Why You Shouldn't Trust Washington or Wall Street

Part 1 of 2 | April 20, 2012 | LifeHealthPro - Wealth Management

“Man will not fly for 50 years.”
— Wilbur Wright, to brother Orville, two years before their first successful flight.

“There is no reason for any individual to have a computer in his home.”
— Ken Olsen, President, Digital Equipment, 1977

Predictions…we all make them. Some are famous for their boldness, like Joe Namath’s guarantee of a Super Bowl victory for the New York Jets in 1969. Others, like the two above, have been conveniently lost in history archives. However, those who make poor predictions usually don’t forget them, particularly when their lives are affected dramatically. I don’t know who Ken Olsen is and I hadn't heard of this prediction until recently. One thing I do know: Ken Olsen, his family, and his former employees remember it well!

If you’ve ever listened to Wall Street analysts, economists, and politicians, you will have noticed something they would be quite hesitant to admit: they are often dead wrong in their stock market and economic predictions. History may forget their off-base predictions, but those who were negatively affected by them always remember. By no means is this a new phenomenon. Here are a few examples from the Great Depression era:

“The end of the decline of the stock market will probably not be long, only a few more days at most.”
— Irving Fisher, Professor of Economics, Yale, Nov. 14, 1929

Check out the date above: Dr. Fisher, a highly respected economist, said this about 2-3 weeks after the Great Stock Market Crash in October of 1929. In case you completely slept through this section in your high school American history class, the stock market did not recover in a few days. It continued on for the next decade, right into World War II. In fact, a full recovery really didn’t occur until after World War II, and the Dow did not get back to its high mark of 1929 — back to even — until 1954. That’s not a typo. Dr. Fisher was about 25 years off in his prediction. Sorry investors!

Not to be outdone, President Hoover had this to say to a group of businessmen in June, 1930, about eight months after The Crash: **‘Gentlemen, you have come 60 days too late. The depression is over.”**

Sorry, President Hoover — no matter how good your intentions and the backing of any financial “experts” you consulted, you were dead wrong! If you Google “Great Depression quotes,” you will find dozens of similar quotes during the decade of the 30s from all sorts of financial and political experts.

How could they be so wrong in their predictions? Weren’t they intelligent enough to see the real issues? Before I tackle that question, let’s look at some more recent quotes. I found an interesting article on Businessweek.com from December 20, 2007. Eight different stock market analysts gave their predictions for 2008. If you remember, the last half of 2007 was a rough period for the stock market. However, as is usually the case, most analysts and investors had high hopes for the coming year. Every analyst interviewed in this article was bullish to some degree. Here were the recommendations of one of them: stocks in general were “at a bargain,” specifically financial stocks. “Buy financial stocks” was his bottom-line advice. Ouch! Financial stocks were absolutely crushed in 2008, and many have still not recovered by the time of this writing.

Another highly respected money manager and analyst is Blackrock’s Bob Doll. He’s typically moderately bullish, so he has more balance in his analysis than some who are aptly named “perma-bulls.” Each January, Bob will give his top predictions for the year. Many years he is on target. Here were some of his predictions in January 2008: **no US recession, U.S. stocks hit new record high, large companies, growth stocks lead, and emerging markets rule.** Ouch again! Growth stocks and emerging markets got absolutely slammed!

Now here's the kicker: I think Bob Doll is a man of integrity. I've met him and know people who know him personally. I don't think he was trying to pull the wool over anyone's eyes. He probably had much of his own money invested in the very stocks he was promoting. How could he have been so wrong?

Here's one more recent example, from the wild and crazy, but intelligent Jim Cramer, host of CNBC's "Mad Money." A viewer who was a Bear Stearns stockholder called in and asked whether he should sell his stock. The date was March 11, 2008, just weeks before Bear Stearns melted down. Cramer's response: **"Bear Stearns is fine … Bear Stearns is not in trouble … Don't be silly ... Don't move your money."** Can we say "Triple Ouch!"

A few hours' drive south from Wall Street is our wonderful capital, Washington, D.C. How did some of our leaders in D.C. fare in the prediction category? Barney Frank, Chairman of the House Financial Services Committee, said this on July 14, 2008: "Freddie Mac and Fannie Mae are fundamentally sound. I think they are in good shape going forward." About a month later, the real issues behind these two government-sponsored entities, now government owned, began to unravel.

Federal Reserve chairman Ben Bernanke, who is very intelligent and appears to be sincerely trying to get our economy back on track, has had his own fair share of bad prognoses. In addition to predicting that Fannie Mae and Freddie Mac "will make it through the storm" (they didn't), he also said on June 10, 2008: "The risk that the economy has entered a substantial downturn appears to have diminished over the past month or so." Looking back, in June 2008, our problems "had only just begun," to use the common phrase from The Carpenters hit song.

So, whether it's Wall Street analysts or Washington politicians, history is full of examples of bad advice and predictions. It's just old history when you read about The Great Depression, but when you have experienced the last decade of stock market volatility and the Great Recession, it sure hits home — right smack on the wallet, to be exact. So, let me ask you: what advice has your broker or financial advisor given you the past ten years? Does this sound familiar?:

"Hang in there. The market always comes back."
"You've got to be in it to win it."
"Now is a great time to buy."

This all sounds great when you are shown charts that document the past 100 years of stock investing. But in the last decade, the stock market was essentially flat, which means that after inflation most investors lost money. As of this writing, the Dow still has not returned to its 2007 high. The Wall Street mantras repeated above did not work well for most. Do we have any other choice but to listen to Wall Street and hope for the best?
What can the average investor do, if the top experts in our country often give disastrous advice? Can you trust your favorite financial magazine or news show? Should you throw darts at a stock chart, or simply leave all of your money in a money market fund?

In my next article, I will give you additional reasons why you shouldn't trust everything you hear from Wall Street, and some helpful answers to the questions above. Don't despair, there are solid answers for the average investor. ■

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Excerpts from Part 2:

"Now, wait a minute," some of you are thinking, "Are you saying that everyone on Wall Street is a crook?" Of course not. But human nature being what it is (selfish and greedy), it is very difficult for a person in any business to truly do what is right for a client if that means a loss of income. Let's face it, you don't have people who are against smoking working as spokespersons for cigarette companies, or vegetarians for the local bacon manufacturer. Wall Street will continue to promote Wall Street products, and generally remain bullish no matter what the outlook, because that's their business. It's the same with most financial magazines. Look at their advertisers. They are almost always Wall Street firms. Can you really trust that the magazine is giving fully objective advice in all of their articles?

[…]So, what's the average person supposed to do? Flee Wall Street, and head for the hills? Buy only bank CDs? Not at all. It may be prudent for the average investor to have some of their money in Wall Street investments. However, there are other non-Wall Street alternatives that Wall Street won't generally tell you about. They are conservative and have preserved investors' wealth for decades. Some have tax advantages you'll want to know about.

If you would like a full copy of 'Part 2' of this article, give our office a call at (603) 595-4990 and we will be happy to send it to you.