Client's Corner

Nobody Knows Anything

WILLIAM GOLDMAN (1931–2018) WAS one of the most prolific and successful writers for films ever. He won Oscars for *Butch Cassidy and the Sundance Kid* and *All the President's Men,* wrote the dazzling screenplays for his own novels *The Princess Bride* and *Marathon Man,* and accumulated countless other screenwriting credits (and awards) for high-profile movies.

Late in his long, brilliant career, Mr. Goldman addressed the filmmaking process as it relates to the burning question of whether or not any given film will succeed with the public. His conclusion: "Nobody knows anything."

This iconic observation has come back to me again and again over my investing career, with regard to the firehose of "information" we see written and hear spoken every day concerning current events in the economy and the markets, and aimed at forecasting their outcomes. It occurred to me yet again just the other day, when the Standard & Poor's 500-Stock Index closed just shy of 1,000 points—or about 27%—above its October 12, 2022 panic low. At that point, it was less than six percent below its all-time high, set on the first trading day of 2022.

My blissfully unscientific guess is that tens of millions of words might have been written and spoken on the stock market outlook by U.S. journalists, economists, market strategists, pundits and hundreds of other nameless, faceless members of the commentariat in the 60 days on either side of that panic low. And I would be the first to acknowledge that I could not possibly have read or heard even the smallest fraction of that verbal output.

But I have a strong sense of its general tone, and I'll bet you do too. Based on that sense, I hereby hazard a guess that the number of credible commentators who forecast that the S&P could rocket up a thousand points in less than 10 months—to within striking distance of the old high—was (plus or minus) zero.

And indeed, there has been a lot of that going around these last few years—even more than usual. I note, among other bolts from the blue:

The pandemic. A hundred-year global health crisis that would carry off millions of people worldwide was predicted—right up to the day it happened—by nobody. Despite immediate evidence that the lethality of the virus was overwhelmingly concentrated in the old and sick, the decision to lock down the world, causing an almost instantaneous cessation of economic activity, was also foreseen by…nobody.

The COVID recession. A 19% peak to trough contraction in the U.S. economy would have been inconceivable if anyone had even contemplated it; no one did. That a recession of that magnitude would last only three months (before tsunamis of monetary and fiscal stimulus washed it away) was forecast at the time by…no one at all.

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The COVID bear market. A one-third decline in the broad equity market in 33 days was foreseen by nobody; that the market could then rally all the way back to even—peak to trough to peak in six months less one day—was likewise a complete surprise to…everyone.

A 40-year inflation spike, almost overnight. No one predicted that the Fed's response to the pandemic would be a two-year, 40% explosion of the M2 money supply. When that turned out to be the policy, anyone could have anticipated that it had to be somewhat inflationary. But nobody even hinted at 9% inflation, nor the suddenness with which it flared.

Fed tightening. With inflation raging that far out of control, of course the Fed was going to have to tighten. But nobody predicted the sharpest, fastest interest rate spike in the Fed's 110-year history.

Yet a second bear market. Of course the aforementioned interest rate spike was going to take a fair amount of wind out of the stock market's sails. But if any credible observer forecast that it would set off a 10-month, 25% market decline, I must have missed it. How about you?

The recession that wasn't. Everybody agreed that given the draconian Fed tightening ***and*** a 25% market crash ***and*** an earnings recession that has just now completed its third calendar quarter, a broad economic recession in 2023 was 100% inevitable. Everybody has so far been wrong. Which—at the risk of belaboring the point—means that nobody has been right.

The previously mentioned stock market round trip. We're back to where we began this little essay. At 3,600 on the S&P in October, nobody told you we'd be pushing 4,600 in July. That's "nobody," as in "nobody knows anything."

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One is loath to rub it in, and does so only to make a larger point that I sincerely hope will be useful to you. On February 19, 2020—the tippy tippy top of the equity market the night before all the COVID lights started going out—the S&P 500 closed at 3,386.15. As I write in the last week of July, it's 4,550.

That's right; it's up about a third. Dividends have risen smartly as well, such that the average annual compound rate of return for the intervening 41 months has been just a bit less than 7%. This is well below the market's long-term 10% average. But given the unprecedented economic, financial, political (the debt default fiasco) and even geopolitical (Ukraine, Taiwan) chaos of these three and a half years, as we say in Brooklyn: it ain't chopped liver.

Once again, the strategy of **acting** on your long-term retirement/financial plan as opposed to **reacting** to current events—surely your financial advisor's constant refrain—has been vindicated.

Nobody knows anything. The foregoing litany of unknowables confirms pretty conclusively that the economy can't be consistently forecast, nor the market consistently timed. That realization, in turn, suggests that the best time to add to your long-term, diversified, high-quality equity portfolio may just be whenever you have the money. And the best time to withdraw/sell may just be whenever you need the money.

That may be all you can know. Consider the possibility that it may also be ***all you need to know.***

Sources: S&P 500 prices: Standard & Poor's, Yahoo Finance. COVID recession: U.S. National Bureau of Economic Research, Wikipedia. CAGR 2/20-7/23: DQYDJ.com, Standard & Poor's, Robert Shiller.