

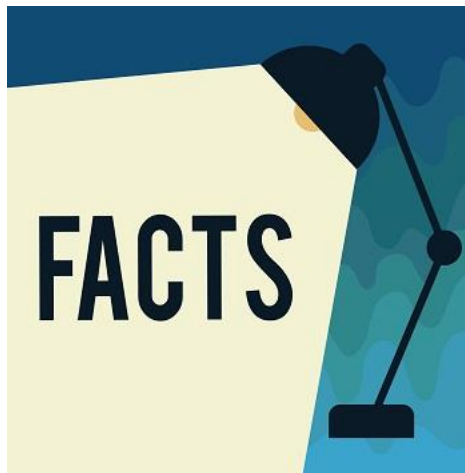


CHARTER OAK
CAPITAL MANAGEMENT
Registered Investment Advisors

The Acorn

March 1, 2019

Are Headlines Real...or are they Something Else?



There is no truth. There is only perception.

– Gustave Flaubert

Delivering clarity in a world of overwhelming and confusing information is one of the most important things Charter Oak provides its clients. While the information we receive always contains some form of bias, the sheer volume of what is available today for people to view, hear and see is increasing at a steady pace.

At Charter Oak, we believe it is important to separate the wheat from the chaff and differentiate facts from perception.

Have you ever heard someone say, “The Farmer’s Almanac said we are going to receive a ton of snow this winter” or “It’s going to be a hot summer this year”?

The problem is, only about 37% of what’s written in the Farmer’s Almanac is accurate, according to a study done by Penn State University. We are now in

an era of science where we actually can forecast the weather. Believe it or not, those forecasts are about 90% accurate. The bias is that there is no scientific evidence to back up these statements from the Almanac.

As investors, these biases can cloud our perspective and, more importantly, influence how we react when markets become exceptionally volatile.

Charter Oak has identified 3 kinds of bias that shape our view of the world. While there are others, we would like to take this opportunity to provide a narrative on some of the most common. The 3 biases are:

Confirmation bias

Dunning Kruger

Cognitive dissonance

Confirmation bias is when people tend to listen more often to information that confirms the beliefs they already have. Through this bias, people tend to favor information that supports their previously held beliefs.

This bias can be particularly evident when it comes to headlines. Consider these headlines and then how a change of perspective may make you react differently.

Headline:

"Markets Got Slaughtered Today: A Sign of Worse Things to Come?"

How to read it: No one ever really knows why stocks rise or fall on a single day. The market is up just over 50% of all trading days and down just under 50% of all trading days, so you can never put too much emphasis on market action in any one day.

Headline:

"The 10 Best Stocks to Own Right Now"

How to read it: Here are 10 random stocks we think could go up for reasons we are purely speculating on.

Headline:

"George Soros Gained/Lost \$1 Billion"

The facts: Soros has around \$25 billion so what he does with his money shouldn't concern most investors.

Instead of listening to the opposing side and considering all of the facts in a logical and rational manner, people tend to simply look for things that reinforce what they already think is true.

This can be dangerous to investors when markets are experiencing volatility because we tend to look for answers to complex problems from the same sources without considering a broader perspective.

Dunning Kruger is a bias defined by two scholars from Cornell. If you look up the research on this bias, you will see all kinds of fancy terminology. What it boils down to is people thinking they know more than someone else with no evidence to support their point. In other words, people think they know more than they do. Or they underestimate what they don't know - **the "expert" on television may be a "know-it-all"!**

These types of biases are often responsible for some of the most dangerous four words in investing, "this time is different".

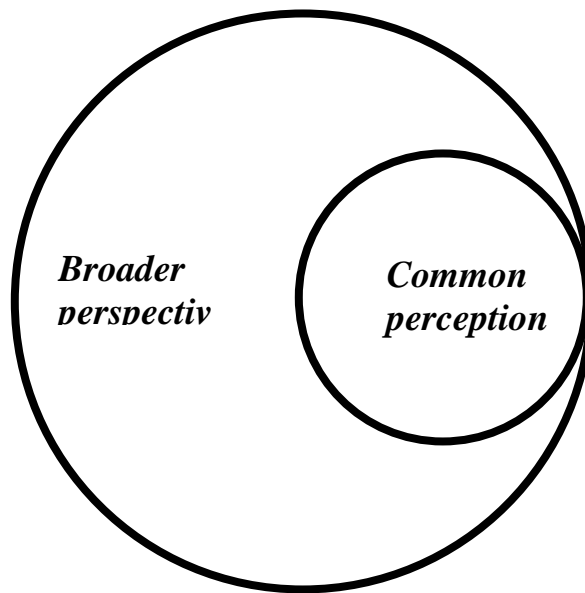
Cognitive dissonance refers to a situation involving conflicting attitudes, beliefs or behaviors. This produces a feeling of mental discomfort leading to an alteration in one of the attitudes, beliefs or behaviors to reduce the discomfort and restore balance.

February 2 marked Groundhog Day, the 133-year-old tradition where a groundhog is summoned to come out at 7:25 am to either see or not see his shadow, an outcome that "predicts" the length of winter. There is no better definition of cognitive dissonance than intelligent people actually believing this forecast is accurate.

Charter Oak's strategies to help reduce the influences of biases:

1. Change one or more of the attitudes, behavior(s), or beliefs, etc. to make the relationship between the two elements in agreement.
2. Educate clients and provide new information that (may) outweigh old beliefs.
3. Focus on reducing the importance of current beliefs, in light of new information.

There is a popular saying at Charter Oak, "*always sharpen the saw*". It refers to our commitment towards lifelong learning, developing new skills to provide clients with exceptional outcomes.



We all have our biases. It's part of being human. Our goal is to keep sharpening our saw to provide greater clarity and perspective to those we serve.

We thank you for the opportunity to be your trusted advisor.

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.

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