



Focus...A Key to Investor Success

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

-John Kenneth Galbraith. Economist and Author

November 2010

Focus. We’ve all been told this at some point in our lives, but how does it relate to long term investor success? How can this one word potentially provide a lifetime of retirement bliss (as you define it) or a possible lifetime of headaches? What I will be describing is focusing on the Unknowable vs. Knowable...I believe this is a key to long term investor success.

Recently, you can’t turn on the radio, cable or internet without the following commentary from a self proclaimed “Expert” in regards to either; The Market’s Direction, Interest Rates, Economy, Oil Prices, World Crisis, Real Estate or Corporate Earnings. All these areas of interest are important, but in the short run Unknowable. And this is where the focus begins to fade.

For example, the *table below provides the results from December of 1982 through June 2009 of the average six month forecasted direction of interest rates from economists vs. the actual direction. As you will clearly see is has been difficult for economist to predict what will happen in the short run. Important but Unknowable.

Six Month Average Forecasted Direction vs. Actual Direction of Interest Rates											
<i>The Wall Street Journal Survey of Economists (12/82–6/09)</i>											
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	12/08	▲	▼	Wrong
6/91	▼	▲	Wrong	6/00	▼	▼	Right	6/09	▲	▲	Right

Source: Legg Mason and *The Wall Street Journal Survey of Economists*. This is a semi-annual survey by *The Wall Street Journal* last updated June 30, 2009. *Benchmark changed from 30 Year Treasury to 10 Year Treasury. **Past performance is not a guarantee of future results.**

Now you may be saying to yourself, OK but maybe those are the economist that received “C’s and D’s” in college. My person is much better a prognostication than that. Fair enough, let’s look at one of the most intelligent to see what he has had to say in the past (I’m sure you’ll agree with me on this one), former Federal Reserve Chairman Allan Greenspan.

“It is rare that you can be as unqualifiedly bullish as you can now.”-

-January 7th 1973 (Dow peaked four days later and then declined around 45%)

“...there are few signs to date of slowing in the pace of innovation and the spread of our newer technologies...”-

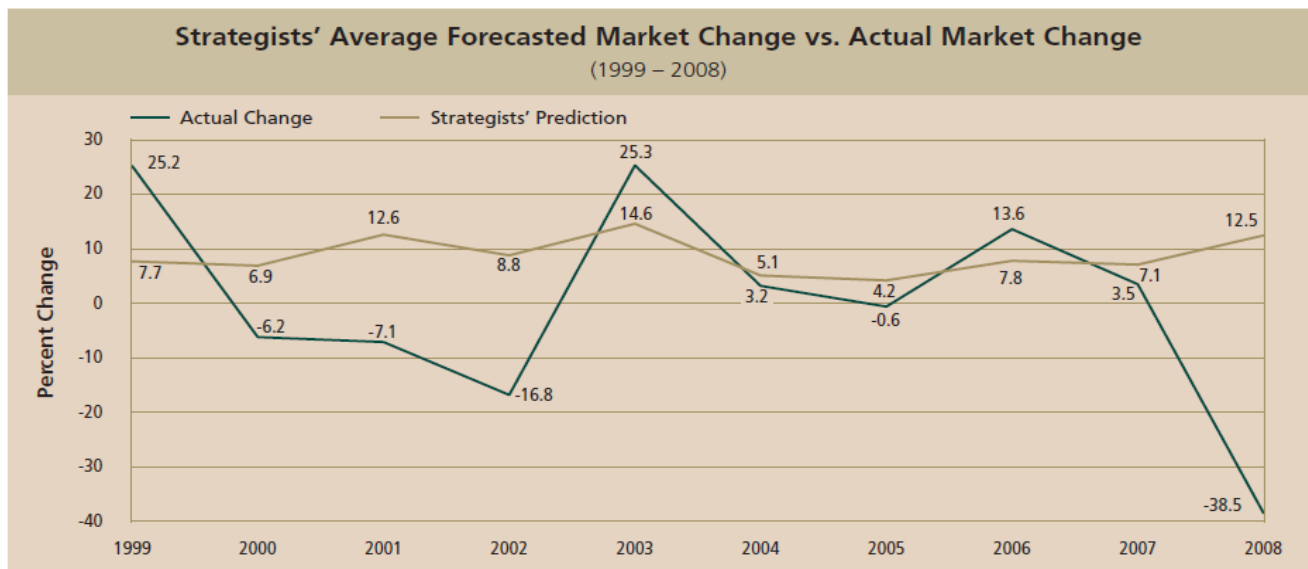
-February 23, 2000 (NASDAQ peaked 16 days later)

“I was telling my colleagues the other day...I’d been dealing with these big mathematical models for forecasting the economy, and I’m looking at what’s going on the last few weeks and I say, “Y’know, if I could figure out a way to determine whether or not people are more fearful, or changing to euphoric...I don’t need any of this other stuff. I could forecast the economy better than any way I know. The trouble is, we can’t figure that out. I’ve been in the forecasting business for 50 years, and I’m no better than I ever was, and nobody else is either.”-

-September 18th 2007

You may be thinking, well this is an area that can be extremely difficult to forecast. Agreed and I hand it to any economist who attempts to make sense of all the data they have to interpret and then formulate an opinion. And the second they do...all the data changes, again.

Well, how about the direction of the markets. How have Wall Street Strategists fared in the short term direction? The *chart below shows the Strategist Average Forecasted Market Change vs. Actual Market Change from 1999 through 2008. Again, not only does the interest rate direction give prognosticators problems, but trying to predict to markets direction has been just a challenging-according to this report from Barron’s. Again, Important but Unknowable.



Source: *Barron's*. From 1999 through 2005, numbers reflect Dow Jones Industrial Average forecasts. In 2006, *Barron's* began using the S&P 500® Index exclusively. **Past performance is not a guarantee of future results.**

My point is simplistic, the focus of a long term investor (which should cover just about everyone) needs to be shifted from looking at issues that are important but unknowable in the short run to important and knowable for the long run. I will cover this in the next month's article (I'll give you a hint: it involves a postage stamp).

Past performance is no guarantee of future results.

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* Six Month Average Forecasted Direction vs. Actual Direction- Legg Mason and The Wall Street Journal Survey of Economist. Provided by Davis Advisors

* Strategist Average Forecasted Market Change vs. Actual Market Change- Barrons. Provided by Davis Advisors