Prediction Season

"Those who have knowledge, don't predict. Those who predict, don't have knowledge."

Lao Tzu – 6th century BC Chinese poet

What will the stock market do in 2017? At Heritage, we have long understood that market predictions are unreliable and counter-productive. However, we are willing to make one bold prediction for 2017: We predict that in January the financial press will be full of predictions for 2017.

Investment strategists are in the business of forecasting the future, and it is only natural that every January they are busy providing fresh ideas for the new year. Their "best picks" and "sure bets" are always meticulously reasoned and backed by compelling research; the only problem is, they are no more accurate than a random guess. Here are a few of our favorites from last year:

- In a Barron's survey of 10 prominent market strategists, the consensus estimate was for the 10-year US Treasury yield to rise to 2.69% by the end of 2016 from 2.25% at the beginning of the year. By November 15 the yield was still at 2.24% after *falling below 1.4%* earlier in the year.
  "Stock Market Outlook 2016", *Barron's*, December 12, 2015
- In the same Barron's survey, the average return of the "top stock picks" was 4.5% as-of November 15. The broad US market was up 8.7% over the same time period.
  "Stock Market Outlook 2016", *Barron's*, December 12, 2015
- In a Forbes survey, the top fund picks of 10 professionals had underperformed the overall market by 6.2% as-of November 15.
  "How To Invest Your Money In 2016: Top 10 Fund Buys From 10 Pros", *Forbes*, December 13, 2015
- A set of Kiplinger's favorite individual stock picks did slightly better than the picks from Barron's, rising 8.0% as-of November 15 versus the market return of 8.7%, but the individual stock returns ranged from a gain of 28% to a loss of 13%.
  "7 Stock Picks to Beat the Market in 2016", *Kiplinger's*, January 15, 2016

It should be noted that we are not talking about amateurs here. All of these predictions were made by recognized experts who were asked for their *best* ideas. These are the individuals who are purported to have an exceptional ability to find hidden clues and divine tomorrow's big winners, yet the results are more in-line with what we would expect from an unlucky casual hobbyist.

This unimpressive record in 2016 is not an anomaly. Market forecasters are woefully

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inaccurate year after year. So why do they continue to make these predictions? It is quite probable that the experts are aware that the odds are stacked heavily against them, but they continue to make bold forecasts *because their readers want them to.* The desire to have a glance into the future is perfectly natural, and investors are constantly tempted by the possibility of gaining an edge on the market even if the predictions they have been given have not turned out well in the past. This is merely the triumph of hope over reality.

Given the difficulty of predicting financial markets, what can we say with confidence about 2017? Although statistics would tell us that, on average, stocks will be higher at the end of the year than where they started the year, that is far from certain. We can say with some confidence that a few strategists will make predictions that seem prescient and others will make predictions that seem ridiculous; however, we will not know which is which until we have the benefit of hindsight at the end of the year.

Fortunately, although forecasting is largely a futile exercise, it is not necessary to correctly predict the capital markets in order to have a successful investment experience. Being fully invested across a broad array of asset classes and rebalancing regularly has allowed many investors to realize their goals without having to rely on flawed market forecasts. We remain confident that many investors will continue to try to get an edge on the market in 2017 by forecasting the future, but those of us who recognize the folly of such efforts will likely be better-off in the long run.

Heritage Investment Group provides wealth management and investment guidance to high-net-worth individuals, families, charitable foundations and qualified plans. We provide seasoned financial guidance, with respect and integrity, backed by a disciplined investment process. Since 1993 we've built our firm on a strong foundation of family and friendships with guiding principles of ethics and integrity.

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