



# BURNS INSIGHTS

STIFEL | Burns Investment Group

burnsinvestmentgroup.com

30448 Rancho Viejo Road, Suite 110 | San Juan Capistrano, California 92675

- ▶ *Fools Rush In*
- ▶ *The Best Offense is a Good Defense*
- ▶ *Noah's Corner*
- ▶ *Municipal Bonds*
- ▶ *Referrals Appreciated*

## Fools Rush In

During my high school years, I just wanted to fit in. I wish I could say that I was immune to peer pressure, but unfortunately, I succumbed to it on more than one occasion. In the past, when my kids asked me about my high school years, my running line to this type of inquiry was, "Suffice it to say, there are things I did in my past that I am not proud of, and given the chance to do over, I would make different decisions." I got out of having to divulge too much information. Let's face it, no one would benefit from knowing the details – not my parents then or my kids now. In fact, I have a theory: The IQ of a group of teenaged guys is inversely proportionate to the number of guys in the group. My friends and I proved this theory way too often.

People love to be part of the crowd. Unfortunately, crowds often make bad decisions. This is particularly true when it comes to investing. Following the crowd into bad outcomes has been a common theme in investing for centuries. The book, *Extraordinary Delusions and the Madness of Crowds* was published in 1841. It explains how the "fear of missing out" caused many Dutch citizens to bid up prices of tulip bulbs in the 1630s, only to have the bottom fall out of the tulip market.

How many investors remember the "Tech Bubble" of the early 2000s? Investors fell in love with any internet-related stock and clamored to get their hands on any IPO (Initial Public Offering – when a stock originally comes to the market). Many of those stocks are no longer around, and some of the "darlings" of the time are still well below their lofty heights. One of the poster child companies of its time still trades at a fraction of its price even though the company now has more revenues and earnings than in the year 2000. More recently, we had the housing bubble, and just a few years ago, the gold market was rife with speculation. In each of these circumstances, investors who came "late to the dance" paid the price by experiencing dismal performance in their portfolio.

## The Best Offense Is a Good Defense

How does that relate today? Since 2009, I have been stating that the market has been reasonably priced and that investors have been more fearful than greedy. This has been good. The proverbial "wall of worry" has been intact, and it has kept out broad speculation in the market. We are still constructively positive about the market's outlook. The prospects of less regulation, a smaller federal government, and lower taxes have the potential of helping both the consumer and companies. This, in turn, should help earnings, and that will hopefully lead to higher equity prices.

But lately, since the election, there has been a shift in both valuation and sentiment. I think it's important to acknowledge this change. Right now, we feel that the valuation of the market is on the high side of reasonableness. With regard to investor sentiment, we think that investors are less fearful even though they are still "risk aware." We don't see universal greed, which is good.

Lately, though, there are two behaviors that I have seen with inexperienced investors that concern me. First, some investors feel that having a portfolio of today's hot stocks is a ticket to portfolio security. This attitude has been seen in the past, with the "Go-Go" stocks of the sixties and the internet bubble in 2000. It breeds a complacency of risk and the perception that these stocks are "safer." Don't get me wrong, I use many of these companies almost every day, but from an investment point of view, you wouldn't be the first to think of investing in these companies.

I have also had several calls from clients asking me what I thought about taking a small part of their portfolio and buying something with more potential return. The most common one has been asking for stocks that will benefit from the legalization of marijuana – and no, I am not kidding. This is pure speculation, and I really don't support it. The attitude of "playing" the market doesn't work. We take investing too seriously to be frivolous with any monetary

*Continued on back ...*

# STIFEL

## The Best Offense Is a Good Defense *(continued)*

decision. If you want excitement in your life, I recommend you take up a hobby – perhaps skydiving. I haven't seen this willingness to "take a flyer" in many years, and it has made my radar "blip" very loudly.

With these issues in mind, we have become more circumspect, and we encourage investors to become more defensive with their asset allocation decisions. In our portfolio reviews, we make sure that each of our clients has a reasonable allocation that is in line with one's personal situation. With the Successful Investor Mindset, we adhere to the tenets of logic over emotion, and structure over prediction. We seek to reduce risk through diversification, asset allocation, and professional management. Please don't hesitate to call us if you want us to discuss your current allocation and what programs you are in that help us manage risk/reward expectations. With new money coming in, we are definitely erring on the side of being defensive. We want to pick and choose when we become more aggressive – like when the market is down. We want to set the stage for looking at a market decline as an opportunity to buy lower.

I started high school over forty years ago. Lucky for my clients and me, I have matured. Not only do I try to learn from my mistakes, but I also try to learn from other people's experiences. I have become a student of human nature and the history of market behavior. I think it has helped me add value to my client relationships and our results. Don't get me wrong, I am still human and a guy. Ergo, I will be an idiot from time to time. My wife will not only attest to this, but she is not shy in letting me know in real time when it's happening. I am just an idiot a lot less of the time. With investing, I know I won't be perfect, but I will continue to be earnest in trying to be right more often than I am wrong. Progress, not perfection, is my daily mantra.

*Diversification and asset allocation do not ensure a profit or protect against loss.*

## Referrals Appreciated

We have capacity to grow our practice, and our goal is to attract twenty new relationships in 2017. If you know friends, family, or business associates that are experiencing a sudden net worth event (retirement, inheritance, sale of a business, real estate, etc.), we would like to be introduced to them. An easy way to make the referral is to have us send them our team brochure. It explains our philosophy and experiences. To request a brochure, call Jason Marks at (949) 234-2340. It is also available online at [burnsinvestmentgroup.com](http://burnsinvestmentgroup.com).

### Burns Investment Group [www.burnsinvestmentgroup.com](http://www.burnsinvestmentgroup.com)

30448 Rancho Viejo Road, Suite 110 | San Juan Capistrano, California 92675  
toll-free: (866) 886-7593 | office: (949) 234-2340 | fax: (949) 234-0326

#### Robert Burns, CFP®, AIF®

Senior Vice President/Investments  
Branch Manager  
(866) 886-7593 | [burnsr@stifel.com](mailto:burnsr@stifel.com)

#### May Jin

Assistant Branch Manager  
(866) 886-7593 | [jinm@stifel.com](mailto:jinm@stifel.com)

#### Noah Burns

Financial Advisor  
(949) 234-2356 | [burnsn@stifel.com](mailto:burnsn@stifel.com)

#### Jason Marks

Client Service Associate  
(949) 234-2354 | [marksj@stifel.com](mailto:marksj@stifel.com)

## Municipal Bonds

Did you know that Stifel is a market leader in underwriting and issuing bonds in California? Municipal bonds have always been an attractive investment option for high-income earners because their interest is free of federal income tax. In addition, the interest earned on in-state bonds is free of state income tax as well. Because California income tax rates are so high, this makes California municipal bonds even more attractive.\* The Burns Investment Group would like to be a leader in "muni" bonds in Orange County. There are different ways to invest in tax-free municipal bonds. If you are interested, please call us today to learn more.

**FREE Municipal Bond Portfolio Review.** If you already have a large municipal bond portfolio, but are unsure about the characteristics of it (such as bond ratings, maturities, duration, cash flow), we can provide you with a complimentary review. Again, call us for details.

\* Certain issues may be subject to the alternative minimum tax and capital gains tax may apply upon sale. When investing in bonds, it is important to note that as interest rates rise, bond prices will fall.

## Noah's Corner



### Hope for the Best, Plan for the Probable

In retirement planning, our focus is to encourage clients to make investment and financial decisions that decrease the likelihood that they will run out of money. One related aspect of the Successful Investor Mindset that has been coming up a lot lately is the concept of possibility versus probability.

This concept usually pertains to investment returns. Prospective clients often say a phrase similar to "if I could get 15-20% return each year, then I'd be able to retire." Are these average returns possible? Potentially, yes, but it's also possible to win the lottery. Are these average returns probable? No, especially considering that most retirees are conservative investors.

If our clients spent money like they expected 15% returns or more, then the probability that they run out of money would be quite high. Instead, we consistently remind our clients about the probabilities at play when it comes to market returns. If we can help them plan for the probable, then any returns above that would be icing on the cake.

Are you a current or future retiree and curious about the probability that you will run out of money? Let Stifel create a financial plan for you. We'll help you feel more secure by ignoring the possible and planning for the probable.