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DARE TO BE DULL

2008 stock market predictions 'guaranteed to be right!'

'Tis the season where the media and stock market gurus make their 2008 stock market predictions. For years I have resisted the temptation to make my own predictions but, alas, I can resist no more.

Here are my five market predictions for the New Year, followed by some hard numbers for 2008, the next decade and even the next 30 years.



Fluffy Predictions

1. Money will flow in the wrong direction.

I can't tell you with much degree of certainty whether the market will go up or down during 2008, but I can tell you what is predictable with nearly 100 percent certainty.

If the market has a bad year, funds will flow out of stock mutual funds; and if the market has a good year, money will flow in.

The one predictable thing about the stock market is how we humans will react to it, and we seem to have an uncanny ability to time the market wrong.

Long is the tradition of buying high and selling low and that tradition will carry forward into the new year and beyond.

2. We will pick our portfolio based on past performance.

OK, we've all seen disclosures that read "past performance is not indicative of future performance" a million times.

We all know that it's dumb to buy an investment after it has tripled. And yet, some Pavlovian drive still has us chasing performance and buying hot investments, only to suffer disappointment when they fail to deliver.

I predict this trend will continue.

3. We will get our investment advice

from all the wrong places.

It never ceases to amaze me how we get our investment advice.

I predict we will continue to listen to the multitude of television talking heads and believe we're the only ones who caught the show. Sure they end up being right less than half the time, but this year will be different.

Or maybe we'll trust the advice of that brother-in-law or neighbor whom we wouldn't trust our lawnmower to, since they say their hot stock tip is guaranteed to make millions.

4. At least 99.9 percent of money managers will claim to be above average.

Sure the vast majority of the stock market is comprised of professionals and, of course, simple math says that only half can be average or higher. I predict that we will still claim that we're in the half that is above average since there is no way to actually call us on it.

2008 will be another year during which we ignore data or, better yet, compare our performance to the wrong benchmark, stripped of dividends of course.

By doing so, we can all look like we are brilliant.

5. No one will actually ever look back to check how accurate the 2008 predictions were.

The best thing about making stock market predictions with confidence is that we seem like we actually know what we're talking about.

Like it's ever going to happen that someone is going to look back and actually compare our predictions to what happened in the market.

So it really doesn't matter much whether our predictions were actually right, just that they sounded good at the time.

2008 hard numbers

OK, for those wanting hard numbers about what I think, here it is.

I predict the market will increase by 8

percent.

How did I get there? Not by looking at the last few years but by looking at the last 135 years, I noted that the average annual increase was 9.1 percent.

Because inflation is below where it has historically been I use a very unscientific method known as the wild guess, and lower it to 8 percent.

How accurate do I think my prediction is? Not very.

Looking over time, 1931 was the worst year for market plunges, falling by nearly 43 percent. Still, using some statistical modeling, I can predict there is a 68 percent probability that the market will lose no more than 10 percent or gain more than 28 percent.

I also can be 95 percent sure it will lose no more than 28 percent nor gain more than 46 percent.

If the riskiness of my numbers makes you a bit queasy, consider this. During any one year, the market has been quite unpredictable. During a longer term, it actually turns out not to be so risky.

Only twice in any 10-year period has the market actually lost value and the worst return was only minus 1.5 percent annually.

Thus, the market has had little downside risk over a 10-year period. If, that is, one can ignore all of those market predictions and just hunker down and stay in the market.

You might be asking, what if my predictions are wrong? Well not to worry. Unless I've got a stalker out there, no one is likely to keep this column and call me on it.

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