SUMMER 2021

SUMMIT PERSPECTIVE

WHAT IS YOUR DIVERSITY POLICY?

The topic of diversity is getting a lot of discussion in society and in corporate America. Companies have developed diversity policies, they focus on diversity when hiring, and many have hired a Chief Diversity Officer to run this function within the business. The Bay Area is one of the most diverse places in the country, and we lead the charge in this area. However, when it comes to investing, many of those same intelligent, forward thinking people display a striking lack of diversity!

It is not unusual for Bay Area residents to accumulate stocks in the technology sector given the number of tech companies that call Silicon Valley home. People tend to accumulate stock in the company they work for and are interested and knowledgeable about emerging technologies in general. However, this can lead to a classic behavioral finance trap known as ***Familiarity Bias***. An example would be an executive at a biotech company whose entire portfolio is invested in her own company stock along with a few other biotech firms and ancillary vendors with which she is familiar. This is understandable, but it can lead to an overly concentrated portfolio that leaves out entire sectors of the marketplace.

When a familiar segment of the market performs exceedingly well, Familiarity Bias can easily morph into ***Confirmation Bias***. Confirmation Bias is when an investor seeks only the information that confirms what they believe about their holdings to the exclusion of other data. In recent years, the tech sector (and a few mega-cap tech stocks in particular), has posted astounding growth. This growth has encouraged investors to cling to these holdings regardless of how much of the portfolio they now compose. It is hard to argue with the growth of these companies, but there is also no denying that the risk of one

company hurting the portfolio increases as its percentage of the total also increases.

One final caution: Beware of the illusion of diversification from a U.S. Large Cap index fund or ETF. While far more diverse than holding all one's eggs in a single stock basket, today's U.S. equity indices are the least diverse than at any time in recent memory. The S&P 500 is a cap-weighted index (meaning bigger companies count for proportionately more of the results than their smaller brethren). As a result, if the big stocks get a cold, the index can contract COVID! Currently, the five largest technology companies represent more than 20 percent of the performance of the index. Furthermore, if you add all technology and biotech stocks together, they represent approximately 40 percent of the market cap of the S&P 500![1] This is a stunning lack of diversity for the index considered to best represent the U.S. equity market.

In the last year, our firm has been introduced to a larger number of concentrated portfolios than in recent memory. Furthermore, we have noticed a zealous commitment to many of these concentrated holdings by many of these investors. We are not ready to call it euphoria, but it seems that Confirmation Bias has a strong hold on some individuals. The desire to chase what has been hot lately is strong, and we want to provide an antidote to that tempting elixir. With that as a backdrop, we offer a word of caution and a few strategies to deal with a diversity problem:

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INSIDE THIS EDITION

> *When you are grateful, fear disappears and abundance appears.*
> ***– Anthony Robbins***

KUDOS!

Summit Spirit Award: Erin and Stepping Stones of Hope

Each quarter, Summit recognizes one team member who receives 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 Erin Haubner, Director of Operations, as the recipient of this quarter's Summit Spirit Award!

Erin: **I am making my donation to "Camp Samantha" through Stepping Stones of Hope. Camp Samantha is a grief camp held annually in Carefree, AZ for children and teens ages 6-17 and the adults in their lives who have experienced the loss of a loved one.**

Camp Samantha is near to my heart as it was created in memory of the daughter of my lifelong friend. Samantha Foutch (Sammy) was 10 years old when she was a victim of a tragic homicide. In her memory, Camp Samantha was created to help children, teens, and families who are struggling with their grief heal and offers them support to move forward. I will always remember Sammy's huge grin and how she loved her family. Each October, a fundraiser golf tournament is held to generate funds for Camp Samantha. Sammy had been taking golf lessons with her dad prior to her passing and this is a meaningful way to further her legacy in a way that also has helped hundreds of families for the past 15 years.

For additional information about Camp Samantha, visit: https://steppingstonesofhope.org/camp-samantha/

Information about the golf tournament: www.samanthainvitational.com/

SUMMIT UNIVERSITY

Upcoming Courses and Workshops

Women & Money: The Retirement Income Challenge

Thursday, July 29th
5-6 PM (Webinar)

Women face a unique set of financial challenges that may take a toll on their ability to save for retirement and achieve financial independence. Recognizing those risks today can empower you to build a financial strategy that will help you reach your specific goals in the future.

During this interactive virtual session, we will discuss innovative techniques to maximize your assets in retirement and continue your desired standard of living over your lifetime. Join us!

Teens & Money: Setting the Stage for Financial Success

Thursday, August 5th
3-4:30 PM

Back by popular demand! Chances are your kids first learned about saving money from a piggy bank. As they grew, they traded in those piggies for a savings account. Now it's time to look ahead. Learning how to become financially independent adults is vital for their future success. This comprehensive session covers budgeting, setting financial goals, money management, credit and debt, investing, and more! Join us for this educational and fun workshop!

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.

Stay Tuned: Our retirement classes will be back beginning in August! New dates will be listed on our website soon!

Learn more and register for classes through the Summit University page on our website: summitadvisors.com/education/university/ OR call 925-866-7800.

WHAT IS YOUR DIVERSITY POLICY? *Continued from Page 1*

Refer to Your Strategy

Your financial goals should inform your investment policy, not the other way around. Could your goals be met if your concentrated holdings took a significant hit? If not, consider reducing your exposure to an acceptable level. While you may forego some upside if those stocks keep running, protecting an equally large downside may be more prudent. Consider picking a percentage of your portfolio that you would be comfortable holding in a particular security regardless of volatility and work toward that target.

Consider Selling

It is hard to argue with taking a profit – especially if capital gains taxes may increase next year. Don't worry about picking the perfect price. Reinvest the proceeds confidently in a diversified mix and trust in the historical long-term growth of diversified equity markets. If you simply cannot bear to sell for fear of missing out, consider picking a few prices at which you commit to diversifying regardless of how you feel at the time.

One way to take the emotion out of selling is to set a "stop order" for the shares you are willing to diversify. You set the stop at the price that you refuse to let the stock fall below. If the stock keeps appreciating, you simply raise the price of your stop order. If the price falls to your stop price, it automatically sells the shares, and you have taken the emotion of hoping for recovery out of the equation. Any way you can take the emotion out of the diversification decision is likely to lead to more clear-headed thinking.

Avoid Doubling Down

Sometimes you can lower your concentration risk by investing excess cash or reallocating other assets into diversified sectors instead of selling your concentrated securities. When doing so, be cautious about reinvesting into index funds or managers that hold many of the same securities you are trying to diversify away from. Given the composition of today's cap weighted indices, it is important to dive deep and make sure you are truly diversifying. We have seen multiple portfolios where the top holdings in the mutual funds owned by the client held the same stocks as the concentrated positions they were seeking to avoid!

Hedge with Options (When Appropriate)

Although trading options can be highly speculative, there are a few approaches where employing options can actually reduce risk for concentrated stock in a portfolio. Options last for a limited time (a few months typically), and their pricing is constantly in motion. Care and diligence must be exercised before embarking on an options strategy.

- ***Writing Covered Calls*** – Selling a call option means you agree to sell your stock at a specified price. You receive a payment for the call option, but if the stock appreciates to the strike price, the stock will be called away, resulting in a sale of those shares (which might be OK … in effect forcing an investor to sell at a price they were happy with.)
- ***Buying "Protective" Puts*** – A put is the right to sell at a specific price. For example, you could buy a put option at $100 per share and if the stock price fell below $100, the value of that put option would protect any downside below that level. You would either sell your shares at $100 or—more likely—just sell the put option at a profit. If the stock grows, the put option will expire worthless, and you will have lost the cost of the option (but the "protection" might have been worth it).
- ***Executing a Collar Strategy*** – Buying put options gets expensive, so a more likely approach is to simultaneously write (sell) a call option AND buy a put option. In this example you would set the call price well above the current stock price. With the proceeds of the call option, you can now afford the put option to protect the downside of your stock. The effect is to lock in a range between a higher price at which you were willing to sell and a lower price below which you were protected.

Today's investor may not recall the lessons from the tech bubble bursting at the turn of the century. Silicon Valley mainstays like AOL, Sun Microsystems, and Netscape are no more. We make no predictions about today's high-flying technology firms and would not venture a guess at which may dominate indefinitely versus those that fade for reasons that are not yet apparent. We merely point out that volatility can move in both directions – and a diversified portfolio reduces the odds that a few companies can scuttle your financial independence.

Noted financial commentator Nick Murray defines diversification as the following: *"Diversification simply means to me that I'll never own enough of any one sector/idea to make a killing in it, nor enough to get killed by it."* We find that to be a simple yet elegant definition. Perhaps it is time that holders of just one idea take a step back to diversify and reduce the risk of that one idea having a bad day.

For more important information about option strategies, click here.

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[1] Source – S&P 500 sector weightings as of 4-30-2021 courtesy of Morningstar and YCharts

Options trading entails significant risk and is not appropriate for all investors. Certain complex options strategies carry additional risk. Before trading options, please read Characteristics and Risks of Standardized Options (available by clicking link above) Supporting documentation for any claims, if applicable, will be furnished upon request.

Neither asset allocation nor diversification guarantee against loss. They are methods used to manage risk.

The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the performance of larger companies in the U.S. Please note an investor cannot invest directly in an index. 3640686 DOFU 7/2021

STAFF SPOTLIGHT Welcome, Heather and Odette

L to R: Heather Curtis, Odette Givens

Heather is the Executive Practice Assistant for several of our advisors. She joined Summit in 2021 with eight years of experience in the financial industry, and more than 20 years in various industries. Her financial experience includes client services, new business, accounting, retirement plan administration, and operational support.

Born and raised in San Clemente, California, she has been in the Bay Area since 2006. She currently resides in Martinez with her son, Bryan, and three cats: Shya, Charlotte, and Wilbur.

When Heather is not in the office, she enjoys spending time with her son, visiting family and friends, exploring new areas, hiking and staying active, performing arts, landscape photography, cooking, golfing, tennis, listening to music, and reading.

Odette has more than 20 years of experience within the Financial Services Industry providing outstanding client service and advisor support. At Summit, she currently acts as an Executive Practice Assistant supporting several of our advisors in their busy practices.

Odette was born and raised in the Bay Area and spends her leisure time cooking for and entertaining her large extended family, volunteering in the community, taking fun weekend trips and building doll houses. She enjoys spending time with her daughter, Shelby, who is in college pursuing a degree in Health Science.

SUMMIT TRIVIA CHALLENGE

The answer to this quarter's question can be found on the Summit Facebook page (facebook.com/summitfinancialgroup/). Each person to submit the correct response will be entered to win a $25 Starbucks gift card.

Summit recently celebrated a National Day dedicated to this sweet and tasty treat. What was it?

Know the answer?
Email it to angela@summitadvisors.com by August 15th.
The Trivia Challenge winner will be notified via email.

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