



2020 - Another Rough Year in the Prediction Business

“Unforeseen surprises are the rule in science, not the exception. Remember: stuff happens.”

– Leonard Susskind

In January 2020, as happens every January, Wall Street analysts were busy making predictions for the new year. The consensus was that the global economy and the capital markets would be driven by a few big events during the year: the trade war with China, the US presidential election, the potential for interest rates to increase, and the ongoing Brexit negotiations. While the analysts were making these “bold” predictions, a viral infection was taking hold in China. That coronavirus would become the main driver of the global economy in 2020, the focus of the world’s attention, and the biggest news story of the 21st century. Yet the financial gurus did not see it coming.

Those who make their living in the prediction business will lament that no one could have anticipated the arrival and subsequent global impact of the coronavirus. But this is precisely the point: often, the most profound occurrences in our lives, financial and otherwise, are unforeseen — and unforeseeable. COVID-19 is a prime example of just such an event.

The scientists did not know when it would happen but have said it was just a matter of time before we had to deal with another pandemic equivalent to the

Spanish flu of 1918-1919. But the entirety of the consequences of COVID-19 were not obvious — not in the beginning and maybe not even now. Few could have predicted the dramatic acceleration of the transition away from the traditional office environment and toward working from home; that urban real estate projects would go bankrupt as people fled to the suburbs; or that food delivery and home exercise applications would experience a huge boost in revenue. And most important, the dramatic acceleration of successful research in the area of infectious diseases was not at all obvious; yet it will benefit mankind for generations to come.

The black swan

In recent years, the term “black swan” has been used to describe unpredictable events with consequences that themselves are not fully predictable. The dot-com boom of the late 1990s, the 9/11 terrorist attacks, the phenomenal success of Amazon, and the global financial crisis of 2008 are all examples of black swan events that, like COVID-19, had a large impact on the financial markets and our lives.

It is tempting for individuals in the prediction business to dismiss black swans as one-off incidents, but the truth is that black swans happen all the time, and they tend to be the events with the most

profound impact on both the financial markets and our personal lives. Consider the unexpected turning points of your own life. The events that have had the most profound impacts were likely unexpected or even completely unpredictable. Positive things such as coming across a chance job opportunity or meeting your future spouse, and negatives like a sudden injury or illness or the loss of a loved one were probably not part of your plan. Yet these black swans are the events that most definitively shape your future, and they can be just as unpredictable as the surprises that are the main drivers of the financial markets.

“I totally saw that coming.”

One of the peculiar aspects of black swans is that these events tend to seem obvious after the fact. For example, it can be tempting to conclude that it was just a matter of time before we had to confront a global epidemic and thereby convince ourselves that the fallout from the coronavirus is neither unpredictable nor surprising. The problem with this line of thinking is that even knowing some sort of epidemic was bound to happen would not have allowed us to predict the specific characteristics of the coronavirus or the sequence of events that would follow.

The coronavirus has reminded us of the lesson we learned from 9/11 and again during the global financial crisis of 2008: the world is not nearly as predictable as we want to believe it is. Despite our very human desire to predict the future, our health, wealth, love, and life in general are largely determined by the unpredictable. Even now, we still have only a vague idea of how and when the story of COVID-19 will end.

Although the universe repeatedly teaches us that lesson — that the most important incidents are random and unpredictable — the prediction business still thrives in Las Vegas sports books and on Wall Street trading desks. At the start of 2021, the analyst consensus is that vaccination and the reopening of

businesses will drive the global economy further out of recession, inflation will increase around the world, airline and commercial real estate stocks will soar as the pandemic dissipates, additional fiscal stimulus will push the equity markets to new highs, and Chinese equities will outperform those of most other countries. If those topics turn out to be the most important financial news of the year, that will be boring — and a very welcome change. However, for better or worse, it is entirely possible that those predictions will seem laughably unimportant at this time next year.



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The original version of this article was written by Heritage for the March/April 2021 edition of The Light, a local magazine serving Broward County, Florida.

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