



CRYSTAL BALLS

Over the years I have met a number of people who appear to have found the perfect crystal ball. When they talk about the future you would swear that their predictions were almost certain to happen. If anyone was silly enough to question any of their predictions they would be looked at as if they had two heads and had just arrived from another planet.

Last month I mentioned that I felt Eddie Hobbs had managed to find the perfect crystal ball in relation to “peak oil”. I mentioned that the way he spoke made me feel uneasy because it was said in such a way that he appeared to have no doubts what so ever.

In the month since I wrote that opinion piece I have been struck by the number of people who appear to have similar conviction on a number of economic / financial topics. In particular it appears as if a number of journalists and business writers have managed to find a crystal ball of amazing clarity.

I would just like to quote a couple of these articles to give you a flavour of what I am talking about:

In the Irish Times of Friday December 21st, in the “Serious Money” section, Charlie Fell says in the third last paragraph:

“The credit crisis is set to continue and an economic recession in America is **inevitable**” (my emphasis)



Charlie Fell

In the Sunday Business Post of December 23rd, in the “Insider”, Kathleen Barrington says in the last paragraph:

“One thing is sure, though: cash will be king in 2008”



Kathleen Barrington

Both of these quotes appear to be written with a sense that there can be no doubts about the accuracy of the statements.

One of the things that I have come to believe in over the years is that one should never speak with complete certainty. One should always allow the doubts to be outlined. A little humility is always good because economies and stock markets have a habit of proving us wrong. We just hope to be right more than 50% of the time.

If I had my way, therefore, I would tell Charlie Fell not to use the word inevitable in the quote above and instead I would suggest that he say something along the following lines:

“The credit crisis is likely to continue and the chances of an economic recession in America remain significant”

I would have thought Kathleen Barrington should have said something along the following lines:

“In my opinion, cash is likely to be king in 2008”.

These are the more balanced statements that I think would better serve the readers of the Sunday Business Post and Irish Times.

Even if Charlie is right about recession and Kathleen is right about cash being king I think that investors should keep the following thoughts in their mind:

First of all I am in agreement with Warren Buffett when he says that recessions eventually end and ultimately in the long run if you own good companies on the right valuation you will make decent returns.

If a recession brings share prices down well that might be the opportunity to buy. He points out that he made some of his best purchases after the 1974 oil crisis.

He says that he hopes that he lives long enough to live through another couple of recessions!

Secondly even if cash is king in 2008 all long term investors have to be aware of the danger of being out of their favourite shares or the overall market when eventually the market rebounds.

I honestly do not know if cash will be king in 2008 but I still believe that shares will generate higher returns over the long term. I wrote about this in my opinion piece of Aug 06 (No 11: Am I crazy investing in Shares). I therefore believe that it is sensible to keep exposure to my favourite shares even if in hindsight it turns out that in 2008 cash outperforms shares.

This brings me on to something that Alan Greenspan said in a recent interview I saw. He said that he had been in the forecasting game for 50 years and in that time there has been no improvement in our ability to forecast the future direction of the economy. I think that Charlie and Kathleen should listen to this wisdom and write with a little less certainty to their opinions.

Having been critical of Eddie, Charlie and Kathleen for speaking with certainty has made me reflect on what I have written in my own opinion pieces. Have I fallen into the same trap? Have I allowed myself to appear to have more conviction about things than I should have? Could I have been more balanced?

Going all the way back to my first opinion piece where I spoke about my confusion in relation to Japan makes me feel as if I have attempted to show how complex investment issues are and that even after spending 10 years as a full time Japan specialist did not make my crystal ball particularly clear.

If I have failed in my desire to be reasonably balanced in other opinion pieces please forgive me but at the same time I want to continue to say things as I see them and avoid the trap of always sitting on the fence.

Investing remains a fascinating and difficult activity but hopefully in the long run a very rewarding one.