REVENGE OF THE QUIET ADVISOR

A persistent challenge to the successful execution of any investment strategy is to make sense of the disparate opinions and predictions that dominate the media. Of course, predictions often turn out to be at least partially incorrect, but in a hyperbolic media environment where cautious views tend to be dismissed due to their blandness, the lure of a salacious sound byte can be irresistible.

Since investment advisors grow weary of responding to the market insights and stock tips proffered by the various financial personalities and because the most oft-quoted talking head appears to be CNBC's Jim Cramer, let's hold this stock-jock's feet to the fire a bit as we take a light-hearted look at a few of his more wayward predictions.

9 'MAD' MISSES

⇒ #1: On the March 11, 2008 episode of *Mad Money*, a viewer asked, "Should I be worried about Bear Stearns in terms of liquidity and get my money out of there?" Cramer retorted, ***"No, no, no! Bear Stearns is fine! Do not take your money out. If there's one takeaway … Bear Stearns is not in trouble. If anything, they're more likely to be taken over. Don't move your money from Bear! That's just being silly."*** (3/11/08)[2]

Bear Stearns was on the brink of collapse and within a week, JPMorgan Chase offered to acquire Bear Stearns for $2 per share in an emergency, government-assisted transaction.

⇒ #2: ***"Goldman Sachs makes more money than every other brokerage firm in New York combined and finishes the year [2008] at $300 a share. [This is] not a prediction—[it's] an inevitability. In fact, it's only January, and I think it's already come true."*** (12/30/07)[2]

Goldman Sachs' common stock stood at $212 per share at the end of 2007 when Cramer's predictions were published. During 2008, it fell 50% more than the broad equity averages to close the year at $84 per share.

⇒ #3: ***"Google continues its dominance and becomes one of the top three companies in the U.S. in [terms of its] market capitalization. It doubles its advertising share, at the expense of television and print. It also successfully challenges Microsoft for operating-system dominance. Microsoft calls for a government investigation of Google's power, but no one cares because Microsoft is just too hated for anyone in Washington to champion. The stock roars to $1,000."***(12/30/07)[2]

Unsurprisingly, Google has retained its dominance, but Cramer's prescience ended with the obvious. Instead of roaring to $1,000, Google shares slid 55% to close 2008 at $308 per share.

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⇒ #4: ***"European companies, eyeing the weak dollar … offer to buy Merrill Lynch and JPMorgan … Colgate, Clorox, Whirlpool, and Black & Decker get snapped up [and] all six companies' stock prices head north."*** (12/30/07)[2]

Merrill Lynch fell into the very un-European arms of Bank of America. Neither JPMorgan Chase, Colgate, Clorox, Whirlpool, nor Black & Decker were acquired and the stock prices of all six companies headed south.

⇒ #5: ***"...if Bernanke or a future Fed chair does cut [interest] rates meaningfully, here's a sure bet: That's the time to start buying."*** (12/30/07)[2]

Over the course of 2008, the Federal Reserve did reduce the targeted federal funds eight times in a series of very meaningful interest rate cuts (from 4.25% to .25%), but despite the apparent sureness of that bet, the S&P 500 relinquished over 40% of its value.

⇒ #6: ***"Just buy the stock of the company you filled [your gas tank] up today, or buy a driller..., then sit back and make money."*** (12/30/07)[2]

If one would have held shares in the iShares Global Energy Index Fund (a proxy for the energy market as a whole) during 2008, one could have sat back and watched over 40% of one's capital evaporate.

⇒ #7*:* Wachovia's CEO, Robert Steel, appeared on Cramer's *Mad Money* TV show to tout the stock to viewers. Cramer agreed with Steel that Wachovia was fundamentally sound and that problem loans were at a manageable level. Prior to this, Cramer had stated, ***"[Wachovia] is run by Bob Steel. He's as close as we're going to get to a great banker. I think he's going to make this a great company."*** (9/15/08)[3]

Two weeks after that love-in, the FDIC ordered Wachovia to sell itself to Citigroup. That transaction was later set aside in favor of a forced merger with Wells Fargo. Over that same two weeks, Wachovia stock lost around two-thirds of its value on its way to declining almost 90% for 2008.

⇒ #8: In an unmatched display of pomposity and bravado, Cramer declared**,** ***"I am indeed sticking my neck out right here, right now,"*** Cramer continued, ***"declaring emphatically that I believe the market will not revisit the panicked lows it hit on July 15. And I think anyone out there who's waiting for that low to be breached is in for a big disappointment, and [they're] missing a great deal of upside. Stop waiting … buy [on] the next dip because I think it might be the last big one."*** (7/30/08)[4]

On July 15th of 2008 the S&P 500 stood at 1,215 which was about 5% below where it stood on the evening of this episode. Not only did this stock index "revisit" its July 15th level, it plunged an additional 38% for good measure.

⇒ #9: ***"[Internet-related companies] are the only ones worth owning right now. [These will be the] winners of the new world … [and] are the only ones that are going higher consistently in good days and bad."*** (February, 2000)[3]

The tech-heavy NASDAQ did continue to rise slightly until March of 2000, but between then and September of 2002, the NASDAQ lost over 77% of its value as it nosedived much more acutely than did the broader equity averages that included the so-called "old-world" stocks.

SOME ILL-ADVISED UTTERANCES BY OTHERS IN HIGH PLACES

In addition to the continuous stream of predictions that exudes from the pores of market pundits, plenty of actionable advice could seemingly be gleaned from the comments of our public leaders. That may be so, but history suggests that separating prophetic foresight from reasonable (but very wrong) conjecture could be more difficult than it might appear. With that in mind, let's take a good-natured look at some ill-advised utterances of the past.

⇒ ***"I think this is a case where Fannie Mae and Freddie Mac are fundamentally sound. They're not in danger of going under.... I think they are in good shape going forward."*** — *Barney Franks (Chairman of the House Financial Services Committee)* (July of 2008)[1]

Within two months, both companies, which own or guarantee about $6 trillion worth of U.S. mortgages, were placed in conservatorship.

⇒ ***"The fundamentals of our economy are still strong."*** — *John McCain* (September of 2008)[1]

According to data published by the Bureau of Economic Analysis, the U.S. economy had already begun to contract when that assurance was made and many expect the current economic funk to be more severe than any recession since the Great Depression.

OTHER NOTABLE SHORT-SIGHTEDNESS

⇒ ***"Stocks have reached what looks like a permanently high plateau."*** — *Irving Fisher, Professor of Economics, Yale University, 1929*[5]

⇒ ***"Airplanes are interesting toys but of no military value."*** — *Marechal Ferdinand Foch, Professor of Strategy, Ecole Superieure de Guerre*[5]

⇒ ***"The bomb will never go off. I speak as an expert in explosives."*** — *Admiral William Leahy, U.S. Atomic Bomb Project*[5]

⇒ ***"Drill for oil? You mean drill into the ground to try and find oil? You're crazy."*** — *Drillers who Edwin L. Drake tried to enlist in his project to drill for oil in 1859*[5]

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- ⇒ ***"Heavier-than-air flying machines are impossible."*** *— Lord Kelvin, president, Royal Society, 1895*[5]
- ⇒ ***"We don't like their sound, and guitar music is on the way out."*** *— Decca Recording Co. rejecting the Beatles, 1962*[5]
- ⇒ ***"Who the hell wants to hear actors talk?"*** *— H.M. Warner, Warner Brothers, 1927*[5]
- ⇒ ***"The concept is interesting and well-formed, but in order to earn better than a 'C,' the idea must be feasible."*** *— A Yale University management professor in response to Fred Smith's paper proposing reliable overnight delivery service. Smith went on to found Federal Express.*[5]
- ⇒ ***"This 'telephone' has too many shortcomings to be seriously considered as a means of communication. The device is inherently of no value to us."*** *— Western Union internal memo, 1876*[5]
- ⇒ ***"But what … is it good for?"*** *— Engineer at the Advanced Computing Systems Division of IBM, 1968, commenting on the microchip*[5]
- ⇒ ***"I think there is a world market for maybe five computers."*** *— Thomas Watson, Chairman of IBM, 1943*[5]
- ⇒ ***"Computers in the future may weigh no more than 1.5 tons."*** *— Popular Mechanics, forecasting the relentless march of science, 1949*[5]
- ⇒ ***"Reagan doesn't have that presidential look."*** *— United Artists executive, rejecting Ronald Reagan as lead in the 1964 film, The Best Man*[6]

Prognostication and capital-market punditry typically capture the mood of the times, but popular moods do not necessarily capture future reality. Maintain your investment perspective and keep eating your vegetables.

- Glenn Wessel

END NOTES

1 Five Unforgettable Predictions for 2008 that Were Dead Wrong, Jennifer Openshaw, published 1/5/09; http://www.foxbusiness.com/story/markets/industries/unforgettable-predictions--dead-wrong/

2 The Future of Business, James J. Cramer, published 12/30/07; http://nymag.com/news/businessfinance/bottomline/42392/

3 Wikipedia, http://en.wikipedia.org/wiki/Jim_Cramer

4 Watch the video at http://www.cnbc.com/id/25932873

5 ThoughtMechanics, http://www.thoughtmechanics.com/2007/04/21/some-very-funny-and-totally-wrong-predictions-of-the-past/

6 Top 87 Bad Predictions about the Future, 3/28/06, http://www.2spare.com/item_50221.aspx