

## DIVERSIFICATION MEANS NEVER HAVING TO SAY YOU'RE SORRY

2018 was a tough year for the diversified investor. Every equity asset class experienced negative returns and the Barclays US Aggregate Bond Index barely eked out a positive return. As is often the case, some equity asset classes did better (or in this case, less poorly) than others, which may spawn the question—"Why should I diversify?"

Our fundamental investment premise is that it is impossible to *consistently predict* which stocks, funds or asset classes will be the best and which will be the worst. We view as an irrefutable law of investing (and ergo of capitalism), that risk and return are related. However, we can reduce risk through a diversified portfolio. I would add that periodically rebalancing our allocations to their prescribed targets also instills a "buy low, sell high" investment discipline. Over the coming weeks we will be reviewing our client portfolios for just this sort of opportunity. As Warren Buffett says, "successful investing is simple, but rarely easy."

Last month, the Wall Street Journal ran a lengthy story on the difficulties of General Electric. It may be worth noting that from the 1980s up until 2017, few companies were as revered or performed as well for shareholders as GE. And then, without warning, and in less than two years, the company faltered and lost over 67%.

The day the story appeared, one of my long-time clients (a former GE executive) sent me the following email along with a link to the article:

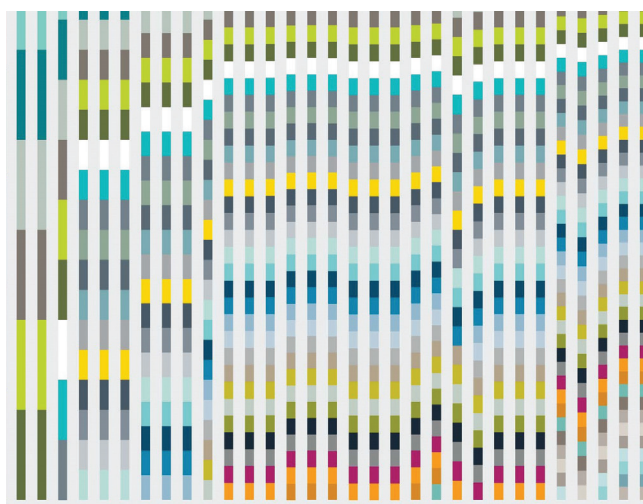
*"I couldn't sell it (GE), even when rationally I knew I should. Thank you for persuading me at least to sell 10% a year for a few years—even though I sneakily stayed in the DRIP plan for a while, buying it back. There's an article in September's Atlantic magazine about the biases we have that cause us to*

“The benefits of diversification are as timeless as they are true.”

*override our brains: cognitive bias, normalcy bias, sunk cost bias, attribution error, base-rate neglect, the ambiguity effect, the ostrich effect et cetera. I think I had 'em all, relative to GE. Maybe still have.”*

The benefits of diversification are as timeless as they are true. During my 25+ year career as a trusted advisor, I've witnessed numerous companies become "darlings of Wall Street" only to suddenly and unpredictably fall from grace. From WorldCom to Enron, Wachovia to Lehman Brothers—the investing graveyard is littered with irreplaceable companies.

Diversification is best viewed as a character trait. Through it we manifest humility—a concession that although we have a good idea what's going to happen in the long run, we never know what's going to happen next.





## A NEW YEAR, A NEW YOU

As we turn the page to a new year, people are making resolutions towards self-improvement. My yoga class was filled with newcomers this week intentioned on better physical fitness.

Maintaining commitments and making them habits is hard, and improving one's personal finances is no exception. We offer a few suggestions for making financial improvements in 2019—one tip per quarter; making it easier to accomplish.

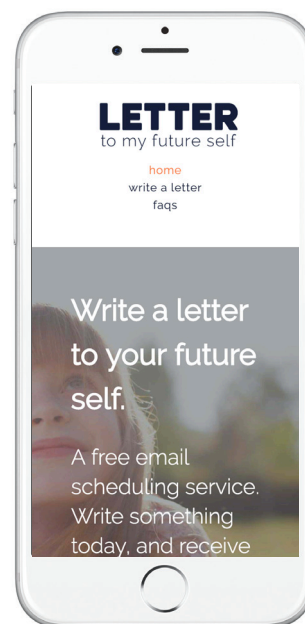
**FIRST QUARTER • Increase your 401k contributions by 1%.** It's a small change, and you probably won't feel the difference. But if you do this each year, you'll soon see significant results. Already maxing your contributions? Make sure you change your election percentages to capture the new deferral increases effective in 2019. The 401k contribution is now up to \$19,000 while the 50+ catch up remains at \$6,000.

**SECOND QUARTER • Get a Will.** We are all going to die. Few want to confront this reality, but the outcome is not in doubt. When it will occur is unknown. Wills need not be expensive or complex. Yet failing to have one will create unnecessary burden for loved ones, and may have a result much different than the one intended. Most folks simply don't think about the consequences of dying without a will. None of the consequences are good. Your estate may be subjected to costs that could have been avoided, and the will imposed by your state of residence should you not have one can create unnecessary family friction.

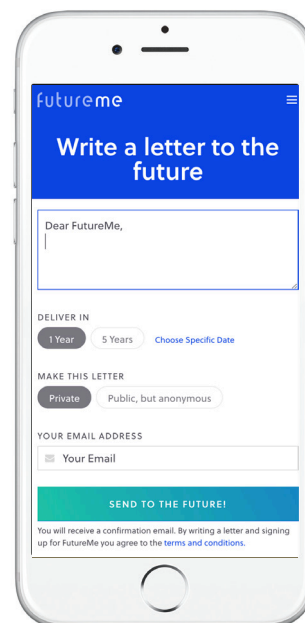
**THIRD QUARTER • Create an Investment Policy Statement (IPS).** Lots of smart, well-intentioned people save and invest without a strategic plan. Every investor should have an investment strategy created by design, not by default. Set an equity allocation target, diversify across asset classes and rebalance periodically.

**FOURTH QUARTER • Create a Budget.** It doesn't have to be fancy, and only takes 30 minutes. Use your spending from the last 3 months as a proxy for spending throughout the year. Look for areas where you might be able to save. Maybe skip the \$5 latte one day a week or brown bag your lunch every Friday; small changes can add up so make a game of it.

Finally, need help in holding yourself accountable? These two websites (pictured right) allow you to send a future message to yourself—a great assist in staying committed.



[www.lettertofutureself.net](http://www.lettertofutureself.net)



[www.futureme.org](http://www.futureme.org)





# HELP WITH HEALTH CARE DIRECTIVES

The North Carolina Secretary of State's office has an online Advance Healthcare Directives Registry that allows consumers to save their health care directives digitally.

I've had numerous occasions where clients' family members called asking for copies of health care directives. We encourage clients to make sure their family members know where these directives can be found, and the registry is an easy way to access from anywhere.

For a one-time fee of \$10 the registry allows you to file your health care directives. **The most common health care directives are:**

- Health Care Power of Attorney
- Advance Directive for Natural Death
- Advanced Directive for Mental Health Treatment

The Secretary of State's office also has online forms for each of the above. Upon registration you are provided a registry card with your file number and password. It is suggested that you give copies of your registry card to your family members, physician, etc. so that they can access your information in the event of a medical emergency.

To learn more, visit the Secretary of State's Advance Healthcare Directives website at:

[www.sosnc.gov/divisions/advance\\_healthcare\\_directives](http://www.sosnc.gov/divisions/advance_healthcare_directives)



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ARK ROYAL WEALTH MANAGEMENT

2626 GLENWOOD AVE. SUITE 485 ~ RALEIGH, NC 27608 ~ P(919) 710-8665 ~ WWW.ARK-WEALTH.COM



**WE MOVED!**

**Our new address is:**

2626 Glenwood Avenue  
Suite 485  
Raleigh, NC 27608  
(919)710-8665



*“It is almost impossible to do well in equities  
over time if you go to bed every night  
thinking about the price of them.”*

WARREN BUFFETT



*The* **CORNERSTONES** *of*  
**ARK ROYAL WEALTH MANAGEMENT**



**To nurture a culture that puts our client's interest first—always**



**To be truthful at all times, to be intellectually honest with ourselves  
and with our clients, even if it isn't what they want to hear**



**A commitment to lifelong learning, and a passion for applying  
our wisdom efficiently and effectively every single day**



**Align what you say, what you do and what you think to honor  
yourself, your family and our firm**

