

# Predicting sport results, the end of the world and share prices

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We all love a good prediction; whether it be about sport results, the end of the world or the price of gold. If you can make a good prediction, you will get people to listen to you. Recently we have seen the hype around those who predicted the world will end (again) on the 21<sup>st</sup> of May. As we have reliably found out, that prediction proved inaccurate which is just as well because I have many things to do this week and the world's end would have messed up my plans. I am rather amazed by people's fascination with predictions – surely we all know that predictions are pretty worthless things? The only real value they have is as entertainment, much the same as fairy tales are entertaining for young children. Perhaps we should value someone who can make a good prediction for their storytelling ability and ignore the results of their predictions?

## *CONSISTENTLY ACCURATE PREDICTIONS ARE IMPOSSIBLE*

I am an unrehabilitated rugby fanatic which means I spend too much of my life watching 30 males chasing and beating each other in pursuit of an oddly shaped ball. Whilst this is entertaining, it also allows me to study my fellow rugby fanatics and their endless predictions about matches, players and referees. I even participate in this worthless pastime by predicting the results of all the Super 15 rugby matches every weekend. So far, I am doing pretty well; I am fourth in my pool with an accuracy rate of 65.08%. The best player in my pool is at 73.10% and the best player in the world is at 76.09%. This means he has accurately predicted the result of 70 out of 92 games and is the top predictor out of 89,947 players around the world. As a fellow fanatic, I have a lot of respect for this man and would certainly buy him a beer in an attempt to find out his secrets. However, I would never give him some of my money with a view to profiting from his bets on rugby matches. I know that his accuracy rate could change in a week and I know that the bookies already stack the odds so that I will lose money if I bet regularly.

You may be wondering what all this sport has to do with investing but it deals with one of my favourite topics in the investing world – forecasts! Forecasting is simply a different name for predictions and should be treated with the same respect as any other predictions e.g. about the end of the world, rugby or the price of gold. That means you can follow them for their entertainment value but you really should not invest money because of them. Sir John Templeton was a very famous and successful investor and he estimated that he was accurate with approximately 51% of all his investment decisions. This is astounding because he is among the all time great investors.

I am convinced that most investors lose a lot of money by listening to the forecasts of experts who often have horrific accuracy rates with their predictions (forecasts). Highly regarded analysts are usually very convincing storytellers this means that people often follow their forecasts very closely and invest large sums of money based on their stories. Studies of the predictions of share analysts, economists and commodity analysts have shown that they are wrong more than 50% of the time which makes their predictions worthless.

## *GOLD: WHAT IS THE NEXT CHAPTER IN THIS STORY?*

The price of gold, oil and platinum are favourite topics for professional and amateur predictors. There are even some hacks that have made a good living by selling their predictions on the gold

price to investors in South Africa. They are so good at storytelling that they have their own TV shows and magazine columns. Sadly, unsuspecting investors have followed these hacks for years and lost millions based on their highly inaccurate predictions. This situation becomes particularly bad when the price of gold rises to new highs as we are seeing now. I am regularly asked by a range of investors for my view on gold or the other commodities. If pressed, I can tell a good story about why the price is so high now and how it could go higher if the world's troubles continue. Similarly, I could tell an equally good story about how the price is bound to drop in the near future because the worst of the world's troubles are known to investors and when things start recovering, the gold price will plummet. The truth is (just like everyone else), I have no idea what gold will do next; so asking me for a prediction is a waste of time unless you are bored and are looking for some entertainment.

Gold is a particularly difficult investment to hold because it does not generate an income nor does it create anything or replicate itself. This means that the value of gold is purely based on the emotion of investors. When you invest in a share, you are less dependent on the emotions of others for your own profit. If you buy a good company that pays a good dividend, you know that eventually you will get back the money you paid in cash if you hold the investment for long enough. If other people are too scared to buy the company, you are still reasonably certain of a return. This does not apply to gold, you are relying on someone to buy the gold from you at a higher price at some point in the future. This means that they have to be more worried about the state of the economy than you.

If the global economy starts to show signs of a sustained recovery, the price of gold could easily plummet as investors start feeling safe again. The capital will then be locked into a dead asset that generates no income or growth. As we saw in the 1990's, it could take many years for the next gold rush, by which time your capital will be worthless due to the effects of inflation.

To me, this seems like a very risky bet to take, I would rather buy a few good businesses and profit from their dividends so that I can spend more time on rugby.