



## BURNS INSIGHTS

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BURNS INVESTMENT GROUP OF STIFEL

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# EARTHQUAKE!!

California is a great place to live, but it rocks with earthquakes too. Did you know...?

2,000 known faults crisscross California, causing:

- Magnitude 5.5 earthquakes 3-4 times per year
- Magnitude 6.0-6.9 earthquakes every 2-3 years
- Magnitude 7.0-7.9 earthquakes every 10 years

Source: <http://www.earthquakeauthority.com/Pages/default.aspx>

I have lived in Southern California all of my life, so I have grown up knowing that at any moment we could be struck with an earthquake. If you live here, you just accept that possibility. The problem is that you don't know if it is a normal-sized quake, or if it is "THE BIG ONE!" Thankfully, it has been quite some time since we have had a larger, destructive earthquake in Southern California.

When you are an investor in the stock market, you know that at any moment the market can go down. It's part of our reality. The problem is that we don't know if it is a normal-sized correction (which I categorize as greater than 10%) or is it a full-fledged "bear market" (a decline greater than 25%). It has been over six year since that last bear market, and next month will mark the four-year anniversary since we have had a 10% correction. A normal correction happens, on average, every year and a half. So it has been a long-time since this has happened. One of the most common questions we get is, "Will there be a correction?" My answer is always, "Yes." We just don't know when it will happen or what the impetus will be. All I know is that the world will continue to be more complex and confusing than the media portrays, and that the world can get stupid and crazy at any moment.

In order to get through either of these shocks, a little preparation and forethought can go a long way. Since 1997, my investment planning practice has been predicated on the Successful Investor Mindset. This overriding philosophy has enabled me to help my clients not only get through the normal market corrections, but also through some very difficult markets.

Here are a few of my thoughts I have.

### *After the quake it's too late to get under the table.*

It may seem obvious, but after the earth stops shaking, the risk from something falling on you goes down. Most of the damage is done. You therefore need to shift your attention from the risk of the earthquake to assessing the damage. Remain calm and start taking prudent actions. Make sure you are safe, and then let the clean-up begin.

It is similar with investing, once your portfolio sustains the shock of a correction, it's important to remain logical, assess the damage, and take prudent actions that are consistent with your long-term needs and goals. The first tenet we use in the Successful Investor Mindset is "logic over emotion." In any crisis, it is normal to be emotional—we are human! But panicking never helps the situation. Many investors seem to think that the best thing to do after prices have fallen is to sell. It's too late. Letting your emotions dictate your actions can often lead to the unintended consequence of making the situation worse.

### *Earthquake proof your home, before the quake.*

In California, there are certain steps that we take to mitigate the possibility of earthquake damage. Our communities have established strict building codes that help increase the odds of our homes' ability to withstand a quake. As homeowners, we take certain precautions. For example, we know not to hang a mirror or large painting over our beds. We also anchor our water heaters to the wall with a special brace. For it to work, you need to do it before the quake.

With investing, my team and I spend a great deal of our attention on educating our clients as to what are effective strategies to manage the risk/reward equation. In the Successful Investor Mindset, we call this "structure over prediction." We acknowledge that we cannot control nor predict the future. But we can control certain aspects, such as the asset allocation of one's portfolio, and what role each investor should play, i.e., an active or passive role. Lastly, we make sure we are using time-tested strategies, namely diversification, balance, professional management, on-going reviews, regular and meaningful communications, and investing in the contexts of each investor's personal needs, experience, family dynamics, and long-term goals. Taking the time to do this doesn't guarantee that it will work perfectly (Does anything work perfectly?) But it may

increase the likelihood that you will survive whatever the future holds.

***Earthquake insurance only works if you buy it before the earthquake.***

In California, you have the availability of purchasing earthquake insurance that will make funds available to repair or rebuild your home, and to protect and replace your home's contents. You don't have to do it. It's an optional cost. But it only works if you do it before you have an earthquake. The demand to purchase an insurance policy spikes up after each major earthquake. Why would that happen? Again, human nature. We either don't think it will happen to us, or we look at the current costs as being too high versus the long-term benefit potential.

With investing, there are risk management strategies that can be used in your portfolio. Depending on your own personal ability to withstand risk, we often times will show our clients strategies that may help protect against long-term loss of principal or the loss of one's monthly income. When doing so, we always educate our clients as to the benefits as well as the costs. Take, for example, the issue of long-term care insurance. It's not a fun subject, but it is an important one. The younger and healthier you are the cheaper the insurance may be. Unfortunately, once you have been diagnosed with certain conditions, not only can it become prohibitively expensive, but you may not be able to qualify for it at all. The planning part of our business is to inquire which part of your financial lives can we apply these risk management strategies.

***Conclusion***

We hope that you find this conversation about earthquake risk helpful and that you will forgive me for making it analogous to investing. Our goal at the Burns Investment Group is to help our clients to become better at investing. I

have found that using non-financial matters can help in the education process. We often tell our clients that the most important part of life is relationships and experiences. The more time you have with friends and family, the more fulfilled your life will be. Thanks as always for being part of the Stifel family.

*(Note: If you want to learn more about earthquake-proofing your home and other aspects of mitigating the risks of earthquakes you may want to go on-line and visit the following site: <http://www.earthquakeauthority.com/>.)*

***Noah's Corner***



The drought is yet another California disaster that we can relate to investing. For some retail investors, their retirement accounts are also in a state of drought. Even in drought it still rains in California, and investors still contribute to their retirement plans, but often it's not enough. Just like our government encourages us to conserve water, we are encouraging our clients to save more. And if you haven't started saving yet, it's never too early or late to stop your savings drought.

***Happy Anniversary!***

I would like to send a special thank you to my assistant, May Jin. A few weeks ago we celebrated our ten-year anniversary of working together. It was a true blessing to me the day I received her resume. She is the most efficient, knowledgeable, efficient, caring, efficient and trustworthy assistant a guy could ask for. Did I mention she is efficient? I look forward to working with her another ten years! Okay, I know she's got her eye on retirement, but I will take her as long as I can. THANKS, MAY!

*Disclaimer: Asset allocation/diversification does not guarantee investment returns and does not eliminate the risk of loss.*



***Referrals: Yes, please!***

With my son, Noah, joining the Burns Investment Group of Stifel, we are looking to take on more clients. We are asking our clients to please keep us in mind in referring us to your family, friends, and business associates that may need help with their investment planning needs. We have an information packet available to introduce our services to any prospective client. Just call us, or have them call us, for a complimentary consultation or to get an information packet.

We are seeking clients with a minimum of \$250,000 investable assets and who are looking for a long-term relationship with a team of professionals based on mutual respect and benefit.

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