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Business Editor: Ryan Crighton (01224) 343356 E-mail: pj.business@ajl.co.uk Inverness Office: Tel: (01463) 272200 To Advertise: Tel: (01224

CLIFFHANGER: Traders working on the floor of the New York Stock Exchange on January 2, 2013, the day after US lawmakers reached a last-minute agreement to avert the "fiscal cliff"

Beware the crystal ball gazers offering advice

Investments: If they truly knew anything, would they share it?

BY BARRY O'NEILL

Have you been inundated with forecasts on the economic outlook for the coming 12 months, and which investments are supposedly best placed to prosper?

Some investors still seem willing to believe crystal ball gazers, even though in all other walks of life they would dismiss their pronouncements as mere guesswork.

Think back a year ago. Politicians in Washington were in the grip of one of their now familiar "fiscal cliff" stand-offs.

On January 7, 2013, US publication Financial News told its readers that "political storm clouds loom over the global economy. From Washington to Beijing, the financial markets are in thrall to seismic political events".

That same week found The Economist magazine displaying an equally gloomy tone about the prospects for 2013, stating that the coming year was unlikely to be a bumper one.

The scepticism was similar around the world, with many analysts saying the prospect of rising bond yields and slowing profit growth did not augur well for a repeat of the good performance of equities seen in 2012.

It is easy to understand why many investors might have taken fright at such pronouncements and sought to reduce their exposure to risky assets such as shares.

However, that would have been costly because many of the world's equity markets delivered excellent returns in the 12 months ended December.

> "We don't know, and that is why we should have well-diversified portfolios"

In the UK, the FTSE All Share (total return) Index was up by 20.81% and, in sterling terms, the US S&P (Standard and Poor's) 500 total return index was up by just over 29% – its biggest annual gain in more than a decade.

Even Japan joined the party, with the Nikkei 225 total return index being almost 27% higher in sterling terms.

Over the past few weeks there have been further gloomy stories, including ongoing speculation of what happens when the US Federal Reserve begins tapering its monetary stimulus program.

I am not saying that such stories are invalid. 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 will happen next, and that is why we should all have well-diversified portfolios.

If any of the gurus who regularly provide investment "tips" really had a crystal-clear view of the future, would they really choose to share it with you?

● Barry O'Neill is investment director with financial planning and investment advice firm Carbon Financial Partners. He can be contacted on 01224 619215.