

Don't Let Experts' Forecasts Influence Your Investment Decisions

A New York Times article titled *Wall St. Ends the Year Split Over What to Expect in 2024* (NY Times 12/27/23) reviewed the prognostications of prominent market strategists for the coming year. Two of the experts featured were Tom Lee, who runs his own stock research firm, and the chief equity strategist at Morgan Stanley, Mike Wilson. Misters Lee and Wilson had divergent views regarding what would occur in 2023, with Wilson calling for the downtrend which began in 2022 to persist while Lee foresaw a more positive investment climate.

The S&P 500 rose 24% in 2023 (Wall St. Journal 12/30/23) as inflation eased and unemployment remained at low levels. The Federal Reserve Bank implied that its interest rate increases are over, with perhaps a rate decrease not far away. American consumers, who fuel the global economy, continue to spend money, even if they have to go digging under sofa cushions for spare change.

For 2024, Lee suggests the rally has room to run, while Mr. Wilson remains bearish, maintaining that the absence of a downturn in 2023 does not mean it has been avoided altogether.

Financial media tends to focus much of its attention this time of year on market forecasts by strategists, pundits and analysts. They do so because they know it gets the investment public's attention. Investors hate uncertainty, and predictions provide a false sense of security about the future. Investors must believe there is some value in these predictions otherwise they would not tune in. Yet a large body of evidence demonstrates that forecasts from gurus have no value in terms of adding "alpha" – the accuracy of an expert's forecasts is no better than one would randomly expect. There are literally thousands of unknown and unexpected events that cause stock prices to fluctuate one day to the next.

Some have not learned that market prognostications should only be considered entertainment. For those investors, these forecasts in fact have negative value because they are tempted to stray from well-developed plans and proven concepts. This is especially dangerous when forecasts verify investors own views, [I think the market will drop – Mike Wilson said so in the NY Times!] subjecting them to confirmation bias.

As you may have guessed by now, I will not be making any predictions about the stock market in 2024. I will, however, be pleased to address any questions or concerns you may have, and look forward to working with you again in 2024.

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