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Predicting the Future

By admin

Human nature includes the desire to predict and or anticipate both the immediate and longer term future. The reason for doing so is often to eliminate or reduce the fear or anxiety about the unknown. Human beings detest uncertainty and will do almost anything to reduce this uncertainty.

In ancient times people made special offers to local gods. In modern times, people watch news broadcasts and try to interpret how current events will impact their investments.

For example the day when President Obama was sworn in for the first time in January 2009, the evening newscast lead story expressed surprise that the stock markets were down on such an important day. This belief that events have a direct causal relationship on how the stock markets behave on a day to day basis is widely held by investors.

Another example of this is the day a client called the day before the vote in the 1995 Quebec referendum. He was used a satellite phone while on an airplane requesting changes to his investments in anticipation of the voting results the next day. The markets were already closed and no changes were made to his investments. The next day the vote was different from what he expected and of course the markets reacted differently than he was predicting.

The security regulators define this kind of investing or trading as 'market timing'. That is any investment made in anticipation of certain events occurring in a short time-frame. Wikipedia defines it as:

Market timing is the strategy of making buy or sell decisions of financial assets (often stocks) by attempting to predict future market price movements. The prediction may be based on an outlook of market or economic conditions resulting from technical or fundamental analysis.'

The result is that an investor makes an assumption built upon another assumption and so on. The investor often needs to get a series of predictions correct just to arrive at a conclusion they can try to profit from.

A common situation occurs in the days leading up to the regular meetings of the US Federal Reserve. Speculation abounds about expected or anticipated moves in interest rates etc. and the anticipated impact on the economy and the markets in the hours or days following the meeting. Some people then adjust their investments according to their ideas on how all of this will impact their investments. The same kind of activity surrounds announcements on other economic data such as job numbers etc.

Recent events in the Ukraine involving Russian aggression have similarly received headline treatment. Some of the news coverage has wondered why stock markets have not yet corrected and speculate on when they will correct. Again the common mistake is to assume that recent events will have an immediate impact on the profits of the companies that comprise the various global stock markets.

This association with current events and expected stock market performance has been consistently wrong for years. During the first Iraq war, for example, in the early 1990s the stock markets soared in the face of media expectations of a major correction.

The wealth building process is tied completely to the growth of the profits of the companies in which one invests. Major international events may ultimately affect this process but have little bearing on your own immediate investment and wealth building strategies.

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