Fountain Financial Associates

BUILDING LONG-TERM RELATIONSHIPS THROUGH KEEPING PROMISES

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Organic Reese's Cup … Really?

Vinton Fountain

Starbucks is offering an organic Reese's Cup. They have rebranded the iconic Reese's brand to Justin's and packaged this delightful treat as "organic." Just when I thought I had witnessed most of the world's absurdity, I am humbled again. Folks, have you noticed that the pace of absurdity is not moderating? The traditional chocolate and peanut butter candy rebranded Justin's (Reese's Cup) has joined a cultural phenomenon that is both fascinating and ridiculous, all at once.

This phenomenon reveals an element of group think or "herding" that is also at work in investment markets. Individuals will assimilate around popular or trendy ideas. Healthy diet is certainly a positive endeavor, but the marketing minds of Madison Avenue have found a way to boost sales and margins by creating a "good feeling" perception. This happens with investing as well.

Herding is seen most vividly during periods of excessive greed and fear. For example, during the dot.com bubble, it was normal for individuals to brag about their investments in businesses that did not have any sales, earnings or cash flow. Once the idea becomes so emotionally attractive and chic, investors will pile into the group thinking disregarding facts, opinions and judgment. This attitude and behavior will create a euphoric sense of confidence particularly when we are having strong bull markets. Of note, we are in our sixth year of the current bull market.

Herding is more obvious during periods of fear and panic. Once the idea of apocalypse energizes the populous, most human beings will run off the cliff in mass even though their basic instincts warn against this irrational behavior. This herding sets up the classic problem of buying high and selling low.

There is a noteworthy difference in fear based herding versus greed based herding. People will experience fear far more severely than they experience greed. In other words, we will attempt to avoid loss at a greater level than we will experience potential gain. This phenomenon has been scientifically ratified. Both are destructive, but fear trumps greed as it relates to our human condition.

So that brings us to the point of this article. Investors, and in fact our culture, encourages group thinking or herding based upon desire to confirm our preconceived opinions. Today, an example might be our inclination to follow the herd and buy with organic options that make us feel better (about ourselves). People tend to congregate around this idea and move in unison. The same dynamic occurs with investing.

People tend to congregate around an attractive idea and move in unison.

When considering investments, I attempt to avoid the popular and trendy choices. Examples include hedge funds, complicated alternative investments, gold & silver, IPOs, and high-yield non-liquid assets. Generally, an investor should be wary of statistics that support the herding mentality. Many times people will use statistics like a drunken man uses a lamppost – for support rather than illumination.

Finally, I would like to make a confession. I have always enjoyed a delicious Reese's Cup (whether organic or not).

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Building a Strong Offense

Chris Riley, CFP®

Preparing for success usually requires a can-do attitude; one that focuses more on capitalizing on what is likely to go right rather than building a strategy around what could go wrong. A defensive psychology, while at times warranted, indicates a short-term outlook which rarely leads to successful long-term outcomes. The question becomes not whether you will encounter periods of short-term volatility in certain areas of the market, but how those periods will be managed along the way.

In addition to taking advantage of asset allocation to dampen volatility, there is a need to budget risk – and to have a means by which to measure that risk – within each area of investment. From small cap companies to utilities, from T-bills to high-yield bonds, or from real estate to hard assets, there are levels at which risk is either reduced or elevated for investors. While short-term volatility may differ, it does not change the relative value of any investment. Part of maintaining an offensive state of mind is to remain proactive and search for opportunities that add value through strategies such as rebalancing, dollar-cost averaging and monitoring allocations. These actions encourage us to look for opportunities to "win" and thus defend against the largest threat we will all face – inflation – and the effect it will have on achieving our goals.

> *Part of maintaining an offensive state of mind is to remain proactive and search for opportunities that add value.*

The first president of the Stanford endowment, Laurence Hoagland, spoke about this in his suggestions of how to manage annual payouts over differing periods of time. As you might suspect, the issue of investment responsibility is a topic of frequent discussion, and it primarily translates into a steady stream of dollars transferred annually. The most commonly shared method amongst Stanford, Yale and other successful stewards is to use a rolling average based on five-year periods, rather than using current market value to compute payout. In addition to creating a more accurate means by which to "smooth" income over any time period, there is less risk of assuming that any 10- or 20-year period constitutes "business as usual" when it comes to establishing a grounded spending plan. This all sounds very conservative and defensive, but the use of what can be termed a "full array" method of asset allocation has actually led to superior results with significantly reduced volatility. In addition to tailoring portfolios to focus on managing risk (wherever it may lie), this leads institutions to spend time continuing to reassess the current universe of investment options and ask the questions such as, "What can go wrong?" and "Where are we, relative to reasonable long-term expectations?" Fortunately, there are proven tools that can be used to analyze these risks, and most results conclude that a broadly diversified portfolio with significant exposure to all forms of equity creates the best balance. Those studies also conclude that while more conservative portfolios may modestly reduce short-term declines, the odds of preserving the real value over any long period of time are reduced significantly.

> *Advocates sometimes need to embrace contrary behavior, withstand criticism, and exercise patience to achieve the goals at hand.*

Just as investment technology does not absolve an endowment trustee from their responsibility to make hard decisions, advisors advocating for clients and their families must set aside emotions and personal feelings to consider commitment to the most proven methods. This requires the ability to sometimes embrace contrary behavior, withstand criticism, and exercise patience over short periods of time to achieve the goals at hand. While the word "fiduciary" has a conservative connotation, the nature of the role requires thinking that is both expansive and disciplined. Admiral Horatio Nelson once said, "I am of the opinion that the boldest measures are the safest." Likening client advocacy to naval warfare may be quite a stretch, but being reasonably proactive can provide us with an edge in winning the battle we wage against the obstacles we may face in navigating retirement and our families' future success. We are here to support that journey.

Monitoring for Confidence

Buck Beam

Achieving long-term success in client portfolios and financial plans requires a number of things to be done well. Monitoring portfolio investments for ongoing results and continued confidence is an important element in that process.

The recent high-profile employment change of one of the investment industry's most recognizable portfolio managers is a great reminder of the importance of this process. Our disciplined approach of vetting investment firms and their management teams needs to deliver the right results up-front, but just as importantly, it needs to deliver those results on an ongoing basis.

Every portfolio we manage is uniquely tailored to meet each client's objectives and needs.

An exhaustive initial deep-dive evaluation occurs when considering any new investment. Many new ideas are considered every year that do not make the cut for inclusion in client portfolios.

Here are some examples of our criteria for initial evaluation and ongoing monitoring of investments:

- **Firm:** Background, mission, culture, ethics, stability
- **People:** Depth of resources, low turnover, passion, accessible
- **Process:** Defined, transparent, repeatable, proven
- **Price:** Competitive, economies of scale
- **Philosophy:** Enduring, consistent, academically grounded
- **Performance:** History of success throughout varying market conditions; consistent and understandable

While the monitoring process is the same, every portfolio we manage is uniquely tailored to meet each client's objectives and needs. The vigilant and constant evaluation of our investments leads to confidence, long-term success and peace of mind.

Buck

Words Worth Repeating

"No matter what people tell you, words and ideas can change the world."

ROBIN WILLIAMS

"Mental toughness is a state of mind, or character in action."

VINCE LOMBARDI

"We make a living by what we get, but we make a life by what we give."

WINSTON CHURCHILL

"Progress begins with the belief that what is necessary is possible."

NORMAN COUSINS

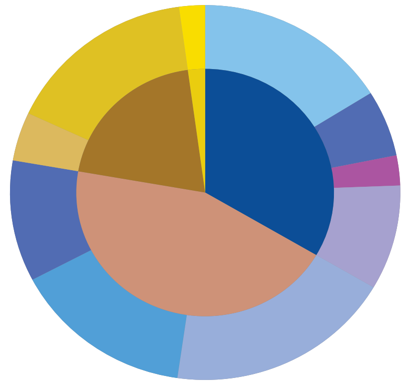
Keeping Promises

Latest FFA Happenings

New Quarterly Portfolio Reports

As you have hopefully seen, our Quarterly Portfolio Reports have been totally redesigned. Enhancements include a new layout that is easier to understand, as well as improved account graphs and summaries. If you have questions about your new reports, or if you would like to review them together, please let us know.

Asset Allocation



Joining the FFA Family: Florence Ellen Cowden

Florence Ellen Cowden joined Fountain Financial Associates in August as a Client Services Associate. Originally from Alabama, Florence Ellen and her family have been in Wilmington for the last eight years. Florence Ellen is here to support clients in all aspects of their relationship with Fountain Financial Associates.

Thinking Ahead

As we approach the end of the year, we are busy thinking about tax-related portfolio management opportunities. If you have significant taxable gains or losses outside of your accounts with Fountain Financial Associates, please let us know. This activity could come from business, real estate or other investments, and we will use this information to maximize year-end portfolio tax management.

FOUNTAIN FINANCIAL
ASSOCIATES

1209 Culbreth Drive, Suite 100
Wilmington, NC 28405
Phone: (910) 256-8882
Fax: (910) 256-3688

www.fountainfinancial.net

Investment Advisor Representatives

Vinton E. Fountain, III
Buck Beam
Chris Riley, CFP®

Client Service Associates

Tracy Brown, CFP®
Matt Dennis
Susie Kempf
Debbie White
Clayton Fountain
Florence Ellen Cowden