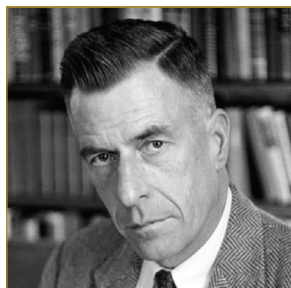




Disregard short-term forecasts and predictions



“The function of economic forecasting is to make astrology look respectable.”

John Kenneth Galbraith,⁸ economist and author

DURING periods of uncertainty, investors often gravitate to the investment media for insights into how to position their portfolios. Media portrayal can often exaggerate and sensationalise current events, increasing investors’ concerns. However compelling the forecasts and views of the media may appear, it often adds little value to an investor’s decision making process.

The study below tracked the average interest rate forecast from *The Wall Street Journal* Survey of Economists from December 1982–June 2008. This forecast was then compared to the actual direction of interest rates. *Overall, the economists’ forecasts were wrong in 35 of the 52 time periods – 67% of the time!*

Table 2 suggests that investors should not spend time and energy focusing on variables that are unknowable and uncontrollable, like the direction of interest rates or the value of the All Ordinaries Index. Instead, focus on things that you can control, like creating a well diversified portfolio appropriate for your investment time horizon, taking into account your objectives, needs and financial situation.

Table 2: Six Month Average Forecasted Direction vs Actual Direction of Interest Rates
The Wall Street Journal Survey of Economists (12/8–6/08)

Date	Forecast	Actual	Result	Date	Forecast	Actual	Result	Date	Forecast	Actual	Result
12/82	▼	▼	Right	12/91	▼	▼	Right	12/00	▲	▼	Wrong
6/83	▼	▲	Wrong	6/92	▼	▲	Wrong	6/01	▼	▲	Wrong
12/83	▼	▲	Wrong	12/92	▼	▼	Right	12/01	▼	▼	Right
6/84	▼	▲	Wrong	6/93	▲	▼	Wrong	6/02	▲	▲	Right
12/84	▲	▼	Wrong	12/93	▲	▼	Wrong	12/02	▲	▼	Wrong
6/85	▲	▼	Wrong	6/94	▼	▲	Wrong	6/03	▲	▼	Wrong
12/85	▲	▼	Wrong	12/94	▼	▲	Wrong	12/03	▲	▲	Right
6/86	▲	▼	Wrong	6/95	▲	▼	Wrong	6/04	▲	▲	Right
12/86	▲	▲	Right	12/95	▼	▼	Right	12/04	▲	▼	Wrong
6/87	▼	▲	Wrong	6/96	▲	▲	Right	6/05	▲	▼	Wrong
12/87	▼	▲	Wrong	12/96	▼	▼	Right	12/05	▲	▲	Right
6/88	▼	▼	Right	6/97	▼	▲	Wrong	6/06	▲	▲	Right
12/88	▲	▲	Right	12/97	▲	▼	Wrong	12/06	▲	▼	Wrong
6/89	▲	▼	Wrong	6/98	▲	▼	Wrong	6/07	▼	▲	Wrong
12/89	▲	▼	Wrong	12/98	▲	▼	Wrong	12/07	▲	▼	Wrong
6/90	▼	▲	Wrong	6/99	▼	▲	Wrong	6/08	▲	▼	Wrong
12/90	▼	▼	Right	12/99	▼	▲	Wrong				
6/91	▼	▲	Wrong	6/00	▼	▼	Right				

Source: Legg Mason and *The Wall Street Journal* Survey of Economists. This is a semi-annual survey by *The Wall Street Journal* as at 30 June 2008.
*Benchmark changed to 10 Year Treasury.

⁸ John Kenneth Galbraith (1908–2006) was a North American economist and taught at Harvard for many years. Galbraith’s books on economics were bestsellers in the 1950s and 1960s. Galbraith wrote dozens of books and many, many articles. Arguably, his most famous works are the popular trilogy on economics, *American Capitalism*, (1952), *The Affluent Society*, (1958), and *The New Industrial State* (1967).