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The Analyst Who Cried Wolf

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On average, markets post a significant correction once every three years. About every 10 years, a "Black Swan" event occurs that shakes stocks significantly where capital trades hands between patient investors and impatient speculators. We had corrections in 2011, 2015, 2018 and 2022. We had Black Swan events in 1987, 2000, 2008 and 2020. Each time there's a major market shock, analysts, media pundits and economists emerge from the woodwork saying, "Look at me, I knew this would happen!" Case in point - Michael Berry, the famous hedge fund manager who correctly predicted the financial crisis of 08 and 09. Hollywood produced a movie, Berry went on a speaking and book tour and now makes headlines nearly every year thanks to the one call he got right.

After making one successful prediction, analysts try to predict the next crisis every time a small correction occurs, but typically become one hit wonders. The reality is Black Swan doomsday events are extraordinarily rare and nearly impossible to predict with consistency over time. Instead, analysts end up crying wolf every time a normal pullback occurs and unfortunately, people still listen. One such analyst at a major Wall Street investment bank got it wrong each year for the 14 years after 2008 and finally correctly called the 20% market correction in 2022. The media has paraded this individual out as a hero and takes every word he says as gospel. While he was right in 2022, he was wrong 14 of the past 15 years…yikes!

If you listened to the doom and gloomers the past 15 years, you would have sat in cash that returned about 1% per year all while watching stocks produce a total return of 411% since the bottom of 2009. As we've pointed out in the past, there's a key difference between the doom and gloom market timers whom the media love, versus long term buy and hold portfolio managers. The traders and timers don't have to be right because they don't produce a report card at the end of the year. They can say whatever they want on CNBC and barely anyone remembers. Portfolio managers like us, tasked with the allocation of your life's savings, must produce results…otherwise you'd fire us. If portfolio managers want to stay employed over the long run, they are required to base decisions off data, math and statistics, not media hype.

As always, the doom and gloomers that said 2023 would be a blood bath for earnings and stock returns have been proven wrong. Maybe they'll be right as second, third and fourth quarter earnings are released the rest of the year, but so far, they've been way off the mark. The most popular CNBC analysts said the S&P 500 Index would trade at 3,000 points in 2023 and so far, the index is trading at nearly 4,200 points. The reason they've been so wrong is because corporate profits aren't nearly as bad as predicted. Recent FactSet earnings data show profits only down 6.5% from their all-time highs. Earnings this year are so good, we're off to the best earnings season start since 2012. No, the sky is not falling just because an acorn hit us on the head.

The unpredictable part of the market is the Federal Reserve. No one knows what the Fed is going to do or where they will go (including Jerome Powell), which makes stock selection more important than ever. We tend to think inflation has peaked, but the Fed will keep rates too high for too long, which is why we expect the 8.5% year to date stock market return to possibly be at peak levels. That's why we've continued holding dividend payers, real estate and commodity linked stocks that do well in a high interest rate environment. We don't expect any big spikes to the upside, but we still don't think stocks are headed into a freefall any time soon.

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