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INSIGHTS

Michael J. Krencicki, MSF, CFP ®
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James M. Knaus, MSM, CFP ®

Lessons for the Next Crisis

It will soon be the 10-year anniversary of when, in early October 2007, the S&P 500 Index hit what was its highest point before losing more than half its value over the next year and a half during the global financial crisis.

Over the coming weeks and months, as other anniversaries of major crisis-related events pass (for example, 10 years since the bank run on Northern Rock or 10 years since the collapse of Lehman Brothers), there will likely be a steady stream of retrospectives on what happened as well as opinions on how the environment today may be similar or different from the period leading up to the crisis. It is difficult to draw useful conclusions based on such observations; financial markets have a habit of behaving unpredictably in the short run. There are, however, important lessons that investors might be well-served to remember: Capital markets have rewarded investors over the long term, and having an investment approach you can stick with—especially during tough times—may better prepare you for the next crisis and its aftermath.

BENEFITS OF HINDSIGHT

In 2008, the stock market dropped in value by almost half. Being a decade removed from the crisis may make it easier to take the past in stride. The eventual rebound and subsequent years of double-digit gains have also likely helped in this regard. While the events of the crisis were unfolding, however, a future of this sort looked anything but certain. Headlines such as "Worst Crisis Since '30s, With No End Yet in Sight,"[1] "Markets in Disarray as Lending Locks Up,"[2] and "For Stocks, Worst Single-Day Drop in Two Decades"[3] were common front page news. Reading the news, opening up quarterly statements, or going online to check an account balance were, for many, stomach-churning experiences.

While being an investor today (or during any period, for that matter), is by no means a worry-free experience, the feelings of panic and dread felt by many during the financial crisis were distinctly acute. Many investors reacted emotionally to these developments. In the heat of the moment, some decided it was more than they could stomach, so they sold out of stocks. On the other hand, many who were able to stay the course and stick to their approach recovered from the crisis and benefited from the subsequent rebound in markets.

It is important to remember that this crisis and the subsequent recovery in financial markets was not the first time in history that periods of substantial volatility have occurred. The accompanying chart helps illustrate this point. It shows the performance of a balanced investment strategy following several crises, including the bankruptcy of Lehman Brothers in September of 2008, which took place in the middle of the financial crisis. Each event is labeled with the month and year that it occurred or peaked.

Although a globally diversified balanced investment strategy invested at the time of each event would have suffered losses immediately following most of these events, financial markets did recover, as can be seen by the three- and five-year cumulative returns shown in the chart. In advance of such periods of discomfort, having a long-term

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A Personal Note From Global Wealth Advisors

This column is a reminder about the importance of securing your personal information in light of the Equifax data breach. We have included an article that provides quite a bit of information on this topic, and Equifax is offering some resources on its website as well.

Although there are firms that offer ID theft protection and credit monitoring, there are things you should be on the lookout for now because there are criminals that will try to take advantage of this situation.

First, don't panic. Be leery of people contacting you saying they are with a credit agency looking to assist you. It may be a scam artist looking for your information; don't give it to them. Discuss your situation only with a firm you have initially contacted and verified is legitimate.

Next, watch out for "Phishing". That is where emails or other electronic means are used to get you to reveal information by appearing legitimate. For example, the message says it's your bank and they need you to log into your account via a link provided. If you did not initiate the contact do not respond. Instead, call your bank with a phone number you trust to discuss. Finally, file your tax returns as soon as possible to help prevent a fraudulent return being filed before yours.

Jim Knaus Mike Krencicki

Avoiding Financial Scams and Identity Theft Slams

Young or old, wealthy or poor, online or in person … Nobody is immune from financial scams and identity theft slams. No matter who you are or how well-informed you may be, the bad guys are out there, daily devising new tricks for every fraud we fix.

WHO ARE THEY? FRAUDSTERS AND THIEVES

- ***Financial fraudsters*** are after your cash assets.
- ***Identity thieves*** want to steal your personal information, usually so they can commit financial fraud by posing as you.

WHAT DO THEY WANT? YOUR MONEY AND YOUR PERSONAL INFORMATION

Some of your most treasured personal information includes:

- Social Security Numbers, passports, driver's licenses and birth dates.
- Financial account and credit card numbers.
- Passwords or insights about you that help them guess at weak ones.
- Your and family members' contact information (name, address, phone, email).

HOW WILL THEY GET IT? HOWEVER THEY CAN!

Criminals come in all shapes and sizes, and will use anything and everything that might work:

- Most theft occurs the same, old ways: the real or virtual equivalent of strong-arm theft; breaking and entering; and increasingly, scams that trick you into giving your goods away.
- They may be strangers. They may pose as someone you know. They may commit their crimes online, by phone, by mail or in person.
- ***Phishing*** emails and deceitful or compromised websites try to trick you into clicking on bad links or opening infected attachments. This exposes you to ***malware*** which infects your device with anything from harmless pranks to damaging viruses to serious security breaches.

WHAT SHOULD YOU LOOK FOR? SEVEN RED FLAGS

Criminal *techniques* may be new-fangled, but the *tactics* – the red flags to look for – are mostly unchanged. Whether online, in the mail, on the phone or in person, be on extra alert whenever:

1. An offer sounds too good to be true.
2. A stranger or "old friend" wants to be your new on-line friend.
3. Someone you know is behaving oddly via phone or on-line. This may mean it's an identity thief, posing as someone you know.
4. Someone claiming to represent a government agency, financial or legal firm, police department or other authority contacts you demanding money or information.
5. You're being pressured or tricked into responding RIGHT AWAY to help a family member or friend who is in "trouble".
6. You're sharing personal information in a public venue, including social media.
7. Facts or figures aren't adding up; bank statements or other info is missing or charges or withdrawals are appearing that you know you did not make

WHAT CAN YOU DO? QUITE A LOT!

While criminals are always finding new ways to commit crimes, there are still plenty of sensible steps you can take to protect yourself and your money.

Online Protection

- **Virus software:** Install anti-malware and anti-spyware software on all of your devices. Keep it and your operating system current and up to date!
- **Backups:** Use backup software for system and/or file recovery as needed. Allow for multiple version backups, in case you need to go back in time for a safe recovery.
- **Passwords:** Create strong, unique passwords for each of your devices and accounts (long, random combinations). Periodically change them, especially on financial and other sensitive accounts. Consider using password management software to securely track them.
- **Extra security:** Employ extra security when available, such as two-step verification or biometrics like fingerprints.
- **Hyperlinks and attachments:** In emails or on websites, be especially cautious about clicking on links or opening attachments, especially from unfamiliar sources.
- **Social media:** Privatize your social media profiles and activities so only those you allow in can see them.
- **WiFi:** Be extra careful on public WiFi connections outside of your home or business. Don't conduct sensitive transactions on them and assume the on-line world can see everything you're doing.

Suspicious Phone Calls

- **Identify:** Whenever a stranger calls you out of the blue demanding or enticing you into sending money or sharing information, it's probably a scam. Even when a caller claims to be someone you know, if their requests seem urgent, unusual, or emotionally charged – watch out. It's probably an identity thief in disguise.
- **End the call:** Your best line of defense is to immediately hang up. Don't engage in conversation; you may accidentally divulge information a con artist can then use against you.
- **Don't cooperate:** Unless you initiated the call, never share your credit card number or any other sensitive information, especially in response to an urgent threat or enticing "prize."
- **Investigate:** Do what you can to verify the caller's legitimacy. For example, if they claim to be from the IRS, end the call and contact the agency directly to inquire further. If they claim to be a family member in distress, tell them you'll call them back and then call a

close relative to double check. Google the suspicious number to see if others have reported it.

- **Report:** Report the suspicious number to federal authorities.

Credit and Records Management

- **Watch for inconsistencies:** Whether you're receiving banking, credit card and investment statements online or in the mail, scan each one for odd or unfamiliar transactions.
- **Watch for missing statements:** If statements you were expecting to receive suddenly stop arriving, a financial fraudster might have pirated your account and redirected it elsewhere.
- **Monitor your credit reports:** Take advantage of your right to request free annual credit reports from *AnnualCreditReport.com*. Review them carefully for inaccuracies.
- **Consider a credit freeze:** If you rarely apply for loans, you may want to freeze your credit, unlocking it only when needed. It costs a bit, but shuts out identity thieves cold.
- **Follow up promptly:** If something seems not right, immediately change any login passwords, and promptly contact the service provider and appropriate authorities.

Personal Security

- **Remain on guard:** Don't assume you're safe just because you're not online. There is still plenty of old-fashioned theft going on.
- **Secure it:** Secure any paperwork you must keep. Lock up your desk, file cabinets and car.
- **Shred it:** Use a cross-cut shredder to destroy any paperwork you do not need.
- **When you're out and about:** Keep a close eye on your purse or wallet (at work and social events, in the gym and stores, and so on). Avoid keeping personal identification in your car.
- **Filling in forms:** When filling out medical forms, credit card applications and similar paperwork, only provide what is necessary.
- **Banking:** When using an ATM, be aware of others around you and never leave any receipts.

WHAT IF THEY SUCCEED? ACT PROMPTLY

If you believe you've been exposed to identity theft or financial fraud, time is of the essence.

- **Online:** If it's an online event, immediately change the passwords on any affected accounts. It may help, and it certainly can't hurt. Your multi-version backups might come in handy too.
- **Financial:** Check in with any bank or other institution involved, and the government agency responsible for overseeing the breach: the IRS for tax fraud, or the FTC for anything else.

The ABCs of Behavioral Biases

By now, you've probably heard the news: Your own behavioral biases are often the greatest threat to your financial well-being. As investors, we leap before we look. We stay when we should go. We cringe at the very risks that are expected to generate our greatest rewards. All the while, we rush into nearly every move, only to fret and regret them long after the deed is done.

Why Do We Have Behavioral Biases?

Most of the behavioral biases that influence your investment decisions come from myriad mental shortcuts we depend on to think more efficiently and act more effectively in our busy lives.

Usually (but not always!) these short-cuts work well for us. They can be powerful allies when we encounter physical threats that demand reflexive reaction, or even when we're simply trying to stay afloat in the rushing roar of deliberations and decisions we face every day.

What Do They Do To Us?

As we'll cover in this series, those same survival-driven instincts that are otherwise so helpful can turn deadly in investing. They overlap with one another, gang up on us, confuse us and contribute to multiple levels of damage done.

Friend or foe, behavioral biases are a formidable force. Even once you know they're there, you'll probably still experience them. It's what your brain does with the chemically induced instincts that fire off in your head long before your higher functions kick in. They trick us into wallowing in what financial author and neurologist William J. Bernstein, MD, PhD, describes as a "Petrie dish of financially pathologic behavior," including:

- **Counterproductive trading –** incurring more trading expenses than are necessary, buying when prices are high and selling when they're low.
- **Excessive risk-taking –** rejecting the "risk insurance" that global diversification provides, instead over-concentrating in recent winners and abandoning recent losers.
- **Favoring emotions over evidence –** disregarding decades of evidence-based advice on investment best practices.

What Can We Do About Them?

In this multi-part series entitled "ABCs of Behavioral Biases," we'll offer an alphabetic introduction to investors' most damaging behavioral biases, so you can more readily recognize and defend against them the next time they're happening to you.

Here are a few additional ways you can defend against the behaviorally biased enemy within:

- **Anchor your investing in a solid plan –** By anchoring your trading activities in a carefully constructed plan (with predetermined asset allocations that reflect your personal goals and risk tolerances), you'll stand a much better chance of overcoming the bias-driven distractions that rock your resolve along the way.
- **Don't go it alone –** Just as you can't see your face without the benefit of a mirror, your brain has a difficult time "seeing" its own biases. Having an objective advisor well-versed in behavioral finance, dedicated to serving your highest financial interests, and unafraid to show you what you cannot see for yourself is

among your strongest defenses against all of the biases we'll present throughout the rest of this series.

As you learn and explore, we hope you'll discover: You may be unable to prevent your behavioral biases from staging attacks on your financial resolve. But, forewarned is forearmed. You stand a much better chance of thwarting them once you know they're there! ●

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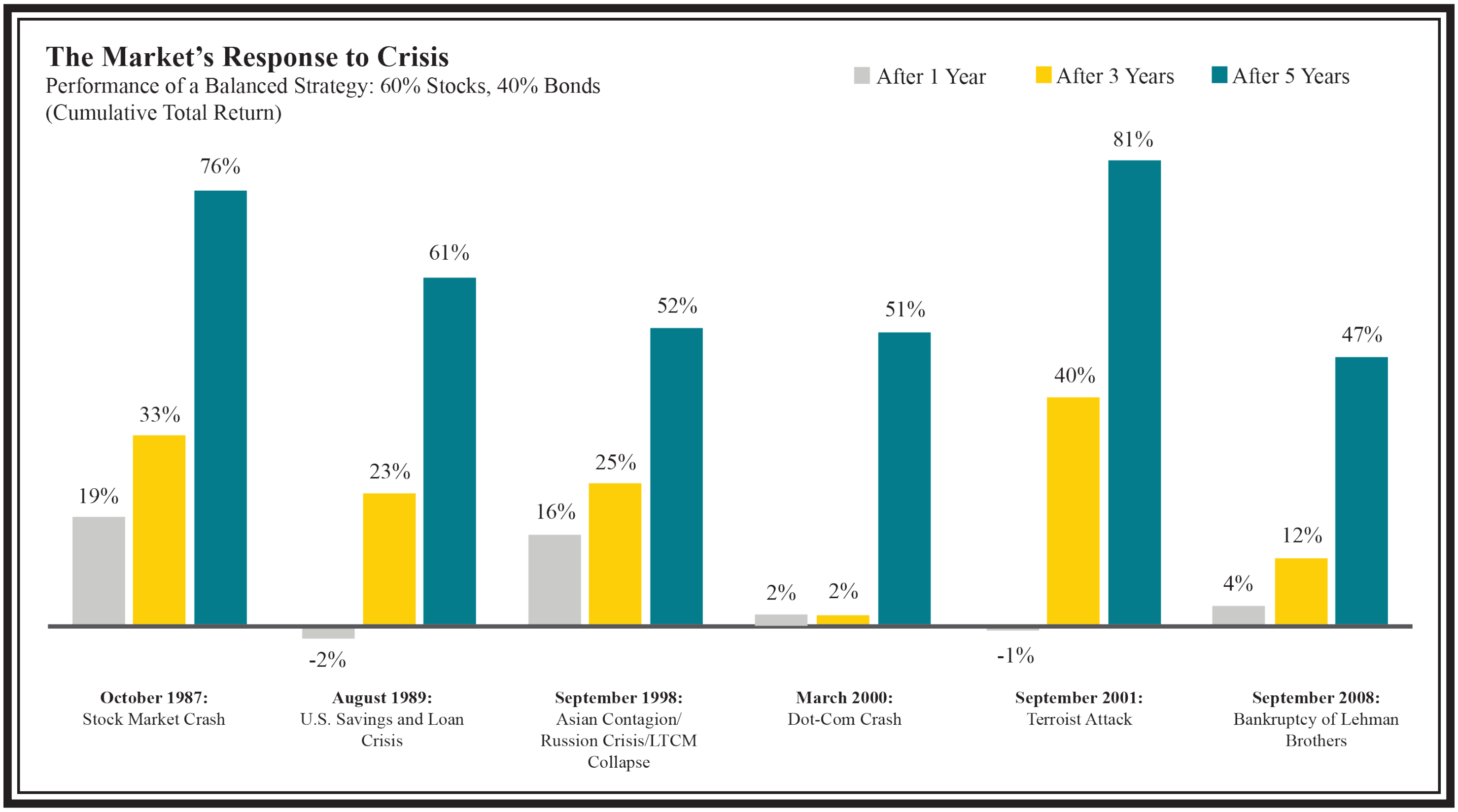
perspective, appropriate diversification, and an asset allocation that aligns with their risk tolerance and goals can help investors remain disciplined enough to ride out the storm. A financial advisor can play a critical role in helping to work through these issues and in counseling investors when things look their darkest.

CONCLUSION

In the mind of some investors, there is always a "crisis of the day" or potential major event looming that could mean the beginning of the next drop in markets. As we know, predicting future events correctly, or how the market will react to future events, is a difficult exercise. It is important to understand, however, that market volatility is a part of investing. To enjoy the benefit of higher potential returns, investors must be willing to accept increased uncertainty. A key part of a good long-term investment experience is being able to stay with your investment philosophy, even during tough times. A well-thought-out, transparent investment approach can help people be better prepared to face uncertainty and may improve their ability to stick with their plan and ultimately capture the long-term returns of capital markets. ●

[1] wsj.com/articles/SB122169431617549947.
[2] washingtonpost.com/wp-dyn/content/article/2008/09/17/AR2008091700707.html.
[3] nytimes.com/2008/09/30/business/30markets.html.



In US dollars. Represents cumulative total returns of a balanced strategy invested on the first day of the following calendar month of the event noted. Balanced Strategy: 12% S&P 500 Index,12% Dimensional US Large Cap Value Index, 6% Dow Jones US Select REIT Index, 6% Dimensional International Marketwide Value Index, 6% Dimensional US Small Cap Index, 6% Dimensional US Small Cap Value Index, 3% Dimensional International Small Cap Index, 3% Dimensional International Small Cap Value Index, 2.4% Dimensional Emerging Markets Small Index, 1.8% Dimensional Emerging Markets Value Index, 1.8% Dimensional Emerging Markets Index, 10% Bloomberg Barclays Treasury Bond Index 1-5 Years, 10% Citigroup World Government Bond Index 1-5 Years (hedged), 10% Citigroup World Government Bond Index 1-3 Years (hedged), 10% BofA Merrill Lynch 1-Year US Treasury Note Index. The S&P data are provided by Standard & Poor's Index Services Group. The Merrill Lynch Indices are used with permission; copyright 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Citigroup Indices used with permission, © 2017 by Citigroup. Bloomberg Barclays data provided by Bloomberg. For illustrative purposes only. Dimensional indices use CRSP and Compustat data. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Not to be construed as investment advice. Rebalanced monthly. Returns of model portfolios are based on back-tested model allocation mixes designed with the benefit of hindsight and do not represent actual investment performance.

Global Wealth Advisors LLC
200 East Big Beaver Road • Troy, MI 48083 • Phone: 248-457-4555 • www.gwallc.com
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