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What is it about market predictions that can make them so alluring?

Is it the magic of knowing the future?

I know, it can be hard to resist when experts and pundits exude confidence.

But before you make any changes consider the following:

A year ago Barron's magazine had 10 Wall Street strategists share their year-ahead predictions for the S&P 500 index, ranging from 3,000 to 3,500. As of this writing the index sits above 3,600.

All ten were too low.

They also shared their prediction for the 10-year U.S. government bond interest rate level, ranging from 1.5% to 2.2%. The rate is currently around .9%.

All ten were too high.

It's fair to assume these ten experts know more about economics and markets than you and me.

I sometimes wonder if relying on expert predictions make it harder to succeed.

Could it be that we latch on to specific forecasts and if something else happens we get surprised and might lose faith in our investments and sell, typically at the exactly wrong time?

Beyond top strategists like those in Barron's you will find others who proclaim with ridiculous accuracy that something much more dramatic is going to happen.

And have you noticed that most of the dramatic predictions are negative?

"Dow will hit 14,000! You need to act now."

"Expert sees no way out!"

For some reason negativity sounds smarter and more important. Optimism either sounds like a sales pitch or just naïve.

Yet, historically, the optimistic view has prevailed.

Rather than trying to figure out how this year will play out, which I think is a guessing game, I think you're better off learning from history.

2020 saw the S&P 500 drop 34% in February-March before we recovered and ended up with a positive year. That drop is called a 34% drawdown.

According to JP Morgan the S&P 500 has, on average, seen a 14 percent drawdown within each calendar year before closing out with a ten percent positive return.

So, if you hold a stock portfolio you should be prepared, on average, to drop by one seventh this year.

But here's the more important part. If this normal size drop happens, or something larger, it is not a sign the market isn't working. Quite the opposite.

In the heat of the moment it's easy to think that what's happening is unique in size and drama when the only thing unique, most likely, are the surrounding circumstances.

Companies' and individuals' specific response may be different each time but overall we do the same thing when something bad happens: we adjust.

This is what the pessimists miss. They often extrapolate something bad as if it'll go on forever.

But if something bad happens we don't like it and we do all we can to change it for the better.

In 2021, let your long-term plan direct your money management. That way, you may find yourself not worrying if near-term predictions turn out wrong.

Good luck.

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