"Since the destruction of the Temple, the gift of prophecy has been taken away from the prophets and given to fools and children"

— ***Rabbi Yohanan ben Nappaha,***
Babylonian Talmud, tractate Baba Bathra
121b in the late 3rd century CE

Fools and Children

Mar 14, 2011 | by Jay Franklin

If Rabbi Yohanan were alive today, perhaps one of the categories of fools he would be referring to are the pundits in the financial media who endlessly bombard us with their market predictions. IFA has consistently warned investors that making investment decisions based on these predictions can be hazardous to their wealth.

As proof, we can direct you to the fine folks at cxoadvisory.com (http://www.cxoadvisory.com/gurus/) who track the predictions of the "gurus" and record the percentage accuracy of those predictions. The gurus include famous names such as Jim Cramer, Abby Jospeh Cohen, and Marc Faber of the Gloom, Boom and Doom Report. It is quite interesting that of the 61 graded gurus, 38 showed an accuracy below 50%! In other words, 62% did worse than if they had simply made random guesses. These results are corroborated by a study of expert economic predictions done by William Sherden of Stanford University who found that economists have no special ability to predict the turning points in the economy[1.]

Michael McCracken of the St. Louis Federal Reserve Bank found that forecaster errors were four times larger when the economy was in recession than when it was not (i.e., the failure rates of the experts are much higher when their talents are most needed)[2].

1 "The Fortune Sellers", New York, John Wiley & Sons, 1998.
2 "How Accurate Are Forecasts in a Recession?", Federal Reserve Bank of St. Louis, Economic Synopsis, No. 9, 2009.

All market forecasts rely to some extent on a macroeconomic prediction, and the movement of the economy (and the market) depends on the news, which by definition, is unpredictable. It is no wonder then that out of 32 market-timing newsletters (http://www.ifa.com/12steps/step4/#f41) , none of them delivered a higher return than the S&P 500 over a ten year period.

While it is always fun and amusing to find specific past predictions that failed to bear out, we could too easily be accused of cherry-picking after the fact and ignoring those few predictions that did come true. Fair enough. So instead, we will take note of a recent prediction (http://www.marketwatch.com/story/market-crash-2011-it-will-hit-by-christmas-2011-02-22) made on February 22nd by Paul Farrell of Marketwatch.com quoting Jeremy Grantham of an impending market crash (a 31% drop in the S&P 500 to 910 by Christmas, 2011). Mr. Grantham has a 48% accuracy grade from CXO Advisory, so we will not be rushing out to sell our equity positions (not that we would if he had a higher grade). Mark your calendars to see if this prediction improves his track record.

To summarize, IFA wholeheartedly agrees with Warren Buffett who said, “A prediction about the direction of the stock market tells you nothing about where stocks are headed, but a whole lot about the person doing the predicting.”[3] Better still is the quip from Buffett’s mentor, Benjamin Graham, “If I have noticed anything over these 60 years on Wall Street, it is that people do not succeed in forecasting what’s going to happen to the stock market.” (Security Analysis, 1934) In the spirit of Rabbi Yohanan’s assertion, IFA suggests that you spend more time with your children and less time with the fools on CNBC, who definitely will not provide you with profits.

It is IFA’s privilege to share this information with you. Each of our investment professionals welcomes the opportunity to assist you in your quest for risk-appropriate, low-cost returns. To learn more, please call 888-643-3133 or visit ifa.com.

3 Mark Sellers, “Could Stocks Still Be Undervalued?”, Morningstar, February 18th, 2004.

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