

January 2007

## Reading the Ankles

*The future you shall know when it has come; before then, forget it. –Aeschylus*

The annual speculation about Brett Favre's future with the Green Bay Packers is in full froth. He didn't undergo a surgery that was scheduled after the season's end to repair an eight year old ankle injury. This is absolute proof that he will return next season. Or that he won't.

New Year's Eve marks the official opening of Prognostication Season. I trolled the internet looking for some predictions for 2007. Here is a small sample of the 7,990,000 "hits" on Google for "2007 predictions" (I did attempt to go into multiple "psychic hotline" sites, but apparently the information they dispense is far too valuable to be seen without first sharing my credit card information with them; come to think of it, shouldn't they already know my credit card number?): the earth will be hit by a devastating comet, the US will launch a military strike on Iran, a "new category" of hurricane will devastate parts of Florida and the East Coast, Lorena Ochoa will win more golf tournaments than Tiger Woods (OK, now that last one is just the ranting of a lunatic).

Predictions generally fall into one of two categories, those predicated on past events, and WAGs (Wild Ass Guesses). Although it may seem that the WAG variety is the more dangerous of the two, I think not. WAGs are just that. No one really expects them to materialize, so generally not much is wagered on them. People that play the lottery generally don't spend a lot on any one game since the *perceived* odds of them winning using their dog's birth date are not all that great. At horse races, however, you see very different wagering patterns. Racing forms are full of performance histories of the horses, along with past race conditions. Bettors are much more likely to gamble larger amounts at this venue because they *believe* they have a higher degree of control over the outcome, and therein lay the danger. Although a horse may have performed well in the past, this has little predictive value for the next individual occurrence (the next race). Over time you would generally expect that a winning horse would perform better than one with a lousy record, but there are simply too many variables at work to predict the outcome of the very next race.

Our brains are hardwired with a need for a sense of control. It is this need that gives rise to predictions and leads to bad decision making. Financial pundits are out in force with their own predictions for 2007, and some will actually be right – which ones I haven't a clue (OK, I do have a clue, but it will cost you \$9.99 on my website). What I do know is that cycles have a habit of repeating themselves, and it is possible to exploit these cycles successfully over time. However, forecasting the next champion investment is even less predictable than calling the winner of a horse race correctly. In the Kentucky Derby, you only have 20 horses from which to pick, a one-in-20 chance of being right; much better odds than picking the next hot stock, and you get the Mint Julep.

For the record, Brett will be back. You can bet on that.

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