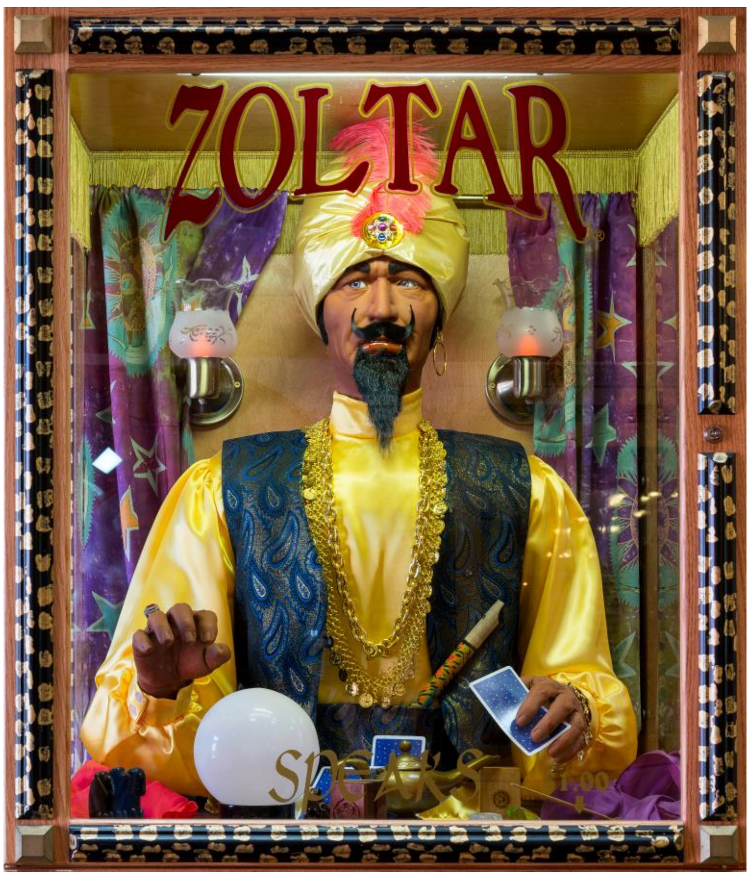
CHARTER OAK
CAPITAL MANAGEMENT
Registered Investment Advisors

The Acorn

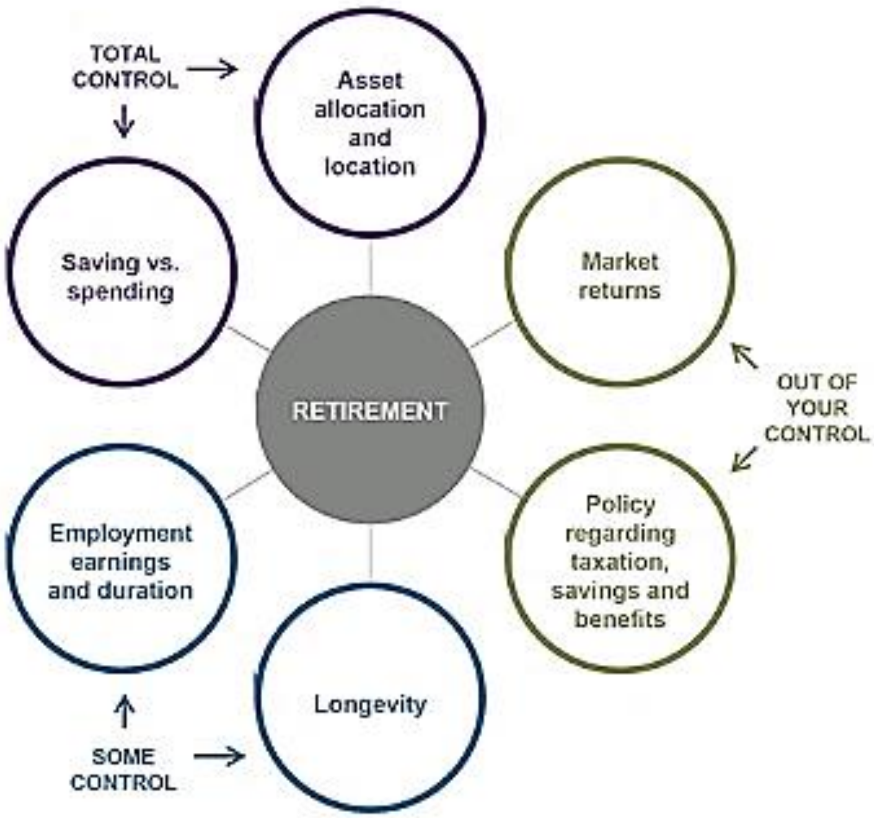
March 29, 2019

How to Control the Future



"The future is already here – it's just not evenly distributed."
- William Gibson, *The Economist*, December 4, 2003

A sound retirement plan makes the most of the things that you can control and also acknowledges there are some things you cannot.



Market returns and policy regarding taxation, savings and benefits are important factors in a financial plan, however they are by and large completely out of the control of the individual investor.

In many ways individuals have some control, albeit limited, over their employment earnings and duration, as well as their longevity, which are important factors in the probability of success for a financial plan.

Two aspects most individuals have total control over lies in their behaviors surrounding savings and spending and how invest their money, i.e. ***asset allocation, the mix of investments that accounts for most of the ups and downs of a portfolio's returns.***

When investing for long-term goals, there are two concepts you will likely hear about at Charter Oak over and over again — diversification and asset allocation. Diversification helps limit exposure to loss in any one investment or one type of investment, while asset allocation provides a blueprint to help guide your investment decisions. Understanding how the two work can help build a portfolio that targets the goals in your financial plan.

Diversification = spreading out risk.
Diversification refers to the process of investing in a number of different securities to help manage risk. The theory is that if some investments decline in value, others may rise or hold steady. Essentially, it's the sage advice, "*don't put all your eggs in one basket.*"

Asset allocation = aligning the amount of risk you take with you plan.
Asset allocation is an approach to diversifying your portfolio among different asset classes that seeks to pursue the highest potential return within a measured level of risk.

Factors we consider as your advisor include your investment goals, resources, time horizon and risk tolerance, we then invest different percentages of your portfolio in targeted asset classes to pursue your goals. A careful analysis of these personal factors can us build a portfolio to meet the goals and expectations outlined in your financial plan.

Generally speaking, a large accumulation goal, a high tolerance for risk and a long-time horizon would typically translate into a more aggressive strategy and therefore a higher allocation to stock/growth investments.

The opposite is also true: a small accumulation goal (or one geared more toward generating income), a low tolerance for risk and a shorter time horizon might require a more conservative approach.

"Winning" asset classes over time.
The following table shows how many times during the past 30 years each asset class has come out on top in terms of performance. It helps illustrate why diversifying among asset classes can be important. Bear in mind, however, that this table does not reveal the ups and downs experienced along the way.

Although stocks in general, and foreign stocks in particular, have come out on top in terms of winning years, the amount of volatility they experience is typically greater, and sometimes far greater, than that of cash and bonds, which is why we have measured amounts of each.

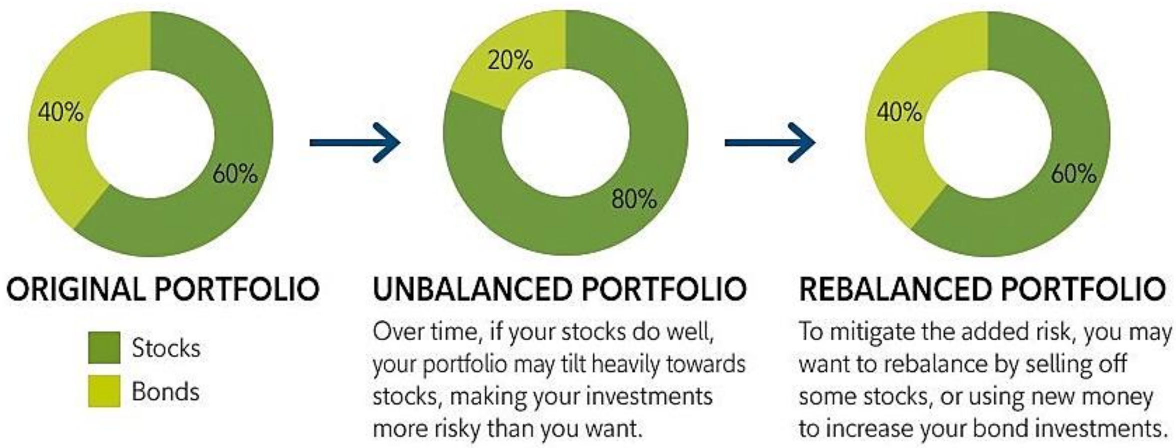
Asset class	Number of winning years, 1989-2018
Cash	4
Bonds	5
Stocks	10
Foreign stocks	11

Source: Thompson Reuters

Charter Oak's strategy to add value is with rebalancing to stay on target.

Over time, an asset allocation will shift simply due to changing market performance. For example, in years when the stock market performs particularly well, a portfolio may become overweighed in stocks. In years when bonds outperform, they may end up comprising a larger-than-desired percentage of the portfolio.

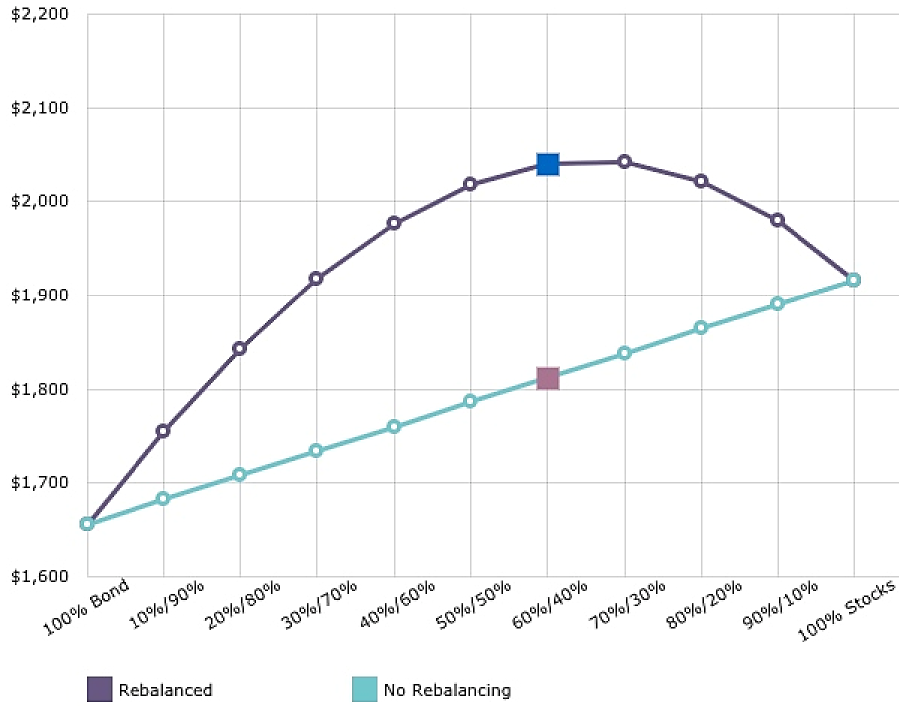
There two ways we rebalance. The first is by simply selling securities in the overweighed asset class and directing the proceeds into the underweighted ones. The second method is by directing new investments into the underweighted asset class until the desired allocation is achieved.



Source: Fidelity Investments

In these situations, a little rebalancing may be in order. **Evidence shows rebalancing can potentially go a long way!**

The chart below shows two long-term constructions of domestic stock and bond portfolios of different mixes. If you look at their values after 20-plus years, you'll see that the rebalanced version has outperformed the version that was not rebalanced. In addition, a 60% stocks/40% bonds portfolio rebalanced annually has actually outperformed a static 100% stock portfolio.



Note: Returns for stocks are based on the S&P 500 Index. For bonds, the Barclays US Aggregate Bond Index. Starting value $100, Jan. 1, 1977 through Dec. 31, 2014.
Source: Bloomberg, Morgan Stanley Wealth Management GIC as of Dec. 31, 2014

Source: Morgan Stanley

Monitoring with a disciplined approach, the Charter Oak way.

During your journey as an investor, we remain focused on making changes to your investments with a disciplined approach. This means we rebalance your portfolio on a scheduled basis during the year, when the goals in your financial plan change or whenever opportunities present themselves as prudent and of value.

Our goal is to continue to work hard for our clients by managing their wealth so they're free to live their lives. We thank you for the privilege 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.

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.