



New Perspectives, Inc.

FINANCIAL SOLUTIONS

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Seeing the Future

By Ryder Taff, CFA, CIPM

Every morning as I leave the house I set expectations about what the day will be like. When it comes to weather, this generally means hot in the summer, cold in the winter and rainy when I see nasty clouds. Last week, after a few hot days I was caught off guard by a sudden cold snap. Predicting the weather is hard.

Each year, the CFA Society of Mississippi hosts investment experts from around the country for our Forecast Dinner. And every year, we ask these experts to predict where they think the S&P 500 will be at the end of the year, as well as what the yield on the 10 year Treasury will be.

Each of the three panelists has a different approach to their estimates. Some have the backing of a large company and sophisticated models giving them precise answers under different scenarios. Some use back of the napkin guesses based on a few assumptions. Others have a single grand theory or expectation that drives their estimate.

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No matter how sophisticated the models, the experts are often wrong. Just like when I step out of my house expecting warm spring weather and find a bitter wind in my face, many predictions are based on what happened in the previous year.



Money On My Mind

The estimates given at the Forecast dinner are often just a repeat of the previous year's actual returns. Without seeing a major change in the world over a year, why not expect the market to just do the same thing over again? Unfortunately for the experts, while we do expect an average of 8-9% annual growth in the market over time, it will almost NEVER just be that number year over year. That 8-9% is made up of terrifying crashes and giddy rallies, as well as a lot of really boring 5-10% years in between.

Knowing where the market will be in the short term would be pretty useful, or at least comforting, wouldn't it?

We cannot tell you where the market will end up going this year. Even the experts won't get it right. At New Perspectives, we try to stick with things that we do know.

We do know that historically stock investments have had the highest returns over long periods of time. We do know that sticking to an investment plan in the face of market crashes or surges can help avoid a lot of pain in the future. We do know that careful consideration of your total financial picture will make sure your investment plan helps you reach your goals.

Our job is not to predict a short-term return for the market. We invest expecting return, but manage for the downside risk. We manage to keep your investments aligned with your goals. While we all want to reap the benefit of a hot market, we must prepare for the inevitable cooling off of returns.



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Fee-Only Financial Advice



The Lighter Side

- Q: A gathering of crows is a 'murder' and a gathering of fish is a 'school', what is a gathering of economists?
- A: A caveat!