

The Guru Investment Trap

Over the last few years you have seen just how badly so-called gurus can get a prediction wrong. The complete failure of “experts” to predict Brexit, the election of Donald Trump, and even the economic implications of a Trump Presidency are good examples of how seemingly sound predictions can lead folk astray.

Market predictions are the same. In May of 1995 I warned readers away from placing their faith in forecasts with a little set of examples I’ve quoted for you here:

Last fall when I told you that 1995 would be a decent year for the stock market, I was not making a prediction. Rather I was making an observation based on history. In my lifetime, every year before a presidential election has been good for the stock market. Along with this historical tidbit, I knew that corporate insiders were raising dividends to shareholders like crazy while buying gobs of their own stock. All in all, a pretty tasty stew was in the pot.

Was my positive view the prevailing wisdom? No indeed, quite the opposite. Listed below are three forecasts from late 1994 and early 1995, each from a well-respected source. Consider the following in light of the 1995 stock market bull run.

Forecast #1: *“Technically this is one sick market. Maintaining or adding to investments at this time is a very risky proposition. We continue to advise that new subs reduce exposure and quickly move toward a 95% cash or T-bill allocation.”*

Forecast #2: *“The long-term outlook remains negative. Our weekly high-low differential gauges are in very poor shape. This is yet another sign that these Dow rallies are masking the incredible technical weakness lurking beneath the surface.*

We feel it's crucial you remain in a defensive position."

Forecast #3: *"Is this the beginning of an emerging bull market? We don't think so. The majority of our indicators continue to give off bearish readings and until there is evidence to the contrary we'll continue working under the assumption we're in a bear market that has further to run."*

Well, what the word? In my book, it's 0-for-3. Not a helpful prediction in the lot, and all three wide-of-the-mark projections were made by seasoned, thoughtful analysts.

Rather than relying on predictions to guide your investing, depend on a strategy that reduces risk, increases income and supports compounding.