Davenport Watts & Drake

Investment Advisors, LLC

Investments • Financial Plans • 401(k) Plans

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Financial Peace of Mind

Many people do not make financial and investment decisions dispassionately. That's when emotions cloud reasoning, and people tend to make the most behavioral mistakes. Understanding these behavioral mistakes is crucial to achieving financial security.

Trying to pick the winners – When investing, do you spend your time looking for the top performing mutual funds in hopes of jumping on the train to riches? Very rarely does a top performing mutual fund repeat its winning performance.

Following the herd – In investing, many people have a fear of being left behind, which is why folks tend to follow the herd in times of stock market exuberance or panic. Almost invariably, this leads to buying near the top of the market or selling near the bottom.

Trying to avoid risk – Many of the mistakes people make are a result of their lack of understanding the role risk plays in investing. Without risk, there is no return; and, without returns, achieving financial security is almost impossible. If you think you are avoiding risk by avoiding the stock market, you are actually inviting other, more corrosive forms of risk, such as inflation risk, longevity risk, and interest rate risk.

These common, costly behavioral mistakes typically result from a lack of planning, with no clear vision or purpose to guide decisions. Emotional responses dominate our thought process rather than logical, disciplined reasoning built on the foundation of a well-conceived financial plan. In many respects, our biggest financial challenges are often self-inflicted.

Focusing on your future...

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Investing Perspective

Diversification seeks to capture the returns of different types of investments over time but with less volatility than any individual investment. Three vital keys to effective diversification must be understood and effectively applied to ensure long-term success:

1. Risk and Return are Related

For long-term investment performance, risk drives return. The more risk you are willing to assume, the greater the returns you should expect. Portfolio diversification is the primary tool for managing risk so that it is not concentrated in any one investment. Rather, risk is spread among different asset classes, which reduces portfolio volatility and produces more consistent returns over the long term. The key to effective diversification is to recognize that different assets and all of the subsets of assets have varying ranges and patterns of volatility. It is through the higher volatility of some subsets of assets and the exposure to different patterns of volatility that higher returns are possible without increasing the risk of your overall portfolio.

2. Asset Mix is Critical to Long Term Investment Returns

Central to any investment strategy, regardless of an investor's risk comfort level, is the long-term mix of assets. Asset allocation seeks to achieve the optimum mix of assets that will generate returns linked directly to your long-term investment needs and objectives. Because of the fundamental economic relationship between risk and return, an investor's chosen asset mix has the primary impact on that investor's long-term investment returns.

3. It's Not True Diversification if it's not Global

In essence, you expose your portfolio to more volatility and risk when you invest solely in the U.S. markets, and you certainly miss the opportunities for the returns that are available in the global markets. In any given year, foreign markets and their subsets of emerging economy markets, developed countries, and the various regional markets (i.e., Asia, Europe, South America, etc.), will perform contrary to one another and/or to the United States. Because it's nearly impossible to identify which markets will outperform or fade, global diversification enables your portfolio to capture returns wherever they occur.

When your portfolio is properly diversified it can capture returns whenever and wherever they occur while managing the risk-return tradeoff according to your risk profile. Because investment values change, it is important to review and rebalance your portfolio to maintain the optimum level of diversification for your investment needs.

About Our Firm:

Davenport Watts & Drake is a fee-only financial services firm offering asset management and financial consulting services to businesses, families and individuals. Our desire is to work with a select group of these businesses, families and individuals as part of their financial team, helping them with the many decisions throughout their lives which will affect the financial future of themselves and their families. The team has a common vision of a client-centered financial consulting firm that treats our clients as we would want to be treated.

Core Strategies:

- Asset Allocation
- Asset Diversification
- Periodic Rebalancing
- Long-term Perspective
- Minimize Income Taxes

Investment Services:

- Portfolio Management
- Individual Retirement Accounts
- Company Retirement Plans
- Personal Financial Plans

Investment Custodians:

- Fidelity Investments
- John Hancock

"Sound investing is simple but not necessarily easy to do."

— Warren Buffett

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