



BILL OAKES EA, CFP®

BILL OAKES, EA, CFP®
175 Bernal Road #20
San Jose, CA 95119
408-703-5777
bill@oakesfp.com
http://www.oakesfp.com

Best wishes to all for a Happy, Healthy and Prosperous 2016!

With the new year, there are always resolutions..... set achievable goals for your resolutions. You want to test yourself and stretch to achieve your goals, but unrealistic goals with unrealistic time periods for attainment will most likely be missed; resulting in disappointment and hesitancy to re-attempt the goal attainment. So, the recommendation is to make a prioritized list of resolutions and set reasonable target dates to accomplish each one. As many of you know from your professional careers, the BIG projects are broken into a series of smaller projects or steps.

One of my projects in the next two weeks is to prepare the Tax Organizers for my tax clients. These will be in your accounts at www.smartvault.com. You will receive notifications from www.smartvault.com about accessing the files. When you have collected your tax data and are ready to proceed with the preparation, please let me know.

Best wishes for a great 2016. Now, go get 'em!

Bill

January 2016

Assessing Portfolio Performance: Choose Your Benchmarks Wisely

Are There Gaps in Your Insurance Coverage?

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions

I'm thinking about storing financial documents in the cloud. What should I know?

Assessing Portfolio Performance: Choose Your Benchmarks Wisely



You can't help but hear about the frequent ups and downs of the Dow Jones Industrial Average or the S&P 500 index. The performance of both major indexes is widely reported and analyzed in detail by

financial news outlets around the nation.

Like the Dow, the S&P 500 tracks the stocks of large domestic companies. With 500 stocks compared to the Dow's 30, the S&P 500 comprises a much broader segment of the stock market and is considered to be representative of U.S. stocks in general. Both indexes are generally useful tools for tracking stock market trends, but some investors mistakenly think of them as benchmarks for how well their own portfolios should be doing.

However, it doesn't make much sense to compare a broadly diversified, multi-asset portfolio to just one of its own components. Expecting portfolio returns to meet or beat "the market" is usually unrealistic, unless you are willing to expose 100% of your life savings to the risk and volatility associated with stock investments.

Asset allocation: It's personal

Just about every financial market in the world is tracked by one or more indexes that investors can use to look at current and historical performance. In fact, there are hundreds of indexes based on a wide variety of asset classes (stocks/bonds), market segments (large/small cap), and styles (growth/value).

Investor portfolios are typically divided among asset classes that tend to perform differently under different market conditions. An appropriate mix of stocks, bonds, and other investments depends on the investor's age, risk tolerance, and financial goals.

Consequently, there may or may not be a single benchmark that matches your actual holdings and the composition of your individual portfolio. It could take a combination of several benchmarks to provide a meaningful performance picture.

Keep the proper perspective

Seasoned investors understand that short-term results may have little to do with the effectiveness of a long-term investment strategy. Even so, the desire to become a more disciplined investor is often tested by the arrival of quarterly or annual financial statements.

The main problem with making decisions based on last year's performance figures is that asset classes, market segments, or industries that do well during one period don't always continue to perform as well. When an investment experiences dramatic upside performance, it may mean that much of the opportunity for market gains has already passed. Conversely, moving out of an investment when it has a down year could mean you are no longer in a position to benefit when that segment starts to recover.

On the other hand, portfolios that are left unattended may drift and begin to take on too much risk or become too conservative. Rebalancing periodically could help bring your asset mix back in line with your preferred allocation.

There's really nothing you can do about global economic conditions or the level of returns delivered by the financial markets, but you can control the composition of your portfolio. Evaluating investment results through the correct lens may help you make appropriate adjustments and effectively plan for the future.

Note: *Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security, and individuals cannot invest directly in an index. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments that seek a higher return tend to involve greater risk. Rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.*

Are There Gaps in Your Insurance Coverage?



If you own a condo, your association's property insurance may leave gaps in coverage. For example, most association insurance doesn't cover your furniture, wall coverings, electronics, interior walls, and structural improvements made to the interior of your unit. Review your condo documents, particularly the association's master deed, its by-laws, rules and regulations, which may describe those parts of your unit the association insurance covers, and which parts you may need to insure.



Buying insurance is about sharing or shifting risk. For example, health insurance will cover some of the cost of medical care. Homeowners insurance will assume some of the risk of loss in the event your home is damaged or destroyed. But oftentimes we think we're covered for specific losses when, in fact, we're not. Here are some common coverage gaps to consider when reviewing your own insurance coverage.

Life insurance

In general, you want to have enough life insurance coverage (when coupled with savings and income) to allow your family to continue living the lifestyle to which they're accustomed. But changing circumstances may leave a gap in your life insurance coverage.

For example, if you have life insurance through your employer, changing jobs could affect your insurance coverage. You may not have the same amount of insurance, or the policy provisions may differ. Whereas your prior employer may have provided permanent life insurance, now you may have term insurance that will expire on a predetermined date. Review your income, savings, and expenses annually and compare them to your insurance coverage, and be mindful that changing circumstances may require a change in the amount of insurance coverage.

Homeowners insurance

It's not always clear from reading your homeowners policy which perils are covered and how much damage will be paid for. It's important to know what your homeowners policy covers and, more important, what it doesn't cover.

You might think your insurer would pay the full cost to replace your home if it were destroyed by a covered occurrence. But many policies place a cap on replacement cost up to the face amount stated on the policy. You may want to check with a building contractor to get an idea of the replacement cost for your home, then compare it to your policy to be sure you have enough coverage.

Even if your policy states that "all perils" are covered, most policies carve out many exceptions or exclusions to this general provision. For example, damage caused by floods, earthquakes, and hurricanes may be covered only by special addendums to your policy, or in some cases by separate insurance

policies altogether. Also, your insurer may not cover the extra cost of rebuilding attributable to more stringent building codes, or your policy may limit how much and how long it will pay for temporary housing while repairs are made.

To avoid these gaps in coverage, review your policy annually with your insurer. Also, pay attention to notices you may receive. What may look like boilerplate language could actually be significant changes to your coverage. Don't rely on your interpretations--seek an explanation from your insurer or agent.

Auto insurance

Which drivers and what vehicles are covered by your auto insurance? Most policies provide coverage for you and family members residing with you, but it's not always clear-cut. For instance, a child who is living in a college dorm is probably covered, but a child who lives in an off-campus apartment might be excluded from coverage. If you and your spouse divorce, which policy insures your children, particularly if they are living with each parent at different times of the year? Notify your insurer about any change in living arrangements to avoid a gap in coverage.

Other gaps include no coverage for damaged batteries, tires, and shocks. And you might not be covered for stolen or damaged cell phones or other electronic devices. Your policy may also limit the amount paid for a rental while your vehicle is being repaired.

In fact, insurance coverage for rental cars may also pose a problem. For instance, your own collision coverage may apply to the rental car you're driving, but it may not pay for all the damage alleged by a rental company, such as loss of use charges. If you're leasing a car long term, your policy may cover the replacement cost only if the car is a total loss or is stolen. But that amount may not be enough to pay for the outstanding balance of your lease. Gap insurance can cover any difference between what your insurer pays and the balance of your lease.

Policy terms and conditions aren't always easily understood, and you may not be sure what's covered until it's time to file a claim. So review your insurance policy to be sure you've filled all the gaps in your coverage.

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions



In psychology, "heuristics" refers to the mental decision-making short-cuts that individuals develop over time based on past experiences. While heuristics can be helpful in avoiding unnecessary deliberation, they can also lead to misleading biases that can derail even the most well-thought-out financial plan.

Traditional economic models are based on a simple premise: people make rational financial decisions that are designed to maximize their economic benefits. In reality, however, most humans don't make decisions based on a sterile analysis of the pros and cons. While most of us do think carefully about financial decisions, it is nearly impossible to completely disconnect from our "gut feelings," that nagging intuition that seems to have been deeply implanted in the recesses of our brain.

Over the past few decades, another school of thought has emerged that examines how human psychological factors influence economic and financial decisions. This field--known as behavioral economics, or in the investing arena, behavioral finance--has identified several biases that can unnerve even the most stoic investor. Understanding these biases may help you avoid questionable calls in the heat of the financial moment.

Sound familiar?

Following is a brief summary of some common biases influencing even the most experienced investors. Can you relate to any of these?

1. **Anchoring** refers to the tendency to become attached to something, even when it may not make sense. Examples include a piece of furniture that has outlived its usefulness, a home or car that one can no longer afford, or a piece of information that is believed to be true, but is in fact, false. In investing, it can refer to the tendency to either hold an investment too long or place too much reliance on a certain piece of data or information.
2. **Loss-aversion bias** is the term used to describe the tendency to fear losses more than celebrate equivalent gains. For example, you may experience joy at the thought of finding yourself \$5,000 richer, but the thought of losing \$5,000 might provoke a far greater fear. Similar to anchoring, loss aversion could cause you to hold onto a losing investment too long, with the fear of turning a paper loss into a real loss.
3. **Endowment bias** is also similar to loss-aversion bias and anchoring in that it encourages investors to "endow" a greater value in what they currently own over other possibilities. You may presume the investments in your portfolio are of higher quality than other available alternatives, simply because you own them.
4. **Overconfidence** is simply having so much confidence in your own ability to select investments for your portfolio that you might

ignore warning signals.

5. **Confirmation bias** is the tendency to latch onto, and assign more authority to, opinions that agree with your own. For example, you might give more credence to an analyst report that favors a stock you recently purchased, in spite of several other reports indicating a neutral or negative outlook.
6. The **bandwagon effect**, also known as **herd behavior**, happens when decisions are made simply because "everyone else is doing it." For an example of this, one might look no further than a fairly recent and much-hyped social media company's initial public offering (IPO). Many a discouraged investor jumped at that IPO only to sell at a significant loss a few months later. (Some of these investors may have also suffered from overconfidence bias.)
7. **Recency bias** refers to the fact that recent events can have a stronger influence on your decisions than other, more distant events. For example, if you were severely burned by the market downturn in 2008, you may have been hesitant about continuing or increasing your investments once the markets settled down. Conversely, if you were encouraged by the stock market's subsequent bull run, you may have increased the money you put into equities, hoping to take advantage of any further gains. Consider that neither of these perspectives may be entirely rational given that investment decisions should be based on your individual goals, time horizon, and risk tolerance.
8. A **negativity bias** indicates the tendency to give more importance to negative news than positive news, which can cause you to be more risk-averse than appropriate for your situation.

An objective view can help

The human brain has evolved over millennia into a complex decision-making tool, allowing us to retrieve past experiences and process information so quickly that we can respond almost instantaneously to perceived threats and opportunities. However, when it comes to your finances, these gut feelings may not be your strongest ally, and in fact may work against you. Before jumping to any conclusions about your finances, consider what biases may be at work beneath your conscious radar. It might also help to consider the opinions of an objective third party, such as a qualified financial professional, who could help identify any biases that may be clouding your judgment.

BILL OAKES EA, CFP®

BILL OAKES, EA, CFP®

175 Bernal Road #20

San Jose, CA 95119

408-703-5777

bill@oakesfp.com

http://www.oakesfp.com

IMPORTANT DISCLOSURES

All written content on this site is for information purposes only. Opinions expressed herein are solely those of Bill Oakes EA, CFP®. Material presented is believed to be from reliable sources and we make no representations as to its accuracy or completeness. All information and ideas should be discussed in detail with your individual advisor prior to implementation.

Fee-only financial planning and investment advisory services are offered through Bill Oakes EA, CFP®, a registered investment advisory firm in the state of California. This newsletter shall in no direct or indirect way be construed or interpreted as a solicitation to sell or offer to sell investment advisory services to any residents of any state other than the state of California or where otherwise legally permitted. We are legally empowered to provide investment advisory services to residents of California.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.



I'm thinking about storing financial documents in the cloud. What should I know?

Cloud storage—using Internet-based service providers to store digital assets such as books, music, videos, photos, and even important documents including financial statements and contracts—has become increasingly popular in recent years. But is it right for you?

Opinions vary on whether to store your most sensitive information in the cloud. While some experts say you should physically store items you're not willing to lose or expose publicly, others contend that high-security cloud options are available.

If you're thinking about cloud storage for your financial documents, consider the following:

- Evaluate the provider's reputation. Is the service well known, well tested, and well reviewed by information security experts?
- Consider the provider's own security and redundancy procedures. Look for such features as two-factor authentication and complex password requirements. Does it have copies of your data on servers at multiple geographic locations, so that a

disaster in one area won't result in an irretrievable loss of data?

- Review the provider's service agreement and terms and conditions. Make sure you understand how your data will be protected and what recourse you have in the event of a breach or loss. Also understand what happens when you delete a file—will it be completely removed from all servers? In the event a government subpoena is issued, must the service provider hand over the data?
- Consider encryption processes, which prevent access to your data without your personal password (including access by people who work for the service provider). Will you be using a browser or app that provides for data encryption during transfer? And once your data is stored on the cloud servers, will it continue to be encrypted?
- Make sure you have a complex system for creating passwords and never share your passwords with anyone.



What's the best way to back up my digital information?

In writing or speaking, redundancy is typically not recommended unless you're really trying to drive a point home. When it comes to your digital life, however, redundancy is not only recommended, it's critical.

Redundancy is the term used to refer to data backups. If you have digital assets that you don't want to risk losing forever—including photos, videos, original recordings, financial documents, and other materials—you'll want to be sure to back them up regularly. And it's not just materials on your personal computer, but your mobile devices as well. Depending on how much you use your devices, you may want to back them up as frequently as every few days.

A good rule to follow is the 3-2-1 rule. This rule helps reduce the risk that any one event—such as a fire, theft, or hack—will destroy or compromise both your primary data and all your backups.

1. Have at least three copies of your data. This means a minimum of the original plus two backups. In the world of computer redundancy, more is definitely better.

2. Use at least two different formats. For example, you might have one copy on an external hard drive and another on a flash drive, or one copy on a flash drive and another using a cloud-based service.
3. Ensure that at least one backup copy is stored offsite. You could store your external hard drive in a safe-deposit box or at a trusted friend or family member's house. Cloud storage is also considered offsite.

If a cloud service is one of your backup tactics, be sure to review carefully its policies and procedures for security and backup of its servers. Another good idea is to encrypt (that is, create strong passwords that only you know) to protect sensitive documents and your external drives.

So at the risk of sounding redundant (or driving the point home?), a good rule for data backup is to have at least three copies on at least two different formats, with at least one copy stored offsite. And more is always better.