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Beware of Forecasters

Every year, we hear from market prognosticators telling us where the market will be a year from now, the future direction of interest rates and when the economy will or won't tip into recession. But does anybody ever keep track of the accuracy of these forecasts?

A recent article cites a March 2017 study covering 6,627 market forecasts on the S&P 500 index, made by 68 forecasters who employed technical, fundamental and sentiment indicators, for the period 1998 through 2012. They found that the overall accuracy rate was 48%, just below the accuracy of a coin flip. Two-thirds of the forecasters had accuracy scores below 50%. The highest accuracy score was 78%; the lowest was 17%, and, when graphed, the distribution of the forecasting accuracy looked very much like the common bell curve, which one would expect from random processes. Loosely translated, the conclusion of the article was that there was no evidence whatsoever of forecasting skill.

So why isn't the media looking back at how well its gurus forecast the future? The article suggests that if they did, the game would be over, and the papers and financial media would have to stop running these tantalizing visions of the future—and probably lose viewers and readers. So, they continue to play a very cynical game.

The article then focuses financial writer and market analyst John Mauldin, whose website states that he is privy to the smartest thinkers in the marketplace, screened and analyzed "by a team of ace analysts," which "gives you the equivalent of direct access… to some of the brightest minds and most successful managers in the world today." Mauldin finished 36th in the aforementioned study, just behind CNBC's Jim Cramer, who was 37th. The article asks whether Mauldin's published five-year forecasts, offered to his readers five years ago, would have given them an edge in their investment activities.

Mauldin predicted a major slide in the Japanese yen to the U.S. dollar, which he said was "almost certain," with a 90% probability. Actual result: the yen increased nine percentage points against the dollar. Mauldin predicted that Europe would experience a crisis at least as severe as the Grexit scare, with a run-up in interest rates and a sovereign debt scare in the peripheral countries—again a 90% probability. Actual result: the MSCI Europe Index returned about 5% a year over the past five years, and interest rates have stayed at historically low levels.

Mauldin also predicted that China would experience a "hard landing" or "recession"—a 70% probability—and then China would suffer a long period of Japanese-style stagnation—a 95% probability. Actual result: China's GDP growth did slow somewhat, but where was the hard landing or period of stagnation? Mauldin forecast a series of crises in emerging market countries, potentially setting off a Long-Term Capital Management-style global financial shock—an 80-90% probability. Actual result: no emerging market debt crisis.

Finally: Mauldin predicted a continuation of the secular bear market in U.S. stocks that began in 1999. Actual result: the S&P 500 index provided a compound return of 11.7% over the five-year period, with a total return of about 74%.

If you needed it, this article will help you be skeptical of any experts, with their teams of researchers, who claim that they also have a crystal ball.

Source:

https://www.advisorperspectives.com/articles/2020/01/06/accountability-proves-the-incompetence-of-market-forecasters

Here's Why You May Need
To Update Your Estate Plan

Estate planning—the process for how you transfer your wealth to heirs and others—can be very important for anyone who wants to be certain that their loved ones are adequately provided for and taken care of. When done well, estate planning aims both to allow you to pass on your assets as you see fit, and to minimize the state and federal tax bite that often accompanies the transfer of significant wealth.

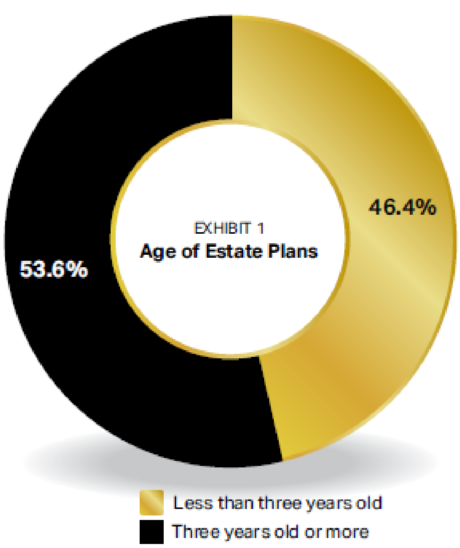
Even if you are not subject to estate taxes or don't have family, estate planning can potentially enable you to decide which people and charitable organizations will receive your wealth at your death. Failing to plan can mean that you will let the government make those decisions—and we find that few people are fond of that choice!

But if you think that your current estate plan is up to those tasks, you might want to think again. Here's why your estate plan may need to be refreshed.

Most estate plans are old—and potentially outdated

First, some good news: Eight out of ten affluent individuals (those with investable assets of $500,000 or more) in one survey by AES Nation had some sort of estate plan in place.

Here's the less sanguine news: Even if you have an estate plan, you may not be nearly as well prepared as you think you are for transferring wealth according to your wishes. That's because more than half of the estate plans these affluent individuals have in place are more than three years old (see Exhibit 1).



Source: AES Nation, LLC, 2018.
N = 166 affluent individuals.

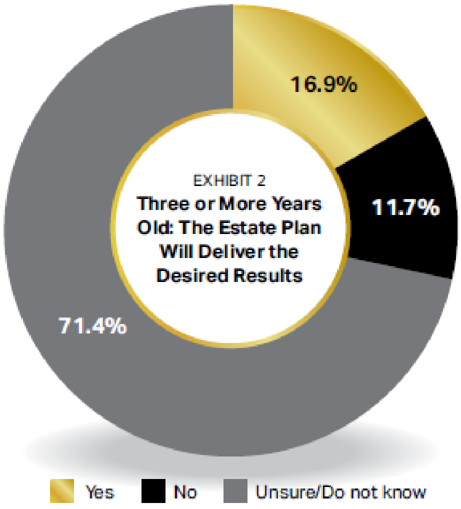
Here's why that's a big deal—one that should raise a red flag that your plan could be outdated:

- Continual changes in tax laws mean that older estate plans may not take full advantage of current opportunities to transfer assets optimally.*
- Tax law changes also could mean that some aspects of an older estate plan are no longer effective.*
- Changes in your wealth status mean that your estate plan may no longer accurately reflect your financial situation—and your future needs and goals.
- Changes in your personal and family situation may make your estate plan ineffective in accomplishing what you actually want it to do given those changes.

ESTATE PLANNING UNCERTAINTY ABOUNDS FOR MANY

In order to attain the greatest benefits from estate planning, it's a good idea to stay on top of your plan and revise it when appropriate—especially when new events occur that potentially affect your wealth.

Having an old estate plan can potentially create uncertainty in a key area of managing your wealth. Example: The vast majority of individuals—71.4 percent—with estate plans that were three or more years old said they did not know whether their plan would deliver the results they wanted, according to AES Nation (see Exhibit 2). Just 17 percent of this group said they were confident their plan would deliver the results they wanted. And a little more than 10 percent said it would *not* perform as desired.



Source: AES Nation, LLC, 2018.
N = 77 affluent individuals.

In contrast, an updated plan can potentially provide a sense of confidence. Consider the individuals with plans that were less than three years old: Nearly half said they knew their plan would deliver the results they want (see Exhibit 3). About 15 percent said that their plan needs to be revised because it would not deliver the desired results. Fewer than 40 percent did not know or were unsure about how their plan would perform.

Those results are much better than the results of the group with the older plans—but the AES Nation data shows that a large percentage of people from both groups are uncertain about the effectiveness of their plan.

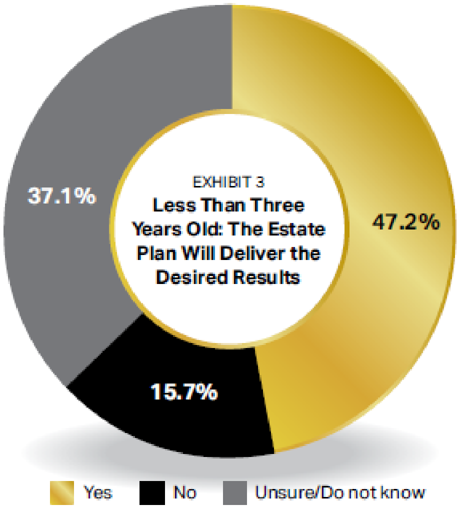
Next steps to consider

The messages from these findings that should be considered are:

- Have an estate plan in place if you want a say in where your wealth goes after you're gone.
- Don't let your plan gather dust in a binder, folder or drawer (or in the cloud, for that matter).

Your next step: If you already have an estate plan set up, you might want to stress test it to see if it is still positioned to achieve your specific wealth transfer goals (especially given some of the tax law changes in recent years). By stress testing the plan, you can assess the outcomes it would likely deliver under various scenarios that could potentially occur. Many families regularly use stress testing to evaluate their existing strategies as well as strategies they are considering implementing.*

**A tax professional should be consulted on all tax-related issues.*



Source: AES Nation, LLC, 2018.
N = 89 affluent individuals.

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