HAPPY NEW YEAR!!! When it comes to our personal behaviour there are five barriers we pose to our own investment success. These are called behavioural biases.

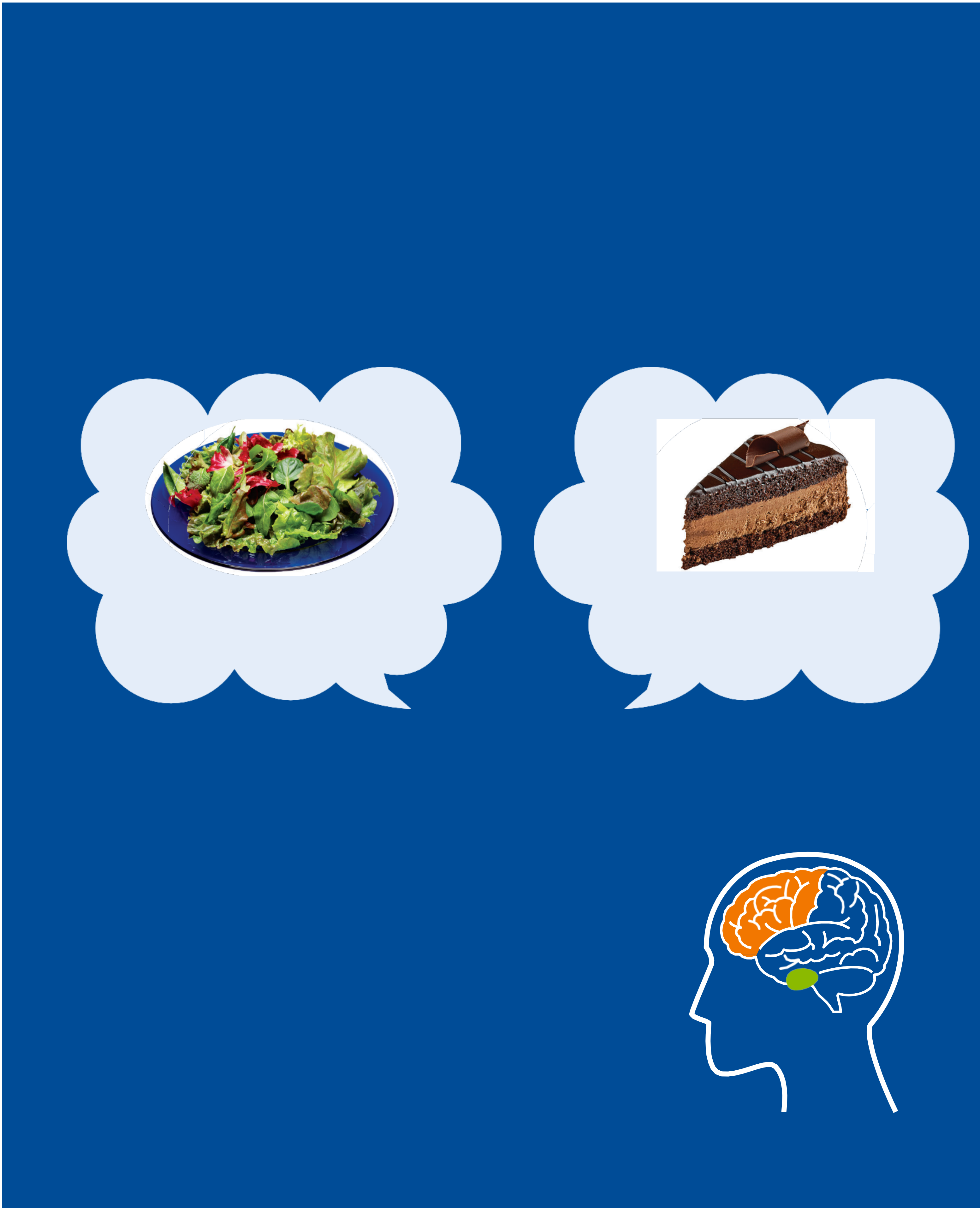
CAKE OR SALAD?

Every day we are faced with decisions-some are easier to make than others. Imagine you open the fridge for a snack and see a salad and a piece of chocolate cake. For many of us, choosing which one to eat is a challenging decision (though some might say it's easy-take the cake!). The conflicting dialogue in our heads may sound like this:

The salad is healthy and I will feel better after eating it. I need to up my daily intake of leafy green vegetables.
OR
That cake looks absolutely delicious. Chocolate makes life worth living. I deserve this and I want it now.

The two seemingly opposing voices come from two different parts of our brain. The FRONTAL CORTEX processes lots of information to help us make a logical and informed choice. This portion of the brain carefully analyzes and reflects on all available information.

But, there's also a small part of the brain known as the AMYGDALA. Among other things, the amygdala is responsible for emotions and survival instincts. It's often referred to as the reflexive brain because it processes stimuli and makes quick judgements as it seeks to avoid risks and find rewards.



FIVE BARRIERS TO INVESTMENT SUCCESS

Choosing a snack is one thing, but letting our reflexive brain control our reactions when making financial decisions may lead to some undesirable outcomes. As humans, we need to be aware of how our reflexive behavior impacts our investment decision-making ability.

By uncovering the behavioral biases that might affect our financial decisions, we may have a better chance of meeting long-term goals.

The following pages discuss five common barriers to investment success:

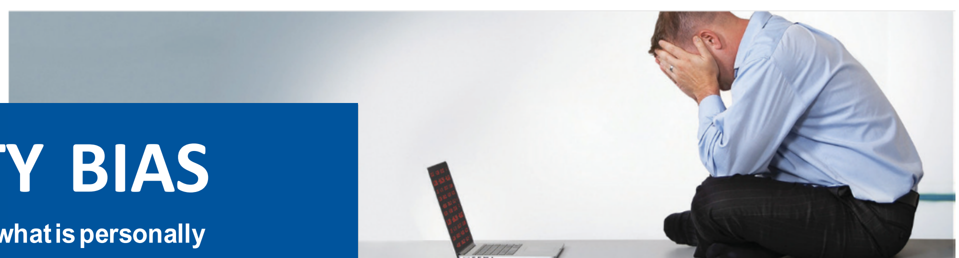
1. AVAILABILITY BIAS

2. HERDING

3. LOSS AVERSION

4. PRESENT BIAS

5. ANCHORING



1. AVAILABILITY BIAS

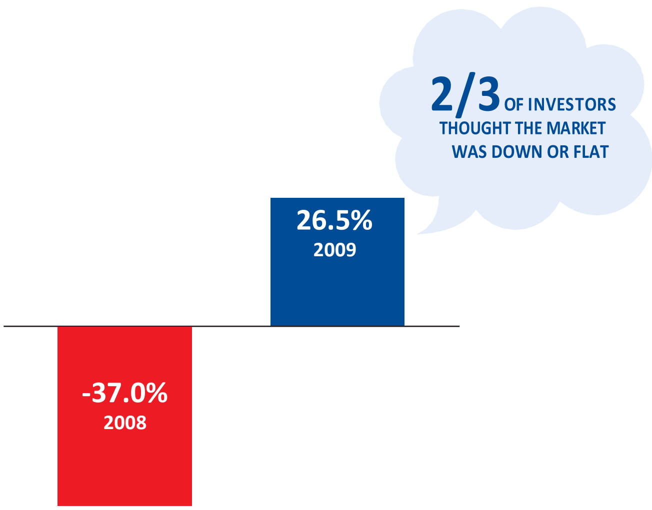
Our thinking is strongly influenced by what is personally most relevant, recent or traumatic.

The lasting impact of a down market

For many investors, little was more traumatic than the events of the 2008 financial crisis. The S&P 500 Index was down 37%. But, the following year, in 2009, the market bounced back with a return of 26.5%. After 2009 ended, Franklin Templeton Investments conducted a survey asking people how they thought the market performed that year. Likely due to the traumatic events of the recent crisis, two-thirds of respondents incorrectly thought the market was down or flat in 2009.

A DISCONNECT BETWEEN PERCEPTION AND REALITY

S&P 500 Index annual returns[1] and Franklin Templeton Investor Sentiment Survey results[2]

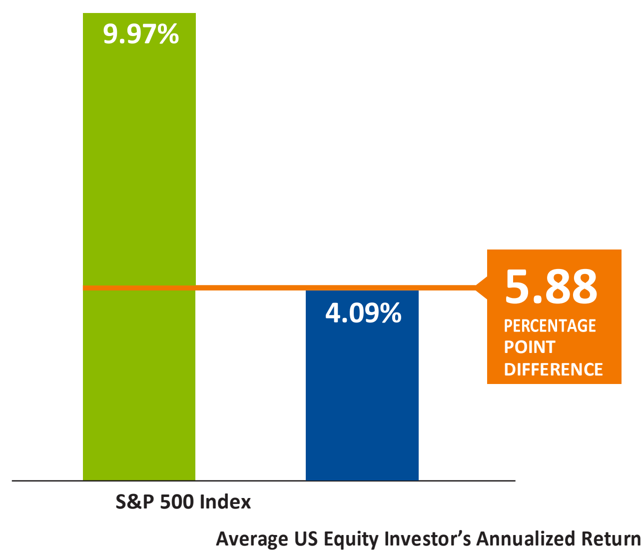


Investor returns have been lower than market returns

The danger of basing investment decisions on market perceptions, rather than facts, is that it can lead to poor investment decisions. This may help explain why the 30-year average annual return of the S&P 500 Index for the period ended December 31, 2018 was higher than the average US equity investor's return.

INVESTOR RETURNS VS. MARKET RETURNS[3]

30-year period ended December 31, 2018



1. Source: Morningstar.
2. Source: 2010 Franklin Templeton Investor Sentiment Survey conducted in partnership with ORC International of at least 1,000 US adult respondents.
3. Sources: S&P 500 Index: Morningstar; Average US Equity Investor's Annualized Return: "Quantitative Analysis of Investor Behavior, 2018," DALBAR, Inc. Indexes are unmanaged and one cannot invest directly in an index. Index returns do not reflect any fees, expenses or sales charges.

2. HERDING

We follow the crowd because we fear making mistakes or missing opportunities.

The wisdom of crowds?

Throughout history, investors have faced strong temptation to join the investment bandwagon based on emotions, rather than a sound financial strategy. The illustration to the right shows four well-known financial bubbles. During the run up of these bubbles, investors bid up the prices of tulip bulbs, stocks and real estate to unsustainable levels. But, even more quickly than they expanded, these markets burst and contracted leaving the herd scrambling.

BUBBLES THROUGHOUT HISTORY[4]

Tulipmania	Roaring 20's	Dot-Com	Real Estate
+177%	+299%	+294%	+71%
1634–1636	1924–1929	1997–2000	2002–2006
-82%	-48%	-78%	-35%
1636–1637	1929	2000–2002	2006–2012

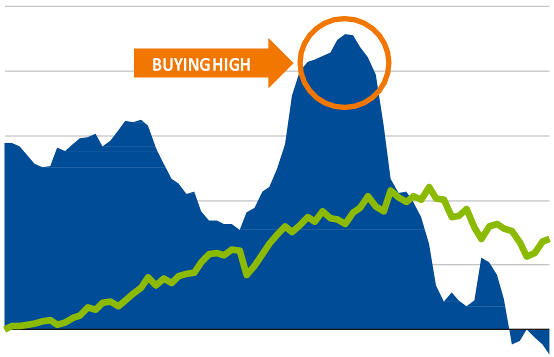
The problem of going with the flow

In the charts below, the green line represents the performance of the S&P 500 Index and the blue shading represents equity fund flows. When the S&P 500 Index performed well during the internet boom, there was an influx of money into equity funds (buying high). Conversely, when the market pulled back after the housing crash, investors withdrew their money from equities (selling low).

INVESTORS FOLLOWING THE HERD HAVE HISTORICALLY BOUGHT HIGH AND SOLD LOW

S&P 500 Index performance vs. equity fund net new flows[5]

1996–2002 2004–2010



4. Sources: Tulipmania Dec. 1634–May 1637: Thompson, Earl A. "The tulipmania: Fact or Artifact?" Public Choice, 2007; Roaring '20s Dec. 1924–Nov. 1929: Dow Jones Industrial Average; Dot-Com Jan. 1997–Oct. 2002: NASDAQ Index; Real Estate Jan. 2002–Mar. 2012: Case-Shiller Housing Index.

5. Sources: S&P 500 Index: Morningstar; Equity Fund Flows: ICI. Flows are represented by monthly rolling 12-month net new cash flows. Indexes are unmanaged and one cannot invest directly in an index.

3. LOSS AVERSION

The pain we associate with a loss is much more intense than the reward felt from a gain.

Fear drives investors into cash

For most investors, the primary goal is to avoid a decline in the value of their investments. When markets do take a step back, investors often react by flocking to cash or cash equivalents.

CASH INCREASES DURING MARKET PULL-BACKS[6]

$943B

$491B

DOT-COM BUST
March 2000–October 2002

GLOBAL FINANCIAL CRISIS
October 2007–March 2009

Perceived safety may come at a cost

Although some investors may consider money market accounts a more secure investment option while they wait out stock market volatility, they may not be aware of the potential erosion of their purchasing power.

6. Source: Federal Reserve Bank of St. Louis.

4. PRESENT BIAS

We often overvalue immediate rewards at the expense of long-term goals.

Delaying gratification is challenging

When a short-term reward is staring us in the face, we often give in to the temptation of instant gratification. The tendency to focus on the now can be seen in our national savings rate. As shown on the right, people have recently been saving less than the long-term average.

NATIONAL SAVINGS RATE HAS DECLINED

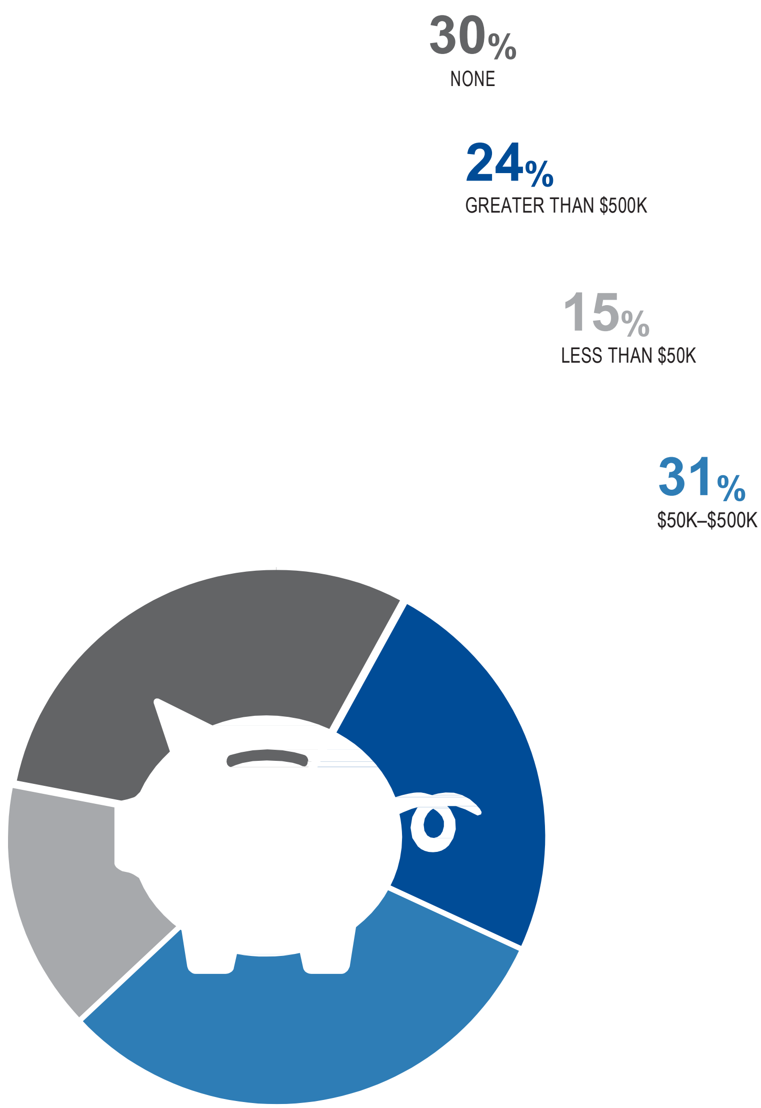
Personal savings rate, as a monthly percentage of disposable income[8]

Average Savings Rate Since 1959

Personal Savings Rate as of December 31, 2018

Retirement savings are meager

The lack of long-term planning and saving is having a significant impact on those nearing retirement. As shown in the illustration below, 24% of those surveyed have more than $500k in their retirement portfolios, and a shocking 30% haven't saved anything at all.



7. Source: Federal Reserve Bank of St. Louis.
8. Source: 2018 Franklin Templeton Retirement Income Strategies and Expectations (RISE) conducted in partnership with ORC International and includes more than 2,000 adults.

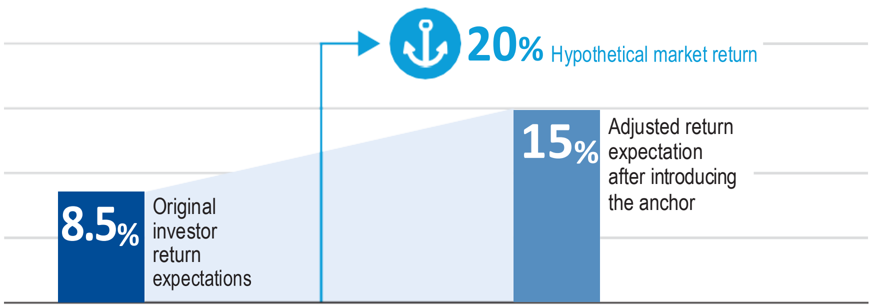
5. ANCHORING

We often focus too heavily on one piece of information when making decisions.

Anchors influence performance expectations

When Franklin Templeton surveyed investors about their portfolio return expectations over a five-year period, the median response was 8.5% annually. But, when presented with a hypothetical market that was up 20%, median return expectations increased to 15%.
The hypothetical strong-performing market anchor caused investors to expect stronger returns.

FRANKLIN TEMPLETON INVESTOR SENTIMENT SURVEY RESULTS[10]

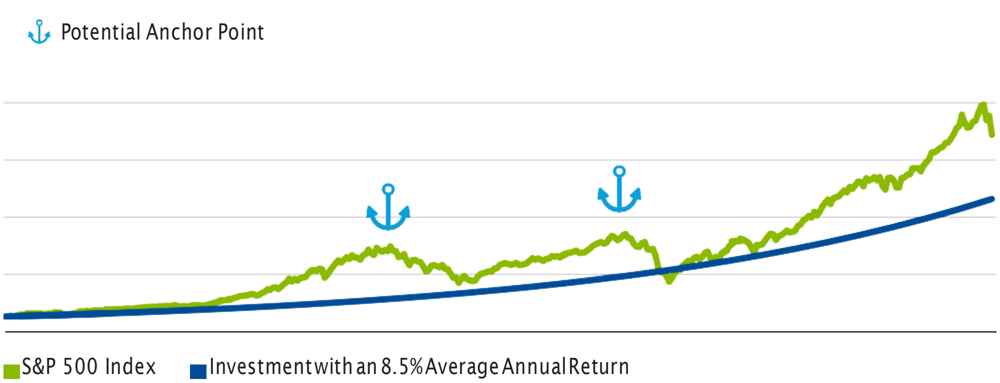


Upside only, please

When presented with a hypothetical market that was down 20%, investors' median portfolio return expectation was 2%.[10] Surprisingly, investors expected to outperform a down market by 22%.

The full picture tells a different story

Anchors can influence how we feel about the progress of our investment plans. A hypothetical investor may say they want an 8.5% return over the life of their portfolio. For 30 years this would have become $115,583. However, as shown by the S&P 500 Index returns below, investing often involves volatility. After the same 30 years this would have become $172,993. Many investors anchor to market high points, setting unrealistic future return expectations.
If the market drops, they may feel they're doing poorly despite still being largely on track to reach their long-term goals.



Amanda and I are both qualified CERTIFIED FINANCIAL PLANNER® professionals at your service to assist in all areas of comprehensive financial planning including financial goal discovery, cash flow/budget analysis, retirement income planning, tax savings, estate planning, insurance needs analysis, investment planning, education saving planning, special purpose or major purchase planning.

I wish to thank you for your continued confidence and for the opportunity to serve you in all aspects of Financial Planning. As always, I will continue to keep in touch with you but if you have any questions or concerns that you would like to discuss or review, please do not hesitate to email or call Amanda or I at 519-894-2661 or toll free 1-800-716-5538. Have a great day.

Respectfully Yours, Gary

Gary H. Attack, BBA,CFP®,RFP,RRC® | CERTIFIED FINANCIAL PLANNER® professional

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