Access Investment Advisors Inc.
4400 Calumet Avenue, Suite 201
PO Box 697
Manitowoc, WI
54221-0697

920 683 9901
Fax 262 364 2147
www.accessinvestmentadvisors.com

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"Sage" Advice

Prediction is very difficult, especially if it's about the future -- Nils Bohr, Nobel laureate in Physics

Yogi Berra couldn't have said it any better. The following is excerpted from the July 1st, 2013 issue of Investment News Daily detailing some recent divinations.

Market guru Meredith Whitney, in a segment on '60 minutes' broadcast in Dec. 2010, warned about a flood of municipal bond defaults within a year, totaling 'hundreds of billions of dollars.' That flood failed to materialize.

In 2011, Pimco's Bill Gross made a habit of predicting that the debt market would collapse because already inflated prices couldn't rise any further amid poor economic news. Instead, the bull market for debt instruments kept rolling right along.

In March 2008, rumors swept across Wall Street - and Main Street - that investment bank Bear Stearns was in danger of going belly up. But on CNBC, Jim Cramer declared, "No! No! No! Bear Stearns is not in trouble!" Five days later, JPMorgan Chase took over the firm, wiping out shareholders.

During the financial crisis, Rep. Barney Frank declared: "Freddie Mac and Fannie Mae are fundamentally sound; they're not in danger of going under." The pronouncement came two months before the mortgage giants were forced into conservatorship.

Famed corporate raider T. Boone Pickens in 2008 predicted that that the price of oil - then at $135 a barrel - would hit $150 by the end of 2008. He was off just slightly. By late December, the price of crude had fallen below $40.

In 2006, author Harry Dent predicted that the Dow Jones Industrial Average - which was trading around 11,000 at the time - would reach as high as 40,000. The Dow closed 2009 at 10,428.

Treasury Secretary Henry Paulson's in April 2007 stated that "I don't see [subprime mortgage market troubles] imposing a serious problem. I think it's going to be largely contained." It wasn't.

In 2003, Alan Greenspan - then the chairman of the Federal Reserve - gave yet another interview in which he praised derivatives, noting that regulation of the contracts would be a 'mistake.' Five years later, credit default swaps were being blamed for much of the financial meltdown, including the implosions of Bear Stearns, Lehman Brothers and insurer AIG.

What's the average guy to do when some of the supposedly smartest people in the world get it so wrong? Just as Judge Elihu Smails (from the movie *Caddyshack*) snapped, "You're not a man, you're a Bishop", we sometimes forget that these folks are human and are subject to the same foibles as the rest of us. The truth is that no one knows what lies around the next curve - a smooth rode, a hill, or a steep drop off. Admitting this though does not sell airtime, subscriptions, or garner votes.

The fundamental rules for successful investing have been, and continue to be: have a plan, execute it faithfully, be diversified, allocate assets across investment types, and think long term. To the last point, in the words of that famous philosopher, Mr. Berra – "It ain't over till it's over".