Seide Financial Group

Strategies for Generations

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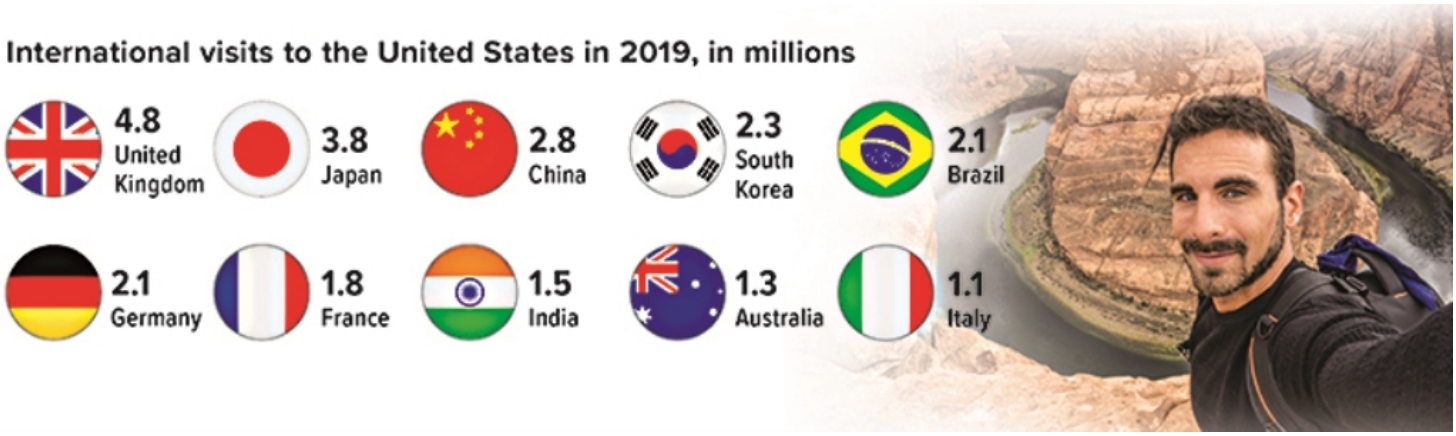
Be excited the summer months and warmest days are here! We all have been working tirelessly to maintain our best mindset through these unprecedented times. Share the love and spread the joy on this Independence Day. Happy Fourth of July!

-Steve, Dawn, Edwina, Todd, and Michael

Foreign Tourists

More than 79 million foreign tourists visited the United States in 2019, adding $254 billion to the U.S. economy. Residents of Canada and Mexico accounted for almost half of the total, while the countries below were the top 10 sources of overseas visitors. Travel restrictions and lockdowns due to COVID-19 have severely disrupted the flow of foreign tourists in 2020. It's too early to know the full extent of the damage to the tourism sector, but the effects may continue for some time after the virus is controlled.



Source: National Travel and Tourism Office, 2020

Investor Psychology: Behavioral Biases That Can Lead to Costly Mistakes

The field of behavioral finance focuses on the emotional and cognitive aspects of investing. In recent decades, well-known economists have advanced the theory that investors' decisions can be driven by human emotions such as greed and fear, which helps explain why asset prices sometimes fluctuate erratically.[1]

It can be difficult to act rationally when your financial future is at stake, especially when unexpected events upset the markets. But understanding certain aspects of human nature, and your own vulnerabilities, might help you stay levelheaded in the heat of the moment.

Every investment decision should take your financial goals, time horizon, and risk tolerance into account. That's why it's important to slow down and try to consider all relevant factors and possible outcomes.

Here are six behavioral biases, which could also be called mental shortcuts or blind spots, that might lead you to make regrettable portfolio decisions.

1. Herd mentality. Many people can be convinced by their peers to follow trends, even if it's not in their own best interests. When investors chase returns and follow the herd into "hot" investments, it can drive up prices to unsustainable levels and create asset bubbles that eventually burst. Joining the crowd and fleeing the stock market after it falls, and/or waiting too long (until prices have already risen) to reinvest, could harm your long-term portfolio returns.

2. Availability bias. People tend to base their judgments on information that immediately comes to mind. This could cause you to miscalculate risks or expected returns. In the same way that watching a movie about sharks can make it seem more dangerous to swim in the ocean, a recent news article can shape how you perceive the quality of an investment opportunity.

3. Confirmation bias. People also have a tendency to search out and remember information that confirms, rather than challenges, their current beliefs. If you have a good feeling about a certain investment, you may be more likely to ignore critical facts and focus on data that supports your opinion.

4. Overconfidence. Some individuals overestimate their skills, knowledge, and ability to predict probable outcomes. When it comes to investing, overconfidence may cause you to trade excessively and/or downplay potential risks.

5. Loss aversion. Many investors dislike losses much more than they enjoy gains. Because it actually feels bad to experience a financial loss, you might avoid selling an investment that would realize a loss, even though it might be an appropriate course of action. An intense fear of losing money may even be paralyzing.

Market Moods

Retirees and higher-net-worth investors were more likely than other groups to say that their daily mood is sensitive to changes in their investment portfolios. The following chart illustrates the percentage of U.S. investors who say the performance of their investments affects their daily mood (a little or a lot).

Source: Gallup, 2019

6. Anchoring effect. When making decisions, people often depend heavily on the first information they receive, then adjust from that starting point based on new data. For investors, this translates into placing too much emphasis on an initial value (or purchase price) or on recent market performance. Investors who were "anchored" to the financial crisis may still be fearful of the stock market, even after years of strong returns. Another investor who has only experienced years of gains might be inclined to take on too much risk.

Even the most experienced investors can fall into these psychological traps. Having a long-term perspective and a thoughtfully crafted investing strategy may help you avoid expensive, emotion-driven mistakes. It might also be wise to consult an objective third party, such as a qualified financial professional, who can help you detect any biases that may be clouding your judgment.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Although there is no assurance that working with a financial professional will improve investment results, a financial professional can provide education, identify strategies, and help you consider options that could have a substantial effect on your long-term financial prospects.

1) "From Efficient Markets Theory to Behavioral Finance," *Journal of Economic Perspectives* , Winter 2003

Portfolio Performance: Choose Your Benchmarks Wisely

Dramatic market turbulence has been common in 2020, and 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 these major indexes is widely reported and analyzed in detail by financial news outlets around the nation.

Both the Dow and the S&P 500 track the stocks of large domestic companies. But with about 500 stocks compared to the Dow's 30, the S&P 500 comprises a much broader segment of the market and is considered to be representative of U.S. stocks in general. These indexes are useful tools for tracking stock market trends; however, some investors mistakenly think of them as benchmarks for the performance of their own portfolios

It doesn't make 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" in good times is usually unrealistic, unless you are willing to expose 100% of your savings to the risk and volatility associated with stock investments. On the other hand, if you have a well-diversified portfolio, you might be happy to see that your portfolio doesn't lose as much as the market when stocks are falling.

Asset Allocation: It's Personal

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 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. There are hundreds of indexes based on a wide variety of markets (domestic/foreign), asset classes (stocks/bonds), market segments (large cap/small cap), styles (growth/value), and other criteria.

The desire to become a more disciplined investor is often tested by the arrival of your account statements.

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 your account statements.

Making decisions based on last year's — or last month's — performance figures may not be wise, because asset classes, market segments, and industries do not always perform the same from one period to the next. When an investment experiences dramatic upside performance, much of the opportunity for market gains may have already passed. Conversely, moving out of an investment when it has a down period could take you out of a position to benefit when that market segment starts to recover.

There's 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 plan effectively for the future.

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.

Debit or Credit? Pick a Card

Americans use debit cards more often than credit cards, but they tend to use credit cards for higher-dollar transactions. The average value of a debit-card transaction in 2018 was just $36, while credit-card transactions averaged $89.[1]

This usage reflects fundamental differences between the two types of cards. A debit card acts like a plastic check and draws directly from your checking account, whereas a credit-card transaction is a loan that remains interest-free only if you pay your monthly bill on time. For this reason, people may use a debit card for regular expenses and a credit card for "extras." However, when deciding which card to use, you should be aware of other differences.

Fraud protection. In general, you are liable for no more than $50 in fraudulent credit-card charges. For debit cards, a $50 limit applies only if a lost card or PIN is reported within 48 hours. The limit is $500 if reported within 60 days, with unlimited liability after that. A credit card may be safer in higher-risk situations, such as when shopping online, when the card will leave your sight (as in a restaurant), or when you are concerned about the security of a card reader. If you regularly use a debit card in these situations, you may want to maintain a lower checking balance and keep most of your funds in savings.

Merchant disputes. You can dispute a credit-card charge before paying your bill and shouldn't have to pay it while the charge is under dispute. Disputing a debit-card charge can be more difficult when the charge has been deducted from your checking account, and it may take some time before the funds are returned.

Rewards and extra benefits. Debit cards offer little or no additional benefits, whereas some credit cards offer cash-back rewards, and major cards may include extra benefits such as travel insurance, extended warranties, and secondary collision and theft coverage for rental cars (up to policy limits). Of course, if you do not pay your credit-card bill in full each month, the interest you pay can outweigh any financial rewards or benefits.

Credit history. Using a credit card can affect your credit score positively or negatively, depending on how you use it. A debit card does not affect your credit score.

Considering the additional protections and benefits, a credit card may be a better choice in some situations — but only if you pay your monthly bill on time.

1) Federal Reserve, 2019