# Extreme Predictions May Have Other Motives

As I was decluttering my home office in March, I came across a book that I purchased around 20 years ago titled ***Dow 100,000: Fact or Fiction*** by Charles W. Kadlec. The book was a bullish case for the possibility that the Dow Jones Industrial Average could hit 100,000 by… 2020. At its all-time-high in February 2020, the Dow stopped short of achieving 30,000. Kadlec's assumed growth rate of 11% for the Dow was optimistic, as it turns out. In 1999, most investors were already optimistic, so a flashy prediction was needed to sell books. Other now cringe-worthy predictions in the titles of financial books include:

• ***Dow 40,000: Strategies for Profiting from the Greatest Bull Market in History*** (1999) – Author David Elias's more moderate prediction of Dow 40,000 in 2016 came up short by over 20,000 points.

• ***Dow 36,000: The New Strategy for Profiting from the Coming Rise in the Stock Market*** (1999) - Although James Glassman and Kevin Hassett did not provide a clear target date in their book, an article that they penned for The Atlantic in September 1999 suggested a short timeframe.

• ***Dow 30,000 by 2008: Why It's Different This Time*** (2001) - Unlike the previous authors, Robert Zuccaro benefited by the hindsight of the bursting tech bubble when he wrote this book, though his choice of 2008 was unfortunate. Curiously, the release of the second edition of the book in paperback occurred on December 1, 2008, when the down closed below 8700.

Extreme predictions can also be used to sell other products.

• Jim Rickards, who has been credited with predicting the 2008 crisis, transcribed an interview he gave in which he said "If you buy gold at $1,700 and it goes to $1,500, buy more because it's on its way to $2,000, $3,000, $4,000 and higher. The fundamental story (for gold) is completely intact, in fact it's getting stronger…" On the date of the interview (11/18/2011, according to blog entry on the following day) gold closed at $1,725 per ounce. Prices fell below this level in late 2012 and did not reach $1,725 again until April 2020. Jim's website markets gold, which might explain his consistently bearish economic and market predictions.

Politics provides great temptations for other-than-moderate predictions.

• In Forbes magazine in July 1993, Morgan Stanley global investment strategist Barton Biggs suggested selling domestic stocks, warning that Bill Clinton's policies were bad for the US. The S&P 500 returned an annualized 18.5% over the next seven years.

• On 10/21/2016, Politico ran an article entitled ***Economists: A Trump win would tank the markets***. Ben White went on to say that recent research showed that the financial markets "could react with panicked selling should Trump defy polls and deliver a shocking upset on Nov. 8." Markets opened lower on 11/9/2016, but turned positive shortly thereafter.

You can make your own guesses as to why these predictions (financial and nonfinancial) were proffered, but they were most certainly wrong:

• "There's no chance that the iPhone is going to get any significant market share. No chance. It's a $500 subsidized item." Microsoft CEO Steve Ballmer (2007)

• Y2K – Doomsday predictions of nuclear missiles launching on their own, bank account records being wiped out, blackouts, and food shortages were some of the predictions that did not come to pass, thankfully.

• "Man will not fly for 50 years." Wilbur Wright (1901), 2 years before he and his brother succeeded in flight.

• "Lee DeForest has said (…) that it would be possible to transmit the human voice across the Atlantic before many years. Based on these absurd and deliberately misleading statements, the misguided public has been persuaded to purchase stock in his company." A U.S. District Attorney stated this as he began prosecuting DeForest for selling stock in his Radio Telephone Company. DeForest's work made possible the first tunable radio.

• Lee DeForest (see above) said of the future of the television, "Commercially and financially it is an impossibility, a development of which we need waste little time dreaming."

• "Sell everything except high quality bonds." Royal Bank of Scotland in a January 2016 letter to clients, predicted that fears of deflation and an exiting of investments that had benefited from quantitative easing would crash markets. Although Brexit raised volatility that year, the selloff did not materialize.

• "If excessive smoking actually plays a role in the production of lung cancer, it seems to be a minor one." -W.C. Heuper, National Cancer Institute, 1954

• "No! No! No! Bear Sterns is fine! Don't move your money from Bear! That's just being silly!" -CNBC's Jim Cramer after being asked by a caller if he should be worried about Bear Stearns. On this day, March 11, 2008, it traded at around $60/share, but five days later Bear Sterns would be purchased by JPMorgan for $2/share.

With so much uncertainty in the markets, predictions have become more extreme. Know who is making the prediction and consider the motive for the prediction. This is especially true during this election year as politicians and their surrogates try to court voters. In many cases, the goal of outlandish predictions is entertainment. Those are the ones that get the clicks, sell the books, increase viewership, etc. Predictions in-line with the consensus do not.

We shy away from market predictions and, in fact, are usually quite skeptical of them. Even though a broken clock is right twice a day, it is otherwise useless. For example, Harry Dent is currently getting credit for predicting this recession. In one of his first books, which was published in April, 1998 and titled "Roaring 2000s," he predicted the Dow would hit as high as 35,000 by 2008, being exactly wrong on that one.

We strongly recommend a long-term approach to investing, and setting financial goals based on reasonable assumptions.

Sincerely,
Christopher M. Trainor
Christopher M. Trainor, CFP®
Financial Advisor

*The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.*
*Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.*
*Investing involves risk and you may incur a profit or loss regardless of strategy selected, including diversification and asset allocation. Past performance may not be indicative of future results. This material is being provided for information purposes only and is not a complete description, nor is it a recommendation. Prior to making an investment decision, please consult with your financial advisor about your individual situation. Expressions of opinion are as of this date and are subject to change without notice.*