



**Sentinel Trust**  
Together, families prosper<sup>SM</sup>

# OnWatch

## *The Wisdom of Sticking* TO A LONG-TERM INVESTMENT PLAN



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Few investment principles are as universally recognized and yet as challenging as the notion of sticking to a long-term investment plan. This principle suggests that investors should maintain a steady course through market swings and economic cycles, rather than reacting emotionally to short-term fluctuations. While it sounds straightforward in theory, its practical application demands discipline, patience and a deep understanding of both market dynamics and personal financial goals.

### *Understanding Long-Term Investing*

Long-term investing is fundamentally about capitalizing on the power of compound interest and growth over extended periods. It's a strategy that recognizes the inevitability of market volatility and economic cycles, but focuses on the historical tendency of markets to trend upwards over time. The rationale behind this approach lies in statistical evidence and historical data that show, despite short-term fluctuations, equity markets generally have produced positive returns over extended periods.

Major stock market indices like the S&P 500 in the United States have demonstrated long-term growth despite enduring significant downturns and recessions. For example, the past century saw periods of economic turmoil including the Great Depression, World Wars, the dot-com bubble and the 2008 financial crisis; yet, long-term investors who stayed the course and remained invested were rewarded with substantial returns.

### *Time in the Market vs. Timing the Market*

A key mantra in long-term investing is "time in the market beats timing the market." Market timing refers to the strategy of buying or selling investments based on predictions of future price movements. While it may seem intuitive to try and anticipate market highs and lows, evidence suggests that consistently timing the market is exceedingly difficult, if not impossible. The debate between "time

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### **About Sentinel Trust Company**

Sentinel Trust Company, LBA is an independent wealth management firm and multi-family office that provides comprehensive wealth and succession planning, fiduciary, investment management, philanthropic, and family office services to a select group of affluent families and their closely held entities and foundations. Founded in 1997 as the successor to two 40-plus-year-old single-family offices, Sentinel Trust currently serves more than 40 multi-generational families nationwide and is responsible for approximately \$6.5 billion in assets as of December 31, 2023.



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in the market” versus “timing the market” revolves around whether investors should focus on staying invested over extended periods or attempt to predict and capitalize on short-term market movements.

Investors who attempt to time the market often miss out on significant market gains during the best-performing days. Research shows that a substantial portion of stock market returns can be attributed to just a handful of days when markets experience the highest gains. By staying invested through market cycles, investors increase their chances of participating in these positive returns. Of course, it also increases the chances of participating in the worst-performing days, but remaining invested offsets these down days with up days.

“Time-in-the-market” proponents invest in the financial markets over long periods, irrespective of short-term fluctuations or market volatility. They emphasize markets’ historical trend to rise over time, driven by economic growth, technological advancements, and corporate profitability.

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### *The Role of Diversification and Compounding*

Diversification, another cornerstone of successful long-term investing, involves spreading investments across different asset classes, sectors, and geographic regions to reduce risk and minimize the impact of downturns in any single investment. A well-diversified portfolio can smooth out volatility and enhance long-term returns by capturing growth opportunities across various segments of the market.

Compounding is a powerful force in long-term investing that accelerates wealth accumulation over time. It refers to the ability of an investment to generate earnings, which are then reinvested to generate their own earnings. Over extended periods, compounding can significantly multiply the initial investment, leading to exponential growth in wealth.

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### *Practical Strategies for Long-Term Investors*

**Successful implementation of a long-term investment plan requires:**

- ▶ **Strategic Asset Allocation:** Based on an investor’s risk tolerance, time horizon and financial goals, advisors recommend an appropriate mix of assets that balances growth potential with risk management. Younger investors with longer time horizons might allocate a higher percentage to equities, while those nearing retirement might tilt towards more conservative investments like bonds.
- ▶ **Regular Review and Rebalancing:** Markets and individual investments can deviate from their target allocations over time due to varying performance. Periodic portfolio reviews enable advisors to rebalance the portfolio by buying underperforming assets and selling overperforming ones to maintain the desired asset allocation. This disciplined approach helps investors stay aligned with their long-term goals.

- ▶ **Monitoring Economic and Market Trends:** While avoiding reactionary behavior, staying informed about macroeconomic trends and market developments is essential for making informed decisions. Advisors keep clients updated on potential risks and opportunities, ensuring that investment strategies remain relevant and adaptive to changing conditions.

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### *Behavioral Finance and Emotional Challenges*

One of the primary obstacles to adhering to a long-term investment strategy is the innate human tendency towards emotional decision making. Behavioral finance, a field that combines psychology and economics, sheds light on how investors often make irrational decisions driven by fear, greed, or the need for immediate gratification. These emotional reactions can lead to actions detrimental to long-term wealth accumulation, such as selling investments during market downturns or chasing after hot sectors during market peaks.

**Examples of emotional challenges that investors may face in long-term investing include:**

- ▶ **Fear and Anxiety** — Fear is perhaps the most primal emotion that impacts investment decisions. During periods of market volatility or economic uncertainty, fear of loss can drive investors to make hasty decisions, such as selling investments prematurely to avoid further declines. This knee-jerk reaction often leads to selling low, locking in losses, and missing out on potential recoveries when markets stabilize.
- ▶ **Greed and Overconfidence** — Conversely, greed and overconfidence also can derail long-term investment plans. When markets are booming and prices are rising, investors may become overly optimistic about future gains. The result can be excessive risk-taking or chasing after speculative investments without adequately assessing the underlying fundamentals. Such behavior increases vulnerability to sudden market corrections or downturns.
- ▶ **Loss Aversion** — Loss aversion refers to the psychological bias where individuals prefer to avoid losses rather than acquiring equivalent gains. This bias can lead investors to hold onto losing investments longer than they should, hoping for a recovery to avoid realizing a loss. It can also deter them from rebalancing portfolios or selling underperforming assets, even if it aligns with their long-term investment strategy.
- ▶ **Short-Term Bias** — In a world of instant gratification and rapid information dissemination, many investors exhibit a bias towards short-term thinking. This can manifest as a preference for quick gains over long-term wealth accumulation or an impulsive response to daily market fluctuations. Short-term bias can undermine the discipline needed to adhere to a long-term investment plan and can lead to detrimental trading behaviors.



## *Strategies to Mitigate Emotional Challenges and Behavioral Biases*

Understanding and mitigating emotional challenges is crucial for maintaining a disciplined long-term investment strategy. The following strategies are designed to help investors recognize and overcome their emotional tendencies, thereby promoting more rational and objective decision making in their investment practices:

- ▶ **Education and Awareness** — Financial literacy and understanding of behavioral finance principles are essential for investors. By recognizing common biases and emotional triggers, investors can better anticipate and mitigate their impact on investment decisions.
- ▶ **Long-Term Perspective** — Encouraging a focus on long-term financial goals helps investors maintain perspective during short-term market fluctuations. Emphasizing the historical resilience of markets and the benefits of compound growth over time can reinforce commitment to a long-term investment plan.
- ▶ **Diversification and Asset Allocation** — A well-diversified portfolio spread across different asset classes and geographic regions can reduce overall portfolio risk and mitigate the impact of individual asset underperformance. Regular rebalancing ensures that the portfolio remains aligned with the investor's risk tolerance and long-term objectives.
- ▶ **Consultation with Financial Advisors** — Working with a trusted financial advisor can provide valuable guidance and perspective during turbulent market conditions. Advisors can offer objective analysis,

personalized recommendations and emotional guidance to help clients stay disciplined and focused on their long-term financial goals.

- ▶ **Setting Clear Investment Guidelines** — Establishing clear investment guidelines, including risk tolerance levels, target asset allocation and rebalancing thresholds, provides a structured framework for decision-making. This helps investors maintain discipline and avoid impulsive actions driven by emotional reactions.
- ▶ **Continuous Monitoring and Review** — Regularly monitoring portfolio performance and reviewing investment strategies allows investors to adapt to changing market conditions and economic trends. This proactive approach helps investors stay informed and confident in their long-term investment plan.
- ▶ **Cultivating Patience and Discipline** — Cultivating patience and discipline is crucial for successful long-term investing. By maintaining a steadfast commitment to their investment plans, investors can weather short-term market volatility and position themselves for sustainable wealth accumulation over time.

The wisdom of sticking to a long-term investment plan through market swings and multiple economic cycles is grounded in both empirical evidence and practical experience. While it requires discipline, patience, and a tolerance for short-term uncertainty, this approach has consistently rewarded investors with significant wealth accumulation over time. ■



# Conservation EASEMENTS

Given concerns around environmental sustainability, conservation easements have emerged as a powerful tool for preserving natural resources while providing tangible benefits to landowners and businesses alike. These legally binding agreements between landowners and conservation organizations or government entities restrict the types of development that can occur on a property, ensuring its natural and agricultural value is maintained. Here's a closer look at how conservation easements can benefit both landowners and businesses.

## *What is a Conservation Easement?*

A conservation easement is a legal agreement between a landowner and a qualified conservation organization or government entity that restricts the development and use of a property to preserve its ecological, scenic or historical value. The landowner retains ownership but agrees to limit certain types of development and activities on the land.

## *Tax Advantages of Conservation Easements*

**1. Income Tax Deductions:** One of the most compelling financial incentives is the income tax deduction available for donating a conservation easement. The landowner can claim a charitable deduction for the value of the easement. This value is typically calculated as the difference between the property's value before and after the easement is placed. For high-value properties, this can translate into substantial deductions, potentially saving substantial income taxes.

**2. Estate Tax Benefits:** Conservation easements can provide valuable estate tax benefits. By reducing the property's value through an easement, the landowner lowers the overall value of the taxable estate, leading to substantial savings on estate taxes. This reduction is particularly beneficial for individuals with significant holdings, helping preserve wealth across generations while ensuring that the property remains intact for future generations.

**3. Property Tax Reductions:** Some states offer property tax benefits based upon the property's reduced assessed value due to the conservation easement. These resulting savings can be significant over time, contributing to the overall financial advantage of placing an easement on a property.



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For businesses involved in philanthropy or corporate social responsibility, conservation easements offer a way to demonstrate commitment to environmental stewardship. The associated tax deductions can enhance the financial efficiency of charitable contributions, aligning corporate values with tangible financial benefits.

## *Strategic Considerations*

Historically, the IRS goes out of its way to attack conservation easements' tax benefits. When contemplating a conservation easement, it's crucial to consult with experts in conservation law and the tax strategy. The process involves:

**1. Legal and Tax Advice:** Consult with legal and tax professionals to navigate the complex regulations and ensure compliance with all requirements for claiming deductions.

**2. Valuation of the Easement:** Engage a qualified appraiser to determine the fair market value of the property before and after the contemplated easement, ensuring accurate and maximized deductions.

**3. Long-term Planning:** Consider the long-term impact on the business and estate. Conservation easements are irrevocable, so careful planning is essential to align the easement with overall business and/or estate planning strategies, as well as family objectives.

Conservation easements present a compelling opportunity for business owners and individuals to support environmental conservation while benefiting from potentially substantial tax advantages. By strategically incorporating conservation easements into financial and estate planning, business owners and individuals can enhance their charitable impact, reduce their tax liabilities, and ensure the long-term preservation of valuable properties. As with any financial strategy, thorough planning and professional guidance are key to maximizing the benefits of conservation easements and achieving both environmental and financial goals. ■



# Preserving your Entities' LEGAL LIABILITY PROTECTIONS



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A universal attraction of closely held entities like corporations and limited liability companies is the legal liability protection afforded their owners. Insulating the owners from the risks and liabilities of the entity requires that it be viewed as separate and distinct from them. Although that status initially can be obtained through proper formation documents, that important attribute can fade over time, potentially exposing owners to significant risk.

Simply forming an entity correctly does not guarantee the liability shield on an ongoing basis. To preserve and protect this asset protection benefit, it is essential to operate the entity appropriately. A failure to do so could result in a court setting aside the limiting liability protection and reaching the owners' assets personally via a legal concept known as "piercing the corporate veil." This usually happens when the owners have not maintained a clear distinction between themselves and the entity.

**Following are examples of safeguards that help to protect owners from an entity's risks and liabilities:**

- ▶ Maintaining separate finances by keeping personal and business finances appropriately coded and strictly separate.
- ▶ Using proper signatures and titles when acting in an official capacity, and clearly identifying the business entity.
- ▶ Obtaining a separate taxpayer identification number and ensuring taxes are timely filed.

- ▶ Ensuring proper documentation and record-keeping, including filing formation documents, Corporate Transparency Act reporting, and filing annual reports with the state.
- ▶ Following corporate formalities and actively maintaining the corporate record to support all activities and transactions. One efficient and commonly used approach is to document annual written consents, which allow the required parties to agree on and approve actions in a document, instead of convening a formal meeting. Written consents can be developed and used real-time to approve certain actions, such as a significant purchase, capital contributions or distributions to the owners. Annually, written consents are effective tools to re-elect officers, approve annual financial statements, and ratify actions taken the prior year. Written consents are flexible and efficient, demonstrating adherence to both corporate formalities and compliance requirements set forth in bylaws and operating agreements for the entity.
- ▶ Utilizing a record-keeping system to store and maintain key entity details, corporate records, and compliance with legal and procedural requirements.

The importance of these best practices lies in protecting the personal assets of the owners. By following these best practices, owners reduce the risk of their personal assets becoming subject to a third-party claim and being used to satisfy the entity's debts and obligations. ■

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Sentinel Trust Company is a family-owned, multi-family office focusing on the unique needs of affluent families and their closely held companies and foundations. Sentinel Trust provides advice on investment, tax, and estate strategies, serves as corporate trustee, and provides lifestyle services with a personal touch.

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Founded in 1997 as the successor to two established, investment-focused single family offices, Sentinel Trust offers the stability of an institutional firm, the entrepreneurial spirit of a young firm, the personal feel of a family office, and the in-house technical skills of independent planning and investment management firms.

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