FALL 2018

SUMMIT PERSPECTIVE

SUMMIT
FINANCIAL GROUP, LLC

FEAR AND GREED – INVESTOR PSYCHE 10 YEARS AFTER THE GREAT RECESSION

It is hard to believe a decade has passed since the Great Recession of 2008. It seems like mere months ago we were coaching people off the ledge regarding their investments, imploring them to stick to their strategy despite the sell-off. Many of you lived it … and you remember!

Walking down memory lane in preparation for this article was eye-opening, because it is easy to forget the sheer volume of events that occurred in just a few months. By late 2007, it was obvious something was wrong with the subprime mortgage market. While the stock market hit an all-time high in October of 2007, pundits began to opine the housing market would face some difficulty and many borrowers obtaining mortgages without income documentation might default. What wasn't known, however, was how many of those poorly underwritten mortgages had been packaged and sold off in security form (after being blessed as a good credit risk by ratings agencies) and held by virtually every financial institution on earth. That's when the spaghetti really hit the fan.

In the Spring of 2008, Bear Stearns effectively failed and was folded into JPMorgan Chase for pennies on the dollar. IndyMac bank failed in the summer, and by September of 2008, things had reached a crescendo. Over the ensuing fortnight we saw the unthinkable unfold:

- Fannie Mae and Freddie Mac went into government conservatorship by the U.S. Treasury as a full 30% of their mortgages were considered "underwater"[1].
- Bank of America purchased venerable Merrill Lynch lest it become the next Bear Stearns.
- Lehman Brothers went bankrupt, becoming the largest bankruptcy case in U.S. history at $619 billion in debts[1].
- The U.S. Government had to bail out insurance giant AIG to prevent a complete collapse of the global financial system.
- The U.S. Government instituted the first of two public bail-out plans, committing over a trillion dollars of taxpayer money to take stakes in many of the largest financial institutions.

While September of 2008 was the heart of the crisis, things continued to deteriorate into the spring of 2009 with General Motors declaring bankruptcy, several more banks and the auto industry being bailed out, and the government investing billions of dollars into hundreds of financial institutions[2].

Understandably, the stock market performed a swan dive in parallel with the unraveling of the financial crisis.

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INSIDE THIS EDITION

I learned that courage was not the absence of fear, but the triumph over it. The brave man is not he who does not feel afraid, but he who conquers that fear.

– Nelson Mandela

KUDOS!
Rachael Kepke

Each quarter, Summit recognizes one team member who receives the most kudos from their peers and managers for going the extra mile. The winner receives $1,000 to donate to the charity of his or her choice. Congratulations to Rachael Kepke, Manager of Financial Planning and Professional Services, as the recipient of this quarter's Kudos award!

Rachael: **I am choosing the Sonoma County Resilience Fund (part of Community Foundation Sonoma County) as my charity for this reason:**

My sister and her family live in the Santa Rosa area that was devastated by the Tubbs wildfire in October of 2017. While they were part of the lucky group who did not lose their homes, the entire area is still feeling the effect of the fires. Rebuilding takes years, and continual support from the community and this fund helps to ensure that support remains in place for as long as the people of Sonoma County need it.

To learn more about this organization, visit www.sonomacf.org.

— Rachael Kepke

SUMMIT UNIVERSITY
Upcoming Courses and Workshops …

Introducing a new addition to the financial literacy roster:

WEALTH CREATION TODAY – A PERSONAL FINANCE COURSE FOR PROFESSIONALS

Nearly every successful professional could benefit from increased financial fluency. Whether you are a corporate veteran, business owner, high-powered consultant, or independently wealthy, **Wealth Creation Today** uses a comprehensive, unbiased approach to deliver rewards over a lifetime that you can use to set the foundations of your legacy.

Come together with your peers for an insightful approach to building the personalized tools and strategies necessary for a lifetime of informed decisions.

RETIREMENT PLANNING TODAY

This course addresses financial issues that pertain to the self-employed as well as employees of corporations and government agencies. Whether you plan to retire 20 years from now or have just recently retired, the information you'll learn in this class can deliver rewards throughout your lifetime.

REJUVENATE YOUR RETIREMENT

This course explains financial strategies designed to accomplish objectives such as tax-efficient income planning generation, lifestyle preservation and providing a legacy. We also integrate fun and fulfilling activities such as travel, hobbies, sports, business ventures and lifelong learning into the discussion to help you make the most of your retirement.

SECOND SATURDAY DIVORCE WORKSHOPS

Contemplating or going through a divorce? Come to this monthly session led by an attorney, therapist and financial advisor and develop a strategy for future emotional and financial success.

Get more information and sign up for classes through the Summit University page on our website: **summitadvisors.com/education/university/** OR call 925-866-7800.

FEAR AND GREED *Continued from Page 1*

From its high of 1,565 in July of 2007, the S&P 500 plunged 57% to a trough of 676 in March of 2009[3]. Many investors panicked out of the market, and many more stopped investing even if they managed to leave their existing portfolio invested. Despite these events, the world failed to end, and the market turned (as every downturn in our market history has before it). The market bottomed in March of 2009, and as of September 2018 the S&P 500 was up a whopping 430% from the turning point!

Fear Takes Over

Unfortunately, many people did not participate in the recovery the way they should have. A Fidelity study of 1.5 million 401(k) participants and 5 million IRA holders from 2007-2017 revealed that investors that panicked out of stocks during 2008-2009 had increased their account balances on average by 157% by the end of 2017. However, those who left their investments alone and stayed the course on their savings plan had increased their balances by 240%[4]! Why the difference, you ask? Investor psyche, plain and simple. The emotion of fear took over the minds of those investors and they sat on the sidelines as the market began to recover. Eventually they got back in, but they could never catch up to the growth of the investors who stayed the course.

In fact, fear has been the predominant investor emotion for the last decade despite the market's impressive upward run. Fund flow data from the Investment Company Institute shows that from 2008-2018 money was leaving stock mutual funds far more often than it was pouring into them[5]. At moments of negative news, investors consistently exited their equity portfolios as they worried. Anecdotally, we have been asked, "When do you think the market will crash?" more times than we can count in the last few years. People seemed emotionally scarred from 2008, and the hangover lasted almost a decade. Yet, as the economy steadily improved, the market continued to climb the wall of worry to our present level – at almost double the 2007 market peak.

Will Greed Return?

As we sit at new market highs, we wonder if investor sentiment is about to shift from fear to FOMO (fear of missing out). While the overall stock market consists of far more than the Dow Jones Industrial Average, and the S&P 500, those are the indices most quoted in the media, making them top of mind for investors. Currently, the 10-year average return for the S&P 500 (2008-2017) is slightly above 6%, a rather pedestrian number in light of the fantastic growth following the market bottom in 2009[3]. It is all about when you measure. Hypothetically, if the S&P 500 finishes 2018 at the current level, the 10-year return starting January 1, 2009 through 2018 is likely to be well over 12%. This could significantly shift investor expectations for the returns of equities.

Furthermore, 2018 is shaping up to be a year where a fully diversified portfolio might underperform the S&P 500. There has been a large divergence between U.S. and international markets this year, and fixed income has struggled in light of rising interest rates. Based on the fear that they are missing out on bigger gains, investors might be tempted to ask: "Should we get more aggressive?" or "Are we too diversified?" The randomness of historical returns suggests that diversification is still prudent, but the pull of the investor mind is strong, and FOMO can sometimes be more powerful than fear of loss.

Don't be afraid to discuss this with your advisor in the months ahead. Diversification means that you will never be exclusively in the best-performing asset classes and talking through those results is our professional responsibility. We believe diversification is still prudent, and that your financial plan and your cash flow needs should be the ultimate drivers of your portfolio. Remember history, but do not succumb to fear of the next downturn, or to FOMO on the next great thing. A calm mind and a slow pulse are the hallmarks of the successful lifetime investor.

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[1] www.history.com/topics/21st-century/great-recession-timeline

[2] Timeline of financial crisis provided by St Louis Fed Financial Crisis Timeline.

[3] S&P 500 data provided by Ycharts historical data

[4] Fidelity study of defined contribution plan participants active from 2007-2017.

[5] Yardeni research on Investment Company Institute Fund Flows.

OUR 16TH ANNUAL GOLF TOURNAMENT TEES OFF AGAINST CANCER

That's a wrap on the 2018 Summit Charity Golf Tournament!

It was another beautiful day on the green as 109 golfers gathered at the Ruby Hill Golf Club to raise money for **Lazarex Cancer Foundation.**

The golf portion of the day began with SuperTicket scratch-offs and a putting contest and ended that evening with a beer and wine reception, followed by dinner and a heartfelt presentation from Lazarex Development Manager, Erin Miller. Erin's husband Mike was diagnosed with pancreatic cancer in 2003 when he was 44 years old. She told us the story of his journey and that of their family as he struggled to survive after his doctors gave up hope and prepared him to die. With the help of her sister-in-law and their community, they were able to raise money for Mike to participate in a clinical trial that ultimately gave him 19 more months with his three small children and inspired the launch of Lazarex.

The evening concluded with our silent auction where the highest bidders went home with trips to Tahoe and Arizona, a signed jersey from Warrior Kevin Durant, a tour of Napa, lots of wine and more!

It's always an inspiring time as our golfers, volunteers, guests, and sponsors rally to support a deserving cause, especially one that does so much to bring hope to cancer patients as well as the means in which to pursue life-extending treatment. We are pleased to share that together we were able to raise more than $43,000, which means Lazarex will be able to help more patients connect with the clinical trials that may give them more time with their loved ones.

We are grateful for the participation, donations and goodwill of all of you – our valued clients, friends, family and sponsors. We hope to see you again next year!

To view photos of the big day, please visit our website: **summitadvisors.com**

STAFF SPOTLIGHT

Kim Damiani, CFP® – Financial Advisor

Kim works with successful professionals, families, and the owners of privately held companies as they pursue financial independence. Solving the retirement puzzle and building strategies to help people reach their goals is the foremost aim of Kim's practice. Providing clarity and relieving anxiety around a client's financial future is her favorite part of the job. In pursuit of that goal, she has a passion for educating women about finance and helping them take charge of their financial future. She joins Summit from the Pleasanton-based Wealth Management Associates where she began her career after graduating from California Polytechnic State University-San Luis Obispo. Kim is active in the East Bay community. She plays an active role in the Pleasanton Chamber of Commerce, and in 2017 she received the Carol Bush Award for Outstanding Leadership in Philanthropy.

Connor Merrigan – Financial Planning Associate

A numbers guy at heart, Connor has a knack for sifting through financial data to create polished financial plans for our clients. He brings with him a broad background in equity research from his previous work as a financial analyst. He also brings along a strong understanding of small business planning gained from years of working for his father's general contracting company. Since then, his motivation has shifted from helping investment boards to helping Summit clients plan their financial independence. Born and raised in the East Bay, Connor attended San Jose State University where he received a Bachelor of Science in Finance. He currently resides in Pleasanton. On the weekends, Connor enjoys mountain biking, hiking the many trails in our backyard, and spending time on the golf course improving his drive.

CONTACT US

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