Money Matters: Spotting and Stopping Financial Scams

In today's fast-paced digital world, investors are more vulnerable than ever to a wide array of financial scams and social engineering tactics. This is something that we think about regularly at Rockwood but have not yet articulated in our newsletter. These *pesky financial scams* can have real– sometimes devastating – consequences for those who fall into these hidden traps. Since keeping your hard-earned money safe is a top priority for your advisory team, we wanted to outline some common scams and best practices to help you avoid falling victim to them, as well as a few things we do on our end to help safeguard your money.

How do some of these common scams look?

Phishing attacks remain a prevalent threat to investors. Scammers use deceptive emails, messages, or websites that appear legitimate to trick individuals into revealing sensitive information like login credentials or personal details. They often pose as trusted financial institutions or investment platforms. To protect yourself, always verify the sender's legitimacy, double-check website URLs, and avoid clicking suspicious links or downloading attachments from unknown sources.

Impersonation scams are when fraudsters impersonate trusted individuals, such as financial advisors or attorneys, to gain investors' trust. They may contact you through email, phone, or social media, requesting confidential information or persuading you to make impulsive investment decisions. Always verify the identity of anyone requesting financial information and be cautious of any unsolicited advice.

Social engineering attacks manipulate investors into revealing sensitive information. Common techniques include pretexting (creating a fabricated scenario to obtain information) and baiting (enticing victims with free offers). Be vigilant when sharing personal or financial information, especially in unfamiliar or unexpected situations.

OK, so what can I do to protect myself?

Be skeptical: When you receive unsolicited calls or messages, do not share any personal information, especially when the person contacting you purports to be from your financial institution. If the person requests sensitive information or demands urgent action, do not act. Scammers often use psychological manipulation to create a sense of urgency. Remember, neither your Rockwood advisory team nor your custodian will EVER reach out to you for login credentials.

Verify identities: Make sure that you know the identity of the person or organization with whom you are dealing. Double-check email addresses, phone numbers, and websites to ensure they are legitimate. Do not rely solely on caller ID or email display names. When in doubt, end the call and dial a number that you already know to be valid.

Use strong passwords: Use strong, unique passwords for your online accounts, and be sure never to reuse passwords. Consider using a reputable password manager to help you generate and store your passwords securely.

Enable two-factor authentication (2FA): Whenever possible, enable two-factor authentication on your online accounts. This adds an extra layer of security by requiring you to provide a second form of authentication, such as a code sent to your phone, in addition to your password.

Check for HTTPS: When conducting online transactions or sharing sensitive information, make sure the website's URL starts with "https://" and has a padlock symbol in the address bar. This indicates that your connection is secure.

Avoid suspicious links: Do not click links in unsolicited emails or text messages, especially if they claim to be from your bank, a government agency, or another trusted entity. Instead, manually type the website's URL into your browser.

Beware of impersonation: Be on the alert for impersonation attempts. Scammers might pose as trusted individuals or organizations, such as your bank, a family member, a coworker, or even the Social Security Administration. If something seems off, ask the person to further identify themselves.

Report suspicious activity: If you suspect you've encountered a social engineering scam, report it to the relevant authorities and the organization being impersonated. Please also notify your Rockwood advisory team so that we can take further steps to prevent loss.

Keep software updated: Regularly update your operating system, antivirus software, and other applications to protect against known vulnerabilities that scammers may exploit.

Educate yourself: Stay informed about common social engineering tactics and scams. Familiarize yourself with the latest techniques and scams that criminals are using. Your advisory team can also help keep you up to date.

What is my team at Rockwood doing to help protect me?

That's a great question. While we won't outline all actions that we take to safeguard your information, we can share that we do the following:

1. Our entire team maintains complex passwords and two factor authentication in all systems to help prevent unauthorized users from accessing our files.
2. We share documents with you using encryption technology to ensure that your personal information remains protected.
3. If we receive an email asking us to update any of your personal contact information, we will call you at a known number to confirm that the request is legitimate.
4. When you request a non-routine transfer out of your account, a member of your advisory team will call you to confirm the purpose of the funds and to make sure that you are the one requesting the transfer.

While some of these steps may seem obvious, the unfortunate reality is that these scams work and are extremely profitable for the criminals attempting them. Our role is to educate you and help safeguard your financial future against these attacks. Please share any concerns with your Rockwood advisory team as they may arise.

Perspective on Premiums

When you leave your server a tip, do you round it to a whole-dollar amount and often in multiples of $5? Does a 60th birthday seem more significant than a 59th? If you answer yes to these questions, you're not alone. Most of us prefer round numbers.

This preference leads many investors to review results by calendar year and to consider 10-year periods when evaluating long-term returns. People tend to place greater emphasis on the latest period due to recency bias and tend to extrapolate recent results into the future. For these reasons, we should put recent performance into the proper perspective.

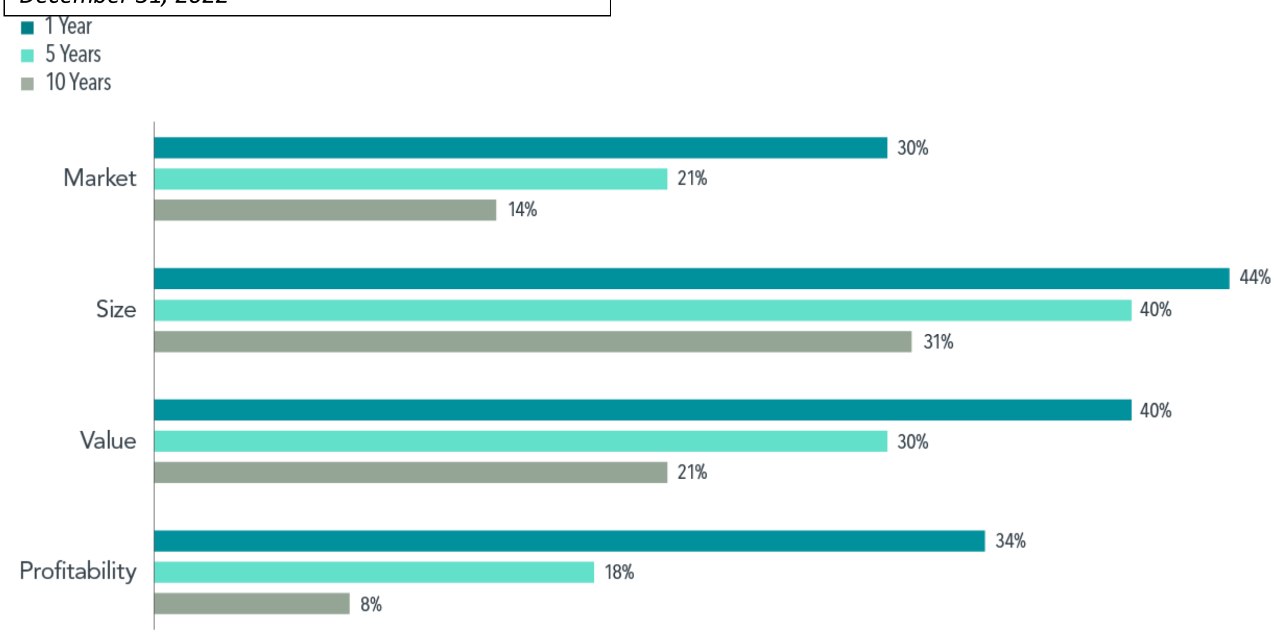
During the most recent 10 years, equities delivered relatively strong performance amid volatility and uncertainty, with the MSCI All Country World IMI Index earning an annualized return of 8.49% through 2022. Within equities, higher-profitability stocks generally outperformed lower-profitability stocks globally and small caps outperformed large caps in regions outside the US, while the underperformance of value stocks garnered a lot of attention.[1,2] Despite a strong rebound from late 2020 through 2022, the MSCI All Country World IMI Value Index underperformed the market, delivering an annualized 7.25% over the same 10-year period.[3]

We expect positive market, size, value, and profitability premiums, but also recognize that realized premiums are volatile and can sometimes be negative. Although a negative premium can be disappointing, it is not unprecedented—and we can look at historical data to gauge how often each premium has been negative. For example, **Exhibit 1** shows the percentage of rolling one-, five-, and 10-year periods with negative premiums, going as far back as the data are available. As you can see, negative premiums occur from time to time. While a positive premium is never guaranteed, the odds of realizing one are decidedly in your favor and improve the longer you stay invested.

EXHIBIT 1

How Often Have Premiums Been Negative?

Percentage of rolling one-, five-, and 10-year periods with negative premiums, US market through December 31, 2022



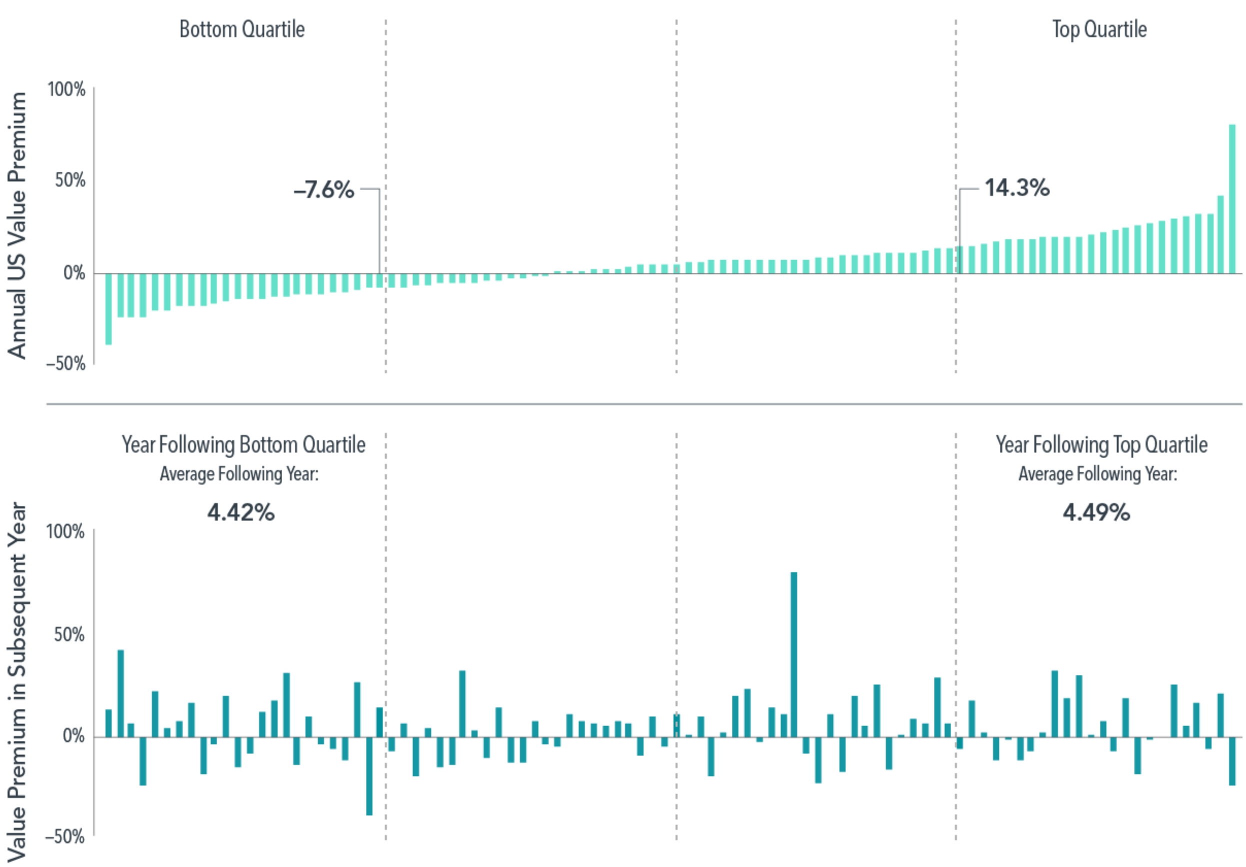
This analysis looks at each premium individually. What if you integrate all four premiums in pursuit of higher expected returns? A different approach is to calculate the frequency of one, two, three, or all four premiums being negative over rolling 10-year periods from July 1963 to December 2022. In almost half of the rolling 10-year periods, we observe one negative premium out of four premiums. However, the premiums do not move in lockstep, so there were fewer instances of two negative premiums and no instances of three or four negative premiums.

EXHIBIT 2
Does Value Last Year Tell Us About This Year?
Annual value premiums and subsequent-year value premiums, US market, 1927-2022

Any premium that doesn't materialize will get called into question. Plenty of ink will be spilled scrutinizing the one that had the bad draw, even if that's all it was.

The value premium has been under the microscope lately, but the other premiums have had their turns historically.

From an empirical perspective, a negative 10-year premium is not so far outside the range of outcomes as to suggest that the premium no longer exists. More importantly, we have a sensible framework for expecting positive size, value, and profitability premiums. That framework is valuation theory, which posits that a stock's price reflects the company's expected future cash flows discounted to present value. The discount rate equals an investor's expected return.



Therefore, if stocks have different expected returns, those with lower prices and higher expected cash flows should have higher expected returns. This framework holds regardless of whether realized premiums have been positive or negative in the recent past.

Over shorter horizons, the past performance of premiums doesn't tell us much about future premiums either. For example, **Exhibit 2** on the previous page examines value's performance from one calendar year to the next. Interestingly, the average annual value premium following the top quartile years—those with the strongest value performance—was roughly the same as the value premium in the year following the bottom quartile—or the weakest years for the value premium. If your goals and risk tolerance haven't changed, then your asset allocation likely doesn't need to change.

The moral of the story? Negative outcomes are disappointing, but investors should view them with the proper perspective and stay the course.

FOOTNOTES

1 The performance of small caps vs. large caps is based on the Dimensional US Small Cap Index vs. the S&P 500, the Dimensional International Small Cap Index vs. the MSCI World ex USA Index, and the Dimensional Emerging Markets Small Cap Index vs. the MSCI Emerging Markets Index. The performance of higher-profitability stocks vs. lower-profitability stocks is based on the Fama/French high-profitability indices vs. the Fama/French low-profitability indices in the US, developed ex US markets, and emerging markets.

2 Wiebke Lamping and Namiko Saito, "Proof in Practice: Applying Profitability Research to Real-World Solutions", research paper, Dimensional Fund Advisors, August 2023.

3 Wes Crill, "Value's Rebound Rewarded Investors Who Stayed in Their Seats," Insights (blog), Dimensional Fund Advisors, August 2022

www.RockwoodWealth.com

(267) 983-6400

John R. Augenblick, MBA, CFP®, CEO
Sam W. Feldbaum, MST, CFP®, Principal
Mark T. Kelly, CPA, CAIA, MST, Principal
Rob T. Stephenson, CFP®, AIF®, Principal
Dom Bova, CFP®
Geraldine Broadbent
Maureen C. Donahue, CFP®
Kimberly A. Evans, CFP®
Najeedah Ghias, CFP®
John T. Hagan, CFP®, MSF
Brian M. Hansen, CPA, CFP®
Benjamin Herman
Scott H. Kelley, MBA
Jeff Llewellyn, MBA, CFA, CFP®
Jennifer Malinowski, SHRM-CP
Jade A. Meier, CFP®
Kyle D. Quigley, MBA
Courtney Ripp, MAcc, CPA
Joseph Rogina
Renee A. Schuster, MBA, CFP®
Patti A. Vidakovic
Kenny B. Bauer, EA, CFP®, Principal
Alaina M. Gilbert, CFP®, CPWA®, Principal
Megan J. Lottier, CPA, MST, Principal
Mark Arcidiacono, Jr., CFP®
Jupiter Bridge, CFA
Maxwell V. Dalavai
Courtney L. Durham, CFP®
Jack P. Gawason
Anibal Guerrero Russo, EA, CFP®
Erin Hahn
John Helvie
Joe Houk
Adam R. Klazmer, CFP®
Elizabeth V. Loew, MBA
Paige E. Marlow
Catherine P. Morgan, CFP®
Tiffany Revels
Travis Roe-Raymond, CFA, CFP®
Natalia Rybak
James A. Smith
Robert M. Vogel, CFP®