

## ASTROLOGY AND THE STOCK MARKET

### **What do astrology and stock market forecasting have in common?**

First, both activities are guesswork masquerading as science. So entrenched is this illusion, that many investors spend hours studying research reports in the misguided hope that they can scientifically predict their financial fortunes. The only positive and consistently predictable outcomes from this process are the lining of the pockets of funds managers and financial advisers; and the protection of trustees who must be able to demonstrate that they have acted with "care, skill and diligence" in investing superannuation fund assets.

The second thing that astrology and stock market forecasting have in common is that investors pay serious money for both services. Many people are convinced that by spending big dollars on "experts", their financial outcomes will be consistently and significantly enhanced in the long run. As a result of such "professional advice", it is not uncommon for portfolios to be invested in an unnecessarily complicated array of shares, managed funds and unlisted trusts. The cost of so doing is considerable; and the typically modest or even disappointing (net) returns arising from the advice usually do not warrant spending the money in the first place.

The third thing that these two activities have in common is saturation media coverage. The popular press is full of astrological columns, all of which are so deliberately vague and qualified that working out what the "authoritative" writers' are predicting is practically impossible. Similarly vague and qualified stories concerning the direction of the stock market crowd financial pages around the world. One could be forgiven for concluding that most of these inane stories are written simply to fill the ever-decreasing amount of independent editorial space which manages to survive amongst the advertisements for funds managers, superannuation schemes and financial advisory firms.

The fourth area of common ground is the role of "gurus" in astrological and stock market forecasting. Given the dubious record of most investment research, why do people flock to expensive seminars to hear experts make highly qualified predictions about the future of the stock market? I can only conclude it's because the listeners want and need to believe in something. The ability of "gurus" to present their "scientific research material" in a lucid, articulate and enthusiastic manner, reinforces the desire on the part of their followers to remain within the flock of true believers.

So, if you can't believe in the worth of stock market investment "gurus" and their predictions, who or what can you believe in? The important questions about investment are those that challenge us to think not about "who" we can trust, but what process we can trust for logically investing funds over the medium to longer term.

There is ample evidence to suggest that actively managed "market timed" portfolios (which typically rely upon expensive "research" to make the right calls) will fail to deliver the goods in the long run (after tax and charges). On the other hand, passively managed portfolios, on an almost "set and forget" basis, cost a lot less to deliver, and are much more likely to achieve a satisfactory result. This point was well made by the

world's best known investor, Warren Buffett who said: "For investors as a whole, returns decrease as motion increases".

This raises the issue of the role of your financial adviser. Financial advisers who promote themselves as their clients' investment "gurus" are doomed to failure, because in the long run picking managers and shares is a loser's game; however, those who see themselves as providing a comprehensive advisory service, including structuring, tax and estate planning, will be able to add legitimate value, and thereby justify their existence, and their fees.

*You will have noticed a number of advertisements in this newspaper about the ADF Financial Services Consumer Council's new eLearning module on Getting Advice. ADF members who are serious about finding a financial adviser who will meet their needs should consider taking advantage of this valuable and entertaining resource.*

**RMCB**

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