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In Perspective

A Flurry of Forecasts

January 2017

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As we begin another year, it's time for financial and investment 'experts' to make their predictions about what the year ahead will bring, where the best bargains can be found and where the greatest dangers lurk.

Reporters usually find no shortage of experts willing to share their forecasts with a public primed to believe that sound investing is all about finding a reliable crystal ball.

Of course, these features can be fun to read if you don't take them too seriously and they become even more entertaining a year later – providing you haven't followed their advice that is.

Entertaining forecasts, terrible outcomes

A particularly interesting and profound forecast from this time last year was made by RBS, which issued a call to investors to "sell everything", warning of a deflationary crisis and a cataclysmic year on markets.[1] "Sell everything except high quality bonds," the bank advised clients in a research note. "This is about return of capital, not return on capital. In a crowded hall, exit doors are small."

The bank forecast a decline of up to 20% in major stock markets, a fall in world crude oil prices to as low as $16 a barrel, and only high-quality government bonds showing a positive result for the year.

With 2016 all done and dusted, those forecasts were, politely speaking, somewhat wide of the mark. Indeed, bearing in mind that during late 2016 and early 2017, the major UK and US equity indices were at record highs and Brent crude was trading north of $55 a barrel, it is quite likely that many who heeded this forecast / advice, clients of RBS and otherwise, will, to put it mildly, not be best pleased.

If you knew then what you know now

It is easy to see just how wrong and destructive the RBS forecasts were (the aggregate adverse consequences for investors can probably be measured in the hundreds of millions of pounds), now that we have the benefit of hindsight, but what if you had known, in advance and with complete accuracy, what events would play out during 2016?

Would this have been helpful in your investment decision-making and would it have better helped you to capture the very significant returns the global capital markets were generous enough to offer last year?

In considering this, ask yourself the following questions and try provide the most honest answers you can:

'If I had known about, for example, Brexit; there being (in essence) an unexpected change of government in the UK only a year after a general election; Mr Trump, Mr Putin, the Bank of England announcing another round of QE and further reducing Base Rate to an unprecedented level, the US Federal Reserve increasing rates, Sterling taking a hammering, terror attacks across Europe etc., would I have:

a) expected global capital markets to rise?

b) expected them to deliver such significant, double digit returns?

c) been brave enough to materially increase my exposure to growth assets (stock markets) at the start of the year, knowing that all of the above and more was going to happen in 2016?'

If we are being honest, the answer to most, if not all of these questions, is 'no', which begs the question of how useful, from an investment perspective, this seemingly immensely valuable advance information would really have been to investors? In truth, knowing all of this ahead of time and acting on it in the way most people would, would have cost a barely comprehensible amount of money in the form of foregone returns.

1. 'RBS Cries 'Sell Everything' as Deflationary Crisis Nears', *The Telegraph*, 11 Jan 2016

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Hot Stocks

Sometimes, when the risk of predicting geopolitical and macroeconomic developments, or movements in markets, asset classes and currencies is just not risky and exciting enough, forecasters turn their attention to individual stocks, which are 'hot' (or not) for the coming 12 months.

For instance, one popular website in December 2015 picked "three top Australian shares for 2016" – shopping centre giant Westfield Corp, digital real estate business REA Group and healthcare company CSL.[2]

Each company had "strong management teams, defensive earnings and the kind of profit-growing business models that should be able to survive all but the most severe of economic downturns," the website said.

All of that may well be true, but as at mid December 2016, Westfield Corp shares were down around 2.6%, REA Group was flat and CSL was down around 10.5%, which doesn't sound very exciting in absolute terms, but sounds pretty dismal compared with the double digit positive returns of a low cost, globally diversified equity portfolio during the same period.

So, what can we learn from financial and investment forecasts?

Inevitably with these lists, some stocks will do well, while others will do poorly and the ability to accurately predict which the winners and losers will be in advance and more importantly, to do it consistently (a robust long-term investment strategy cannot simply rely on the occasional, ad hoc lucky guess), just doesn't exist, regardless of how seemingly plausible the forecasts might be.

As such, following investment forecasts amounts to speculating, which is not the same thing as investing, and aside from costing you a lot of your valuable time – which might better be used to pursue more fun things in life than fruitlessly scouring newspapers and financial reports – is more likely to lead you into trouble than it is to unearth 'the next big thing'.

The antidote, of course, is to pursue and achieve well-thought through and executed diversification across countries, asset classes, stocks and bonds. In the words of the legendary Jack Bogle: "Don't look for the needle in the haystack. Just buy the haystack".

Some thoughts to leave you with

Since a theme of this piece has been 'entertainment', rather than leave you with the very sensible, if not especially exciting advice of Jack Bogle, in reviewing the role and value of the flurry of investment forecasts made at the start of this and every other year, I thought you might prefer to be left with the slightly more entertaining thoughts of the brilliant J.K Galbraith, who famously stated that:

> **"The only function of economic forecasting is to make astrology look respectable."**

With this in mind, it's probably best you don't focus your long-term investment strategy on speculating on the unknowable, because the evidence is that events have an uncanny ability to consistently confound the most well-reasoned forecast, often with expensive and distressing consequences. After all, as US baseball legend, Yogi Berra, once said:

> **"It's tough to make predictions, especially about the future"**

Best regards

Michael

2. "Three Top Shares for 2016", *Motley Fool*, 25 Dec 2015

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In addition to being a Chartered Wealth Manager, Michael is a Chartered Financial Planner and holds the globally recognised Certified Financial Planner qualification. He is also a Fellow of both the Personal Finance Society and the Chartered Institute for Securities & Investment and as such, is one of the most highly qualified financial planning professionals in the UK. Michael also sits on Chamberlyns' Investment Committee and helps to produce the firm's regular series of concise 'In Perspective' articles, which consider, and provide perspective on, a range of current and timeless wealth planning issues.

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