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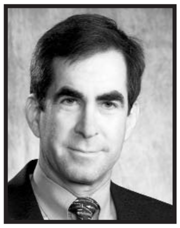
The 7 habits of highly effective financial gurus



ALLAN ROTH

Sure, I know that financial experts consistently fail to pick winning stocks or time the market or long-term interest rates.

And sure, I know that I'm no better than those claiming to be gurus. But that doesn't mean I haven't entertained fantasies of being one of the famous stock pickers you see on CNBC.

If I were a financial guru, I'd be the best because I've studied the best.

Here are the seven things that I'd do to make sure that I was one of the most sought after financial geniuses. You may want to see if your guru is following these techniques to get you to believe that he is smarter than the market.

Come across very sure of myself

Unlike the poor weather forecasters and sportscasters who have to answer for their picks almost immediately, I'll have the luxury of making my forecasts knowing that no one will remember what I actually said, and that there are no organizations that track my picks. Without accountability, I can afford to be cocky.

Give numbers and dates, but never both at the same time

I call this the "It Could Happen" technique, where I can say anything is under or over valued as long as I don't make the critical error of straying into the specific, such as saying the Dow will hit 12,000 by the end of this year. I'll be vague with a capital "V" so even the rare person tracking my brilliant predictions can't prove me wrong.

Brag about my winners

Also called the "Pay No Attention To The Man Behind The Curtain" technique, where I trumpet my winners to the rooftops and sweep my losers under the nearest carpet. Statistically, if I make enough picks, some will have to be right.

Appeal to my followers' emotions

This is one of my favorites, the "Trust Me" technique. I'll say I put my investors' interests first because it's really easy to say. Maybe I'll go by the name "Honest Al."

Behavioral finance shows how we are hard-wired to make the wrong decisions, so I'll pander to those emotions with assurances that I'll know when to get in or out of the market or individual stocks. I'll promise both outstanding performance and lower risk; even though I know I'll deliver just the opposite.

Forecast the past

Can't be a guru without the "Monday Morning Quarterback" technique. Like the previous technique, I will appeal to that in people that causes us to be drawn to winners and avoid losers, such as running toward an up market and away from a down market.

Fear and Greed are powerful motivators, and I'll play on both.

I'll tell people to buy stocks after they have gone up and sell after they have gone down. Further, I'll explain why they performed as they have and extrapolate into the future, even though it doesn't actually work.

Sure I know that this means I'll be systematically recommending buying high and selling low, but I'll look brilliant!

I think Mike Anderson, Colorado Springs assistant city manager, is right when he says, "Forecasting is really hard – especially when you are talking about the future." To make it easier, I'll forecast the past.

Tell my followers I'm beating the market

Everyone says they are beating the market so I'll have to say the same. Not a problem, it's not like I'm a mutual fund that has to report the sad facts.

I'll just make up some data and present some misleading evidence such as comparing my results to the wrong index, unadjusted for dividends, of course. I'm counting on people believing what they want to believe.

How much did we pay the gurus last year?

$350 Billion dollars,
about the size of the US budget deficit.

Source: The Motley Fool

Call myself a "Contrarian"

Being a contrarian is in. No matter what I predict, I can put a spin on it to make me look even more contrarian than all the other contrarians.

I'll have a staff comprised of one chimp proficient at throwing darts at the financial pages, and another at flipping coins. Research has shown they are actually better than the pros because they are not impacted by human emotion.

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I can already picture my interview on the "Today" show, with Katie Couric of course. Look for me at cocktail parties, I'll be the one surrounded by crowds of people hoping for a hot stock tip, or a chance for me to take their money.

It's not really exploitation to take investors' money as long as I make them feel really good about it.

Back to Reality!

OK, this fantasy has been really fun. I have to face it that I'll never be on TV showing people how to get rich quick because what actually works isn't all that exciting.

Whether your financial guru is on TV or managing your money, take a look as to whether he is employing some of these same habits. They are often meant to separate you from your money.

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How did the gurus perform?

I asked Jonathan Clements, writer of the long-standing "Getting Going" column for The Wall Street Journal, if anyone actually tracked these predictions. He responded, "As far as I know, nobody tracks the predictions of the Wall Street talking heads who offer daily predictions on TV and in the financial media. That's a shame, because these guys are nothing more than high-priced coin flippers."

Here's a sample of their performance:

Wall Street Analysts

Stocks with the most SELL ratings from the Wall Street Analysts far outperformed those with the most BUY and HOLD ratings every year for the last four years. You would have done far better by doing the opposite of their recommendations.

Zacks Investment Research as reported by The Wall Street Journal.

Money Magazines Ultimate Investment Club

Money magazine's top 24 money managers gave their best stock picks, which under-performed the market as a whole by nearly 14 percent over the next year. These were the best picks of the money managers with the best long-term success records.

Wealth Logic LLC.

America's Top 50 Economists

The Wall Street Journal semi-annual survey of the top 50 economists has correctly forecasted the DIRECTION of long-term interest rates only 30 percent of the time – far less than the coin flipping method. Economists' recent confusion as to why long-term rates haven't risen is nothing new!

Bianco Research LLC

Conclusion

If you just can't ignore the gurus, try doing the opposite of what they recommend.