

The McCloud Syndrome

Sometimes, television can tell us a lot about life. No, we are not talking about so-called reality television (isn't the whole point of television to escape reality?). Instead, we are thinking about the 1970s series *McCloud*, in which Dennis Weaver portrayed a classic fish-out-of-water, a small-town western sheriff assigned to the New York City police force. In each episode, McCloud would solve a murder or other heinous crime. His boss, Chief Clifford, always thought McCloud was an idiot and a troublemaker. Over the years, McCloud solved an astonishing array of crimes, but he never got any credit for his correct predictions. McCloud never received a promotion, and his boss still doubted his abilities.

In contrast, consider Jessica Fletcher (played by Angela Lansbury) from the 1990s series *Murder She Wrote*. Early in each episode, someone Jessica just met was murdered, and Jessica would help the police find the murderer. She received vastly more respect than McCloud ~ everyone usually thought she was brilliant. Interestingly, nobody ever suspected *her*, despite her proximity to a shocking number of deaths. We realize that coincidence is not the same thing as causality, and we certainly are not claiming that Jessica was the perpetrator. Still, you would think that after Cabot Cove was depopulated (forcing Jessica to hit the road in later seasons), some authority would be curious enough to investigate.

Wall Street has its share of both McClouds and Jessica Fetters. Investors never believe some professionals, no matter how often they are correct; investors hold other predictors of the market in high regard, no matter how much damage they create for their followers. There seems to be little consequence for being wrong and no great advantage to being right. What gives?

Once you think about why people are making the predictions, however, you can solve the riddle. Most of the investment industry creates and sells "product," despite masquerading as professional providers of services. The products can be mutual funds,

the stock of investment banking clients, the firm's 401(k) platform, a manager that kicks back a high sales commission, etc.

In terms of your continued employment on Wall Street, if you sell a lot of product, it matters little if you have bad investment instincts and a terrible batting average at predictions. If you cannot sell a lot of product, you will lose your job even if you are almost always right about the market.

A good way to sell a product is to flatter the prospective buyer, and most people like to have their views confirmed by others. The most successful investment "strategists," therefore, tend to be those who opine, usually with a great air of authority, what most investors already believe. Since most investors want and need the stock market to go up, the vast majority of predictions have a bullish hue. If you disagree with the consensus view of your prospects, your firm will sell less of its product.

Investment predictions are most often a form of flattery, confirming the existing beliefs of prospects to which Wall Street hopes to sell its "manufactured" products.

In the late 1990s, on the precipice of a devastating bear market, several notable strategists turned cautious and were fired or otherwise silenced by their firms. Investors were having too much fun, and the investment firms were making too much money, to interrupt the party. Other strategists remained bullish and kept their jobs, despite the ultimate disaster for

their followers. For the most part, the strategists who were correctly bearish remain silenced – like McCloud, being right seems to have done them little good. If you lost big in the bear market, admitting that they were right would mean having to face that you were wrong, never an enticing option. On the other hand, many of the perma-bulls remain popular today. Despite being wrong, investors accord great respect to their oracular pronouncements. As with Jessica Fletcher, they remain unscathed despite the carnage among their acquaintances.

The desire by investors for predictions is still more illogical once you consider that even highly-respected Wall Street strategists are not very good at it. Predicting pundits never publish their past record of accuracy. If they had an outstanding predictive record, we would know about it, since it would get more people to pay attention to their latest prophecy. Ned Davis Research, Inc., an institutional research firm, measures the optimism and pessimism of Wall Street strategists. Going back to September, 1985, the strategists have been extremely optimistic about a quarter of the time. When they are, the market has *declined* at an annual rate of just under 14 percent. When the strategists have been extremely pessimistic, also about a quarter of the time, the market has *gained* 28 percent per year. In other words, these experts, the talking heads put forward by Wall Street firms to tell us what to do with our money, get it precisely wrong much of the time.

Stop the madness and stop listening to predictions by talking heads. Favor the McClouds and shun the Jessica Fetters. Successful investing is not about predictions and products; it is having a rational plan and the discipline to follow the plan. Take your money away from anyone selling product and turn over its management to professionals focused on providing services. We have somebody in mind – at www.sigmainvestment.com or at (503) 419-3938.