



## Expectations and objectives

### It's unwise to chase after short-term financial gains and yesterday's winners

On a recent visit to Florida to meet with clients, one asked why her account wasn't performing as well as the market. Later, I met with another client who introduced me to a friend who bragged about how well his portfolio did in the past year. When most people talk about "the market," they are referring to the U.S. large cap indexes, like the Dow Jones Industrial Average or the Standard & Poor's 500.

In the past year, U.S. large cap indexes were among the best performing in the world. Anyone who had a heavy allocation to large U.S. stocks would have had

A heavy allocation to stock investments makes sense for a lot of people. Stocks provide income in the form of dividends, which appeal to retirees, and the appreciation potential in stocks appeals to both young and old investors. With interest rates remaining low, it's easy to build a portfolio of stocks that generate an attractive level of income compared to the rates for bonds.

But before investing in stocks, one needs to understand the risks involved and the volatility that exists in various markets around the world.

Clients often come to my firm for advice and, after an interview process, we're able to make a recommendation. The recommendation is based on what the client's goals are as well as their tolerance for risk. Our job is to educate clients on what to expect as an investor and to manage the portfolio for them.

Let's say a client tells me that they want to invest conservatively. In that case, I cannot allocate their portfolio all in stocks from a single market like the U.S. Some investors are able to achieve their goals while having their portfolio managed in a conservative manner.

A conservative portfolio typically would be balanced between stocks and bonds with a focus on established large company stocks rather than small companies, and the holdings may be globally diversified. A portfolio like this would have made money last year, but not as much as one that was only invested in U.S. large cap stocks.

Though long-term performance usually increases as the allocation in a portfolio of stocks increases, it is important

to create a portfolio that allows for the investor to remain invested, especially during volatile times in the market.

An investor may want the highest possible long-term return and will invest only in stocks to achieve that return. However, if that investor sells the portfolio during a downturn in the market, then having an all stock portfolio would be a mistake.

If a client comes to me and tells me they are financially conservative, then we'll invest in a broadly diversified portfolio, which will most likely include some bond exposure. With a conservative portfolio, one cannot expect to earn the same returns as the market, which is solely invested in stocks.

In Florida, many of our clients live in country club communities where a common topic of discussion is the stock market and the hot stock of the day. People there will often brag about their winners while ignoring their losing positions. As a trusted advisor, my job is to educate clients about what they should be doing to achieve their goals rather than being influenced by their peers at the country club.

Rarely, if ever, is it wise to chase after short-term gains and yesterday's winners. A financially conservative client shouldn't expect to earn what his or her aggressive friend made investing in the market during only a limited period of time. **NHBR**

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### Personal Finance

a good year in 2014. However, the U.S. markets are not always the leader, and most people diversify their portfolios to include non-U.S. positions. Often bonds are included.

While the S&P 500 gained around 14 percent last year, outside the U.S., the developed markets stocks lost 5 percent and emerging markets stocks lost 2 percent. Additionally, the U.S. small cap index underperformed the large cap index, with a gain of around 5 percent last year.