Why We Don't Make Market Predictions

History has shown that it is nearly impossible to determine what the numbers will be tomorrow much less next month or next year.

Brian Sommers, CFA
Director of Asset Management

As Director of Asset Management for HBKS® Wealth Advisors (HBKS®), Brian Sommers oversees the firm's investment management processes for a distinguished group of nearly 30 investment advisory representatives. Mr. Sommers chairs the Investment Policy Committee of the firm and is instrumental in the identification, evaluation and recommendation of the investments that make up HBK's portfolios. He brings HBKS clients the expertise of more than 20 years managing a wide range of portfolios for both high net worth individuals and institutional clients.

Over his career, Mr. Sommers has managed an impressive array of investments, including Taft-Hartley plans and endowments, and plans for foundations, corporations, individuals and public entities. He has held positions in investment consulting and client service for both institutional and high net worth clients.

We are often asked where we believe a certain market or economic indicator is headed. Stocks, bonds, interest rates or Gross Domestic Product – no one can consistently and accurately predict what the future will bring, including the "renowned experts" who want us to believe otherwise. The fact is, history has shown that it is nearly impossible to determine what the numbers will be tomorrow much less next month or next year.

While we understand the desire for forecasts that purport to say where, for example, stocks will be by the end of this year, such predictions, at best, provide only a false sense of certainty. At worst they can do severe damage to an investor's long-term financial objectives.

To illustrate the point, look how some infamous recent predictions fared:

- Legendary Vanguard founder Jack Bogle should have known better. He has often stated that no one knows where the market is headed. Still, in an interview with Forbes magazine, he said he expected average returns in the domestic stock market to be "about 5 percent annually" from 1999 to 2009. The S&P 500 Index was actually down about 1 percent annually over that decade.

- According to the Board of Governors of the Federal Reserve System, during testimony on March 28, 2007, Federal Reserve Chairman Ben Bernanke said: "The impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained." Then Bernanke told the House Financial Services Committee in July 2008 that "the GSE's (Government-Sponsored Enterprises) are adequately capitalized. They are in no danger of failing." Of course, neither of these statements turned out to be accurate and the nation suffered the worst financial meltdown since the Great Depression.

- On October 6th of 2008 Jim Cramer while live on the "TODAY" television show, said: "I thought about this all weekend. I do not want to say these things on TV. Whatever money you may need for the next five years, please take it out of the stock market right now, this week. I do not believe that you should risk those assets in the stock market right now." If an investor sold out of an S&P 500 Index fund the next day, he or she

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Christopher Sorce began his career as a financial advisor in 1976, joining the firm in his hometown of Erie, Pennsylvania, where his father had been advising clients since 1950. He continued with the firm after its acquisition by American Express Financial Advisors and in 1983 became one of the first financial professionals in Pennsylvania to earn the designation of CERTIFIED FINANCIAL PLANNER™.

A founding principal of HBKS® Wealth Advisors (HBKS®), Mr. Sorce serves clients throughout the United States from his offices in Erie and Naples, Florida. Like The Sorce Financial Group, HBKS has distinguished itself among wealth management firms through its in-depth approach to personal financial planning and disciplined investing. The firm has invested in sophisticated technology in order to efficiently monitor and tactically rebalance investment portfolios in volatile market conditions.

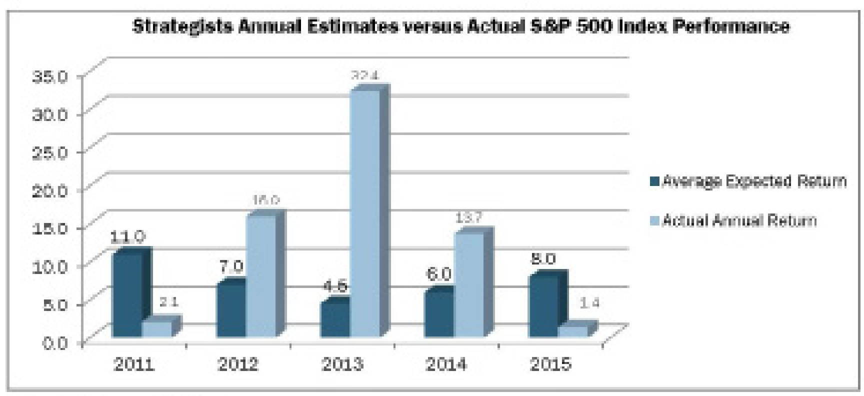
As a senior financial advisor, Mr. Sorce directs a team of several professionals, including three certified financial planners and two licensed administrators, to provide the highest levels of service to each of their clients. Mr. Sorce earned his Bachelor of Arts degree from Boston University and is life and health insurance licensed. He has served on numerous local and national community executive boards and professional associations over four decades.

would have missed out on a rebound of 79 percent over the next five years.

- On March 19 2015, while on CNBC's "Squawk Box", entrepreneur T. Boone Pickens predicted the price of a barrel of oil would rebound to $70 by the end of the year. The barrel price of Crude Oil ended 2015 at $37.

These are just a few examples of recognized experts making predictions that turn out to be drastically wrong. There are many, many more; even the people who make their living forecasting markets are usually wrong.

In January of each year CNN/Money conducts a survey of 30- to 40 investment strategists and money managers to gauge what they believe the performance of the S&P 500 Index will be that year. Here are the results for the past five years, along with the actual performance of the S&P 500 Index for each year:



Source: CNN/Money and Morningstar

The investment strategists and money managers missed the mark by an average of about 12 percent per year. The largest miss came in 2013. In January of that year many investors were very nervous about the prospects for stocks. There were concerns about the high valuation of the stock market, the potential for inflation to heat up, the level of debt the U. S. government had accumulated due to loose monetary policies after the financial crisis, the European sovereign debt crisis and slower growth in emerging markets. Yet the S&P 500 Index rocketed over 32 percent higher.

This is not to say those of us in the investment community lack intelligence. The world in which we live is just highly unpredictable. The HBKS investment team recognizes that in a highly unpredictable environment, it is foolish to predict. Instead, we focus on what we can reasonably expect. We can reasonably expect a certain level of dividends and interest income. We can reasonably expect the stock market to trend upward over the long term.

By focusing on what we can reasonably expect, HBKS Wealth Advisors does not rely on near-term market forecasting in managing client portfolios. Our solution is to develop with each one of our clients a prudent, globally diversified asset allocation designed for the long term. With the targeted asset allocation determined, we can view bouts of volatility as opportunities to rebalance the asset allocation back to our targets.

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During periods of market stress, our advice is to stay the course and focus on the long term. Instead of obsessing over the daily news, we believe substantial movement up or down in an asset class can be an opportunity to rebalance your portfolio to take advantage of the eventual move in the opposite direction.

Income, diversification, asset allocation and rebalancing might lack the excitement of the predictions of the so-called experts. But focusing on reasonable expectations and long-term performance seems to us a better approach than trying to guess which turn the markets will take next.

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