

Nobel Prize Winners in Economics and other top economist agree:

No One Can Accurately Predict The Economy

Economists Fail As Forecasters

Or, How Do The Rainmakers Stay In Business If They Can't Accurately Predict Rain?

E.E. Evans Pritchard, a highly respected anthropologist, found that rainmakers in one African tribe stay in business -- even though they can't accurately predict rain -- by using a series of devices to soothe their public. If it fails to rain, the shamans say that either the rain dance was not done right and must be repeated, or that it will indeed rain, but just later than expected.

I'm sure all of these devices are used by economists, too. When it is predicted that the economy will pick up in the next term and it balks, we are told either that the last interest-rate cut was not large enough and must be repeated, or that the economy will rise -- just later than expected.

Amitai Etzioni "Economists Fail as Forecasters" USA Today (August 13, 2001) p 12A

Paul Samuelson – Nobel Prize in Economics – 1970

Commenting on the lack of progress in forecast accuracy, Paul Samuelson (a Nobel laureate, MIT professor, and father of Economics 101) observes, or additional support, let's turn to Nobel Prize Winners in Economics. "I don't believe we're converging on ever-improving forecast accuracy. It's almost as if there's a Heisenberg . . . [Uncertainty] Principle." (Sherden 68)

Paul Samuelson. The 1970 Nobel Prize winner made the same point in his book, *Economics From The Heart*.

One of the occupational diseases of being an economists is that people ask for advice about handling personal finance. Knowing how uncertain is the future, one hesitates to take on such an assignment.

Whether your old age retirement is serene and comfortable, or nasty and brutish, hangs on the outcome of your financial decision making.

There is no avoiding downside risk. Examine the decade of quarter century record of the 100 most respected money managers. As a whole they do not do as well as a feasible portfolio that simply buys and holds virtually all of the Standard & Poor's 500 share index; or as well as a portfolio that simply holds a prorated fraction of all American, Canadian, Japanese and West European stocks in proportion to their outstanding values.

After one corrects portfolio records for volatility and mean return, the best return, the best and worst are only about as good as one would expect to occur by chance alone.

The finding that few can beat the averages is not merely a theory of mine. It has been put forth and tested by researchers at the Universities of Chicago and Pennsylvania, at Stanford and MIT and elsewhere. It has, of course been double checked in the back rooms of Wall Street for weaknesses and rebuttals.

Barnum was right Buyers of cosmetics buy hope, not talc; like the cosmetics industry, the securities business is engaged in selling illusion.

Nobel Prize in Economics 2002

"A Series of Gambles"

"What's really quite remarkable in the investment world is that people are playing a game which, in some sense, cannot be played. There are so many people out there in the market; the idea that any single individual without extra information or extra market power can beat the market is extraordinarily unlikely. Yet the market is full of people who think they can do it and full of people who believe them. This is one of the great mysteries of finance: Why do people believe they can do the impossible? And why do other people believe them?"²

Dow Jones Asset Management, November/December 1998, pp. 20-28

Daniel Kahneman

Nobel Prize Winners 1991

The future course of prices or market returns is... unknowable, for it is subject to the arrival of new, unpredictable information. The random walk school produced study after study showing that the so-called investment professionals had failed over the years to beat the market averages. These days, the efficient market theory reigns supreme in academia and much of the investment world. More and more institutions and other investors accept the futility of trying to beat the market proper diversification is the paramount concern, rather than picking winners. Last fall saw the efficient market school's ultimate hour of triumph. Three celebrated figures in the field, Harry M. Markowitz, William Sharpe and Merton Miller, received the Nobel Prize In Economics. "Efficient Chaos," Barron's July 29, 1991

"Alan Meltzer, a professor at Carnegie Mellon, researched 20 years' worth of economic forecasting data and concluded that even the most accurate forecasters couldn't predict at the beginning of a given quarter whether the economy would be in a boom or recession in that quarter."

Fortune, 8/7/95, p. 59

If it were possible to calculate the future structure of the market, the future would not be uncertain. There would be neither entrepreneurial loss nor profit. What people expect from the economist is beyond the power of any mortal man."

Ludwig von Mises (1949)

Human Action: The Scholar's Edition. P. 867

"Them that can, do, them that can't, forecast"

When it comes to predictions, the dismal science has a dismal record. Blame the nature of the universe, not the economists... The record suggests that any economic forecaster who accurately predicts the future will do so out of luck.

It's an old joke, but economists like to tell it among themselves: Albert Einstein dies and goes to heaven, where he asks three archangels their IQs. "One hundred

ninety-six, sir,” replies the first. “Remarkable! Cries Einstein. “I look forward to talking with you about my new theory of relativity.

The second says 153. “Not bad,” says Einstein. “We will have long talks about the prospects for international socialism and world peace.”

The third fellow grunts his IQ: “84.” Einstein: “So, what do you think the economy will do next year?”

Forbes, December 26, 1988 Pg 94

THE "NEW" ECONOMY?

January 13, 2000

Economists are lousy forecasters. We all stay in universities and leave it to people who we don't respect to make forecasts a year or six months ahead. They make the money and we look backwards; we look at the past and try to understand the past. Serious economists don't try to forecast.

PAUL SOLMAN: Because?

ROBERT GORDON: You can't do it. Too many unexpected things happened.

ROBERT GORDON,

Northwestern University:

Online NewsHour: Economy 2000 -- January 13, 2000

http://www.pbs.org/newshour/bb/economy/jan-june00/economists_1-13.html

Keynes famously remarked upon this, when he pointed out that valuing stocks called for taking into account “what average opinions expects the average opinion to be.” There is no objective means ... the repeated iteration of subjective expectations of subjective expectations merely widens the uncertainty and never comes to closure.



















Arthur, W. Brian “Complexity in Economic and Financial Markets Appeared in the journal Complexity, vol1. no. 1. April, 1995

“A funny thing happened to me at the Business Forum in Houston. After giving a luncheon talk on the economic outlook, I was into the question period. Inevitably, one on the questions was: “Where do you think interest rates will be a year from now?” I hesitated for a moment, shrugged my shoulders and replied: Look, economists cannot predict interest rates.” Before I could continue, and to my astonishment, some 500 business executives burst into applause.”

Kristol, Irving

Put Not Your Faith in Economic Soothsayers”

The Wall Street Journal, Tuesday, August 30, 1983

Active Investing	The Great Debate	WAYPOINT <small>STRATEGIC ADVISORS</small>	Passive Investing
<p data-bbox="309 294 648 334">Mutual Fund Companies</p> <p data-bbox="351 399 585 439">Brokerage Firms</p> <p data-bbox="326 510 624 550">Investment Press</p> <p data-bbox="319 606 641 647">Market Timing Services</p>	<p data-bbox="711 227 1009 284"><i>Paul Samuelson</i> <i>Nobel Prize in Economics 1970</i></p> <p data-bbox="711 298 1009 354"><i>Kenneth Arrow</i> <i>Nobel Prize in Economics 1972</i></p> <p data-bbox="711 374 1009 431"><i>James Tobin</i> <i>Nobel Prize in Economics 1981</i></p> <p data-bbox="711 445 1009 501"><i>William Sharpe</i> <i>Nobel Prize in Economics 1990</i></p> <p data-bbox="711 516 1009 572"><i>Harry Markowitz</i> <i>Nobel Prize in Economics 1990</i></p> <p data-bbox="711 586 1009 643"><i>Myron Scholes</i> <i>Nobel Prize in Economics 1997</i></p> <p data-bbox="711 657 1009 713"><i>Robert C. Merton</i> <i>Nobel Prize in Economics 1997</i></p> <p data-bbox="711 727 1009 784"><i>Daniel Kahneman</i> <i>Nobel Prize in Economics 2002</i></p> <p data-bbox="711 798 1009 854"><i>Vernon L. Smith</i> <i>Nobel Prize in Economics 2002</i></p>	        	        

1965

Paul Samuelson, MIT, Nobel Prize in Economics, 1970

The Random Walk Continues

Paul Samuelson's findings can be summarized as follows: Market prices are the best estimates of value, price changes follow random patterns, and **future stock prices are unpredictable.** (Source: Proof That Properly Anticipated Prices Fluctuate Randomly, Industrial Management Review, Spring 1965)

Paul Samuelson was the first American to win the Nobel Prize in Economics. His famous textbook, Economics, was published in 1948 and is now in its 13th edition. He is probably the most famous economist of our time. Samuelson's wisdom is reflected in his words, "Investing should be dull, like watching paint dry or grass grow. If you want excitement, take \$800 and go to Las Vegas. It is not easy to get rich in Las Vegas, at Churchill Downs, or at the local Merrill Lynch office." An impressive collection of his research from 1937 to 1986 contains 388 articles that span 4,665 pages.

<http://www.ifa.tv/12steps/Step2/Step2Page3.html#1965a>