CHARTER OAK
CAPITAL MANAGEMENT

The Acorn

April 27, 2018

Peril or Possibility: The Many Facets of Risk

As late as the '90s, following the market meant looking up ticker symbols in the newspaper to find out what price stocks closed at the prior day. To buy and sell stocks, you had to pick up the phone to call someone or log in to the Web using dial-up internet; trading was long-distance business then.

Today, Twitter, CNBC, and countless news outlets bring us market information in real time. We can stream quotes online and on our smart phones. Trading is literally a click away for brokers as well as the everyday investor. This easy access to information brings with it increased responsibility on the part of the investor to separate fact from fiction.

Often the question becomes:

"How much risk does this ease of access bring to investment portfolios?"

What is risk?

Risk is the degree of probability that an investment will lose money relative to what you expect it to return. Every investment carries some degree of risk because returns aren't guaranteed.

Investment portfolios are subject to many different types of risks, particularly systematic risk. **Systematic risk** refers to daily fluctuations in the market. Systematic risk also includes something called **headline risk**.

Headlines often stir emotions that make investors want to change investment strategies right away. Resulting knee-jerk reactions can negatively affect returns over the long run and damage trust between advisors and clients.

The discipline to stick to a carefully considered investment strategy rather than following headlines can be the most important determining factor for the long-term success of your portfolio.

But there are other types of risk.

Interest Rate Risk

Interest rate risk is the risk of loss due to variation in the price of bonds or preferred stock because of changes in interest rates. When interest rates rise, bond prices fall; when interest rates go down, bond prices rise.

Reinvestment Rate Risk

Reinvestment rate risk refers to the possibility that you will have to reinvest funds at a lower rate of return than the investment originally earned.

Purchasing Power

Purchasing power risk, also referred to as inflation or price level risk, refers to the possibility that the return on your investments won't keep pace with increasing price levels. As prices rise, the value of a dollar falls, resulting in a decreased ability to purchase goods and services.

People who hold cash, savings accounts, and bonds assume this kind of risk. The danger is that this money may not grow enough over the years to allow you to achieve your financial goals.

Liquidity Risk

Liquidity risk refers to the chance that an asset may not be easily sold or may not receive its full market value, especially if it must be sold on short notice.

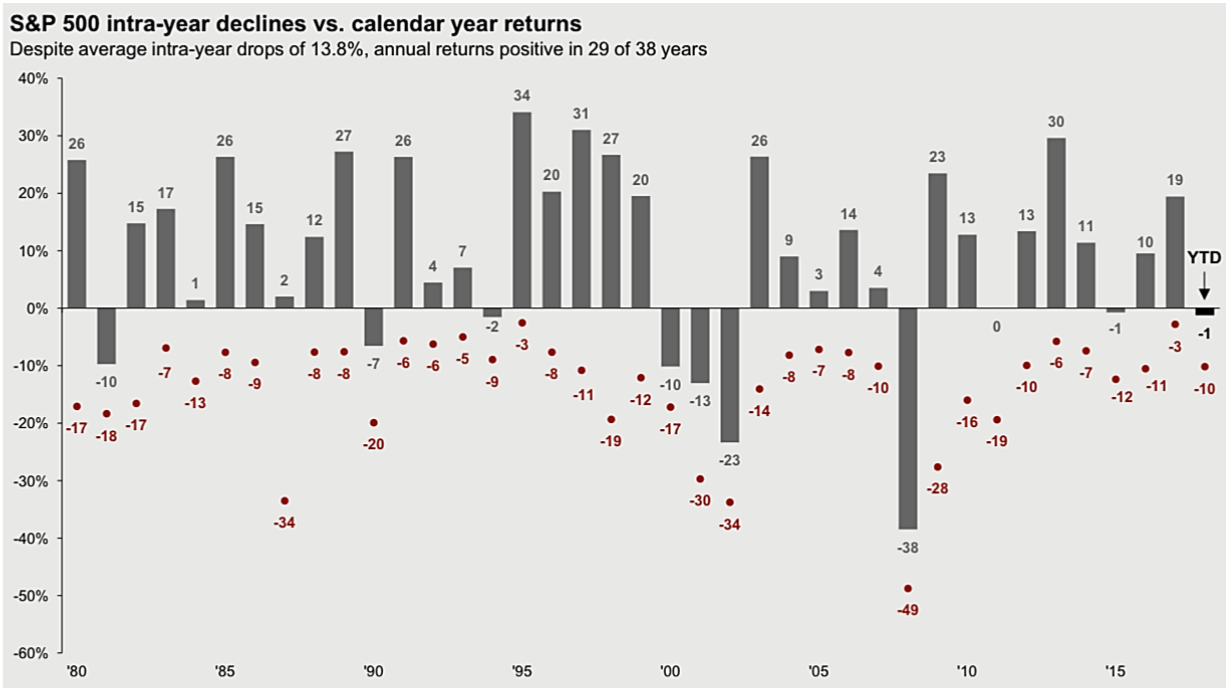
Risk can offer possibilities, too.

"The possibilities are numerous once we decide to act and not react."

– George Bernard Shaw

Risk does not have to be negative. It should not be taken lightly, but as professionals who have dealt with risk throughout our careers, we know that it can also create **opportunities for meaningful profits over the long-term**.

A great way to demonstrate the relationship between risk and opportunity is through the below chart, which illustrates investment strategist Nick Murray's oft-quoted maxim, *"Declines are temporary; gains are permanent."*



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

At Charter Oak, our role is to provide perspective with clarity that empowers our clients with a clear objective and focused approach to investing. Risk is an inevitable part of the investing landscape and occasional declines offer the opportunity to purchase investments at lower prices, putting more money in our clients' pockets in the long-term.

We thank you for the opportunity to be your team of trusted advisors.

Charter Oak Capital Management is a registered investment advisor that provides retirement planning, financial planning and fee-based investment portfolio management to individuals and non-profit organizations. Our offices are located in Portland and Kennebunk, Maine and Portsmouth, New Hampshire.

The Acorn is written by the professionals of Charter Oak Capital Management exclusively for its clients. If you have questions or comments about anything you read here, or if there is a particular topic that you would like to see addressed, please let us know.