The Silly Season Is Upon Us

It's that time of the year when the talking heads of television and the prognosticators of print issue their sage outlooks for the coming 12 months. While this crystal ball gazing is always entertaining, it becomes even more so a year later.

As you may know, in journalism this is known as the "silly season." Lots of people are on vacation, and the flow of news slows to a crawl. So the wide open spaces are filled with forecasts about the markets and reality TV reunion shows. It's actually a tough call on which provides less value to viewers.

Think back to a year ago, when politicians in Washington were in the grip of one of their now familiar "fiscal cliff" standoffs. As has become the custom, the theater of brinksmanship kept everyone guessing until a last-minute resolution.

For some, the excitement was just too much. Major publications told their readers something akin to "political storm clouds loom over the global economy. From Washington to Beijing, the financial markets are in thrall to seismic political events."

In *The Economist* magazine, the tone about 2013's prospects was equally skeptical, if not quite as florid. The magazine noted that while surveys showed that investors were optimistic, the coming year was unlikely to be one to remember.

The reason was that the past year's gains partly reflected relief that the worst fears about the euro zone had failed to materialize, the magazine said, which meant that reality might intervene as investors judged shares as expensive.

"Although investors are not as complacent as they were heading into 2000 or 2007, say, it is still hard to believe this will be a bumper year for returns," the columnist Buttonwood said in his column. The skepticism was universal. The *Financial Review* quoted analysts as saying the prospect of rising bond yields and slowing profit growth did not portend a repeat of the performance of risky assets seen in 2012.

"Analysts are predicting no end to the volatility that has gripped markets over the 2013 new-year period, posing dilemmas for investors wondering how to invest in 2013," the report concluded. Scary right?

It's easy to see from all this forecasting that many investors might have taken fright at the developments around the turn of the year and sought to trim their exposures to risky assets because of what the media pundits were saying.

That would have been a shame, because as of early December 2013, many global equity markets were notching record-breaking years. In local currency terms, the S&P 500 total return index, for instance, was up by just under 31% at time of writing, on track for its biggest annual gain in more than a decade.

In Japan, the Nikkei 225 total return index was 53% higher as of early December, heading for its best yearly gain since 1972. In the UK, the FTSE 100 total return index reached a 13-year peak in May. It has come off a little since then but was still nearly 15% higher for the year by December.

As the year came to an end, there were still plenty of gloomy stories to fill the newspapers—including ongoing speculation about what happens when the U.S. Federal Reserve begins tapering its monetary stimulus program.

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This isn't to say these stories are necessarily incorrect. Most of them accurately reflect the sentiment prevailing at the time they were written and the uncertainty about the future, as expressed in prices.

But as an individual investor, there is not much you can do about that. These expectations and uncertainties are already built into the market. Investing is about what happens next. We don't know what happens next. That's why we diversify.

And think about this: If any of the gurus who regularly appear on financial television or in the newspaper really had a crystal clear view of the future, why would they want to share it with the world? It makes more sense to focus on what's within our own collective control.

Eight "Sure Things" for 2013?

If you've never hear of Larry Swedroe, that's quite understandable. A gifted communicator, he's the author of some very well-written books about prudent investing and an owner of an advisory firm in St. Louis that employs an investment philosophy similar to Rockwood's. At the beginning of each year Larry makes a point to note collective investor sentiment, with the intent of revisiting those notions in the future to determine whether they were helpful to investors. He sarcastically refers to these ideas as "sure things," and from time to time we like to check in to see what Larry has found. Accordingly, below are the eight "sure things" that dominated investor sentiment at the beginning of 2013. We then inserted the calendar year 2013 result in **blue.**

The first sure thing according to Larry is that "the golden age of stock investing is over." Reasons cited often include demographics (Boomers shifting from stocks to bonds as we get older and more conservative), our nation's fiscal problems, and stocks being at an all-time high. **The U.S. market finished the year with a gain of about 33%.**

The second sure thing is that with Europe in a recession that could last for years and the U.S. stuck in a slow growth mode, the highest returns will come from the fastest-growing economies, specifically China. European stocks should be avoided. **European stock indexes gained 25%. Chinese stock indexes gained only 3%.**

The third sure thing is that with all the fiscal and monetary stimulus that continues to be injected into the economy, we'll see a sharp rise in inflation. **U.S. inflation was 1.2% for the most recent 12-month period.**

The fourth sure thing is that investors should limit the maturity of their bond holdings to the short term, given the inflation we're "sure" to see. **While U.S. inflation was low, real interest rates did, in fact, rise in 2013. The result was that holders of shorter-term bonds were rewarded.**

The fifth sure thing is that the easy monetary policy and rising inflation will lead to the price of gold soaring. **Actually, gold prices fell sharply as gold underperformed the U.S. stock market by 61%. You may recall that the last bear market for gold lasted 20 years.**

The sixth sure thing is that if you're going to invest in U.S. stocks, you should seek the "safety" of investments with higher yields. That means buying high-dividend stocks, master limited partnerships, and real estate. **Real estate stocks, MLPs, and indexes of dividend-oriented stocks all underperformed the broad U.S. market.**

The seventh sure thing is that the road to riches is ownership of Apple stock. Despite spectacular returns over the past four years—the stock rose about 147% in 2009, 53% in 2010, 26% in 2011, and 33% in 2012—it's still cheap. At the beginning of 2013, the current price-to-earnings ratio was only about 11.4, compared to about 15 for the overall market. And the forward-looking P/E was only about 8.5. **We love our iPhones, but Apple underperformed the U.S. market by about 26%.**

Our eighth sure thing is that it will be a stock picker's year, a year when active managers outperform their benchmarks. **On balance, active managers not only failed to beat their indexes, but fared worse than they normally do. To pour salt in their wounds, a Nobel Prize in Economics was awarded to Professor Eugene Fama for demonstrating essentially that active management does not work.**

Larry didn't mention a ninth sure thing, but as a client of Rockwood Wealth Management, you probably already know what we would write.

The ninth sure thing is that there are no sure things—and that neither private intuition nor public sentiment is prudent input for investment decisions.

The Dumbest Thing We Heard in 2013

This year's winner is Stewart Lawson, vice president at Certified Gold Exchange, one of the nation's largest precious metals dealers. Stewart had a few not-so-sage words for investors in early June 2013. All of us have said things we have later come to regret, but in his case his claims were so unabashedly profity seeking that we felt compelled to make note. His thinly veiled and over-sensationalized plea for investors to transact gold (from which his firm earns a hefty profit) led him to offer the following:

"I'd say that the likelihood of a stock crash in 2013 is 87% at a minimum," Lawson said from his office in Dallas, Texas. "Government agencies, the media, and investment banks as well as their brokers have been shoving this recovery nonsense down our throats for the last couple of years, but I talk to people every day who tell me that this 'recovery' hasn't trickled down to them at all. Prices for food and gasoline are higher, unemployment is up, cities are going bankrupt, and we are supposed to believe that the stock market is safe? So much stock market trading is done by machines, and a few weeks ago a single tweet from a hacked AP Twitter account caused the market to nosedive. I recommend hard assets such as gold and silver, and if someone is insistent on being involved with the stock market, they should consider ETFs that are based on commodities."

Don't worry, though; if you need any other great tips you won't have to look far. According to the Certified Gold Exchange website: Our Economic Research Team's extensive experience in the precious metals market, and solid reputation for accurate analyses and forecasts, offers our customers an invaluable resource for making financial decisions.

Hmmm...in that case, it would have been nice to know in advance that for 2013 that gold would fall 28% while U.S. stocks would rise 33%. We must have overlooked that section on their website.

Thanks for the good laugh, Stewart—we here at the office appreciated it, though we are quite sure that anyone foolish enough to act on your advice is not laughing at all. Stewart, here's to hoping you're wrong again in 2014.

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