



The Track Record of Market Pundits

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by Larry Swedroe

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At the start of 2017, I compiled a list of predictions that market gurus had made for the upcoming year, along with some items I heard frequently from investors, for a sort of consensus on the year's "sure things."

As is my practice, I will give a score of +1 for a forecast that came true, a score of -1 for one that was wrong, and a 0 for one that was basically a tie.

Bonds and the inflation surprise

Our first sure thing was that the Federal Reserve would continue to raise interest rates in 2017, leading many to recommend investors limit their bond holdings to the shortest maturities. Economist Jeremy Siegel at one point even warned bonds were "dangerous." And on March 15, 2017, the Fed raised interest rates by 0.25 percentage points. It did so again on June 14, 2017, and once more on Dec. 13, 2017.

However, despite the prediction that interest rates would rise having actually come to pass, the Vanguard Long-Term Treasury Index ETF (VGLT) returned 8.6% for the year, outperforming Vanguard's Intermediate-Term Treasury Index ETF (VGIT), which returned 1.7%, and the Vanguard Short-Term Treasury Index ETF (VGSB), which returned 0.0%. Score: -1.

The second sure thing was that, with the large amount of fiscal and monetary stimulus we have experienced, in addition to the anticipation of a large infrastructure spending program, the inflation rate would rise significantly. On Dec. 13, 2017, the Bureau of Labor Statistics reported that, in November, the Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4% on a seasonally adjusted basis. The agency also reported that the index for all items rose 2.2% over the 12 months ending November 2017. The index for all items less food and energy had risen just 1.7% over the same period. Score: -1.

GDP gets a boost

The third sure thing was that with the aforementioned stimulus, anticipated tax cuts and a reduction in

regulatory burdens, the growth rate of real GDP would improve from 1.6% in 2016 to 2.2% in 2017. But first-quarter real GDP growth last year was just 1.2%. The second quarter came in better, at 3.1%. Third-quarter growth was 3.2%. The current, full-year forecast, released Nov. 13, 2017, from the Federal Reserve Bank of Philadelphia's Survey of Professional Forecasters, is for real GDP growth of 2.2% in 2017. We'll give this a score of +1.

Our fourth sure thing follows from the first two. With the Fed tightening monetary policy and our economy improving—and with the economies of European and other developed nations still struggling to generate growth, and with their central banks still pursuing very easy monetary policies—the dollar would strengthen. The dollar index (DXY) ended 2016 at 102.38. The index closed 2017 at 92.30. Score: -1.

The fifth sure thing was that, with concern mounting over the potential for trade wars, investors should avoid emerging markets. The Vanguard FTSE Emerging Markets ETF (VWO) returned 31.5%, outperforming the Vanguard Russell 3000 ETF (VTHR), which returned 21.1%. Score: -1.

The sixth sure thing was that, with the Shiller cyclically adjusted price-to-earnings (CAPE) ratio at 27.7 as we entered last year (66% above its long-term average), domestic stocks were overvalued. Compounding the issue with valuations is that rising interest rates make bonds more competitive with stocks. Thus, U.S. stocks would be likely to have mediocre returns in 2017. A group of 15 Wall Street strategists expected the S&P 500, on average, to provide a total return of about 7%. As previously noted, VTHR returned 21.1%. Score: -1.

Small-caps underperform

The seventh sure thing was that, given their relative valuations, U.S. small-cap stocks would underperform U.S. large-cap stocks last year. Morningstar data showed that at the end of 2016, the prospective price-to-earnings (P/E) ratio of the Vanguard Small-Cap ETF (VB) stood at 21.4, while the P/E of the Vanguard S&P 500 ETF (VOO) stood at 19.4. VOO returned 21.8%, outperforming VB, which returned 16.3%. Score: +1.

The eighth sure thing was that, with non-U.S. developed market and emerging market economies generally growing at a slower pace than the U.S. economy (and with many emerging markets hurt by weak commodity prices, slower growth in China's economy, the Fed tightening monetary policy and a rising dollar), international developed market stocks would underperform U.S. stocks in 2017. The Vanguard FTSE Developed Markets ETF (VEA) returned 26.4%, outperforming VOO, which, as we noted, returned 21.8%. Score: -1.

Our final, year-end tally for 2017 shows that six "sure things" failed to occur, while just two actually happened. The following table shows the historical record since I began this series in 2010.

Year	Number of Sure Things	Yes/True (+)	No/False (-)	Tie/Draw
2017	8	2	6	0
2016	8	2	6	0
2015	8	3	4	1
2014	10	3	7	0
2013	7	2	5	0
2012	8	3	4	1
2011	8	1	7	0
2010	5	1	4	0
Total	62	17	43	2

The table shows that only a little more than a quarter of “sure things” came to pass. Keep these results in mind the next time you hear some guru’s forecast.

Larry Swedroe is the director of research for The BAM Alliance, a community of more than 140 independent registered investment advisors throughout the country.