News-Driven Market Predictions Can Be a Recipe for Disaster

What a week! In just about seven days, we (the U.S.) and the world have stepped back from the brink of war with Iran, Iran has shot down a civilian aircraft killing 176 innocent people (and then lied about it), and the Iranian people have gone from marching in the streets chanting death to the U.S. to now marching in the streets chanting death to their own ruler. You just can't make this stuff up. Not only is this an example of just how fast news events can change, but it is also a prime example of how relying on news events of any kind are a recipe for disaster when it comes to investing.

One week ago, news pundits (and so-called investment experts) on television were shouting warnings that the overbought stock market would quickly drop in the face of the military conflict in Iraq and collateral fallout. I read one article last week that said the conflict could "immediately cause a 15% correction in equities". For those investors that were concerned, I will mention the commentary I wrote last Monday night discussing past military conflicts' historical impact on the U.S. economy over the short term. More importantly, the fact that markets very quickly figure out what is important and what is not as it relates to the attractiveness of asset classes. This is true whether we are talking about war, natural disaster or some foreign or domestic political upheaval.

Since the market close on January 7, when the bottom appeared to falling out of the stock market, the S&P 500 is up nearly 3% as of this writing. Anyone who sold assets because they "predicted" a particular market response have now lost 3% in returns and are faced with the incredibly difficult decision of whether to "get back in". After all, the bullish response may now be over, and the selling could resume! This is called a dilemma and one that you do not want to be faced with.

What I have just laid out is an incredibly important lesson in investing. It is impossible to predict the stock market or any other market for that matter. If it were possible, everyone would do it and it would therefore have no value. Have a process that you believe in and can stick to. There are a million ways to be successful in investing, but every one of them has a process. Warren Buffet has a process and the fanciest market technician has a process. Find data points that are meaningful to the performance of the assets that you invest in and follow them religiously. Try to stay invested and collect dividends and interest if you can. You won't always be right, but you will be getting paid while you wait. Staying invested is the key to long term success. Making investment decisions based on anything else is what some would call gambling. It is a fool's game. Don't be a fool with your money.

Last week's commentary can be found here.


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