



CHARTER OAK
CAPITAL MANAGEMENT
Registered Investment Advisors

The Acorn

February 2, 2018

What Lies Ahead for Markets in 2018?



Perhaps it is volatility?

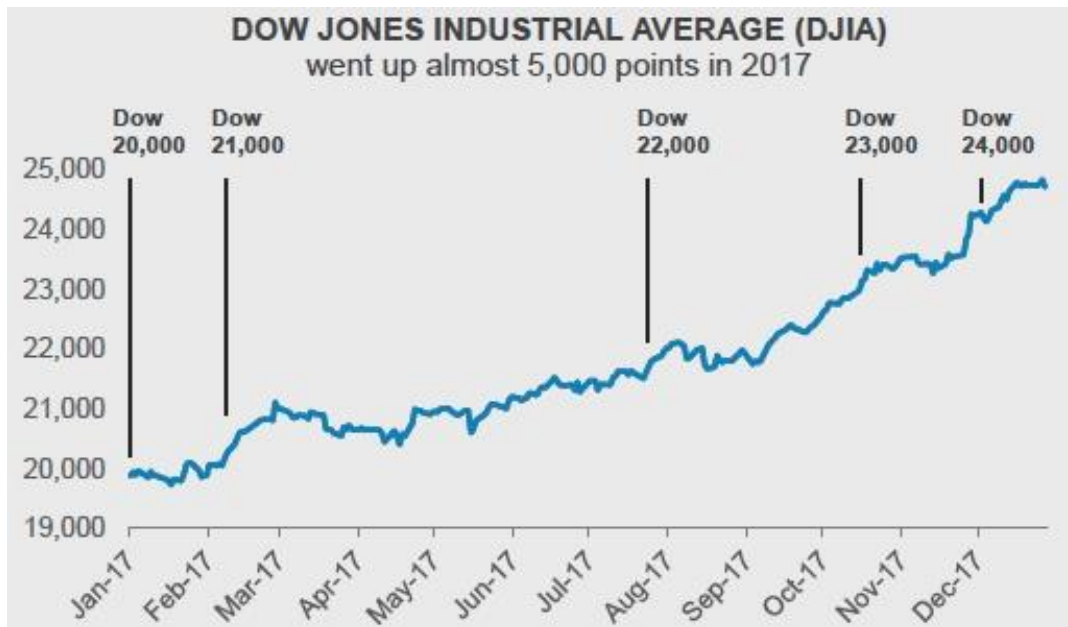
"The stock market is a device for transferring money from the impatient to the patient."
-Warren Buffett

In a little more than a year the Dow Jones Industrial Average (DJIA), what most people refer to as "*the market*", has risen 6,000 points or roughly 30%. As investors celebrate, mindful advisors are reminding clients they may see more volatility in their portfolios than they have in the past couple of years.

Simply put, volatility is the level of fluctuation in the current market value of your portfolio – it's only a snap shot on any given day. In the short-term, markets go up and markets go down. In a **typical year**, the stock market goes through **three market pullbacks (losses of 5% or more)**. During these down periods, it is important to stay calm and keep perspective on our long-term goals.

Is low market volatility the new normal? **Probably not.**

Remember 1,000 points isn't what it used to be, so please don't be coerced by news headlines in 2018. With the DJIA at roughly 26,500, a 1% decrease is equal to 265 points. In a typical correction of 5%, you can expect the market to be down more than 1,000 points.



When volatility comes, focus on percentages, not points.

A certain amount of fluctuation is necessary for a healthy market. It can provide a chance to buy investments at a lower discounted price and sell them in the future for a profit.

You've likely heard this before. Advisors at Charter Oak call these pullbacks a great opportunity to rebalance portfolios. Sometimes we like to borrow another quote from Mr. Buffett, **"be fearful when others are greedy and greedy when others are fearful."**

We have experienced a long-standing period of market growth and consistency. When looking at longer-term stock market trends, this lack of volatility is unlikely to continue. That means we will eventually face emotional challenges that accompany short-term stock market losses. These losses are typically accompanied by grim and fear-driven headlines.

How do average investors handle the ups and downs?

Average investors seem to give in to temptation - they sell low and buy high. Since 1996, the average investor has returned a mere 2.1% annually, while the S&P 500 has returned 8.2% annually over the same time frame. (JP Morgan - *Diversification and the Average Investor*).

How do we prepare for the ups and downs?

An important part of our role as advisors is to help you filter out the noise, stay disciplined and focus on your long-term goals. Our advice is always tailored to manage your investments in service to your individual financial plan.



One (of many) ways we prepare for volatility is through diversification – putting your eggs in more than one basket. Diversification is simply purchasing different types of investments to smooth out your returns over time. We discuss and then recommend the appropriate level of risk and asset allocation (mixture of investments) for each client.

With diversification, some pieces of the portfolio may go up when the market goes down and others may go down when the market is up. Diversification means we are always having to say we are sorry for something in that mix because:

"If everything in your portfolio is up at once, you are not diversified."

- Michael Kitces

As always, Charter Oak will continue to adapt our investment philosophy to current market conditions. We'll continue to work with our clients to align their investments with their financial plan, regardless of where the markets take us.

Thank you for the opportunity to be a trusted advisor to you and all that is important to you.

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.

Securities offered through Purshe Kaplan Sterling Investments, Member FINRA/SIPC.
Headquartered at 18 Corporate Woods Blvd., Albany, NY 12211.

Not FDIC Insured. Not Bank Guaranteed. May lose value, including loss of principal. Not insured by any state or federal agency.

The Acorn is written each week 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.