



HAMMOND ILES

WEALTH ADVISORS



INVESTOR AWARENESS GUIDE

DO YOU EVER WORRY ABOUT...

- ❑ Getting high enough returns on investments?
- ❑ Maintaining your standard of living at retirement?
- ❑ Affording high quality education for your kids?
- ❑ The next market crash?
- ❑ Rising healthcare costs
- ❑ Missing out on the latest, greatest stock tip?
- ❑ Making sense of all the information available?
- ❑ Not having money to care for your loved ones?
- ❑ Getting bad advice and, worse yet, paying for it?

If you answered “yes” to any of these questions, you could be trapped in the Investors’ Dilemma.

Each of these questions simply represents a symptom of a much larger problem—the Investors’ Dilemma. Once you understand the phases of this cycle and what can happen to your investments as a result, you’ll gain an entirely new perspective on investing.

Hammond Iles Wealth Advisors | 100 Great Meadow Rd. Suite 701 | Wethersfield, CT 06109 | (800) 416-1655 | HIWEALTH.COM

Hammond Iles Wealth Advisors is a Registered Investment Adviser.

All investing involves risk, and particular investment outcomes are not guaranteed. This material is for informational purposes only and does not constitute an offer to sell, a solicitation to buy, or a recommendation for any security, or an offer to provide advisory or other services by Hammond Iles Wealth Advisors in any jurisdiction in which such an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. The information contained in this article should not be construed as financial or investment advice on any subject matter.



THE INVESTOR'S DILEMMA

No matter how well it has been designed and implemented, an investment strategy by itself will probably never bring you investing peace of mind.

Although most of the financial world likes to pretend that investment decisions are based purely on logic and rational thought, the truth is that the vast majority of investment choices are driven by emotional and psychological factors.

The Investors' Dilemma outlines the typical process investors go through when facing important financial decisions.

Let's look at how each phase of this cycle can work against your ultimate sense of financial wellbeing:



I: FEAR OF THE FUTURE

The cycle begins with a sense of uncertainty about your financial future. You might have questions such as:

“Will I have enough?”

“How much should I save?”

“How do I know which investment will get the best returns?”

“How much risk should I take?”

The list goes on and on. But the common denominator is that almost all investors are afraid that either they don't know enough or haven't saved enough and, as a result, will find themselves destitute and powerless in the future.

You might not even be fully aware of the impact these fears have on your life, because it lurks under the surface in your subconscious. Fear plays a large role in dictating how investors feel, as well as how they behave. It's important for you to understand that the market isn't something that will destroy all of your wealth, how much wealth markets create, and how you can participate in the market.

The Good News:

With the proper tools, strategies and information you can begin your journey toward achieving a level of confidence and peace about your financial future that you never knew possible... Just imagine what life would be like if you were able to overcome your fears about your finances.

2: FORECASTING THE FUTURE

Based on this inherent fear and uncertainty, many investors feel the need to seek some kind of prediction about what's going to happen in the future. After all, if someone could just tell us what is going to happen with inflation, long-term interest rates, share prices, overseas markets, etc., then there would be nothing to fear.

Along these lines, it's easy to be convinced that someone else really *does* have the information, power and insight to forecast the future. Beware! You can become an innocent victim of wish fulfillment. It would be so much easier if someone really had the answers, but never lose sight of the simple fact that it's not possible to predict the future.

This explains why people are drawn to investing programs broadcast regularly on CNBC, eagerly subscribing to Money magazine and voraciously perusing the Internet in search of the next hot stock tip. Why do investors and some advisors believe in stock picking, market timing and track-record investing? Believing that someone out there, whether it's you, a broker, or some money manager who's on the cover of a magazine, can actually predict and forecast the future and pick all of the best stocks is an enticing, yet risky line of thought.

The greatest fallacy in the investing industry is that superior performance is a factor of skill and not luck.

The Good News:

*You don't have to have an accurate prediction about the future to pursue investment success.
Track-record investing is not the answer to implementing a successful investment strategy.*

3: TRACK-RECORD INVESTING

In investing, looking to the past to get an idea of what investments or managers will do well in the future is called Track-Record Investing. For example, looking for managers or funds that have recently outperformed the market in the hope that those same managers will continue to do the same in the future.

A glaring example of the futility of the track-record approach to investing would be the run on Technology and U.S. Large stocks in the late 1990s. Following several years of impressive returns, investors actually felt "safe" stockpiling these types of investments in their portfolios. Using the track-record perspective, it seemed as if there was a possibility that these particular investment vehicles had qualities that would allow them to defy the rules of investing.

The media blitz certainly did nothing to deter the illusion that perhaps finally investors had found the golden "low-risk, high return" investment for which we all yearn. Almost every investment advertisement includes these words:

Past performance is no indication of future results. These are, in fact, words of wisdom every investor should take to heart. While it seems counter intuitive, you cannot rely on past performance to achieve your future financial goals.

The Good News:

If you know the RIGHT things, you don't need to know EVERYTHING.



4 INFORMATION OVERLOAD

The pull toward track-record investing is exacerbated by the barrage of information thrown at the average investor today. Most of us were taught to study, research, and gather as much information as possible prior to making financial decisions. In the past, this kind of investigation and analysis was required in order to feel confident about investing choices.

However, information today is so readily accessible that most investors get more information than necessary without even trying. Although the culture in which we live provides an abundance of information, often investors remain stuck in a scarcity mentality, frantically acting on a need to seek more, better, or different information, regardless of its usefulness.

Currently, when you search online for “mutual fund” you’ll get more than 12 million pages. In the quest for financial peace of mind, investors feel compelled to expose themselves to books, newspapers, magazines, financial talk shows, ads, friends’ experiences, the internet, and more.

Some even worry that if they aren’t hooked in 24-hours per day, seven days a week, they’ll miss out on valuable information that could mean the difference between wealth and poverty. Instead of reducing fears and doubts about investment decisions, this deluge of information only intensifies investors’ anxiety.

It feels terrible to be on overload and it wastes a lot of time.



5: EMOTION-BASED DECISIONS

You never can overcome your own humanity. As much as we might prefer to think that we make investment decisions based purely upon logic, advertisers and journalists are well aware that emotion ultimately drives most investment decisions.

As a quick demonstration, consider the statements below and match each statement with the emotion being expressed (answers listed in the key below).

- | | |
|--|---------|
| 1. "It doesn't matter how sophisticated his charts are or how much sense he makes, I just don't feel comfortable letting him handle my money." | REGRET |
| 2. "I'm not sure if I should have put my money in that fund. It lost 5% already. Maybe I'll sell some of it tomorrow." | GREED |
| 3. "My boss got 25% on his money. I only made 8%! I wish I got 25%." | TRUST |
| 4. "I wish I'd known that stock was going up, I would have bought more shares." | LOYALTY |
| 5. "My dad worked in that company all his life and left his money to me in his will. It would be wrong to sell it just to diversify my portfolio." | ENVY |

The Good News:

Simple awareness of your emotions when it comes to financial and investing matters can make the difference between good and bad investment decisions.

6: BREAKING THE RULES

As in any endeavor, there are certain accepted principles that can simplify your ability to achieve success. In the area of weight-loss, for example, the rules are straightforward:

1. Eat less
2. Move more.

The Hammond Iles rules of investing for success are also simple.

1. Own Equities

2. Diversify

3. Rebalance

1. Own equities

Investing in stocks is one of the greatest wealth creation opportunities known to man. Stocks (i.e., equities) are the only investment that has historically beat inflation. Most investors should allocate at least a portion of their portfolio to stocks.

2. Diversify

Diversification is a word thrown around carelessly in the investing industry. Although many use the term and say they do it, not everyone's definition of real diversification is the same. At Hammond Iles, diversification means investing in stocks globally, in over 45 countries.

3. Rebalance

While rebalancing may be a simple concept, it's application can be very difficult for investors to execute. Rebalancing a portfolio allows investments to be sold when they are relatively high and bought when they are relatively low (buy low, sell high), unfortunately doing this goes against our natural human instincts.

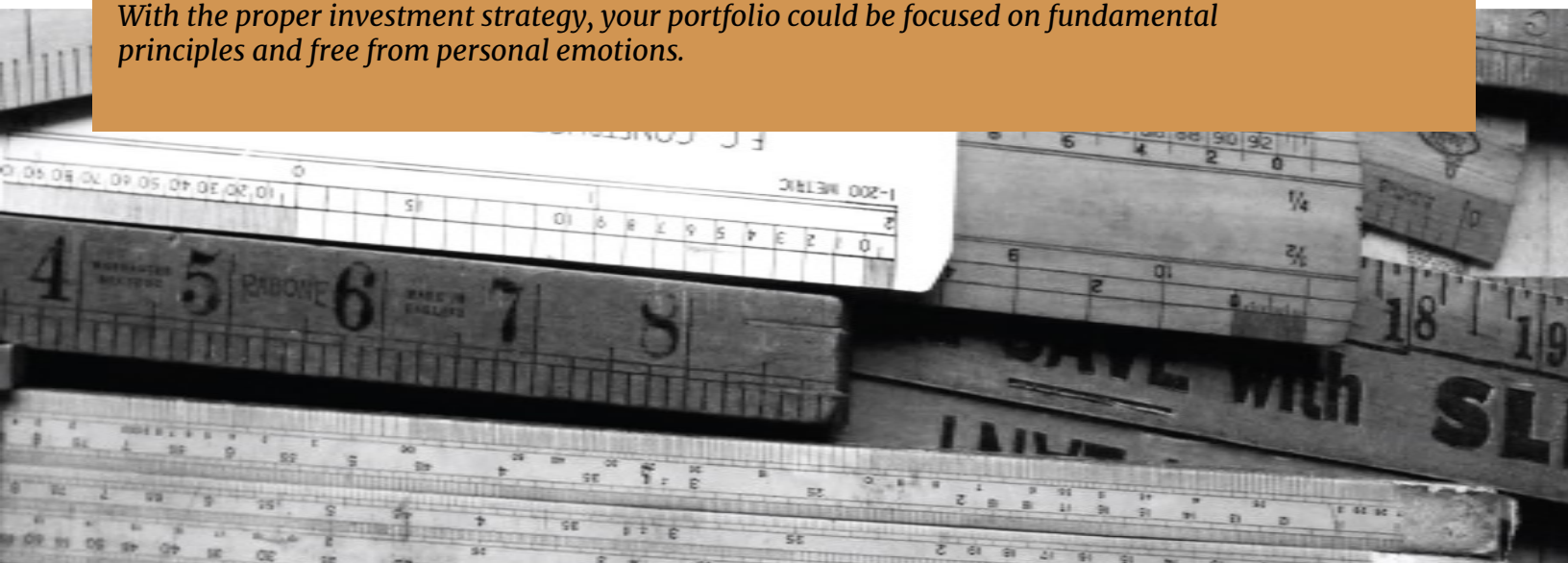
The “Golden Rule” of Investing

Buy when prices are low and sell when prices are high.

All of this sounds simple enough. However, consistently following the rules of successful investing challenges most people. When people make investing decisions about the future based on track-record or emotions, without realizing it they wind up ignoring the fundamentals, which can sabotage their portfolios.

The Good News:

With the proper investment strategy, your portfolio could be focused on fundamental principles and free from personal emotions.



7: PERFORMANCE LOSSES

Put all the phases of the Investors' Dilemma together and what you usually get are performance losses. Simply stated, investors fail to capture the kind of returns they expect. Typically, they expect to get the returns they see listed in the newspaper, online, or in magazines; however, it's rare that the average investor actually achieves the same returns as published in publications or online.

Just how much return can you lose by falling prey to the Investors' Dilemma? Would you be surprised to know the average investor loses 7% right off the top annually? Dalbar, Inc., a leading financial-services research firm, has demonstrated that historically an investor's performance does not equal market performance.* In 2016, Dalbar found the following annualized returns for the 30 year period of 1986-2015 investors, whose average holding period for an equity fund investor was 4.10 years and the average holding period for a fixed income fund investor was 2.93 years.

The average equity investor realized an annualized return of 3.66%, compared to 10.35% for the S&P 500.**

3.66%

10.35%

The average bond investor realized an annualized return of 0.59%, compared to 6.73% for the Barclays Aggregate Bond index.*

.59%

6.73%

Of course, past performance is no guarantee of future success.

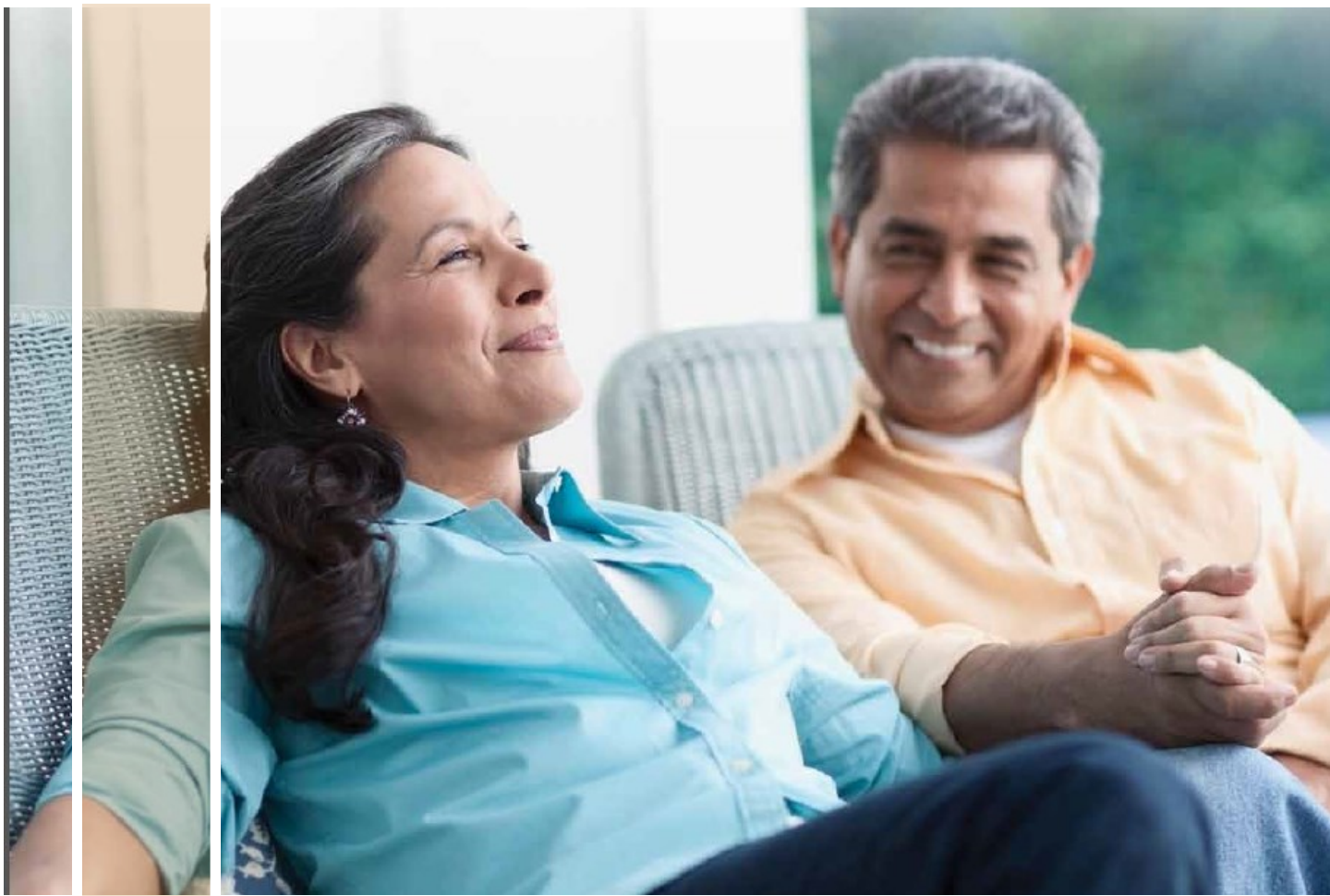
These numbers make their point. As demonstrated by the phases of the Investors' Dilemma, investors are continually getting in and out of the market, each time chipping away at potential returns. This can specifically be seen in the case of those who attempted to ride the wave of technology stocks. Sadly, some of these investors lost between 20-70% of their wealth practically overnight.

Obviously, when this effect is compounded over a period of years, the potential for reaching financial goals is significantly decreased. These kinds of losses can't help but create additional frustration and fear about the future, thereby initiating the Investors' Dilemma cycle all over again.

The Result: Not enough investing peace of mind.

The Investors' Dilemma limits your ability to accomplish your most meaningful life goals and dreams. Not only can you potentially not be where you want to be financially, but you can waste your precious time fraught with stress, anxiety, concern, and fear that initiates and perpetuates the dilemma.

* Dalbar's Quantitative Analysis of Investor Behavior, 2016 uses data from the Investment Company Institute (ICI), Standard & Poor's and Barclays Capital Index Products to compare mutual fund investor returns to an appropriate set of benchmarks. Covering the period from 1986-2015, the study utilizes mutual fund sales, redemptions and exchanges each month as the measure of investor behavior. These behaviors reflect the "average investor." Based on this behavior, the analysis calculates the "average investor return" for the various periods. These results are then compared to returns of respective indices. *Past performance is no guarantee of future result. **Id. Dalbar's QAIB defines "Average Investor" as "The universe of all mutual fund investors whose actions and financial results are restated to represent a single investor. This approach allows the entire universe of mutual fund investors to be used as the statistical sample, ensuring ultimate reliability." p. 29 "Average equity investor" and "average "bond investor", as used in the same study, is that subset investing only in equity mutual funds or investing only in fixed-income funds, respectively. See p.33 at n. 4. Dalbar's average investor equity fund returns are set forth in a table on p.5.



**WHAT REALLY MATTERS
WHEN YOU INVEST?**

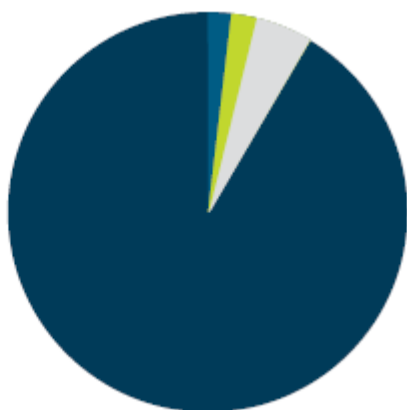
ENGINEERING MATTERS

Engineering refers to how much of each type of investment is in your portfolio and in what percentages.

Many in the financial industry would have you believe that if you can get access to decent investment vehicles for as small a fee as possible, that's all you need to have a successful investing experience. The reality is that while those things are important and must be considered, they are not the major determinants of portfolio performance.

You should know that the way a portfolio is engineered is a critical component for success. What goes into the portfolio and in what specific percentages has a profound impact on a portfolio's likelihood of long-term success. Studies show that 91.5% of a portfolio's performance is determined by the allocation of the portfolio (not stock selection, market timing, or any other active management factors).

What Determines Portfolio Performance?



- 1.8% market timing
- 2.1% other factors
- 4.6% stock selection
- 91.5% asset allocation

It's difficult, sometimes even for professionals to discern the difference between an efficiently engineered portfolio and one that is inferior without the proper research.

In order to eliminate speculating and gambling from the investing process, at Hammond Iles the portfolios we offer are based on validated academic principles. Each one brings another layer of structure and guidance to portfolio design.

Efficient Market Hypothesis

Essentially states that free markets work, and the price of any individual security is the right price for that moment in time.

Modern Portfolio Theory

Is a method to build portfolios and maximize expected return for any given level of risk through diversification.

The Three-Factor Model

Explains the premiums for different segments of stock investing due to increased risk factors. By combining these academic principles we can design portfolios that eliminate gambling with your investments while maximizing long-term expected return for a given level of risk.

EXECUTION MATTERS

How your portfolio strategy is executed over time will have a significant impact on long-term results.

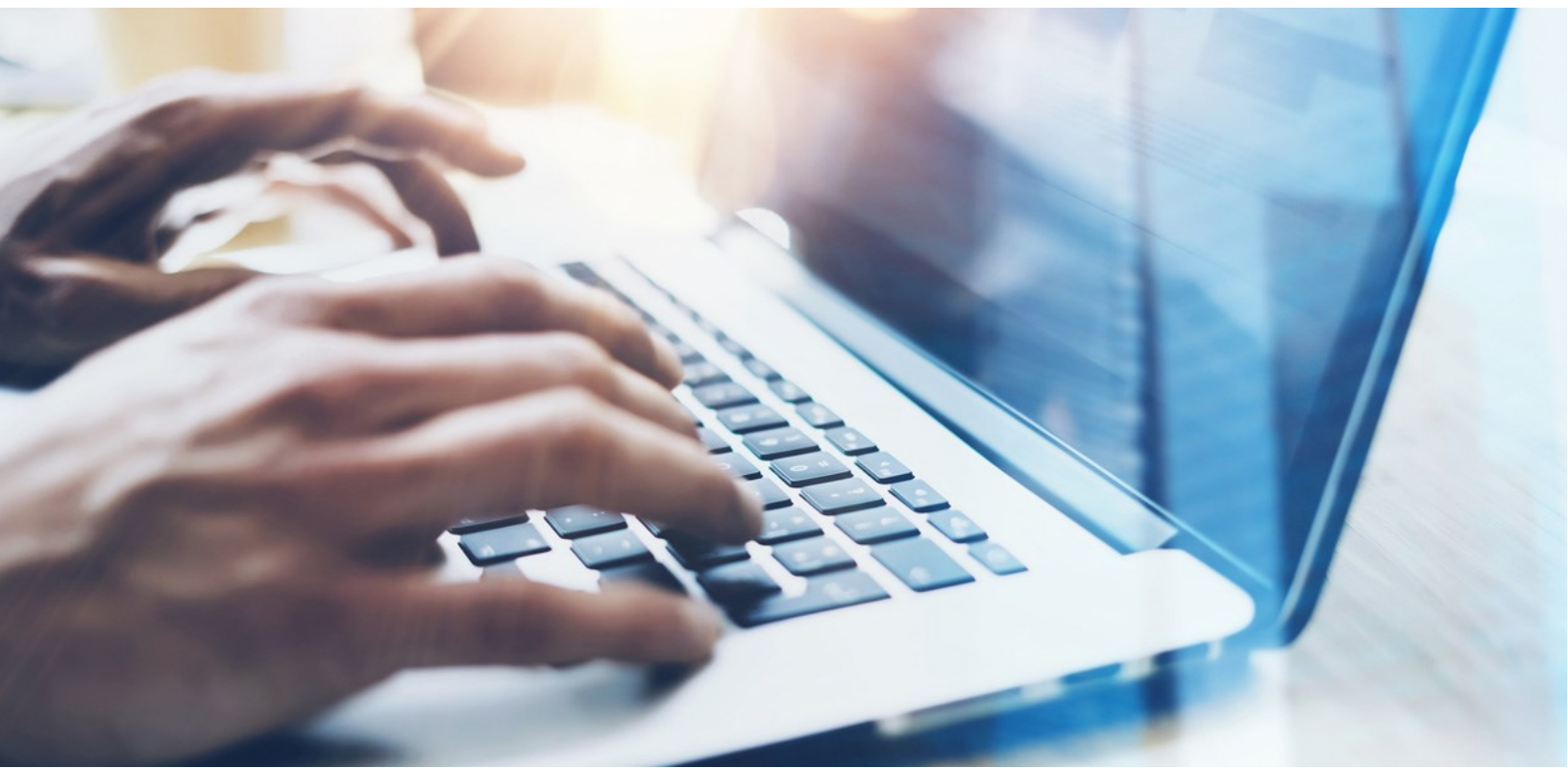
Even a seemingly strongly engineered portfolio can break down under the pressure of time if not managed prudently. It is not unusual for investors or even managers to divert their initial course of investing due to short-term market conditions or investing trends. Giving in to some of these active management pitfalls can drastically reduce the long-term success of your portfolio.

There are many ways to undo great engineering in a portfolio – many of them are behavior oriented. The only true measure of a portfolio's success is real results over time. To evaluate if your portfolio is being properly executed, here are some things to consider.

Common Sense Rules of Portfolio Execution:

- ❑ *Fees are important but should never be the primary decision making variable.*
- ❑ *No two advisers will have the exact same engineering and execution capabilities, therefore..*
- ❑ *Given two identically engineered portfolio and execution abilities, choose the lowest fees.*
- ❑ *Engineering and execution will be the primary determinants of investor performance.*
- ❑ *Firms that have adequately engineered and executed portfolios should have actual investing results to display to their prospects and clients.*
- ❑ *Investment returns should comply with Global Investment Performance Standards (GIPS) and be reviewed by a third party for verification.*

Your investments are far too important to leave to chance. Learning how your portfolio is engineered and managed long-term is critical to your success.





ADVICE MATTERS INSIGHT MATTERS

Stop the effects of the Investors' Dilemma and the lies that many professionals sell in order to see commissions slide from your pocket to theirs.

Having someone in your corner matters.

Knowing your advisor has your best interest in mind, has experience in the game, and is operating off of a different paradigm than most advisors matters. Many brokers and Wall Street professionals see you simply as a resource to exploit... they sell the fear of the market to convince investors to time the market, pick stocks, or track record invest while thriving on those commissions.

At Hammond Iles we see you as a partner in wealth creation. As financial coaches and wealth advisors, we guide you to make smart investing decisions and introduce you to a community of like-minded investors. You can attend investor education and wealth mastery classes so you can expand your experience with money and investing.

**Click Here to Learn More
About Investing Classes
hiwealth.com**

Talk with A Financial Coach

Everyone's situation is unique. Get the information you need to make confident decisions about your finances with no obligation whatsoever.

Simply contact hello@hiwealth.com or (800) 416-1655 to schedule a meeting in person, or online —it's quick, convenient, and you'll be glad you did.

During this meeting, you can choose how much or little to share, and you can be confident this is a totally confidential conversation where you can ask anything.

Feeling a little confused?

Don't worry, we've got you covered. A financial coach can help you wade through all of these very complex issues and maintain long-term discipline around the investing process. Working together with your personal financial coach you'll ease the stress, anxiety and confusion of investing and gain financial peace of mind.