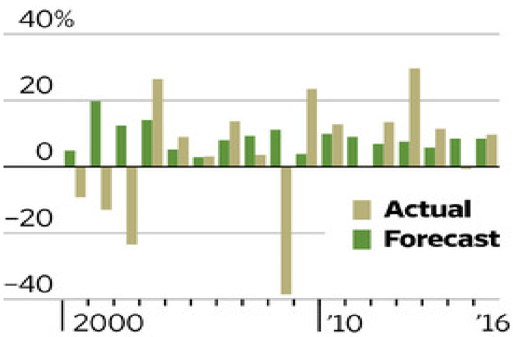
# Stock Market Perspective: Pay Attention to Stock Market Forecasts?

An annual prediction that is certain to be correct is that there will be forecasts of how stocks will do in the coming year. Just about every major full service brokerage firm and investment bank along with the pundits on CNBC and shows like PBS's Nightly Business Report will be saying where they expect stocks as measured by some index to be at the end of 2017. Should they be taken seriously? A chart in the *Wall Street Journal* last month, which is reproduced courtesy of that newspaper, essentially answers the question. Notice in the graph on the left side that in every year the average forecast for the S&P 500 was a gain in the coming year. Except for 2001-2003 they were for a modest increase. I think it is fair to say that these averages are like the metaphorical stopped clock—they are right every so often although not as regularly as twice a day.

## Forecasting Is Easy...Being Right Is Harder

The average Wall Street strategist forecast often bears little relationship to where stock prices go.

**Annual S&P 500 gain forecast** by average strategist against what actually happened*




**S&P 500 forecast for end of 2017**

| | |
|---|---|
| J.P. Morgan | 2400 |
| Societe Generale | 2400 |
| Deutsche Bank† | 2350 |
| Citigroup | 2325 |
| Bank of America Merrill Lynch | 2300 |
| Credit Suisse | 2300 |
| Goldman Sachs | 2300 |
| Morgan Stanley | 2300 |
| UBS | 2300 |
| BNP Paribas | 2250 |
| Dec. 7 close | 2241.35 |

*Based on average of strategists' forecasts at start of January for end of December
†Could be 2400 if corporate taxes are cut Sources: Bloomberg; Thomson Reuters; WSJ calculations; the companies

THE WALL STREET JOURNAL.

*Pundits' forecasts of stock market performance are like a stopped clock; they are right twice a decade!*

The ten forecasts by major investment banks shown on the right fit the pattern. Their average is for a 3.6% above the December 7 close shown. Most likely, the forecasts at the end of the year will not be much different. I also suspect that the average of the "strategists" reflected in the graph values will be similar.

If one wants to take a contrarian view, then one should expect that either the S&P has far larger gains, say over 10%, perhaps because Trump's policies will actually work as well as he claims they will or that the market will drop quite a bit in 2017.

As is true every year, I have no forecast for 2017. As I have written (perhaps far too) often, we are currently experiencing a cyclical bull market in the longer-term secular bear period. Consequently, at some point we are going to see a severe drop in stock prices, quite likely comparable to the two 50+% drawdowns in the prior decade. Since the first year of a presidential cycle is typically the worst for stocks, it would not be surprising to see a poor market in 2017. That is not a forecast. I don't need to make one, and those that do sometimes feel that they need to stick by what they have said even in the face of new developments. I will continue to base my decisions about whether to be in or out of the market on well-researched trend following models with outstanding real-time track record.