

# Fearless Forecast or Fear the Forecast?

*Presented by Frank Danielson, B. Ed, CFP*

Each year, Mercer (Canada) Limited conducts what they have dubbed their “Fearless Forecast,” which represents the economic and market views of forty-eight Canadian and global investment managers. I assume the fear they have overcome is not in the forecast itself, but in making the results public. Publishing the results allows for a direct comparison of actual vs. forecasted outcomes—a feature that is often unattainable when bold predictions are made without fear of reconciliation or accountability.

In presenting the results of the 2008 survey, a representative from the firm made the following remarks:

*It is often said that “money is made by expecting the unexpected.”*

*So, as we begin another year, it is useful to look ahead and try to anticipate some of the events that may serve to shape the economy and financial markets in 2008. Over the past 17 years, Mercer has surveyed Canadian and global investment managers to obtain their views on the direction of the economy and capital markets. We do this in the hope that the forecasts and insights from the managers will help plan sponsors prepare for the year ahead.<sup>1</sup>*

The managers certainly did not expect the unexpected, as indicated by these highlights from the 2008 forecast:

<b>The Economy</b>	<b>Forecast</b>	<b>Actual</b>
Canadian Exchange Rate (USD/CAD)	1.00	0.82
Bank of Canada Overnight Rate	3.75%	1.50%
US Federal Funds Rate	3.50%	0-0.25%
Unemployment Rate	6.1%	6.3%
Actual Inflation Rate (CPI)	2.0%	2.0%
Real Canadian GDP Growth Rate	2.2%	0.7%
Real Global GDP Growth Rate	3.0%	3.6%
WTI Crude Oil Price (USD/barrel)	\$85.00	\$44.60
<b>Investment Benchmarks</b>	<b>Forecast</b>	<b>Actual<sup>1</sup></b>
S&P/TSX Composite	6.0%	-33.0%
S&P 500 (CAD)	7.0%	-21.2%
MSCI EAFE (CAD)	8.0%	-28.8%
MSCI Emerging Markets (CAD)	8.4%	-41.4%
DEX Universe Bond	4.0%	6.4%
DEX Long Bond	4.2%	2.7%
DEX Real Return Bond	2.0%	0.4%
<b>Top Performing Canadian Sector</b>	<b>Forecast</b>	<b>Actual</b>
Financials	1st	9th
Consumer staples	2nd	1st
Energy	3rd	7th

Unfortunately for Mercer and the plan sponsors to whom they presented the results, it seems the consensus forecast of these notable investment managers did absolutely nothing to prepare sponsors for the year ahead.

You may not be pleased with the results from 2008—I know I’m certainly not. It’s important to remember that market prices are forward-looking and are set based on expectations. As new information emerges, it is quickly reflected in prices, but future news is by definition unknowable, as illustrated by the magnitude of these forecast errors. I’ve sent this along to remind you that no one can systematically predict the future.

However there are things that we can control (e.g., diversification, taxes, costs, and risk exposures). In addition, we can ignore the ever-present noise in the media and we can continue to maintain discipline. Even though you may think the world has changed, the keys to a successful investment experience have not. Predicting the future is not a prerequisite of long-term investment success. However, believing you have that ability, and using “forecasts and insights from the managers [to] . . . plan for the year ahead,” can definitely contribute to investment failure. You may be disappointed with short-term results, but following a prudent investment strategy based on the keys to successful investing remains better than the alternative.

For reference, here are some of the more notable names that participated in the “Fearless Forecast”:

- ❖ Barclays Global Investors Canada Limited
- ❖ Beutel, Goodman & Company Ltd.
- ❖ CIBC Global Asset Management
- ❖ Capital Guardian Trust Company
- ❖ Connor, Clark & Lunn Investment Management Ltd.
- ❖ Deutsche Asset Management
- ❖ Grantham, Mayo, Van Otterloo & Co. (GMO)
- ❖ Goldman Sachs Asset Management LP
- ❖ Guardian Capital LP
- ❖ Industrial Alliance Investment Management Inc.
- ❖ Invesco Trimark
- ❖ Jarislowsky Fraser Limited
- ❖ JPMorgan Asset Management
- ❖ Legg Mason Canada Inc.
- ❖ McLean Budden Limited
- ❖ Phillips, Hager & North Investment Management
- ❖ State Street Global Advisors, Ltd.
- ❖ TD Asset Management Inc.
- ❖ UBS Global Asset Management (Canada)

## *Fearless Forecast or Fear the Forecast? continued*

<sup>1</sup>Total return in Canadian dollar terms for the one-year period ending 31 December 2008.

<sup>2</sup>David Kaposi, "Pension Outlook and Investment Fearless Forecast 2008," (text of remarks, Mercer Canada Limited, Jan. 16, 2008).

Table Sources: The S&P data are provided by Standard & Poor's Index Services Group. MSCI data copyright MSCI 2009, all rights reserved. Canadian fixed income data provided by PC-Bond, a business unit of TSX Inc.; copyright © TSX Inc., all rights reserved.

This material is provided for general information and is subject to change without notice. Every effort has been made to compile this material from reliable sources however no warranty can be made as to its accuracy or completeness. Before acting on any of the above, please make sure to see me for individual financial advice based on your personal circumstances. The opinions expressed are those of the author and not necessarily those of Assante Financial Management Ltd.