

Is the Top In?

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The International Monetary Fund recently did a worldwide study to determine the accuracy of econometric models, which are used by most mainstream economists. These models leave a lot to be desired in our opinion and it seems as if this is one time we hit the nail on the head. Here is what they found:

Out of 74 recessions experienced worldwide

- 4 were predicted 3 months in advance.**
- 24 were predicted 4 months after the fact.**
- The balance were never predicted.**

We wonder – how good is that? It seems to us that the main reason you want an economist is to call the turns. After all that’s what one needs to know when operating a portfolio or a business organization. Anyone can project the same old thing. Computers are great at developing linear projections. We believe that many of the economists on Wall Street are there to sell and entertain. We know of a friend of ours (a name you probably would recognize) who spent several years as the chief economist of one of Wall Streets most prestigious firms. During a trial when the firm was defending its position against an angry client, the chairman of the board testified that the chief economist was there just because of his name as well as for entertainment purposes. My what an endorsement.

Economics are a social science not a physical science. Those who attempt to make it such are doomed to miss the boat. Human behavior and judgment with all its flaws determine economic and market outcomes. For example please note the following chart take from the Elliot Wave people. The line across the top is from approximately 1999 to date. During that period of time stock market “experts” were bullish 338 of 348 weeks – 97% of the time, the longest period of bullishness in history. When did it come? After almost two decades of a bull market. Does that suggest that a major top is in? We think so.

