January 2010 *MoneyMinute* – A Foggy Crystal Ball

By Bob Veres

It's a good thing that financial planners and advisors aren't paid to predict the future because, well, nobody seems to be doing a very good job of it lately. I hope you'll remember this as all the major financial magazines come out with their yearly "Here's what will happen in 2010" cover stories.

Reading through some back issues, we find that at this time two years ago, nobody, anywhere, was predicting a fourth-quarter meltdown in the investment markets, or the global economy tottering on the edge of disaster. In fact, not a one of the prognosticators seems to have realized that the U.S. economy had already fallen into a recession.

If you read the magazine issues in early September 2008, right before the markets suddenly went into a 400-point free-fall in two trading days (triggered, you probably remember, by the collapse of Lehman Brothers, the AIG bailout and the federal rescue of Fannie Mae and Freddie Mac), you realize that nobody had a clue that a storm was brewing on the horizon. The *Wall Street Journal* talked confidently about Lehman's efforts to secure a line of credit or divest some assets, and the consensus seemed to be that the damage from the burst housing bubble had been safely contained. Postmortem articles about the crisis show that the Federal Reserve Chairman Ben Bernanke and Treasury Secretary Hank Paulson, who both watch the economic numbers DAILY, were caught totally flat-footed.

Closer to home, in January of 2009, economists and pundits were talking about the possibility of a sustained market drop similar to the slow investment torture the Japanese have experienced since 1989. *Kiplinger's* magazine identified the people who had been most right in their 2008 predictions and asked them what they thought was going to happen in 2009. Not a one of them predicted what actually happened: a dramatic rise in stock prices (the S&P 500 touched bottom on March 6 with an intraday price of 666.79 and rose to over 1,100 currently), a sharply rising dollar and an end to the economic recession – what economists are now describing as a jobless recovery.

Here's what they actually said: David Tice, chief equity strategist for Federated Investors, told the magazine's readers that "The dollar will decline, and it's very possible that inflation will pick up. The S&P 500 index could easily fall to 450 or so. This will be a longer-term decline," he added, and gave the worst advice possible for investors over the next three quarters, saying that "Investors should be selling equities and conserving cash."

Bob Rodriguez and Tom Atteberry, of First Pacific Advisors, confidently predicted that: "The upturn won't come until 2010, and when it does, it will look very sluggish and lethargic."

The worst advice was being given right at the bottom in March, when global stock prices were about to reward patient investors with an amazing rally. Consider this evaluation from the March 5 issue of *Business Week* magazine:

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All told, more than $10 trillion of stock market wealth has vanished, and with it the confidence that springs from financial security. "We are looking at a 60% to 70% chance that this bear market is not over," says Robert D. Arnott, chairman of Research Affiliates, a Pasadena (Calif.) firm that manages $25 billion.

The article went on to predict "more debt busts and government trial and error until things get set right again. That could mean two more years of bouncing around and then another six or so before the Dow is back above 14,000. Not long ago, such an outcome would have seemed unimaginably bleak. Given the other possibilities, it doesn't seem so bad now."

The hardest part about investing is controlling the natural urge to sell when the market has cratered, or to buy when the market is euphoric. But that's like going to the mall and waiting to buy until all the sales are over and prices have gone up, and then, as soon as the store has its next 25% off sale, going back and selling whatever you bought. Nobody would even think of doing that with their holiday gift purchases, but it's normal behavior in the investment markets.

The unhappy truth is that nobody can foresee the future, and the investment markets tend to be far less predictable than other areas of our lives. Like it or not, we venture blindly forth every day, control what we can control (investment costs, taxes and savings rates), and generally make more money in the upturns than we do in the downturns. Years ago, a pundit threw up his hands and said: "I don't know what the markets will do tomorrow, or next week, or next month. But I do know, with certainty, which direction the next 100% movement in the markets will be."

There, finally, is a prediction I can endorse.

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