HERITAGE PERSPECTIVE

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Heritage Update

PREDICTION SEASON

The new year, and every day thereafter, brings market predictions from pundits that typically turn out to be wrong as often as they are right. Instead of trying to time the market, Heritage focuses on a disciplined, individualized approach. Ignoring the folly of predictions will likely leave you better off in the long run.

COMMUNITY FOCUS

Heritage is working with the University of South Florida's Tampa campus to help create a financial planning program curriculum. The month of March finds us supporting Cardinal Gibbons High School and the 110^{th} anniversary of the Hillsboro Lighthouse.

ESTATE PLANNING IS FOR EVERYONE

The year 2016 noted many celebrity deaths reminding us that, celebrity or not, death is an inevitable reality. Careful and deliberate estate planning is crucial. As the article on page 2 discusses, peacefully dividing the kingdom is something that is important to us all.

EMPLOYEE PROFILE

Michelle Chin

A key member of our operations team, Michelle has been with Heritage for 14 years. She primarily supports Fred MacLean, Jr. and works with most of our longest-tenured clients. Michelle was previously a financial secretary at the First Presbyterian Church (the "Pink Church"). In her spare time, Michelle enjoys playing volleyball and spending time with her family.

ABOUT HERITAGE

We cannot predict the future of capital markets, but we can assure you that a future with Heritage will be a guided partnership based on respect, investment expertise and action in your best interest. At Heritage, we pledge to always provide objective and astute guidance based on rational experience and a disciplined process rather than reacting to the noise of the Wall Street media machine.

Inside this Issue

"Good fortune is what happens when opportunity meets with planning."

– THOMAS EDISON

How to Peacefully Divide the Kingdom

By the age of 32, Alexander the Great had conquered lands from Greece to Egypt and into Asia. Then, suddenly, he fell ill and died. Alexander was a brilliant military strategist, but he failed to appoint an heir and he never considered the details of his legacy. After his death, the dispute over control of his kingdom led to 40 years of war and the murders of his son and brother. This is one of the earliest examples of poor estate planning.

Your own personal kingdom is probably more modest than Alexander's, but your need to plan for the disposition of your assets after your death is just as important to your heirs. The creation of a will or a revocable trust is usually the most common consideration in the estate planning process, but titling your assets properly is an equally-important aspect that is not often given the attention it deserves.

During Alexander's reign, he founded 20 cities that bore his name. Owning assets in your name might help your ego but it can also complicate the disposition of your assets. Proper account titling, a seemingly innocuous detail, will have a significant impact on who inherits your assets after you are gone. Any mistakes in titling can potentially derail even the most carefully-written estate plan. There are a number of common titles that most individuals will recognize; yet most of us do not understand what they mean or how they impact our estate planning. Below, we attempt to make some sense out of the titling dilemma.

"It is critical that your estate and financial plans include proper documentation, detailed instructions, and correct titling."

Individual Name

The simplest way to title an account is to register it in your sole name. While you are alive and competent, you will enjoy sole ownership and control over the account. If you become incapacitated, however, the appointment of a guardian may be necessary to manage the asset. When you pass away, the individual account is distributed to the beneficiaries of your estate, subject to a court proceeding known as probate. Guardianship and probate proceedings are time consuming and expensive, and for this reason, many people avoid titling assets in their sole names.

Tenants in Common

Tenancy in Common (TIC) is a form of shared ownership. The TIC designation dictates that each individual owner holds a pro-rata interest in the account. Even though there are multiple owners listed on the account, each owner's share is treated as if the entire account were listed in his or her sole name.

Joint Tenants and Tenants by the Entirety

TIC ownership can be contrasted with other forms of ownership known as Joint Tenancy with Rights of Survivorship (JTWROS) and Tenancy by the Entirety (TBE). Unlike TIC, JTWROS and TBE will avoid probate proceedings on the death of one co-owner. Each owner enjoys full access to the account during life and upon the death of one owner, the surviving owner(s) will own the entire remaining interest. This is true irrespective of the provisions of your will or trust.

Ownership as TBE is limited to married couples. During the marriage, TBE ownership has the additional benefit of protection against the liabilities of one spouse. While Florida recognizes TBE, it is not recognized in every state and this should be considered when planning with this form of co-ownership.

Ownership by a Trust

As part of their estate planning, many people create revocable trusts and title accounts in the name of the trust. Creating and funding a revocable trust is an efficient way to hold title to assets because it obviates the need for guardianship and probate proceedings. Generally, the person establishing the trust (the "grantor") serves as the trustee (the legal titleholder of the trust's assets) and is also typically the sole beneficiary during life.

Upon the death of the grantor, a successor trustee will manage and distribute any remaining trust assets for the beneficiaries designated within the trust.

Accounts with Beneficiaries
Probate can also be avoided with individual accounts by adding a named beneficiary to the account. These are commonly known as “transfer on death” (TOD) or “pay on death” (POD) designations. With a TOD/POD, you can designate an individual or a trust as the beneficiary of the account and that named beneficiary will automatically become the owner upon your death. These designations can typically be made on bank accounts, brokerage accounts, and retirement accounts (such as IRAs and 401Ks) to distribute the asset upon the owner’s death to the designated beneficiary without a probate proceeding. It is important to note that the beneficiaries designated on such accounts will receive them upon your death, regardless of the provisions of your estate planning documents. However, merely adding a beneficiary to an account does not protect against a guardianship proceeding in the event of the account owner’s incapacity.

One eyewitness account of Alexander’s death claims that he vaguely left control of his empire “to the strongest!” Leaving it to heirs to determine who is the strongest was as unwise on the battlefields of Babylon as it is in a 21st century courtroom. Alexander’s “probate” process involved 40 years of fighting among his friends and family. Fortunately, it is easier to avoid today. It is critical that your estate and financial plans include proper documentation, detailed instructions, and correct titling. Further, account titling and beneficiary designations should be reviewed periodically in the context of your estate plan to make sure they are still in line with your wishes. Attending to these details will help your heirs avoid an epic battle of their own.

The original version of this article was written with the assistance of the Law Firm of MacLean & Ema and appeared in the July 2015 edition of The Light, a local magazine serving Broward County, Florida.

Being There

If you’ve ever dabbled in graphic design, you’re familiar with the concept of white space. When viewing an illustration, we typically pay the most attention to the visible ink on the page, such as a paragraph of text, a bar chart or an entertaining illustration. White space is the essential empty areas in between that are hidden in plain sight. We barely notice them … until they’re not there:

Where’sthewhitespace?!

When making investment decisions, most people likewise assume that the most eye-catching ink matters the most: an alarming economic forecast, an exciting Initial Public Offering, hot trading tips. But there’s a catch. This evident assumption does not hold up under evidence-based scrutiny. In reality, you have little or no control over how the most obvious news impacts your investments. The most exciting action has already been priced into any trade you might make well before you decide to make it.

Instead of fixating on the headline news, consider that liberating financial white space. There, hidden in plain sight, you’ll find a powerful investment idea that is freely available and far more within your control. We call this idea “Being There”.

The concept of being there is simple: To receive a return on your investment, first you must invest (and stay invested). That is, you cannot expect your stash of cash to grow when it is lying fallow. It’s hard to imagine a more basic principle than that, so why do so few investors manage to embrace it? The answer is found in a sentiment you may have heard before: Investing is simple, but, it’s not easy.

It’s relatively simple to accept the notion of no pain, no gain. To earn returns, you must put your assets at risk in ventures that are expected to compensate you for your faith that they will succeed … if they do. Then you must patiently await the desired success, knowing that it is expected but not guaranteed. The riskier the ventures, the less certain the outcomes, but the more you can expect to earn for enduring the uncertainty … if you do.

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Instead, many investors panic when market risk arises and move their money to the proverbial sidelines. They also fret that they're going to miss the boat when the market surges, so they pile into whatever is the latest success story. To cite just one of many analyses of these tendencies, a 2014 Federal Reserve economic synopsis (St. Louis Fed, July 18, 2014) looked at performance from 1984–2012 and found annual damage of up to 5 percent attributable to return-chasing behavior. The report concluded: "[P]oor investment timing caused by return-chasing behavior has a significant impact on portfolio performance."

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By chasing and fleeing hot and cold markets, you're undesirably buying high and selling low. You're also disregarding decades of empirical evidence that informs us that the best way to capture long-term market growth is to build a solid, individualized plan, and to then stick to your plan by riding out the market's near-term ebbs and flows.

With this simple strategy, you're trusting that the market will continue to do what it has done for many decades when viewed from a long-term perspective: It has grown.

Why is it that so many investors ignore this common-sense strategy – be there and stay there – and instead cut the cord during turbulent times? To echo our aforementioned sentiment, it's simple to understand how the market's gains and pains are so closely related. But it's never easy to endure the pain when it occurs, whether that's in the form of plummeting markets or tempting trends. Like a first-time skydiver, you cannot know how you are going to feel and what you are going to do about a free-fall until you're in it. Behavioral finance informs us that, thanks to our most basic instincts, we're subjected to a host of financially damaging biases – loss aversion, recency, herd mentality, and many others – that lead us astray during these sorts of "fight or flight" market conditions.

This is why you want to prepare for your investment leaps well in advance, preferably with an advisor at your side to help you maintain your resolve. With the help of a long-term plan and firm discipline during difficult times, simply "being there" is the best method of achieving investment success.

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Heritage Investment Group would like to thank all of our clients for their continued support. We are here to help you plan for your future. If you have any family members or friends who might benefit from our help, we would welcome the opportunity to speak with them. Please contact us at 954-785-5400.

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