

Following market predictions folly

INVESTMENT

BY BARRY O'NEILL

The new year always heralds a host of investment forecasts and "top tips" for how to make money in the coming 12 months.

Many promote individual shares or funds that have delivered above-average performance in the preceding year.

Unfortunately, the probability of such outperformance being repeated is small.

To help demonstrate that following predictions is folly, experts on both sides of the Atlantic said at the start of 2012 that it would

be a lean year for equities. One high-profile head of equities in the UK made three predictions towards the end of 2011.

At country level he selected the US stock market as the standout choice.

At sector level he highlighted the opportunities in the UK pharmaceutical sector.

Finally, singling out one company as the opportunity for 2012, he selected Vodafone, citing the exponential growth in the use of smartphones and the fact that the stock had outperformed the FTSE 100 index in 2011.

So, how successful were the predictions?

During the 2012 calendar year, the S&P 500 index of large US companies delivered a return of 10.16%, outpacing their UK counterparts in the FTSE 100 by a mere 0.19%, so you wouldn't be dining out on that tip.

If you had simply invested in the entire developed world's stock market as represented by the FTSE World index, you would have enjoyed a gain of 11.83%.

In the UK market, pharmaceuticals fell by 1.82%. Ironically, telecoms were up 30.38%, and the much-unloved banking sector was up by 39.64%.

Again, if you had just

bought into the whole UK market – the FTSE All Share index – you would have enjoyed a 12.3% gain.

Finally, top tip Vodafone actually lost money.

The shares fell by 8.5%, meaning they underperformed the FTSE All Share by nearly 21% in a single year.

So much for experts being able to predict the future.

You can waste a lot of

time and money predicting markets and making decisions about your future wealth based on what the expert forecasters think will happen.

The truth is that they get it wrong more often than they get it right.

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BAD PICK: Barry O'Neill ... Vodafone shares off 8.5%