10 Things Investors Can Expect in 2019

I have no idea what's going to happen — in world events, politics, or the market — in 2019 (and neither does anyone else). This baked in uncertainty is what makes the financial markets equal parts maddening and fun to prepare for.

There's no way to reduce the inherent uncertainty about the future or know exactly what it holds but I am fairly certain that the following 10 things will happen in 2019:

1. Your results in 2018 will impact how you feel about the markets in 2019. The recency bias affects us all in some way. Many investors will be gun shy following their poor performance in 2018. That brutal 4th quarter is still fresh in everyone's mind. Others will come in overconfident if they came away relatively unscathed last year. Still others will be banking on a reversal of fortune. We tend to use our recent experience as a baseline for what will occur in the future, often to our own detriment.

2. Something will happen that doesn't make any sense at all. There's sure to be something that catches investors off-guard in 2019. Something is bound to defy expectations whether it involves geopolitics, irrational market movements, corporate takeovers, huge gainers, huge losers, or any number of crazy news, events, or performance moves. I've learned I'll almost always be surprised by markets to some degree so the trick is to not be surprised that you're surprised because these things can be completely random at times.

3. Since stocks fell hard at the end of 2018, it will feel more comforting to do something than nothing in 2019. Doing something, anything, during big market moves, makes investors feel better about themselves because it gives us the illusion of control, whether those moves are necessary or not. Grabbing the wheel, so to speak, when things get hectic feels like the right move because making portfolio changes offers a release valve. It's during these times that patience is rewarded more than ever.

4. There will be other people getting richer than you (or claiming to be getting richer than you). Fear and greed can force investors into making mistakes with their money but envy is probably more destructive. Seeing your peers, friends, or even perfect strangers making money faster than you can cause some strange emotions and reactions. This is true in down markets as well as someone is bound to put on the right hedge or trade at an opportune time, whether through luck or skill.

5. Your asset allocation will likely have a bigger impact on your performance than your security selection. Stock-picking is more exciting but even if you pick the very best stocks in the worst sector/country/region/risk factor it probably won't matter in terms of your overall performance. Asset allocation isn't as sexy as security selection but it will almost always be the most significant part of your performance attribution.

6. The best investment you can make will likely be an increase in your savings rate. You have no control over market returns, tax policy, economic growth, or the actions of other investors. But you do control how much you save which is typically the most important investment decision you can make. This is boring advice but for those who are worried about the prospect for lower returns it’s the most proactive move you can make.

7. Expect plenty of I told you so's. The S&P 500 had its first down calendar year return after 9 straight years of gains. People have been predicting a huge drop every year since those gains began. Many of them will try to remind you of this fact under the assumption that they perfectly timed the recent downturn. You can safely avoid investors and pundits who tout their market timing calls after the fact. Most of them exaggerate their track record or completely whiff the next time around.

8. There will be a stock, fund, strategy, or asset class that skyrockets that you wish you owned more of. Every year there’s *something* everyone wishes they would have put their entire portfolio in to see huge gains. It’s fun to dream about owning a lottery ticket stock but you’ll only know in hindsight what the perfect portfolio or investment would have been over any given year.

9. You won’t be able to distinguish between luck and skill in anyone’s investment results. People will be right for the wrong reasons and wrong for the right reasons but markets don’t care about these things over shorter time frames. Over any given year a great process can produce subpar results while a terrible (or no) process can produce phenomenal results. Bad decisions get rewarded all the time but luck doesn’t last forever in the markets. Eventually a good decision-making process will win out but over a one-year time frame anything can happen.

10. Diversification will make you feel silly. Any long-term investment strategy is bound to make you feel foolish over the short-term. This is especially true at market extremes as the limits of your patience and discipline are sure to be tested. Diversification is for patient people and that requires ignoring those market environments that make you feel like an idiot for spreading your bets and managing risk.

I ran a version of this post last January and changed some of the entries because this stuff works for most years. I may do this again in 2020...