10 Things Investors Can Expect in 2018

I have no idea what's going to happen -- in world events, politics, or the market -- in 2018 (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 uncertainty about the future or know exactly what it holds but I am fairly certain that the following 10 things will happen to investors in 2018:

1. Your results in 2017 will impact how you feel about the markets in 2018. The recency bias affects us all in some way. Some investors will be overconfident based on solid 2017 performance. Others will be gun shy after missing out on big gains. Still others will be waiting for 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 2018. 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. 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 extremely random.

3. When stocks start to fall a little, it will be easy to convince yourself that they'll fall much further. The average peak-to-trough drawdown in stocks over the past 70 years or so is a loss of 13-14% in a given calendar year. We saw nothing close to approaching this type of drawdown in 2017 but eventually, we'll see a correction. Crashes are rare in comparison to corrections but it's almost impossible to avoid thinking every correction will turn into a crash.

4. There will be other people getting richer than you through better portfolio performance. Greed can force investors into making mistakes with their money but envy is probably more destructive for investors. Seeing your peers, friends, or even perfect strangers making money faster than you can cause some strange emotions and reactions.

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. There will be geeky finance debates that 99% of investors should safely ignore. Passive vs. active. Smart beta ETF construction. Value investing is dead? Portfolio optimization. How much active share is necessary? These topics make for interesting banter for market nerds like myself but most investors are better off ignoring such minor details and focusing instead on getting the big things right.

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.