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Under The Weather With A Chip on Our Shoulder

It is just not fair. Certain “professionals” make predictions without any accountability. They speak in jargon and incomprehensible gibberish. Nobody keeps track of whether their forecasts are right more often than random chance. Their clients evaluate them on personality and mystique rather than actual results.

We are speaking, of course, about the weather reporter on the evening news, always some unbearably chirpy person with an unbearably chirpy name like “Chip.” Chip invariably follows an elaborate routine, as if there were Arthur Murray footprints on the floor. The news anchor introduces Chip by blaming him for bad weather that day (or praising him for good weather) and they both laugh. Chip then tells us, at some length, about the weather we already experienced.

Then Chip will say “let’s go to the map!” as we think “No, Chip, let’s go to the window!” With this blinking, unintelligible visual aid, Chip describes, again at some length, weather you do not care about, experienced by people you never met, in places in the U.S. you are unlikely to go. He shows what he *claims* are satellite photos to demonstrate something we never quite understand.

We do sympathize with Chip in one respect. It always bothers us that the news anchors blame him for bad weather, as if the rain, wind and ice were his fault. Ever the gentleman, Chip never accuses the anchor of causing murder and auto accidents.

It is not our purpose here to denigrate weather reporters – our issue is the lack of accountability. Does anybody reduce Chip’s predictions to a statistic you could compare to the prediction record of Kelly, the similarly chirpy weather reporter on a competing channel? In the investment world, we report client portfolio performance, both before and after our fees, compared to a benchmark. Here is our modest proposal for Chip and Kelly – compare their predictions to a benchmark prediction that each day’s weather will be the same as the previous day’s weather. If Chip and Kelly cannot beat that, why should we waste time watching them?

This lack of accountability is particularly galling to us this time of year, when folks in our profession issue annual market forecasts. Just like the weather, the important thing seems to be to have a forecast, right or not, reasonable or not. Nobody cares if the forecast is right or reasonable, only that you have one.

The news anchors blame Chip and Kelly for bad weather and praise them for good weather, but Chip and Kelly have no control over the weather. Nobody measures the accuracy of Chip and Kelly's predictions, which is what matters. Similarly, investment management clients often blame their advisers for market declines and praise them for bull markets, regardless of how the adviser did relative to the market. Many clients loved their investment advisers during the bull market of the 1990's, but became disenchanted with them during the bear market of 2000-02. Stockbrokers do not report client portfolio performance and the investment pundits do not report on the correctness of their previous market calls and stock picks, but these are precisely what should matter. Our purpose in mocking Chip and Kelly has nothing to do with the weather, just the foolishness of our own industry. Both weather reporters and market pundits are in the entertainment business. Both indulge in the pretense that they are doing something more.

Weather reporters and stock market pundits are in the entertainment business. Both indulge in the pretense that they are doing something more.

Market forecasters tend to restate conventional wisdom and assume the future will repeat the recent past, as if chasing performance is a winning formula. We enclose our annual listing of the performance of the four major asset classes: large stocks, small stocks, foreign stocks and bonds. The best performer for each of the past 39

years has a box around it. On the right are two mixes of the assets, representing aggressive and balanced diversified portfolios. The data shown are from indexes, with no assumed effect from timing or security selection.

Investing in the balanced mix (60 percent in stocks and 40 percent in bonds) has had an average annual total return very similar to the S&P 500 index, while experiencing substantially less risk. Investors still seem obsessed with the performance of U.S. large company stocks in the late 1990s. They may be surprised to learn that large stocks have been the best of the four asset classes in only five of 39 years, much less often than small stocks, bonds or foreign stocks. Small stocks have beat large stocks for *six straight* years. We believe our chart shows that when you discern a trend (e.g. small stocks are now the place to be), it may be about to disappear. The market already reflects your "discovery." You are late.

Instead of watching the nightly weather report or blowhards predicting stock market moves, use your time wisely and follow our advice. Ignore pundits, in any discipline, who pretend to be able to predict the future. Evaluate meteorologists, investment advisers and all others on the basis of a rational conception of what really matters. Disregard the temptation to invest in something because it has done well, or because somebody you know is bragging about how well they have done in that investment. We cannot help you with the weather ~ when telemarketers call from Chicago and, as a way to ease into their pitch, start talking about the weather there, we may interrupt them with "Hey, we don't even care about the weather *here*." If you would like help with a rational approach to investing, though, call us at 503-419-3938. Nobody here is named "Chip," and nobody is likely to accuse us of being chirpy.