



PRATO CAPITAL



MARKET PREDICTIONS FOR THE NEW YEAR!

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Welcome to 2020 and the start of another round of “can you guess the direction of the market for this coming year”. With the start of every new year there is no shortage of predictions coming from the financial media outlets. Predictions (guesses, really) as to what the future holds for the stock market. Bold predictions by so called “media experts” serve one purpose. More media coverage for the analyst or money manager which will hopefully persuade an uneducated investor that this person knows something nobody else knows. And this is simply self-serving and completely without merit.

Who can resist an outrageous prediction about the stock market? When you look at how poorly these “analysts” fare, and the fact that the majority of investors underperform the markets over time, the answer apparently is ...not many!

Looking Back on 2019

2019 was a good year to be invested in the global stock markets. The Dow Jones, S&P 500 and the Nasdaq were all up over 20% by mid-December. Our newsletter from one year ago looked at previous predictions and what we were told to expect during 2019, (pratocapital.com/January-2019-NewYearPredictions.pdf). One publication's '10 Favorite Picks for 2019' once again underperformed the S&P 500. Another publication's predictions of stocks gaining 10% fell far short of the actual returns during 2019.

All the major financial publications listed well known US stocks as their top picks last year. None of those forecasting the future choose the Athens Stock Exchange in Greece or Sarajevo Stock Exchange in Bosnia and Herzegovina as their top picks. Both outperformed the S&P 500 significantly during 2019 ^[1] .
In fact, since 1999 the overall US stock market finished with the best returns among developed markets **only once**, in 2014.

Many of the major brokerage firms publish forecasts every year. Citigroup Bank of America had predicted US equity returns in the “mid-single digits” for 2019. In December 2018, Morgan Stanley UBS described the upcoming 2019 as a “Challenging Backdrop”.

The problem with these predictions is typical of stock market predictions in general – over short-term periods, it is impossible to consistently predict where individual stocks and the stock market will end up. Although 2019 showed some volatility at times, it was a good year for investors with a globally diversified portfolio.

Predictions of Doom Make Great Headlines

The media understands very well how doom and gloom keeps viewers and readers engaged. Hedge Fund manager Mark Yusko predicted a “dreadful bear market” for 2019 when interviewed on CNBC in December 2018 ^[2] .

Starting in the spring of 2019 with the inverted yield curve and continuing through the summer and fall with so called “Trade War” with China, there were no shortage of bear market and recession predictions and headlines.

What about 2020?

Once again, there are many forecasts for the New Year of 2020. For the S&P 500, Citigroup forecasts 3375 (a 4.5% gain), Morgan Stanley 3000 (a 6.8% loss) and Goldman Sachs 3400 (a 5.5% gain). Even Vanguard is making predictions for 2020 with the head of investment strategy and chief economist saying a we face a “50% chance of a stock market correction for 2020”. **Is he not also saying we have a 50% chance the market will go up?**

What do we do at Prato Capital with this information?

We feel all the predictions for the New Year are just more useless ‘noise’ from the media outlets. There is no need to chase the next “hot stock” heard on the TV or overheard at the local butcher shop, we use historical data that is 100% verifiable and shows that a globally diversified portfolio will capture returns where they happen. By working with the best thought leaders in the industry, we stay disciplined, focused and away from the noise.

We end with this...or shall we say start the New Year with this. The core of a Financial Life Plan is a globally diversified investment approach based on an **individual’s risk tolerance** and an **individuals financial goals**. This is what helps our clients ‘tune out the noise’ of the financial media outlets and enjoy their lives.

[1] 2019 Year to date returns as of 12/16/2019:

S&P 500 – 27.3%.

Athens Stock Exchange General (ASE) – 43.6%.

Sarajevo Stock Exchange (SASX-10) – 35.8%.

[2] <https://www.cnbc.com/2018/12/21/expect-a-dreadful-bear-market-in-2019-says-investor-mark-yusko-.html>
