



It's Tough To Make Predictions Market Commentary – January 2012

Douglas D. Vander Weide, CFP® / William J. Streff, CFP®, CEBS

This is the time of the year when the so-called investment 'experts' make their predictions for the coming year. While this information may be interesting, the predictions are actually much more entertaining when reviewed a year later.

Take the late 2010 Barclays Capital Global Macro Survey of more than 2,000 institutional investors. The consensus pick for the best performing asset class in 2011 was equities, with a predicted 15% annual gain for the S&P 500 stock index. Less than 10% of those surveyed said fixed income would be the best performing asset class.

And...wait for it...Surprise! Fixed income was easily the best performing asset class of the year, with the Barclays aggregate bond index gaining almost 8% in 2011. Conversely, the year-to-date return for the S&P 500 stock index (including dividends) was 2%. On a risk-adjusted basis, the disparity is even greater.

Remember, these were the forecasts of big institutional investors – major financial institutions with armies of analysts, mountains of data, and sophisticated forecasting tools. If the 'experts' can't get the broad asset class movements right, what chance do they (or you) have of correctly and consistently predicting the performance of individual securities?

In short, they have no chance, but year after year, that doesn't stop them from trying.

What are the lessons we want you to take from this information?

- 1) Don't invest based on economic forecasts. They are simply media-hyped guesswork. Over time, we know that unforeseen events are sure to invalidate certain assumptions used in those same forecasts.
- 2) There is no substitute for low-cost diversification. While equity markets were rocky this past year, fixed income markets provided excellent returns. By staying diversified both across and within asset classes, and keeping investment costs to a minimum, you can enjoy gains now and still be positioned to reap returns when riskier assets come back into favor.
- 3) The past is NOT prologue. As an investment strategy, chasing past returns is no better than chasing predicted returns. Just because fixed income outperformed the equity market in 2011 is no reason to believe it will do the same in 2012. Regardless of the market's unpredictable nature, we will stay with the asset allocation we have tailored for you.

In the end, when it comes to 'expert' forecasts on the direction of investment markets, it's probably best to remember the words of Yogi Berra: *"It's tough to make predictions, especially about the future."*