The Art Of Forecasting

"The Middle East Region Is Quieter Today Than It Has Been In Two Decades"

So said Jake Sullivan, President Biden's national security adviser, on September 29th 2023. This got me thinking about forecasts and our apparent love and dependence upon them. In our investment world we lap up forecasts on everything from interest rate movements to inflation rates, from quarterly outlooks to annual ones, with a consensus being built around a range of forecasters that parrot what they hear as their own whilst their audience nods sagely in the background before imparting said knowledge further down the chain of command.

I don't actually have any statistics, but my gut says that most consensus forecasts turn out to be wrong. Let's look at some other forecasts that have not exactly stood the test of time. With echoes to today, Neville Chamberlain returned to the UK on September 30th 1938 (the last week of September is quite the window for making public pronouncements) declaring "Peace for our Time"

On 15th October 1987 (what is it about this time of year?), Michael Fish declared that a hurricane was not about to hit our shores, just hours before it did,

While on 19th August 1995 Alan Hansen confidently predicted on Match of the Day that "you'll never win anything with kids" on the first day of the season that saw Alex Ferguson's Manchester United side win the title with, well, what one could describe as a team of kids.

More recently, on December 13th 2019, former Labour MP John Mann stated that "Labour was FINISHED as a political force in this country" which, with this article being written on the morning after the by-elections in Tamworth and Mid-Bedfordshire which saw historically high levels of majority being overturned, appears to be a trifle premature.

Investment Related Forecasts

Investment-related forecasts don't tend to fare much better. On August 13th 1979, on what is now known as Bloomberg but which went under the name of Business Week back then, the headline on the cover was "The Death of Equities: How Inflation Is Destroying the Stock Market." Three years later, the market hit rock bottom before embarking on a multi-decade resurgence. I have not heard the same claim yet, but I'm expecting to. I'm hearing anecdotal evidence that clients of IFA firms are giving up on their investments in favour of sitting in cash now that it offers a return again. How quickly TINA turns.
For a decade there "was no alternative" to buying equities, which worked until it didn't. The same will no doubt apply to those diving to cash now. Will they time it correctly to come out of cash when rates peak to reinvest in a rebounding stock market? History suggests that they won't. It's all about time and timing. We all know the old saying about time in the markets but the increasing speed at which events can move really does make timing investments nigh impossible, if not a little foolish.
Basics and Logic

It's a simple, yet often elusive, concept. Stick to basics and logic. Logically, a balanced, diversified portfolio makes sense based around the following basics.

- Will equities always go up? No
- Will cash always beat inflation? No
- Will bonds always be "safe"? No
- Will equities/cash/bonds sometimes give you the best returns? Yes
- Does your personal investment timescale make a difference to how the portfolio mix looks? Yes
- If the above can be largely agreed (can anything be agreed upon in this day and age?) then how about the next set of questions as a guide to what should form, at least part, of a successful equity portfolio going forward?
- Does it make sense to invest in what the world wants and needs? Yes
- Does it make sense to focus upon what the world wants and needs in the future as opposed to the past? Yes
- Is the need for cyber security going away? No
- Is AI going away? My bot says No
- Is there a demand for an alternative to fossil fuels? Yes
- Is life online going away? No
- Will there still be a need for healthcare innovation as the global population ages? Yes

The list of questions can stretch far further than space or attention allows and I'm sure we will all have others to add, but my point is that it is logical to allocate at least part of a global equity budget within a portfolio to themes such as these. To time the correct entry point is impossible but, again using logic, it is better to dip a toe into them when they are still in many case some 20% cheaper than they were a couple of years ago.

As I implied earlier that only fools make forecasts, I'm going to make a forecast. Mine is that if you are in a position to tuck away a basket of thematic equities now, making sure that they are balanced with cash and (currently attractive again) bonds, then you will look back on that investment decision as one of your better ones.
Time, not timing, will tell.

Email: info@idadfunds.com Telephone: +44 (0)1730 779335 www.idadfunds.com