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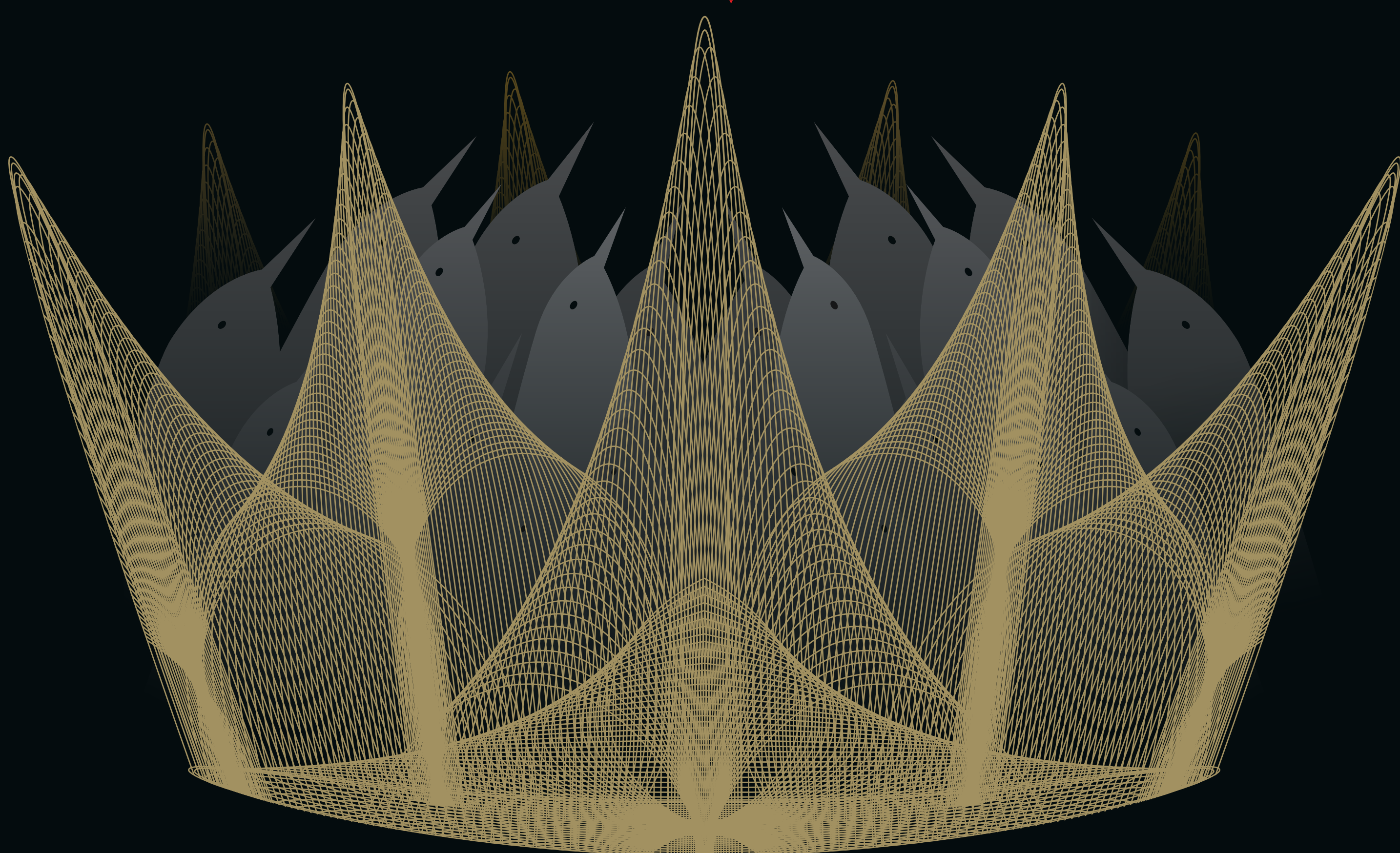

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Fairfield County, CT | Leading Wealth Advisor
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"What have we really learned from the 2008 financial crisis?"

By Jim Pratt-Heaney

We all remember the headlines: "The worst financial crisis since the Great Depression"; "The markets have changed forever"; "Investors head for safety."

The year 2009 began with world markets down 40 percent, the banking system under stress and predictions of doom everywhere. Would we recover from this crisis? Many investors reacted to what they "knew" was going to happen: The decline, they said, would worsen. But then 2009 saw a massive rally in financial assets, even as many investors remained frozen in fear, bidding Treasuries to negative yields and showing themselves willing to suffer certain, quantified loss rather than risk the unknown.

The next year, 2010, brought more negativity as headlines amplified predictions of potential massive defaults roiling municipal bonds with a large sell-off, only to set the stage for a subsequent rally once cooler heads prevailed.

A Wesleyan University study recently revealed that people are generally overconfident when they make predictions; in fact, the more confident they become, the less accurate they are. The Academy of Entrepreneurship and Management in Warsaw asked two groups of experts to "predict corresponding events: the value of the Stock Exchange Index and the average temperature of the next month."

The results: The study's financial analysts were correct a third of the time, and weather forecasters two-thirds of the time. Those with a confidence rating of over 80 percent were correct only 45 percent of the time.

The point is not to denigrate analysts but to show the weight investors give to their predictions. The human tendency is to focus on recent events and behave in reaction to them. Analysts, being human, rarely look beyond the short term. For example, in 2000, nearly all new funds added to stock mutual funds went into technology because events suggested there were no limits on how high technology stocks could soar. This approach turned out badly.

Such questionable information clouds the mind of investors. Their aversion to loss can distort allocations, leading to overweighting asset classes that address only current concerns. Frequent and complex performance reporting tends to decrease equity allocations because it focuses on short-term results. "Anchoring" causes investors to seek information that supports only their point of view, reinforcing fears and causing aversion to what is seen as obvious risk.

This global crisis has shown us that emphasizing recent negative events too much makes investors so short-sighted that even the rumor of an event can send markets into a dive, followed by recovery when the facts unfold. This near-term focus, given the world events we see every day, has made investors so negative that they cannot imagine any positive scenario. This, plus overconfidence in personal or "expert" opinions, has caused some investors to abandon their financial plans and miss major market moves. Their fear of regret makes them sell when the market has already gone down, and refuse to get back in because it has moved to new highs.

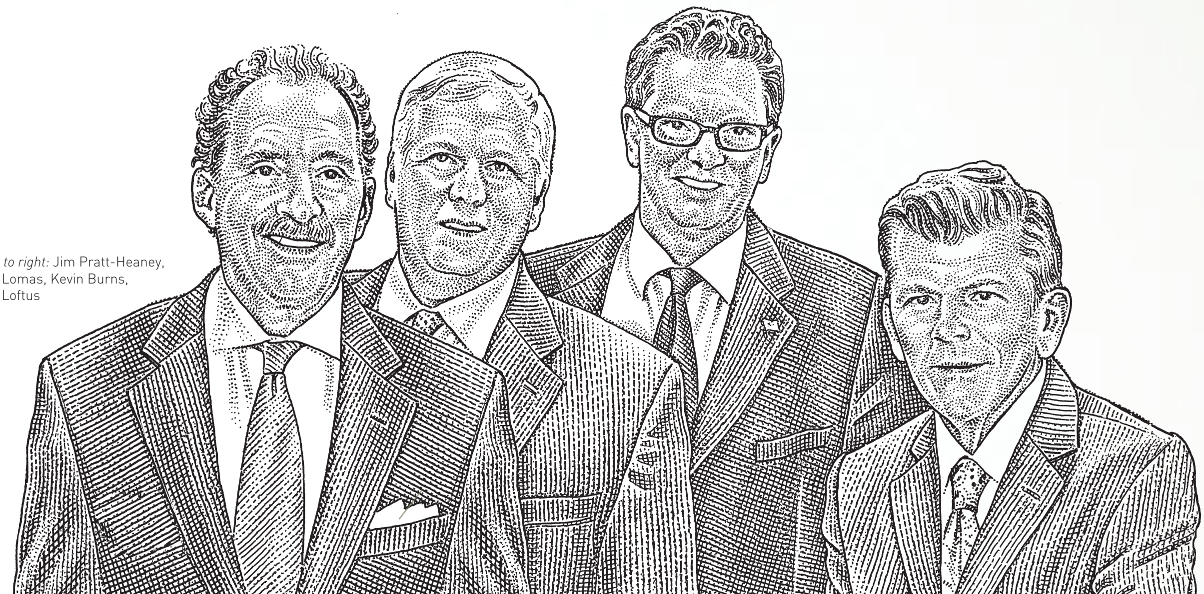
What we have learned in the last three years is no different from what we always knew: The emotional investor is the unsuccessful investor. When market trends look obvious, they rarely are. Predictions by experts are often flawed. Investors flock like sheep to the newest idea or product (witness the unbelievable growth of ETFs, though few investors know their structure or counterpart risk). In conclusion, we believe that the best way to successfully invest for your family's future is to take the emotion out of the process by creating an in-depth financial plan, sticking with it and rebalancing when necessary. Leave the predictions to others!

"A Wesleyan University study showed that financial analysts were correct a third of the time, and weather forecasters two-thirds of the time."

—Jim Pratt-Heaney

How to reach Jim Pratt-Heaney

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 800.700.5524.



Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

ILLUSTRATION BY NANCY JANUZZI

Who Are Our Clients?

LLBH Private Wealth Management is a Registered Investment Advisory (RIA) firm, created to work with entrepreneurs and senior executives who became wealthy because they made great decisions. Our disciplined process ensures that we see the complete picture of your financial situation so that we can make informed and suitable recommendations to help you accomplish your goals and objectives. Our process also works for those who have been thrust into decision-making roles due to life-changing events such as retirement, the sale of a business, a divorce or a death in the family. Just as they do in their professional lives, our clients want a thorough and candid process in order to make smart decisions about their financial lives. Simply put, LLBH clients respect our ability to get things done.

Assets Under Management
$900 million

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (investment services)

Largest Client Net Worth
$500 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing, A BNY Mellon Company

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Membership
Investment Management Consultants Association

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