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Email Update

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Introduction

At the beginning of every new year, decade or century, the so-called experts feel compelled to share their “insights” with rest of us (some would argue that they do it mostly for the purpose of keeping their names in the public eye).

As we usher out the 2000’s and welcome in the 2010’s, there will likely be a flurry of predictions regarding what will happen in the economy, the stock market, politics, etc. over the course of the next year and/or decade. No doubt many of these predictions will begin with the phrase, “In these uncertain times” or something to that effect. Think back – can you ever remember entering “certain times” in which the world faced no challenges whatsoever? Probably not. The key question is...

Should You Pay Attention?

If your goal is amusement, go ahead and pay attention. If, however, your goal is to better your own circumstances, you might be better off simply ignoring the advice or accepting it for what it really is -- entertainment.

Given the fact that predictions run the gamut of possibilities, it stands to reason that there will generally be one or two “experts” who make accurate predictions. Of course, it has yet to be proven that these experts can repeat that performance with any degree of consistency in ensuing periods (but that doesn’t stop them from trying to capitalize on their one correct call for as long as possible). Truth be told, one correct prediction (guess), particularly in connection with a big event, is enough to make (or revive) a career. To wit, Elaine Garzarelli correctly predicted the 1987 crash. It took 13+ years of not so accurate forecasts before she was no longer a key “go-to” person in the industry.

Despite the fact that any given expert may be correct from time to time (good luck guessing which one in advance), as a group the “experts” have a tendency to be pretty far off the mark.

For a moment, let’s revisit the start of this past decade. Remember, we were coming off a very impressive decade in the stock market and the internet stocks had not yet topped. You probably remember all the experts that were warning of the upcoming dot-com bust, don’t you? Maybe not.

As a group, not only were the experts not warning about an

impending bust, but they were actually recommending many technology stocks as some of the best investments going forward.

In August 2000 (after the dot-com bust had begun), *Fortune* ran an article “10 Stocks to Last the Decade”. The stocks were selected by a group of “experts”. As shown in the following chart, only one of the stocks actually beat the S&P 500 for the period (August 2000 – November 2009). Surprisingly, only one of the stocks actually had a positive return for the period (table courtesy of Bespoke Investment Group):

"10 Stocks to Last the Decade"	
Stock Pick	% Change
Genentech	153.04
S&P 500	-25.39
Univision	-38.14
Oracle	-39.74
Charles Schwab	-47.89
Viacom	-56.52
Morgan Stanley	-56.96
Nokia	-74.72
Broadcom	-81.21
Nortel	-100.00
Enron	-100.00

*David Rynecki, *Fortune*: "10 Stocks to Last the Decade" -- August 2000

Not too good, is it?

Well, a decade is a pretty long time. Surely, the experts must be better at predicting over the shorter-term, shouldn't they?

Unfortunately, they are not. Let's go way back to the beginning of 2008. Every year, *Barron's* magazine holds its annual roundtable with a group of experts that make predictions for the upcoming year. Fortunately for us, people actually go back and look at the results. Here are some of the results for that year:

- Scott Black, founder and CEO of Delphi Management Company, had 6 stock picks. Of the six, only one was positive for the year. The other five had losses ranging from 27.2% to 88.6%.
- Abby Joseph Cohen of Goldman Sachs had 5 picks. Two picks made money, with the best being up 21.2%. Unfortunately, her other three lost money, with the worst being down 74.5%.
- Mario Gabelli, Chairman and CEO of GAMCO Investors, had 9 picks. Of the nine, only two made money, with the best up 8.8%. Of the other 7, three had losses in excess of 66%, with the worst losing 90.5%.
- Bill Gross of PIMCO had 5 selections. Unfortunately, for Mr. Gross, none of his selections made money for the year and three of the five had losses exceeding 37%.

There were other “experts” on the panel, but none really fared too well. To be fair, there have been years that the predictions from these “experts” have done quite well. Of course, there have also been other times when they have not done too well.

So, What Should You Do?

This is where planning and discipline come into play. Rather than trying to “beat the market” or generate outsized returns by relying on the “experts”, you would be much better served by identifying your long and short term goals and then implementing a plan that will take you from where you are today to where you need to be. Assuming that your goals are actually achievable (which might be a subject for a future letter), the allocation of the underlying investments will be a function of how much you have today, how much you need to fund the goal and how long you have before you need it. The final ingredient is discipline. By now, we all know that the markets generally trend upwards, but they do not do so in a straight line. In other words, markets go up and down while still generally trending upwards. A good plan will contemplate this natural (yes, natural) condition and will require you to have the discipline to adhere to the plan – even when it doesn’t feel good.

In reality, most of the damage to people’s long term wealth building is not caused by the markets. For some, it is a function of not having a plan at all. For others, it is caused by emotional reactions and a general lack of discipline when there is a plan. In other words, by not sticking to an otherwise well constructed plan.

A few can succeed with planning on their own. Most need some help - both with the creation of the plan and, more importantly, with the discipline to stick to the plan.

If you need some help, or if someone you know and care about needs some help, please call.