

What Clients can Learn from the Four Worst Market Calls Ever

By Dan Richards
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Bad investment advice can come from many sources, but perhaps none has been worse than what was offered by four experts whose media profile exceeded their investment acumen: Irving Fisher, Joe Granville, Robert Prechter and Henry Blodget.

Here's some historical context and practical advice to help clients avoid the trap of listening to the gurus who dominate newspaper headlines.



Four sad stories

In the 1920's, Yale's Irving Fisher was a household name in America and by far its best known economist; his pronouncements regularly made front-page headlines. Three days before the crash of 1929, he famously announced that "*stock prices have reached what appears to be a permanently high plateau*" – and for months after the crash, maintained that a recovery in stock prices was imminent.

In 1980 and 1981, Joe Granville's investment seminars drew packed audiences and his predictions caused major one-day moves in the market. He even predicted that he would win the Nobel Prize in economics and on one occasion literally walked on water, as he made his entrance strolling across a swimming pool that he'd had filled with concrete.

But according to Hulbert Report that tracks the performance of investment newsletters, from 1980 to 2005 *The Granville Letter* was dead last among American newsletters, with investors who followed its advice losing 95% of their capital.

In 1987, Elliott Wave proponent Robert Prechter told clients to sell in advance of "*Black Monday*." He's been dining out on that call ever since, in the process told his readers to stay on the sidelines throughout the record bull market of the 1990s.

And in 2000, Merrill Lynch tech guru Henry Blodget predicted that tech valuations would continue to climb – and backed up his words by putting his personal net worth on the line, most of which quickly evaporated.



The media's agenda is different from yours

Last summer, the *New York Times* examined why the media consistently provides a platform to financial gurus with extreme, often simplistic (and sometimes simple-minded) views.

The answer was simple – middle of the road, consensus thinking is boring; it's much more interesting to have a guest with provocative, unconventional opinions. That's led to a body of "*they never saw a mike they didn't love*" experts in the field of politics and investing, opining on events of the day. Sometimes called *media hounds* or the less complimentary *media whores*, these experts can be omnipresent.

Very few of these media gurus manage meaningful amounts of money;; often their biggest asset is their reputation. But that doesn't prevent clients who watch their interviews from getting worked up and potentially deflected from their plan.

So if we recognize that most of these experts' impact on clients is neutral at best and can in fact do significant damage, the question is what to do about it.

Bringing facts and reason into play

Just telling clients to ignore these gurus won't typically work – the very fact that they are given a media platform, deserved or not, gives them credibility.

That's why I was struck by the reasoned, fact-based approach to this topic in a video by industry veteran and Columbia professor Michael Mauboussin. A repeat winner of Institutional Investor's All-America research team, he has served as chief US investment strategist at Credit Suisse First Boston and is currently chief investment strategist for Legg Mason Capital Management

Mauboussin points to research proving that expert predictions do not beat the market, and that there is even a negative correlation between media profile and accuracy – the higher an expert's media profile, the worse they do.

This [video](#) lasts three minutes. For those looking for a more in-depth perspective, here is a 30-minute [interview](#) with Mauboussin.

You could share these videos with clients who ask about views they've seen on television – or strike a pre-emptive blow by sending the links to all your clients. While you can't control what your clients see on television, you can try to influence how they'll respond.



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