven by the headlines of financial news. Changes in the prices of stocks are exceptionally common and unpredictable. If you're not confident in your investment strategy or feel it warrants a second look, contact us. We'll show you how we help clients navigate these challenges and others.

About the Author | Chris Stennett, CFP®

Chris serves individuals and organizations as a comprehensive financial planner and coordinator of investment activities. Chris has over a decade of experience as a wealth manager working with state, federal and private employees including his time as a dedicated financial planner with multiple Fortune 100 financial services firms.