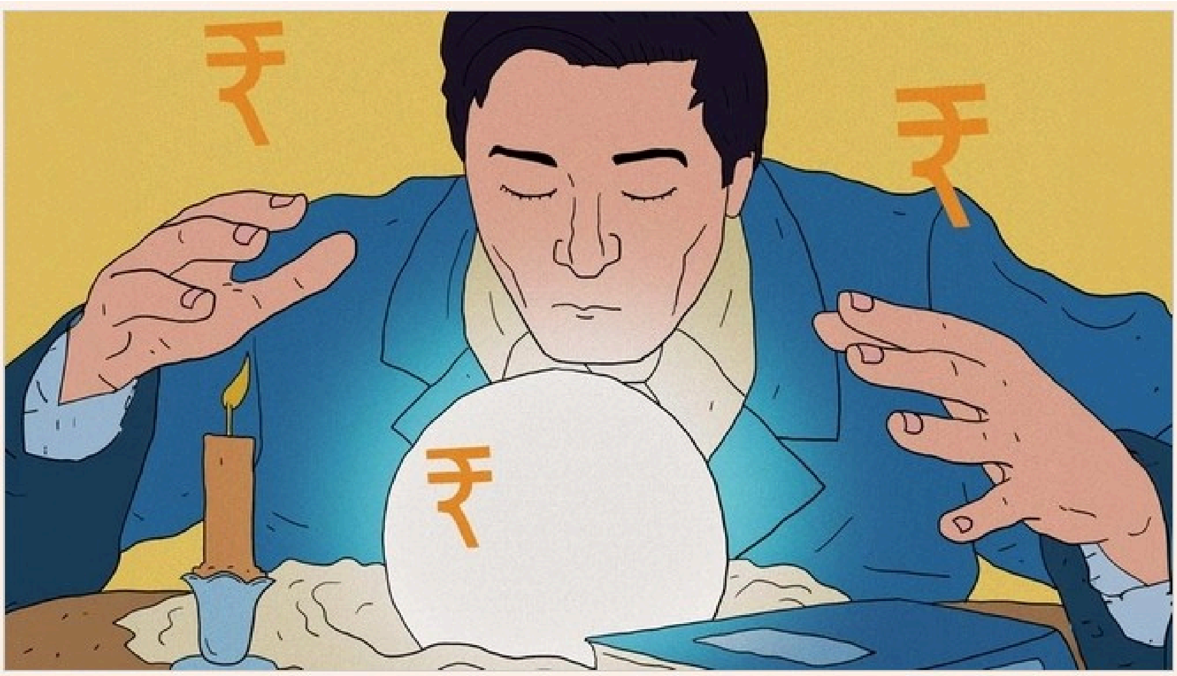
The trouble with investment manager’s predictions

Timing the market is futile. So, stay calm and invest smartly.



By now, we all know that macroeconomics and, more so, market reaction to changes in macroeconomic conditions is uncertain and unpredictable. Human beings don't function too well amidst uncertainty, so market participants spend a lot of time making predictions to endear themselves. In fact, some brands are built on making predictions.

Something I once read said that the art of making predictions is to make many of them frequently and at regular intervals, too. Even a broken clock is correct at least twice a day, if not more. So, occasionally, a prediction will come right, and that's the one that one should amplify, shout and scream about from rooftops in different forms of "I told you so" expressions while others get forgotten and lost in the noise.

The fact that so many people are making predictions makes the job of every predictor easier because no one needs to do much to keep erasing public memory of failed predictions as they get lost in the Teflon-coated resilience, the unscathed hubris of myriad predictors and platforms on which they predicted. The other smart way is to act like you are making it by merely catching a trend which already started to play out. Still, you say it loudly, agonisingly and make it so personal and soul-stirring for the audience you point it out to everyone and his uncle, so

The other favourite I have discussed in the past is giving perfect explanations after events have happened. It sounds intelligent and insightful and even makes listeners believe that they have understood the past very well and will be able to preempt better in the future instead of being surprised. But the correct lesson to learn from surprises is the world and economic phenomena and, more importantly, markets are, well, surprising. The learning is not we should use past surprises as a guide to forecasting or hypothesising the future and planning our actions before the next 'surprise', but that we should

We must worry about being effective and relevant rather than right or wrong. One of my five-year-old son's many tough questions was, "Papa, what is whiter than white?" As I fumbled to cobble up a "nothing" but harmless response, he followed it up with, "Papa, what is blacker than black?". The quest for seeking certainty and absolutes is not just a penchant for my five-year-old son. It applies to everyone. In fact, kids are willing to learn and be more open-minded than us, but for grownups, the search for absolutes, for something certain and for the whitest of whites and

We love fund managers whose portfolios go up even when markets fall or just about make do with fund managers whose portfolios at least don't fall when markets fall. We would love it if the 14 per cent CAGR of Sensex TRI since liberalisation in 1991-92 showed up as 14, 14, 14, instead of a weird sequence of big positives followed by some small or not-so-small negatives. We love to have managers who predict markets will fall and sell your equities NOW; we love managers who have 50 per cent of their portfolio in cash waiting for the next crash;

Let me tell you, for every manager who saw the market go down after they took 50 per cent of the portfolio into cash, there is at least one other manager who saw the market going up inexorably for another three years. For every maximising manager who showed up number one on the alpha charts, there is another whom Mr Market has minimised to the bottom of the alpha charts. You don't need managers who maximise alpha and maximise returns only to be wrestled back and minimised by Mr Market. You need managers and strategies that will optimise for you

There is no use of predictions; they are no guide to accuracy; the world is not all physics as there is nothing called certainty or maximising and the better you optimise and prepare for uncertainty, the better you will do in life and portfolio management. The sooner you accept there are only shades of grey and stop looking for the whitest or blackest of extremes, the more you will move ahead. If there is anything I wish my son would pick up as early as possible in life, it is that there is no whiter than white, and there is

Let me clarify: I said timing is impossible, not unimportant. Timing is important, so the next best thing is not to predict the timing of entry or exit; the next best thing is to accept that it is IMPOSSIBLE AND spread the money over time to optimise OUTCOMES. The quest for maximising results in the subject opportunity turning around and minimising us, so best is to ab initio build a plan around optimising. There is a reason why I call 'SIP' a 'Stay in Play' and 'asset allocation' a mix of asset classes; it's called chemistry.

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Key Takeaways

- ***Market Reactions Are Unpredictable:*** *Macroeconomic conditions and market responses are uncertain, making precise predictions unreliable.*
- ***Frequent Predictions Create an Illusion of Accuracy:*** *Many forecasters make numerous predictions, highlight the correct ones, and let the wrong ones fade into obscurity.*
- ***Trend Catching Masquerades as Forecasting:*** *Some analysts simply amplify ongoing trends, making it seem like they predicted them.*
- ***Perfect Explanations After the Fact:*** *Post-event analysis makes people feel more in control, but surprises will always happen.*
- ***Investors Seek Certainty:*** *People prefer fund managers who outperform in downturns and expect smooth, predictable returns—both unrealistic expectations.*
- ***Market Timing Is Impossible:*** *For every manager who successfully times the market, another fails. No one can consistently predict market movements.*
- ***Optimization Beats Maximization:*** *Instead of trying to maximize returns through market timing, investors should optimize their portfolios for long-term resilience.*
- ***Accept Shades of Grey:*** *Searching for absolute certainty (perfect predictions, perfect investments) is futile; embracing uncertainty leads to better decision-making.*
- ***Systematic Investing Over Timing:*** *Since precise timing is impossible, strategies like* ***SIP (Stay in Play)*** *and* ***asset allocation*** *help spread risk and optimize outcomes.*