BURNS INSIGHTS

JULY 2016

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Seven Habits of Highly Effective Investing

When I first got into business right out of college, I read Steven Covey's seminal book, "The Seven Habits of Highly Effective People." I was always a positive and motivated young guy, but it still had a profound impact on me. Not only did these habits become a natural part of who I am, but they influenced the philosophies I have adopted as a financial advisor. I recently read an on-line synopsis of Mr. Covey's book, so it got me thinking about what investment "habits" I would recommend to a younger investor that would increase his/her odds of investment success. The following are seven habits (and I am sure there are more) that I feel make for highly effective investing.

1. Start to Save as Early as Possible: You cannot go back in time. Once today is gone, you cannot relive it. With savings, every day you don't save but spend the money, it is no longer available to work for you. Early in my career, I saw that, in general, the clients who adopted a saving mentality at younger ages ended up with larger balances in their various accounts, i.e., IRAs and 401(k)s. This brings me to the next habit…

2. Understand the Effects Compound Interest. Albert Einstein, who was a pretty smart guy, is quoted as saying, "Compound interest is the eighth wonder of the world." Part of the equation for compound interest is the period of time your investment works for you. The longer you keep your money working and the higher the rate of return that is achieved, the more profound the results. And the results can add up over the long-term. For a powerful example of exponential growth, look up on-line the story about "One Grain of Rice."

3. Save Consistently and Systematically. Why has the 401(k) become such a successful tool for saving for retirement? I think it is because it affords people the chance to save consistently (a little money from each pay check); and systematically (deposited into investments that have ranges of risks that can be tailored to each person's goals.) Also, a lot of these plans come with an employer match. Here's my rule of thumb: If you employer wants to give you more money, LET THEM! Another term that is used for this savings strategy is "dollar-cost-averaging," and you can do this inside or outside a retirement plan. Investors are less likely to focus on the short-term gyrations of the market, and once the money is taken out of a savings account or paycheck, it is no longer missed.

4. Use Logic Over Emotion. If you have been our clients for a long time, you are probably sick of us saying this, but it is a good one! Good investors use their brains to override what their heart or stomach is telling them. We are all humans. We don't operate in a black hole and we are affected by our surroundings. It is natural to feel fearful when the markets are going down. We naturally want to avoid unpleasant feelings. Likewise, we like to re-experience something that feels good like the market appreciating. The two most common emotions that motivate investor into action are fear and greed. Unfortunately, in investing, it is these feelings that can get investors into trouble. Greed tends to suck people in near the market high and spit them out near the bottom. Both of these actions can be detrimental to your long-term success. We work hard to get our clients to connect to logic.

5. Use Strategy Over Prediction. No one can predict or control the future. We also contend that the future will continue to be complex and confusing—more complex and confusing than the popular media lets on. Therefore, any program whose success is predicated on one's ability to tell the future is destined to fail. We help our clients focus on factors over which we can control, such as savings rates and spending. We also use strategies such as diversification, balance, professional management, and periodic reviews.

6. Understand and Respect Risk. Everyone relates to risk in different ways. Risk is not necessarily a bad thing. In fact, we as humans are continuously doing risk/reward calculations as we move throughout our days. I wouldn't have gotten married if I didn't risk rejection by asking my now wife, Sandra, out on a date. The potential reward of getting a date with her was worth it. On her part, she had to quickly calculate the risk of saying, "Yes." She now knows, thirty-two years later, that she really made out on that deal! Your job as an investor is to understand that there is a relationship between risk and the potential for return.

We take the time to understand how each of our clients relates to risk and take time teach them about this relationship so they can use risk to their benefit.

7. Be Patient. I believe the old adage, "Patience is a virtue" rings true. Good investors understand the temporary nature of the current market events. Part of our human nature is to want to fix a problem. But with the market, the strategy is sometimes doing nothing. Just look at any long-term market chart. It is not a straight line. There are bumps along the way, and over the long-term, we need to learn how to get through the tough markets and not think that we are going to avoid them. By the way, the media gets investors to focus on short-term events of the day. We encourage our clients to focus on their long-term planning goals, such as saving for retirement, etc.

BONUS HABIT: Be Positive. I decided long ago, to not hang around negative people but to surround myself with optimists. I can understand that it is really easy to become jaundiced about the world's situation—just look at our Presidential election. I like to model myself after ever-optimistic outlook of the famous money manager, John Templeton. Like him, especially during difficult times, I try to remember that we live in a great country. People from other countries continue to look at the U.S. as the land of opportunity. I believe we still lead the world in innovation, and we continue to be the world's leading economy. I am confident that investors who remain positive about our long-term prospects are more likely to take advantage of lower prices if they happen.

Noah's Corner
Is Cash King?

Some say, "a bird in the hand is worth two in the bush." In the world of investing the Burns Investment Group warns against this mentality. Often we meet with potential clients who are fearful of the risks that investing presents and put nearly all of their money in savings accounts. In the investors' minds it is "safe" and they can't lose.

It's easy to see why they think that this is a good idea. By having their assets in a savings account they never actually see their account go down except for spending, which avoids the emotional ride that investing can build. However, there is a hidden danger that doesn't show up on their bank statements: inflation. By keeping too many assets in cash, a client that thinks they are safe could be subjecting themselves to large amounts of inflation risk and significantly decrease the actual worth and buying power of their assets over time.

For these types of clients, through Stifel, we are able to create a full financial plan to show the potential danger of inflation. At the end of the plan we can show how taking even just a little risk may have a significant positive impact on their retirement's probability of success.

If this spoke to you or reminded you of a friend or family member, Robert and I would love the chance create a plan and show how investing outside of cash may increase the probability that their financial goals will be met.

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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