The Wealth Compass
Navigating Your Financial Journey
December 2024

Keeping Your Eyes on the Prize: Navigating Market Uncertainty

After every presidential election, it is normal for us to start getting questions about what the future holds or if portfolios should be changed. Elections often bring heightened emotions and market chatter as investors try to predict how new leadership or policies might impact the economy. At NHTrust, we understand how quickly the financial landscape can shift in the wake of political change, but we encourage our clients not to get swept up in the emotions of the moment. Emotional decisions made during times of uncertainty can derail long-term progress. Instead, we believe that maintaining a disciplined, thoughtful, and long-term investment approach is the key to achieving your financial goals.

Let's look at how market and/or pundit forecasts as well as our own biases can cause us to stray off course.

The Perils of Prediction

Predicting the future is a complex endeavor, often hindered by inherent limitations. Economists, market strategists, and political pollsters often fall short of their forecasts. While we can identify potential trends and probabilities, unexpected events can derail even the most well-informed predictions.

- **The Limits of Forecasting:** Forecasters, whether economists, market strategists, or political pollsters, often struggle to accurately predict the future. While probabilistic models can offer potential outcomes, these forecasts are frequently inaccurate.
- **Imperfect Models:** Even the most sophisticated models have limitations. While they can provide valuable insights, they are not infallible and can become less reliable as conditions change.
- **The Role of Luck:** Chance plays a significant role in market outcomes. Seemingly well-informed predictions can be derailed by unforeseen events or random fluctuations. By recognizing these limitations, we can adopt a more realistic and prudent approach to investing.

Think you see a pattern or can predict what's next? Consider this from Ben Carlson, CFA:

"Last year the S&P 500 was up 26%. This year it's up nearly 29%.

Since 1928 there have only been three other instances of 25%+ returns in back-to-back years:

1935 (+47%) and 1936 (+32%)
1954 (+53%) and 1955 (+33%)
1997 (+33%) and 1998 (+28%)
So what happened next?

Something for everyone:
1937: -35%
1956: +7%
1999: +21%

Not helpful."

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The Impact of Bias

Human psychology plays a significant role in our investment decisions. Here are some common biases that can influence our behavior:

- **Confirmation Bias:** The tendency to seek out information that confirms our existing beliefs and ignore contradictory evidence.
- **Optimism Bias:** The tendency to overestimate the likelihood of positive events and underestimate the likelihood of negative events.
- **Hindsight Bias:** The tendency to believe, after an event has occurred, that we could have predicted it.

These biases can lead to suboptimal investment decisions, so it's important to be aware of them and take steps to mitigate their impact.

A Disciplined Approach to Investing

To mitigate the impact of these biases and market uncertainties, we advocate for a disciplined investment approach that focuses on the following:

- **Diversification:** Spreading your investments across various asset classes can help reduce risk.
- **Rebalancing:** Regularly adjusting your portfolio to maintain your desired asset allocation.
- **Long-Term Perspective:** Staying focused on your long-term goals and avoiding short-term market fluctuations.
- **Professional Guidance:** Working with a trusted advisor can provide valuable insights and help you stay on track.

By partnering with NHTrust, you can benefit from our expertise and experience. We will work closely with you to develop a personalized investment strategy tailored to your unique needs and risk tolerance. Together, we'll stay focused on what truly matters: your financial success over time.

Please feel free to reach out to discuss your financial goals and how we can help you achieve them.

References

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